2019

Annual Report

Georgian Railway
Est. 1872

Georgian Railway

A Message from the Chairman

Chairman of Supervisory Board
Konstantine Guntsadze

I am proud to present the Annual Report for 2019, on the eighth year in which I have had the privilege of being tasked with chairing the board of one of Georgia's most strategically important companies. JSC Georgian Railway plays a significant role in the country's economy and in maintaining strong economic relations between Georgia and its partner countries in the Caucasus and the Central Asia region.

In the past few years, the Group has faced some difficulties in terms of its financial results due to downturns in cargo volumes. In 2019, the Management, along with its highly competent and dedicated team of about 13,000 people, managed to significantly improve the Group's position on the market. I believe that the development of infrastructure in the region through projects like the Baku-Tbilisi-Kars railway, Anaklia Deep-Sea Port and Shah Deniz gas field will have positive effects on the transported volumes by the Group and thus improve its operating results in the coming years ahead.

A Message from the General Director

General Director
David Peradze

It is my honor to lead Georgian Railway for more than two years already.

Positive effects have been achieved in various areas of the Group's activities. Specifically, in 2013, Georgian Railway entered the freight forwarding business resulting in additional value for the company. In 2015, the Group revived the Silk Road leading to the first Chinese train to arrive in Georgia. Meanwhile, the Group also attained an international certificate of quality management (ISO 9001:2008). In 2016 and 2017, Georgian Railway purchased four new passenger trains for its passenger transportation unit from a Swiss manufacturer, which led to a steady increase in the number of customers and passenger kilometers over the following years.

In 2019, the Group, with its dedicated employees, managed to overcome many challenges, and as a result it was able to achieve a increase in transported cargo volumes. Due to constant increase in the number of transported containers, the main focus was on dry cargo transportation, as it represents the future of the Group.

The initialization of a new container transportation project should also be mentioned. On August 20, 2019 representatives of countries and companies involved in the Trans-Caspian International Transport Route (TITR) decided that a regular sea feeder line would operate between the Georgian ports of Batumi and Poti, and the Romanian port Constantsa in September this year.

Despite these setbacks, the Group has maintained solid financial figures. Its EBITDA margin and adjusted EBITDA margin are still on significant levels at 46 percent and 44 percent, respectively. We are continuing to invest in infrastructure development through the Modernization Project, which will guarantee more value and efficiency for the Group, TRACECA and the region as a whole.

The Group is one of the main contributors to the Georgian economy. Its revenue contributed 1.1 percent to the country's GDP in 2019. Successful years lie ahead for Georgia as a whole as the International Monetary Fund expects the country's GDP to increase steadily. The Government of Georgia has a strong track record of supporting the Company and I believe that this will continue in the coming years.

I look forward to confronting all the Company's challenges during the coming years. Numerous regional projects promise to enhance the rail transportation profile in the medium and long term. The Company aims to develop by improving its efficiency in utilizing its available resources. This would be difficult to achieve without Georgian Railway's competent human capital. As such, I am confident that the Company's staff is capable to achieve every goal successfully.

Supervisory Board Members

Konstantine Guntsadze
Chairman of Supervisory Board | since 2012
Main field of competence | Jurisprudence

Oleg Bichiashvili
Supervisory Board member | since 2012
Main field of competence | Logistics

Guram Gabunia
Supervisory Board member | since 2012
Main field of competence | Audit/Risk management

Clifford Stanley Isaak
Chairman of Audit Committee | since 2011
Main field of competence | Finance

Beka Injia
Supervisory Board member | since 2019
Main field of competence | Jurisprudence

Zviad Mikhanashvili
Supervisory Board member | since 2019
Main field of competence | Jurisprudence

Shota Etsadashvili Representing Georgian Partnership Fund
Supervisory Board member |since 2019
Main field of competence |Economics

Management Board Members

David Peradze
Chief Executive Officer | since 2017

Irakli Titvinidze
Chief Financial Officer | since 2013

Guram Guramishvili
Freight SBU Director | since 2017
Infrastructure SBU Acting Director | since 2019

Dachi Tsaguria
Passenger SBU Director | since 2018

Forward-looking Statements

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.

Assumptions

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.

Adjusted EBITDA is adjusted for significant non-cash and one-off items.

Financial result variances at constant currency are obtained by converting the comparable period of the current-year results denominated into Georgian Lari at the average foreign exchange rates for the prior period.

Financial and non-Financial Highlights

For the year (in GEL '000)	2019	2018	2017
Revenues	491,038	424,614	434,534
EBITDA	223,178	172,322	211,851
Adjusted EBITDA	216,224	156,846	181,425
EBIT	141,943	58,518	102,148
Net loss	-5,586	-716,539	-354,100
Cash provided by operating activities	215,236	179,040	176,232
Acquisition of Property, plant and equipment (PPE)	112,151	104,694	165,265

At year end (in GEL '000)			
Total assets	2,313,563	2,264,012	2,862,237
Total liabilities	1,790,198	1,734,796	1,617,389
Total equity	523,365	529,216	1,244,848

Financial ratios			
Revenue growth	15.64%	-2.28%	-1.22%
EBITDA margin	45.45%	40.58%	48.75%
Adjusted EBITDA margin	44.03%	36.94%	41.75%
Operating ratio	73.69%	90.81%	85.46%
Dividend payout ratio	0%	0%	0%
Interest coverage ratio	1.29	0.58	0.99
Net debt/EBITDA	5.20	6.19	4.87
Debt/Equity	3.42	3.28	1.2

Statistical data (in '000)			
Tons	10,861	10,005	10,673
Ton-km	2,908,986	2,571,108	2,929,793
Number of passengers	3,027	2,851	2,684
Passenger-km	676,644	633,613	596,727
Average number of employees	13	13	13

Key operating measures			
Total freight revenue per ton-km (in Tetri)	13.2	14.1	13.2
Passenger revenue per passenger-km (in Tetri)	4.6	4.3	3.8
Revenue per average number of employees (in GEL '000)	38.89	33.53	33.91
Operating expenses per ton-km (in GEL)	0.12	0.15	0.13
Ton-km per average number of Freight SBU employees in '000	535.43	466.54	524.44
Passenger -km per average number of Passenger SBU employees in '000	546.78	508.52	461.15

Safety indicators			
Accident rate per million ton-km	0	0	0.04
Injury per '000 number of average employees	0	0	0
Death per '000 number of average employees	0	0	0

Credit Ratings by the End of 2019

	First issued	LT	Outlook	ST	Last updated	LT	Outlook	ST
Standard & Poor's	2010	B+	Stable	B	2019	B+	Developing	B
Fitch Ratings	2010	B+	Stable	B	2019	BB-	Stable	B

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Overview of the Group

1. Description of the Company’s Business

1.1 History of the Company

2019 – Initiating new feeder transportation in Black and Caspian seas to increase container flow in region

2018 – First freight on BTK line

2016, 2017 – At the end of 2016 and at the beginning of 2017, the Company purchased four new modern passenger trains from Stadler Bussnang

2016 – ISO 9001:2015 certificate given to Passenger Transportation SBU

2015 – Georgian Railway attains international certificate of quality management (ISO 9001:2008)

2015 – Revival of Silk Road and first Chinese train in Georgia

2013 – Georgian Railway enters freight forwarding business

2011 – Georgian Railway registered as JSC

2010 – First Eurobond placement on the London Stock Exchange

2010 – Initial credit rating assignment from 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 – The Company is established as a limited liability company on 21 December

1993 –TRACECA established, with Georgian Railway a founding member

1992 – Georgian Railway independently formed

1991 – The assets of the Transcaucasian Railway Company are divided and allocated to the national railroad companies of Georgia, Armenia and Azerbaijan

1883 – A connection is made between Tbilisi and Baku

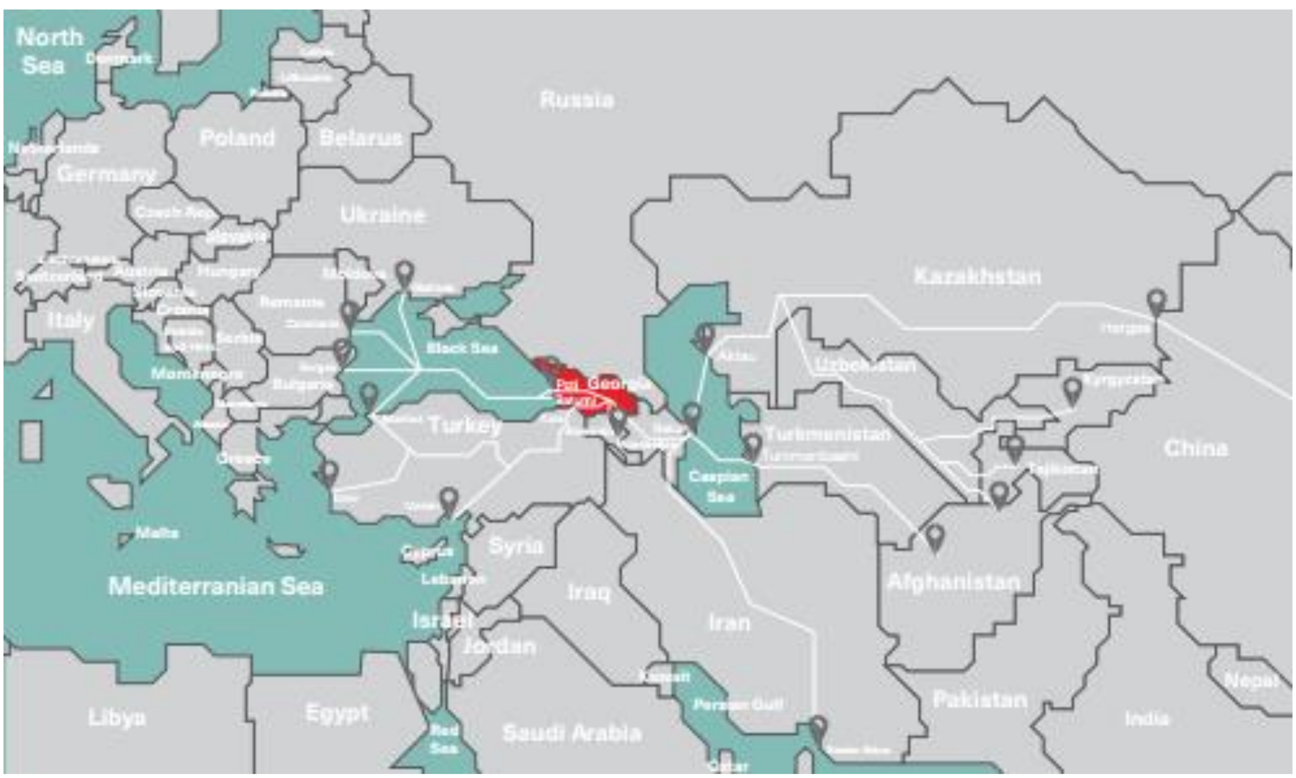
1872 – The Transcaucasian Railway, which runs through Georgia, Armenia and Azerbaijan, commences operations

1.2 Business Profile

JSC Georgian Railway (hereafter referred to as "GR" or "the Company" and as "the Group" with its subsidiaries) is Georgia's only railway operator. It principally provides freight services, transshipping a variety of cargo and mainly connecting the Caspian Sea and Central Asia to the Black Sea. GR also provides passenger services. It has a vertically integrated business model, and owns and operates the tracks, stations, terminals, other infrastructure and rolling stock that comprise the entire national railway system. Since 2013, GR has also become engaged in the business of freight forwarding through its subsidiaries. GR's mainline rail network, together with that of CJSC Azerbaijan Railways, forms the Caucasus railway corridor, a key segment of the TRACECA.

GR's mainline rail network is thus a key link in the shortest route from the Caspian Sea region and Central Asia to the Black Sea and the Mediterranean Basin. Thus, GR's Management believes that it is uniquely positioned to capitalize on trade between Europe, the Caspian Sea region and Central Asia. Currently, GR's network has access to three Georgian ports, namely Batumi, Kulevi and Poti all of which are located on the Black Sea. Access to these ports enables easy shipment of transit cargo to the Mediterranean Basin and Europe.

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



Credit ratings - GR is rated by two rating agencies: Fitch Ratings and Standard & Poor's (S&P). In March 2019, Fitch Ratings updated its rating for Georgian Railway to BB - with "Stable" outlook. In September 2019, S&P Global Ratings changed its outlook for GR to "developing" from "positive".

Shareholder(s) - Up until 30 September 2011, GR was wholly owned by the Government of Georgia represented by the State Enterprise Management Agency of the Ministry of Economy and

Sustainable Development. Today, the JSC Partnership Fund, a wholly state-owned investment fund, is the sole shareholder of the Company.

1.3 Corporate Governance

GR is not subject to the requirements of national corporate governance rules, as Georgia has not adopted a code of corporate governance. However, the Company has adopted certain corporate governance structures and procedures, including the appointment of independent directors to its Supervisory Board.

GR's governance bodies are: the General Meeting of Shareholders; the Supervisory Board; and the Board of Directors (Management Board). Information about the composition of the Supervisory Board and the Board of Directors is presented in the table below:

In 2019, some changes were made to the Supervisory Board and Committee. One member left their occupied position and two new members were appointed, at which point the Supervisory Board consisted of seven members.

	Supervisory Board and Committee				Board of Directors				
31-Dec-18	Supervisory Board	Audit Committee	Nomination Committee	Remuneration Committee	CEO	CFO	Freight SBU Director	Passenger SBU Director	Infrastructure SBU Director
Konstantine Guntsadze	●								
Oleg Bichiashvili	●								
Shota Etsadashvili	●								
Clifford Stanley Isaak	●	●							
Guram Gabunia	●								
Beka Injia	●								
Zviad Mikhanashvili	●								
David Peradze					●				
Irakli Titvinidze						●			
Guram Guramishvili							●		●
Dachi Tsaguria								●	

Shareholders

The JSC Partnership Fund is the only shareholder of GR. The shareholder elects the external auditor, approves the appointment and dismissal of members of the Board of Directors, and makes decisions on the establishment and liquidation of subsidiaries of GR and on any merger, reorganization or liquidation of the Company.

A general meeting of shareholder is called at least once a year by the Supervisory Board within two months of the publication of the Group's audited financial statements.

Supervisory Board

The Supervisory Board of GR is appointed at a general meeting of shareholders, currently consisting of seven members. Any member of the Supervisory Board may be a member of the Board of Directors at the same time. However, members of the Board of Directors should not make up the majority of the Supervisory Board. Meetings of the Supervisory Board are held at least quarterly.

The Supervisory Board oversees the activities of the Board of Directors, appoints and dismisses the general director and other directors by agreement at the general meeting of shareholders, and approves and makes changes to the Company's policy and any other regulative documents, with the help of invited experts or separate members who personally inspect the accounts and properties. It also grants approval for starting new business directions and terminating ongoing activities, determines the general principles of the business policy and strategy of the Company, gives consent to long-term liabilities and determines the salary and/or additional benefits of the Company's Management.

The Supervisory Board established a Nomination Committee and a Remuneration Committee in 2011 and an Audit Committee in 2010, all of which are advisory bodies.

As at 31 December 2019, the Audit Committee was comprised of one member. Committee members are selected by the Supervisory Board on the basis of a recommendation of the Nomination Committee, and at least one of which must be an independent member.

The Audit Committee conducts the following tasks: 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; and selects, monitors and works with the Company's external auditors.

The Nomination Committee conducts the following tasks: reviews the structure and performance of the Supervisory Board and Board of Directors; recommends appropriate candidates for ongoing vacancies to the Supervisory Board and Board of Directors; makes recommendations to the Supervisory Board for appointments or reappointments of independent members of the Supervisory Board; makes recommendations to the Supervisory Board for retiring members of the Supervisory Board to be proposed for re-election at a general meeting of shareholders; and recommends candidates to the Audit and Remuneration Committees to the Supervisory Board, in consultation with the chairmen of such committees.

The Remuneration Committee conducts the following tasks: reviews, considers and agrees proposals and provides recommendations about the Company's framework and policy regarding the remuneration of certain members of the Supervisory Board, Board of Directors and other senior management; approves the terms of any service agreement with any member of the Supervisory Board or Board of Directors, as well as certain terms of employment and employment contracts; prepares remuneration reports; and conducts certain functions in relation to any schemes of performance-related remuneration, share incentive plans, pensions, bonuses and other incentive schemes.

Board of Directors

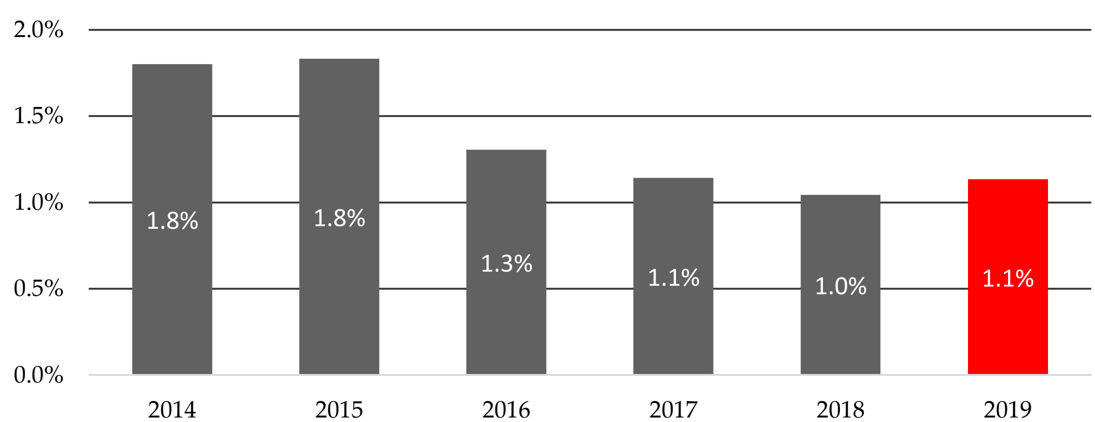
GR's Board of Directors consists of five members: CEO; CFO; Freight Transportation SBU Director; Passenger Transportation SBU Director; and Infrastructure SBU Director (Head of which is the Freight Transportation SBU Director, currently). The CEO is authorized to supervise the execution of the decisions of the Board of Directors, Supervisory Board and shareholders, as well as to distribute functions among the members of the Board of Directors and other managers of the Company, for the purpose of issuing orders, instructions and other directions.

The Board of Directors of the Company conducts the following tasks: executes the ongoing activities of the Company; supervises the operations of the subsidiaries of the Company and the performance of the duties assigned to their management; ensures the execution of the decisions of the meeting of shareholders and the Supervisory Board; defines the Company's policy, internal regulations and any other regulative documents that shall be approved by the Supervisory Board and ensures their implementation; and makes decisions on any other issue(s) that can be assigned to the Board of Directors by the Supervisory Board and/or the general meeting of shareholders.

1.4 Government Support

The Group is of significant importance to the country, and its revenue represented about 1.1 percent of the country's total GDP* in 2019. The Group is one of the biggest taxpayers and largest corporate employers in the country. It is also considered to be a strategic partner in national and economic development as it facilitates development in other industrial sectors (locomotive construction, railcar repair, concrete sleeper production, etc.) and plays a critical role in maintaining strong economic relations between Georgia and its partner countries such as Azerbaijan, Armenia, Kazakhstan, Tajikistan, Turkey and Turkmenistan.

The Group's Revenue as a Percentage of Georgia's GDP



**Source: National Statistics Office of Georgia - www.geostat.ge*

Clearly, the Government of Georgia has a significant interest in the favorable and sustainable performance of the Group in order to ensure the sustainable development of the country's economy.

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

- The Government provided approximately 182 hectares of land for the Tbilisi Bypass Project in 2010 and 2011, with a value of approximately GEL 33 million, to GR. This land comprised approximately 40 percent of the land required to support the bypass railroad and related assets. Contributions of land and other related assets for GR's projects (mostly for the Modernization Project and Tbilisi Bypass Project) also took place from 2012 to 2016, amounting to around GEL 10 million. During this period, other contributions were also made to share capital. The most significant contribution was in 2012 which largely comprised infrastructural assets of the access line to Kolkheti Partotskali such as railroads, transmission lines and substations;
- Linear infrastructure such as railroads and transmission lines have been made exempt from property tax in Georgia;
- Payment of Dividends - the Group holds Eurobonds, which imposes restrictions on dividend payments. The covenants of bonds include a constraint according to which, since 2013, cumulated dividend payments must be no more than 50 percent of the cumulated consolidated net income of the Group; and
- In 2015 and 2016, the building of a new passenger station in Batumi was financed by shareholders' dividends.

1.5 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 2019 was approximately GEL 1.9 billion. It owns and operates the following assets:

- Rail network;
- Railcars;
- Containers;
- Locomotives;
- Electric Multiple Units (EMUs);
- Stations;
- Administrative Buildings;
- Land; and
- Tunnels, Bridges and other Infrastructural Assets.

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

Rail network

General description

GR's rail network, together with CJSC Azerbaijan Railways, forms the Caucasus corridor, a key segment of the TRACECA. The Company's rail network is part of the shortest route from the Caspian Sea region and Central Asia to the Black Sea and the Mediterranean Basin.

GR owns and operates a 1,445-km railway network, 296 km of which is double-track line. The Company's network is almost totally electrified.

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

On 30 October 2017, the Baku-Tbilisi-Kars (BTK) railway line became operational. The BTK rail link directly connects Azerbaijan, Georgia and Turkey. In 2018, the first train passed through the line.

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

Capacity

The Company's infrastructure capacity varies across different lines. The main bottleneck of the infrastructure 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 main line. Currently, the estimated annual capacity of the gorge section is 27 million tons of cargo. The ongoing works on the Modernization Project are designed to increase the possible throughput capacity of the rail line to 48 million tons annually, with the potential to increase the capacity to 100 million tons.

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

Rolling Stock

General description

As at 31 December 2019, the Group had 4,939 active freight railcars and 40 active passenger wagons. In addition, in 2014 the Group purchased 480 containers to facilitate container transportation within the corridor.

	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16
Active freight railcars	4,939	5,001	5,363	6,172

Capacity

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

Share of cargoes transported by railcar owners

For the year ended 31 December

	2019	2018	2017	2016	2015
Group's own railcars	52%	53%	48%	52%	50%
Railcars owned by other railways	20%	22%	18%	21%	17%
Railcars of private companies	28%	25%	34%	27%	33%

The information presented above helps to illustrate the Group's dependence on its own wagons. More than half of the Group's total freight transportation in 2019 was performed by its own railcars.

Locomotives and EMUs

As at 31 December 2019, the Group owned 24 units of EMUs, and 153 active locomotives of which 96 were electric and 65 were diesel locomotives. In addition, the Group has 16 electrical and 21 diesel locomotives that would be fully operational after capital repairmen. Diesel locomotives are mainly used for shunting operations at stations, while electric locomotives are used to move railcars along the electrified railway network.

Stations and administrative buildings

As at 31 December 2019, the Group owned and operated 95 freight stations within Georgia, from which 39 are available for commercial purposes. According to the decision of the Management, 10 freight stations have been closed since 2016, with the labor force from these stations reassigned to other stations to increase effectiveness. As at 31 December 2019, the Group also owned and operated 51 passenger stations. The Group's headquarter building is located in the center of Tbilisi.

Tunnels and bridges

The Group's infrastructure assets comprise 40 railroad tunnels and 1,320 railroad bridges. It also owns signal equipment and other assets related to ensuring the safety of operations.

1.6 Self-insurance

The Group does not have any insurance for its infrastructure assets, business interruption or third-party liability for property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. To some extent, insurance may be available for the Group. However, the Group considers such insurance to be prohibitively expensive. Statistically, there have been very few failures or accidents on the railways in recent years. Therefore, the Group believes it would not be cost-effective to purchase insurance services for its infrastructure assets. Nonetheless, the Group periodically analyzes insurance markets and potential risks, and might consider taking up insurance coverage based on a cost-benefit analysis.

The table below shows the record of failures on its rail lines for 2014-2019 *(see subheading 1.7 Safety)*:

Failures

	2019	2018	2017	2016	2015	2014
Number of failures (1)	0	0	0	0	0	1
Loss from failures in GEL '000	0	0	0	0	0	220
Number of accidents (2)	0	0	0	0	0	0
Loss from accidents in GEL '000	0	0	0	0	0	0
Number of special defects (3)	0	0	0	0	0	0
Loss from special defects in GEL '000	0	0	0	0	0	0

(1) *Collisions of passenger or freight trains with other trains or rolling stock or their derailment on railroad or at stations resulting in the death of, or serious injury to, two or more persons or resulting in damage to locomotive and wagons that caused their exclusion from the inventory park.*

(2) *Collisions of passenger or freight trains with other trains or rolling stock, their derailment on railroad or at stations as well as collision or derailment of rolling stock during the maneuvers or other movements on the Group's own rail lines which resulted in the death of, or serious injury to, no more than one person or resulted in damage to locomotive and wagons that made critical repairs necessary.*

(3) *Collisions of passenger or freight trains with other trains or rolling stock, their derailment on railroad or at stations as well as collision or derailment of rolling stock during the maneuvers or other movements on the Group's own rail lines, which did not result in death, serious injury or total loss greater than GEL 100,000. Special defects also include: receiving/admission of the train on a busy line; receiving/admission of the train on an unplanned route; and cargo collapse in the course.*

1.7 Safety

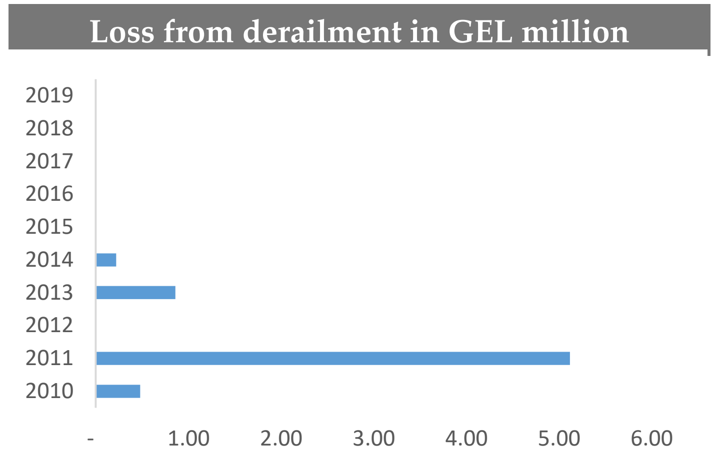
Accidents

	2019	2018	2017	2016	2015	2014
Number of employees injured due to accidents	5	5	0	74	76	82
Compensation paid for injured employees in GEL '000	0	0	0	558	546	784
Number of employees killed due to accidents	1	1	0	7	5	6
Compensation paid for employees killed in GEL '000	0	0	0	117	130	80

Train Crashes

	2019	2018	2017	2016	2015	2014
Human	17	21	20	32	22	22
Automobile	8	20	3	12	16	9
Animal	119	80	105	25	37	26
Total	**144**	**121**	**128**	**69**	**75**	**57**

One of the principal priorities of the Company's Infrastructure SBU is safety. Of the many benefits of the Modernization Project, one of its key objectives is to improve GR's operational and social safety. Special trainings are held, introducing new methods of increasing safety standards to the contractor. During the period under review, the Company did not incur any significant loss from derailment.



In terms of traffic safety, GR is planning on carrying out the following activities:

- Monthly, quarterly and annual as well as seasonal (spring, autumn) checks according to the plan;
- Random checks; and
- Testing the knowledge level of employees involved in the movement of trains.

The employee injury rate in 2019 was one of the lowest during the last 10 years and comprised about 0.05% of total. Unfortunately, one employee died from an accident that was not caused from safety issues. GR provides compensation or alternative benefits for losses suffered due to accidents, to the affected employees and/or their families.

1.8 Environmental and Social Focus

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. A filtration system is installed on the railway's facilities in order to reduce the impact of emissions.

The Group is subject to various environmental protection laws and regulations. According to the applicable laws, the construction of railway facilities, as well as the development of railway station infrastructure, is subject to mandatory ecological expertise. Pursuant to the applicable Georgian environmental laws and regulations, the Group is required to remediate any environmental damage caused by its operations through clean-up and rehabilitation works (such as repairing damaged assets or objects). In 2017, GR implemented a new document concerning the management of waste accumulated during the operational process.

As at 31 December 2019, the Group has not been the subject of any material claims regarding environmental pollution. In June 2015, changes were made to Georgia's environmental laws and regulations (Environmental Impact Permit) according to which the Group had to conduct an environmental audit of the railway throughout the country by June 2017. In 2019, the Group conducted ongoing and planned environmental monitoring. The protocols on the relevant violations have been prepared and recommendations have been issued for the purpose of carrying out appropriate measures. GR was not penalized for any environmental impact by way of its activities or the Modernization Project in 2019.

Social focus

GR, as an indirectly government-owned company, takes into account social interests. One of GR's objectives is to provide accessible and comfortable travel for people. With this in mind, in recent years the Group has provided capital repairs for locomotives and railcars, purchased new passenger trains (in 2016, two double-decker EMUs were purchased from the Swiss company Stadler Bussnang AG and two more trains were purchased in 2017, which have been completely adjusted to accommodate the needs of physically disabled people), and invested in the reconstruction of stations, bridges and administrative buildings.

The fares for passenger transportation nevertheless remain low compared to other transport alternatives, especially in the more sparsely populated regions, where the average income of the population is below the national average. Essentially, GR keeps transportation fares relatively low for the benefit of the country's regional development and social interests. Train schedules are adjusted to meet customers' needs, and trains are added when demand is at its highest, for example during the summertime.

1.9 Economic and Political Conditions

GR's railway network is a key segment of the TRACECA, the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean Basin. A significant portion of the Group's freight operations (in 2019, this was about 83 percent of its total transportation revenue) was 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 and its financial conditions and operational results are significantly influenced by the overall economic and political conditions affecting Georgia and other countries in the Eurasian region.

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, conflict in eastern Ukraine and the hostile relationship between Azerbaijan and Armenia) have contributed to slower growth 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 and with the subsequent new route from China to Europe, through Georgia and Turkey, GR aims to capitalize on increased trade volumes. About 15% of China's total trade in 2019 was with the European Union. China is also one of Turkey's biggest trading partners. Indeed, about 9% of Turkish imports were from China in 2019. Moreover, after the lifting of sanctions, Iran will resume international trade and the Group seeks to grasp the opportunity to serve as a transit route for trade between Iran and Europe. The Group also targets the development of a trade route through Iran to India *(See subheading 3.2 China and 3.3 South-West Route)*.

The outbreak of COVID-19 in early 2020 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Government of Georgia have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities.

In response to the aforementioned restrictions imposed by the Government of Georgia, the Group temporarily terminated the passenger transportation services, which is about 6% of total revenue for the year ended 31 December 2019 (2018: 6%). However, irrespective of the aforementioned measures, as at 31 December 2019 and as of the date the Annual Report was authorized for issue, the Group, apart from the passenger transportation services, continues its operations in its normal way. Furthermore, temporary lock down of air and overland transportation has positively affected the revenue from freight traffic which is about 76% of total revenue for the year ended 31 December 2019 (2018: 69%) during the first months of 2020.

Taking into account the Group's current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Groups financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly. Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

1.10 Competition

GR's Freight Transportation SBU faces competition from alternative transportation providers. Its Passenger Transportation SBU competes with other forms of transport, such as buses, mini-buses, passenger automobiles and airplanes.

To reduce the risk from competition, the Group is trying to diversify the markets in which it operates, as well as the kinds of goods it transports. In 2019, about 28 percent of total goods transported by the Group were liquid goods and the remainder - dry goods. To reduce risks and increase capacity, in 2010 the Group launched the Modernization Project. The project is expected to be completed by the end of 2021 and will increase the capacity of the main transportation line from the current annual capacity of 27 mln tons to 48 mln tons, with further potential to expand to 100 mln tons. In order to increase competitiveness and thus provide a better service to customers, GR entered the freight forwarding business in April 2013.

Competition from oil pipelines

General description

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

- The Caspian Pipeline Consortium (CPC pipeline), which transports crude oil from Tengiz oil field, Kazakhstan (on the coast of the Caspian Sea) to Novorossiysk, Russia (on the coast of the Black Sea);
- The Baku-Tbilisi-Ceyhan (BTC pipeline), which transports crude oil from Baku, Azerbaijan (on the coast of the Caspian Sea) to Ceyhan, Turkey (on the coast of the Mediterranean Sea);
- 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 Baku-Supsa pipeline, which transports crude oil from Baku, Azerbaijan (on the coast of the Caspian Sea) to Supsa, Georgia (on the coast of the Black Sea);

The share of crude oil transported by the Group in terms of total transportation volume dropped to 0.13 percent in 2019 compared to 32 percent 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 BTC pipelines, especially after the expansion of the CPC pipeline.

Strengths

<u>Low cost for large volumes</u> - 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

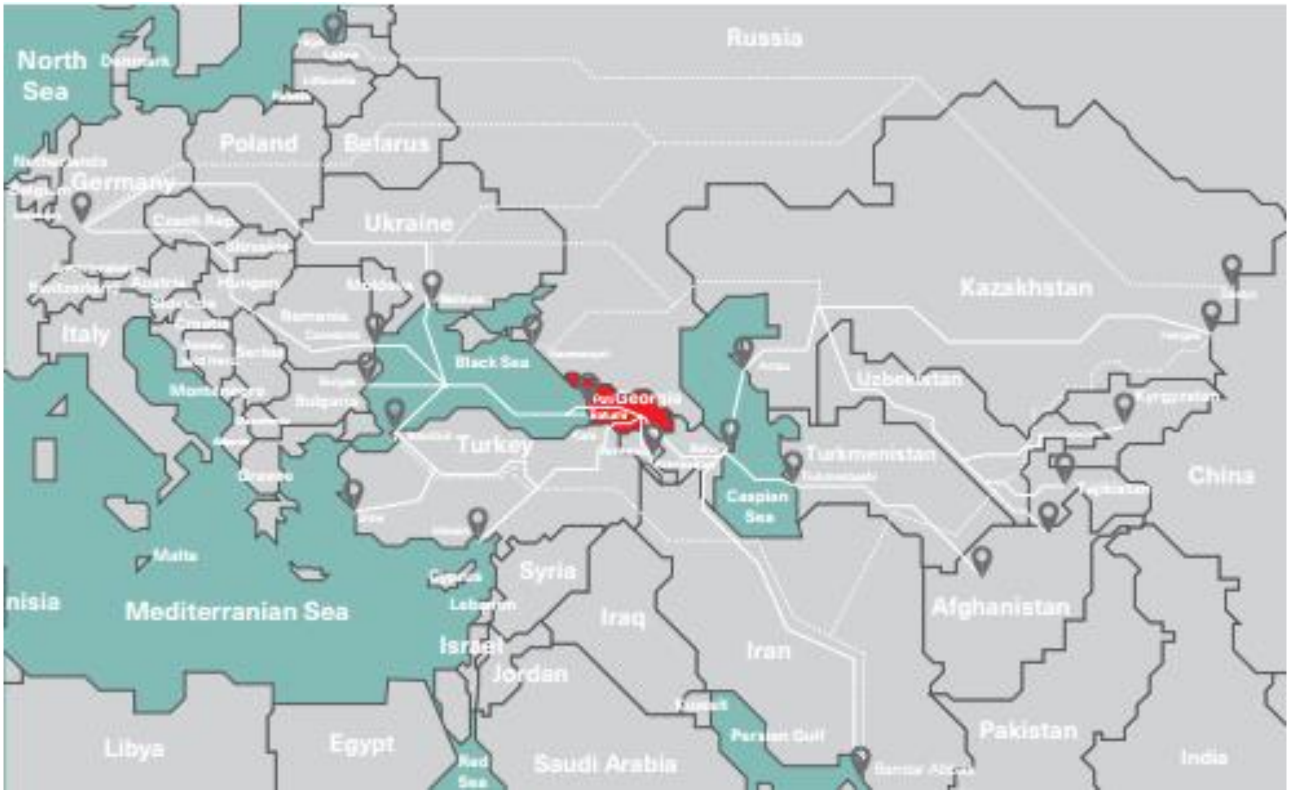
<u>Changing the quality of crude oil</u> - pipelines do not generally carry all grades of crude oil as different grades of oil are mixed in the pipeline, and this affects the quality. Therefore, pipelines are best suited for average-grade oil, while for high-quality and low-quality crude oil pipelines may not be the best mode of transportation.

<u>No pipelines for oil products</u> - it should be mentioned that pipelines are only competing with railways in crude oil transportation, while refined oil products are not subject to competition from pipelines.

Competitive developments

Although oil pipelines are competitors in crude oil transportation in CIS countries, they mostly transport oil in high volumes, which can exclude small players. 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, therefore, opens up a niche for the railway business in crude oil transportation.

Competition from alternative rail transit routes



General description

There are railway routes that provide alternatives to the Group's rail network. In particular, these routes include:

- The Russian routes going from Central Asia through Russia to the Baltic Sea and 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 the Georgian route.

Unimodal transportation - routes in Russia offer unimodal transportation, while cargo transported from Central Asia via Georgia must use several transport modes 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.

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. The Modernization Project should also increase transportation speed, safety and service quality, which will give the Group an opportunity to attract new customers.

Iranian route

Strengths

Good location for certain cargo - the Iranian route is located in a strategically strong position to compete for certain cargoes, which flow from China and Central Asia to Turkey and other destinations.

Weaknesses

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

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

Competitive developments

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

Competition from road transportation

General description

There is competition from roads within Georgia for the transportation of containerized goods.

Strengths

Cheaper, short-distance transportation - in Georgia, which is a relatively small country, short-distance transportation by road is cheaper, especially for containerized cargo. Competition strengthens when international prices on oil products are low, especially 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 and more environmentally friendly than road transportation.

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

Competitive developments

In order to compete with road transportation, GR has established a subsidiary, GR Logistics and Terminals LLC, to foster the containerization of regional freight. In 2014, the Group also purchased a container fleet, which is another important step towards increasing the overall competitiveness of the corridor. The Management believes that containerization can attract new customers and expand the range of transported cargo.

1.11 Risk Factors

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Economic and political conditions *See subheading 1.9 Economic and political conditions*	Influenced by local and CIS countries' economic and political conditions.	Adverse economic developments in CIS countries and in Georgia, as well as political, social and economic instability negatively impacts on the Company's performance.	• Diversify in terms of geographies and markets.
Competition *See subheadings 1.10 Competitors and 2.1 Freight Transportation SBU*	The Group faces competition from alternative rail transit routes, from road transportation, from oil pipelines and from providers of other methods of transportation.	Strong competition from alternative transit routes and other transportation methods may have a material adverse effect on the Group's business, financial conditions and results of operations.	• Diversify the type of products transported; • Work out single tariffs with partner railways; and • Better understand customers' needs.
A relatively small pool of large customers. *See subheading 2.1 Freight Transportation SBU*	The Group earns a significant portion of its revenue from a relatively small pool of large customers.	Several factors such as pricing and market demand for the Group's services could cause the loss of customers.	By entering the freight forwarding business, Georgian Railway tries to: • Deepen its understanding of customers' industries; • Deepen its understanding of business processes; and • Have control over the whole chain of services.
Foreign currency exchange risk *See subheadings 6.4 Non-current liabilities and 5.5 Finance income and cost*	The Group's functional and presentation currency is Georgian Lari. However, most of its borrowings are denominated in foreign currency.	Variations in exchange rates can negatively affect the results of the Group.	• Take measures to naturally hedge currency exchange risk.
Strikes, lockouts and labor legislation	As at December 2017, about 60 percent of the Group's employees were members of trade unions.	There is some risk that in the future the Group's business will be subject to interruptions caused by strikes or lockouts.	• Try to make work rewarding and improve working environment.

Risk	Description	Impact/Sensitivity	Mitigation/Comment
Qualified personnel *See heading 4 Employees*	Hiring and retention of qualified and key personnel.	The Group would not be able to move forward and could not have become what it is today without both high levels of expertise in make long-term plans, and commitment of its personnel.	• Promote business education; • Make work challenging and rewarding; • Make efforts to improve conditions of work; and • Offer social benefits.
Aging of infrastructure, rolling stock and related assets *See subheadings 1.5 Railway property, 2.2 Passenger Transportation SBU, subheading 2.3 Infrastructure SBU*	The Group's infrastructure and its related assets are aging and may need to be replaced in the future.	Accidents related to the poor condition of the rail infrastructure and its related assets or any failure of the infrastructure to operate properly could result in interruptions in the Group's business, an increase in its operating expenses or requiring significant CAPEX.	• Continue to carry out extensive renewal and improvement of rail network, rolling stock and related assets.
Self-insurance *See subheading 1.6 Self-insurance*	The Group does not have full insurance coverage for its property, business interruption or third-party liability.	Until the Group obtains adequate insurance coverage, failures in operational processes or destruction of its property could have a material adverse effect on the Group's operations and financial position.	• Keep operational procedures in place and control them to minimize the risk; and • Periodically analyze insurance markets and potential risks.
Laws and regulations	The Group is subject to various environmental protection and health and safety laws.	Failure to comply with environmental and health and safety requirements could bring the Group administrative sanctions, penalty fees and civil liabilities. The uncertainties of the Georgian tax system could have an adverse material effect on the Group's business.	• Employ qualified personnel; and • Provide trainings when there are changes in legislation.
Global Pandemic (COVID-19)	Covid-19 caused global lockdown, impacting economy.	Passenger service is more sensitive towards this risk. Lockdown due to Covid-19 pandemic has minor impact on freight traffic	• Follow safety rules and recommendation to keep employees and customers safe

Strategy of the Group

Strategy for Sustainable Future

2. Focus on Core Business Activities

GR operates its national railway system through its subsidiaries and three strategic business units: Freight Transportation SBU; Passenger Transportation SBU; and Infrastructure SBU. The following chart presents GR's SBUs and subsidiaries:

JSC Georgian Railway				
Freight Transportation SBU	Passenger Transportation SBU	Infrastructure SBU	Freight Forwarding & Handling Subsidiaries	Property Management Subsidiary

2.1 Freight Transportation SBU

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

Freight transportation services encompass the transportation of cargo along GR's railway network within Georgia. Freight handling services, including railcar marshaling and the delivery of freight to and from customer facilities are provided at the stations that run commercial freight services. Freight car cross-border charge revenue is generated by allowing other countries' railways to use GR's railcars for their own transportation.

The Freight Transportation SBU is the principal source of the Group's revenue, accounting for 92 percent of the Group's total revenue in 2019. Freight transportation generated 69 percent of the Freight Transportation SBU's revenue in 2019.

Freight transportation volume

For the year ended 31 December	*Million tons*					*Percent*				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Liquid cargoes	**3,077**	**3,140**	**4,347**	**5,494**	**6,748**	**28.3%**	**31.4%**	**40.7%**	**46.2%**	**47.7%**
Oil products	3,063	2,972	3,946	3,686	5,884	28.2%	30.0%	37.0%	31.0%	41.6%
Crude oil	14	168	401	1808	864	0.1%	2.0%	3.8%	15.2%	6.1%
Dry cargoes	**7,784**	**6,865**	**6,325**	**6,388**	**7,395**	**71.7%**	**69.0%**	**59.3%**	**53.8%**	**52.3%**
Ores	2,020	1,578	1,424	1,454	1,458	18.6%	16.0%	13.3%	12.2%	10.3%
Grain and grain products	424	475	302	448	716	3.9%	5.0%	2.8%	3.8%	5.1%
Ferrous metals and scrap	525	550	529	663	892	4.8%	5.0%	5.0%	5.6%	6.3%
Sugar	327	356	378	499	464	3.0%	4.0%	3.5%	4.2%	3.3%
Chemicals and fertilizers	719	552	566	429	507	6.6%	6.0%	5.3%	3.6%	3.6%
Construction freight	1,027	1,170	1,157	1,065	1,426	9.5%	12.0%	10.8%	9.0%	10.1%
Industrial freight	458	410	302	271	261	4.2%	4.0%	2.8%	2.3%	1.8%
Cement	113	119	95	62	80	1.0%	1.0%	0.9%	0.5%	0.6%
Other	2,171	1,655	1,572	1,496	1,590	20.0%	17.0%	14.7%	12.6%	11.2%
Total	**10,861**	**10,005**	**10,673**	**11,882**	**14,143**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Freight Transportation SBU transports both liquid and dry cargo. Liquid cargo, which consists of crude oil and oil products, accounted for 28 percent of the Group's total freight transportation volume in 2019.

Freight volumes by transportation mode

For the year ended 31 December	*Million tons*					*Percent*				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Liquid cargoes	**3.1**	**3.1**	**4.4**	**5.5**	**6.7**	**28.3%**	**31.4%**	**40.7%**	**46.2%**	**47.7%**
Transit	1.7	1.8	2.8	4	5.4	16.1%	17.6%	26.5%	33.8%	38.0%
Export	0	0	0.1	0	0	0.2%	0.2%	0.7%	0.3%	0.2%
Import	1.1	1.2	1.2	1.2	1	10.2%	11.6%	11.5%	9.7%	7.3%
Local	0.2	0.2	0.2	0.3	0.3	1.9%	2.0%	2.1%	2.5%	2.2%
Dry cargoes	**7.8**	**6.9**	**6.3**	**6.4**	**7.4**	**71.7%**	**68.6%**	**59.3%**	**53.8%**	**52.3%**
Transit	3.5	2.4	2.1	2.2	2.6	32.4%	24.1%	20.1%	18.3%	18.2%
Export	1.3	1.1	1	1	1.1	11.6%	11.5%	9.7%	8.8%	7.6%
Import	1.5	1.7	1.4	1.5	1.7	13.8%	17.1%	13.5%	12.6%	11.8%
Local	1.5	1.6	1.7	1.7	2.1	13.9%	16.0%	16.0%	14.2%	14.7%
Total	**10.9**	**10**	**10.7**	**11.9**	**14.1**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Transit shipment represented about 48 percent of the Group's freight transportation volume in 2019.

Customers

The Freight Transportation SBU's primary clients are freight forwarders, which serve different geographical locations and cargo owners. Although the Freight Transportation SBU has a limited number of direct clients, each freight forwarder represents a number of indirect clients who are free to switch from one freight forwarder to another, using the same cargo corridor and services provided by the Freight Transportation SBU.

To better understand customers' needs and business processes the Group entered the freight forwarding business.

The Group provides its customers with flexibility, by not entering into binding long-term contracts.

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

For liquid cargo, the top five customers accounted for 61 percent of total liquid cargo transported in 2019. In terms of dry cargo, the top five customers accounted for 51 percent of total dry cargo transportation in 2019.

The Freight Transportation SBU does not generally enter into binding long-term contracts with its customers, allowing the Group to maintain operational flexibility and to change its prices in accordance with market conditions. As there is no demand for strict commitments, the Freight Transportation SBU also provides flexibility for its customers.

Tariffs

Independent tariff setting - the Group has a monopoly on rail transportation within Georgia. However, its tariff policy is not subject to government regulation. Currently, the railway business is fully deregulated in Georgia and no changes in this regard are foreseeable. The Group sets its tariff policy independently for all services, including tariffs for freight transportation and related services. The Group can change its tariffs with one month's prior notice to its customers.

GR has a written tariff policy specifying the methods and formulas for determining the various tariffs for its services, which is published on its website.

Tariff currency – the Group's freight transportation tariffs are set in US Dollars (USD) except container transportation for domestic directions and import/export from/to Azerbaijan which comprised only 0.1 percent of total transportation revenue in 2019. (This tariff policy was implemented in May 2017, and, before that, this type of transportation was also set in USD). Therefore, as its revenue was derived mainly from freight transportation in 2019, the Group received most of its total revenue (about 79 percent) in USD, about 6 percent of total revenue was in Swiss Francs (CHF) and about 15 percent was in GEL. Before 2012, the Group's freight tariffs were quoted in CHF. However, in 2012, before issuing Eurobonds in USD, the Group switched its tariffs from CHF to USD to partially hedge against foreign exchange risk.

Revenue per ton-kilometer

For the year ended 31 December *In Tetri*

	2019	2018	2017	2016	2015	2014
Oil products	14.1	11.2	8.8	9.8	8.8	7
Crude oil	12	6	5.1	4	5.9	4.9
Dry cargo	9	8.6	9.4	9.9	10.4	7.9

Revenue per ton-kilometer is calculated as freight traffic revenue (not including revenue from logistical services and any handling charges) divided by ton-kilometers. The Group uses a detailed formula for each individual transportation order that takes into consideration factors including the type and weight of freight as well as the direction and the distance over which the cargo is carried.

GR offers a number of discounts, which can be found in the tariff policy section on its website (www.railway.ge).

2.2 Passenger Transportation SBU

Passenger transportation is currently a minor segment of the Group's operations as it only accounted for about 6 percent of total revenue in 2019. The primary activity of Passenger Transportation SBU is the transportation of passengers within Georgia and on international routes, connecting Georgia with Azerbaijan and Armenia.

One of the Group's medium-term strategic objectives is to optimize expenses and increase revenue by increasing the number of passengers and revenue per passenger.

EU regulation number 1370/2007 effective from 2018, underlines the need for Passenger Transportation SBU subsidies and prohibits cross subsidizing from the Freight Transportation SBU. Accordingly, in 2018, an agreement was made between GR and the Georgian government to subsidize the Passenger Transportation SBU. Despite, there was no compensation in 2019, it's planned that the Passenger SBU will receive Government support following years.

The Group aims to introduce a higher level of service by investing in new railcars, or improving the existing ones in order to provide improved speed and comfort of transportation. It intends to do so by achieving the following:

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

By undertaking these measures, the Group aims to attract customers with higher incomes and other passengers who might otherwise have travelled by car.

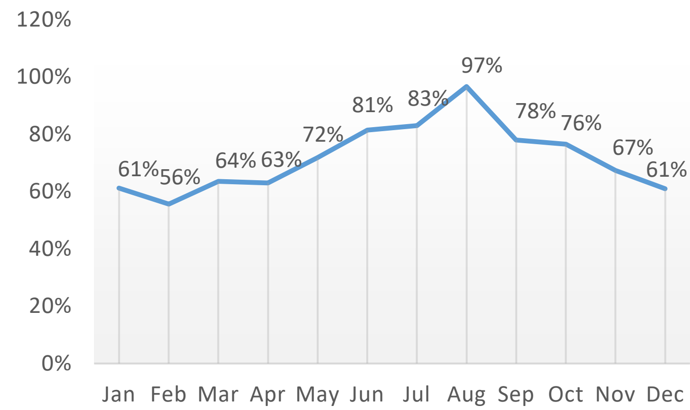
Customers

The Passenger Transportation SBU provides domestic and international transportation services.

As GR's rail lines are linked to Azerbaijan and Armenia, international rail transportation is carried out in these directions. After the completion of the BTK project it will be possible to transport passengers to Turkey and onward to Europe.

Domestic transportation is carried out within Georgia and comprises regional and long-distance transportation. Domestic transportation is most active in summer, when the number of passengers traveling to the Black Sea peaks.

Passenger occupancy rate on main line in 2019



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 purchased two more trains from the same company. These trains are equipped with all necessary modern equipment and security systems, and are in full compliance with European safety standards and have been completely adjusted to the needs of physically disabled persons.

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

In 2017, GR took responsibility to construct a new passenger rail station near Kutaisi International Airport in order to offer more comfortable travel to people traveling from and to the airport.

Number of passengers

For the year ended 31 December — *Numbers in millions*

	2019	2018	2017	2016	2015	2014
International	0.2	0.1	0.1	0.1	0.1	0.1
Domestic	2.9	2.8	2.6	2.4	2.3	2.6
Total	**3.0**	**2.9**	**2.7**	**2.5**	**2.4**	**2.7**

Tariffs

Similar to the situation for freight transportation tariffs, the Group is not subject to government regulations in setting fares for passenger transportation. In many cases, however, passenger transportation tariffs are not affected by market forces, because having affordable passenger transportation services carries significant social importance.

The Management's intention is that any increases in tariffs are to be made in line with improvements to the Group's services, the provision of new modern trains and inflation. The Group's tariffs are designed to be competitive with those for buses, mini-buses and other passenger transportation services in Georgia.

Passengers can buy tickets directly at stations, or through tourist agencies, pay-boxes and online.

Average revenue per passenger-km

For the year ended 31 December *In Tetri*

	2019	2018	2017	2016	2015	2014
Average revenue per passenger-km	4.6	4.3	3.8	3.5	3.3	3.3

Average revenue per passenger-km is calculated as passenger traffic revenue divided by passenger-km.

The increase in average revenue per passenger-km in 2019 was driven by an increased share of the number of passengers on the main line, most of which consisted international transportation. This segment was represented by 6 percent in 2019 compared to 5 percent in 2018. Overall, the increasing trend in average revenue per passenger-km for the period under review can be explained by the increased share of higher-priced seats sold, as new trains with improved services were added for long-distance routes. This change is the result of the Group's strategy to focus more on the higher-income segment, purchasing new trains and offering a more comfortable and attractive service.

2.3 Infrastructure 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. The Infrastructure SBU is a cost center providing services to the Freight and Passenger Transportation SBUs.

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

GR owns and operates 1,445 km of railway network in total, 296 km of which is double-track line. The Company's rail network is almost fully electrified.

GR's network is connected to Azerbaijani and Armenian railways. The Company's rail network is now connected to the Turkish railway as well, after the BTK railway line became operational in 2017. In 2018, the first passenger train passed through the BTK line. Starting from 2019, the line is operational in the test mode. Freight is being transported daily. Moreover, after safety works are finalized, the Management expects the capacity of the line to increase further.

The infrastructure capacity varies across the Company's different lines. Currently, the estimated capacity of the gorge section, which is the main bottleneck on the main line of the network, is 27 million tons of cargo annually.

Projects

Commercial project

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

Socio-commercial project

The Kutaisi Airport Station Project is planned to serve the passengers traveling from/to Kutaisi International Airport

Railway Modernization Project

The Group launched its Modernization Project in 2010. The aim of the project is to modernize the infrastructure of the Group and to increase the capacity of the main line. The implementation of the project is expected to create the following important benefits for the Group:

- Increase the capacity of the Group's infrastructure;
- Eliminate the need for extensive capital expenditures for the maintenance of existing tracks;
- Increase transportation speed along the line, offering improved services for freight and passenger customers;
- Further increase the safety level of transportation; and
- Reduce operational expenses.

The project can be divided into two main parts. The first part is concentrated on the improvement of the rail lines along the Group's main line, while the second is concerned with debottlenecking the line thereby increasing its capacity.

The main bottleneck is in a mountainous region in the center of Georgia, referred to as the gorge section (40-km long). The topography of the mentioned region complicates rail operations, causing delays, quickening the depreciation of the tracks and rolling stock, and increasing the need for additional pulling locomotives. One of the key aims of the project is to decrease the track gradient in the gorge section, which is expected to reduce electricity and fuel expenses. A flatter gradient is expected to reduce wear and tear on wheels and tracks, which would decrease maintenance expenses, decrease the need for extra locomotives in that section and reduce the extra stops needed to cool the brakes on the trains. The project envisages the digging of a direct tunnel in the gorge section, thereby simplifying operations and increasing throughput capacity from 27 million tons of cargo per annum to 48 million tons per annum, with the possibility of further expansion to a potential 100 million per annum with relatively small capital expenditure.

The Modernization Project is financed by the Group's operations and the proceeds from its Eurobond placements in 2010 and 2012. The project is expected to be completed by the end of 2021.

As at 31 December 2019, about 88% of the total works on the Modernization Project had been completed. During 2019, GEL 101.5 million was spent on the project.

Kutaisi Airport Connection Project

In 2017, GR took responsibility to construct a new passenger rail station near Kutaisi International Airport in order to offer more comfortable travel to people traveling from and to the airport.

The project is considered to be of a socio-commercial nature. It will facilitate travel to/from this airport and is expected to be profitable for the Group because the overall number of passengers using the airport is increasing rapidly.

Thus, in 2016, GR invited the IFB INSTITUT FÜR BAHNTECHNIK GmbH, located in Berlin, to conduct a feasibility study for Kutaisi Airport. In 2018, the decision was made to update the aforementioned document, and accordingly the study was renewed in 2019

The feasibility study considered four options and examined their costs for construction and operation. The investigated options consider the potential of airline flight passengers as well as the possibilities of passenger transfer from airport to railway and vice versa after a significant increase of flight operations at Kutaisi International Airport.

According to the study, as a short-term solution for the next few years IFB recommends a shuttle bus service be set up between Kutaisi International Airport Passenger Terminal and Kopitnari Railway Station.

For this purpose, Kopitnari Railway Station must be refurbished to increase the comfort for the passengers, e.g. existing buildings and the platforms must be refurnished.

Based on the following recommendations, GR is planning to take further steps to fully implement the project.

The Tbilisi Bypass Project

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

In June 2013, the Group announced its 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.

In March 2014, the Government of Georgia decided that the suspension of the construction of the Tbilisi Bypass Project would last for 18 months until the final modified project would be presented.

During 2015 and 2016, the Group was in discussions with Tbilisi City Hall and the Government of Georgia about various scenarios for the completion of the project. One such scenario under discussion included an option envisaging a change to the original bypass location, which would possibly render the existing bypass infrastructure redundant. The alternative scenarios included the determination of the future use of the existing infrastructure, should it become redundant. The options put forward for future use of the infrastructure included a bypass automobile road, light rail/extension of the Tbilisi Metro System, and freight depot. However, as at 31 December 2019, no decision had been 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 the implementation of any other scenarios envisaging change to the existing use of the project, and also considering the fact that the Management does not expect that the project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the project was written-down to its recoverable amount.

As a result, an impairment loss of GEL 382,616 was recognized in the profit and loss (P&L) statement and comprehensive income for the year of 2017.

2.4 Subsidiaries

Freight forwarding and terminal operators

In 2009, the Company established GR Logistics and Terminals LLC (formerly Trans Caucasus Terminals LLC) to promote the containerization of the corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by creating the necessary infrastructure, such as container terminals. Recently, GR Logistics and Terminals LLC also became involved in cargo forwarding through the corridor. In 2015, another subsidiary, GR Trans-Shipment LLC, was established, which has the terminal operator VIBRO DIAGNOSTIK under its management and which operates oil terminals in Batumi Port.

In recent years, GR has taken important steps to cover logistical services. In 2013, the Company acquired Georgia Transit LLC and established Georgian Transit LLC (later renamed GR Transit LLC) in 2015.

These subsidiaries are freight forwarders and serve crude oil and oil products transportation mainly from Azerbaijan, Kazakhstan and Turkmenistan. In 2014, GR established GR Transit Line LLC, another freight forwarder that carries oil products mainly transported in the direction of Azerbaijan and Armenia.

The share of revenue from logistical services in total revenue amounted to 10 percent in 2019.

Property Management

GR Property Management LLC (formerly Railway Property Management LLC) was established in 2009, and its main objective is to define the best use of railway-related assets such as land, depots and stations, to utilize non-core assets and to ensure the commercialization of these assets.

3. Building a Valuable Supply Chain

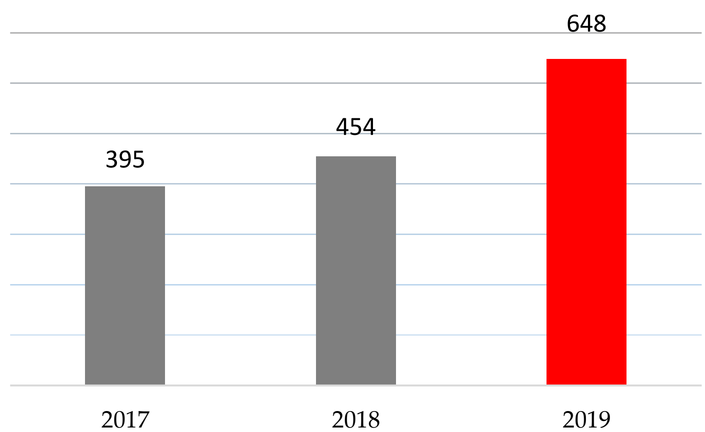
The Group is focused on achieving its key strategic objective, namely building a valuable supply chain, through vertical integration and making suitable connections. The Group forms part of the Caucasus railway corridor, a key segment of the TRACECA. Therefore, the Group's projects are also in line with other planned or implemented projects in Georgia and in the Caspian Sea region, such as the development 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. A valuable supply chain cannot be created without other participants' efforts in the corridor.

3.1 Containerization

One of the key strategic objectives of the Group is to achieve greater effectiveness in terms of its costs and core operations, thus the Group is keen to increase containerization rates in the Caucasus railway corridor. Container traffic has significant value for freight operators, as container transportation services are much cheaper than regular wagons.

In 2019, the total Black Sea container market rose by 11.64 percent, compared to 2018. One of the main contributors to this increase was Georgian ports. Loaded container turnover in Georgian ports increased by 14.64 percent. Current levels of containerization are low, so there is still significant room for improvement. Backed by internal estimates, GR's transportation share in containers transported within Georgia in 2019 was about 20 percent.

Total handled containers by sea ports



Share of containerized cargo in total freight volumes transported by the Group

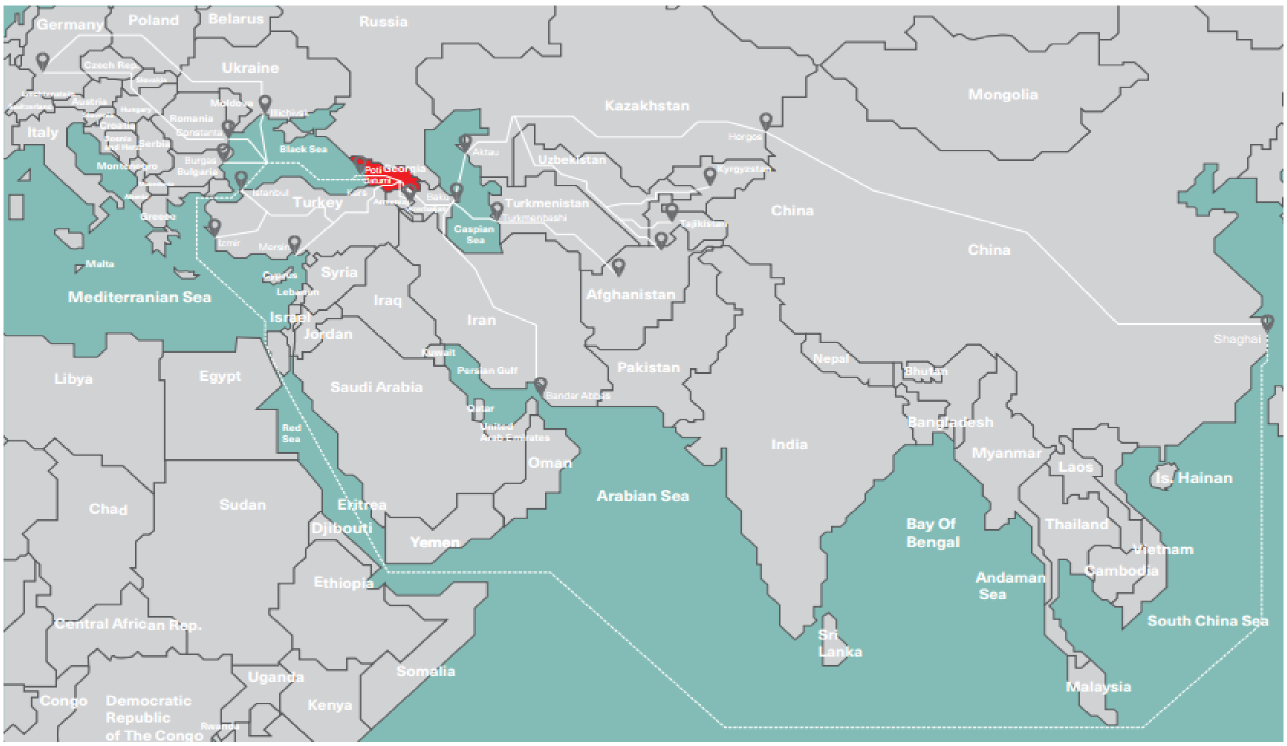
For the year ended 31 December *Percent*

	2019	2018	2017	2016	2015
Share of containerized cargo in total cargo flows	11.7%	9.5%	6.7%	5.1%	5.4%

In order to boost containerization, the Company founded a subsidiary – GR Logistics and Terminals LLC (formerly Transcontainer LLC) - in 2009, the main aim of which was to create and develop the necessary container infrastructure along the Black Sea and Central Asian route. The subsidiary has created container terminals in the port cities on the Black Sea and a container terminal in Tbilisi. In 2014, the Group purchased 480 containers for moving cargo through the Georgian corridor, especially considering that sea carriers' transportation of containers to Central Asia is limited. The Management believes that the availability of sufficient infrastructure would boost containerization rates and potentially bring completely new cargo to the corridor.

3.2 China

A new route from China to Georgia and through Georgia to Turkey, Europe and the countries of the Mediterranean Basin, is under development. This route provides an alternative to the existing sea route and creates the possibility of attracting cargo from new markets.



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

Simplifying operations for cargo-owning companies on this route is one of the main priorities of the International Association “Trans-Caspian International Route” (TITR) *(for more details see subheading 3.4 International agreements)*, the efforts of which are believed to increase the competitiveness of the corridor thereby increasing the commercial operations on the route.

In 2015, the first transit train from the Chinese port terminal of Lianyungang arrived in Tbilisi, heralding the official opening of "The Silk Road." In 2019, the number of trains to arrive from China within the mentioned project increased, compared to 2018.

In recent years, China’s trade with Turkey and EU countries has increased. Indeed, trade with these countries represented about 16 percent of China’s total trade in 2019. This upward trend is expected to continue in the future. Therefore, the Group sees great potential in the development of this route, especially in light of the BTK rail link.

3.3 South-West Route

In 2016, Georgian, Iranian and Azerbaijani railways developed a special tariff policy for goods to be transported from India via Iran, Azerbaijan and Georgia to the Black Sea ports of Georgia, and through which freight would be transported on to Europe. The same tariff policy also extends to cargo being transported from Europe to Iran and back.

3.4 International Agreements

International agreements play an important role in eliminating trade barriers, reducing tariffs and implementing infrastructure projects. Below are listed several agreements that are believed to help GR in increasing its transit potential and attracting new cargoes.

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

3.5 Ongoing Projects in the Corridor

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

Anaklia Deep-Sea Port › **Baku-Tbilisi-Kars** › **Other infrastructure projects**

Anaklia Deep-Sea Port

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

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

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

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

The construction of Anaklia Deep-Sea Port began at the end of 2017. In the beginning of 2020, the Georgian government canceled the agreement with TBC Holding due to failure to meet contract requirements. According to the Minister of Regional Development and Infrastructure, Georgia needs the Anaklia Deep-Sea Port for economic security and, in general, to fulfil its logistical potential. Thus, the project will be continued with new participants and the Georgian government is taking active steps to renew the project and attract new partners. The information above gives us confidence that the project will be finalized and all the benefits that the Group is expecting will be realized.

Baku-Tbilisi-Kars

The BTK project is designed to connect Azerbaijan and Turkey with a railway link through Georgia. The project includes the rehabilitation and reconstruction of a 178-km-long railway line between Marabda and Akhalkalaki (both in Georgia) and the construction of a new railway from Akhalkalaki to the Turkish border, which will connect the Group's operational track to Turkish rail lines. The railway corridor is to be extended to Europe under the Marmaris project (a railway tunnel under the Bosporus), which will create a safe, fast and short route to transport goods from Asia to Europe and vice versa. This would entail the opening of a new rail-only corridor from the Caspian Sea to Europe via Turkey, removing the need for sea transportation.

The project is being implemented by the Georgian government without the financial participation of the Group. The project is being financed by the Government of Azerbaijan, who granted a loan to the Georgian government for its construction. However, when the tracks are built, the Group will be granted exclusive rights to operate the Georgian part of the line.

The project began on 30 October 2017 and has started running a testing regime. Significant volumes from this line are expected after the completion of safety works starting from 2020.

The completion of the project should open a completely new geographical market for rail operations with Turkey. The Group will benefit in terms of the freight transportation sector as well as in the passenger sector as customers will be able to travel to and from Turkey (at the beginning it will have the capacity of about 1 million passengers annually). Opening this rail connection should also increase access to other potential markets, especially China.

Poti Sea Port

On 12 January, 2018, APM Terminals Poti and Poti New Terminals Consortium signed a Memorandum of Understanding (MOU) for an investment of USD 100 million in a new bulk cargo terminal that can process 1.5 million tons of dry bulk cargo annually and generate new trade opportunities for customers in the Georgian transit corridor.

In addition, at the end of 2019, PACE Group, one of the largest transportation company in Georgia, launched the construction of a new, modern terminal in Poti Sea Port, in Western Georgia. The project is worth USD 120 million.

Located over 25 hectares, the new terminal will require dredging work to take place in the harbor to a depth of 12 m, which will result in the sea port being able to accept vessels up to 253 meters in length and with a load capacity of up to 50,000 tonnes. The company says that after the implementation of the project, cargo turnover will increase by 2.5 million tonnes.

Batumi Sea Port

On 22 March, 2018, Batumi Sea Port and Wondernet Express International Logistics Company signed an agreement to build a new terminal in the Port of Batumi. The terminal is intended for the transit of mineral fertilizers from Central Asia.

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

The technological project envisages the construction of transit terminals and storage facilities for the purpose of obtaining, storing and dumping mineral fertilizers. Warehouses are designed to store 60,000 tons of bulk fertilizers. At the initial stage, the terminal's production capacity allows the processing of up to 1,200,000 tons of mineral fertilizers per year.

Free trade agreements

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

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

Georgia exported more than 87 percent of its domestic export (export of locally produced goods and services, including those of foreign origin that have been substantially changed through local processing) in 2019 to countries with which it has a free trade agreement. In 2019, significant shares of domestic export were distributed among the following:

- The Commonwealth of Independent States (CIS) – 36.4%
- The European Union – 31.3%

- China – 8.8%
- Turkey – 8%

Infrastructure developments in the corridor

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

Kazakhstan's infrastructure improvements

Kazakhstan plans to increase its transit role by accommodating a large share of the trade between Europe and China. Currently, goods from China to Europe are mainly delivered by sea.

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

Construction of a new ferry complex at Kuryk Port

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

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

The ferry complex in the Port of Kuryk is considered to offer the following advantages:
- Good climate;
- Sufficient depth; and
- Prospects for increasing throughput capacity.

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

JSC "NC"Kazakhstan Temir Zholy" calculated the total transportation of goods through the Port of Aktau for the first quarter of 2018. According to its figures, the volume of shipment from the Seaport of Aktau, increased in the first quarter by 45 percent compared to the same period of 2017.

Opening of the new Zhezkazgan-Beyneu rail line

In 2014, the new Zhezkazgan-Beyneu rail line was opened. This new rail line shortens the transportation distance from the Caspian Sea to the East by offering a direct route, which reduces travel time significantly. The new line shortens the distance for cargo transported from China to the Caspian Sea by about 1,000 km. The Zhezkazgan-Beyneu line is the shortest rail route from central Kazakhstan to the Port of Aktau.

Dry Port of Khorgos - Eastern Gate

The construction of a new dry port called the Khorgos - Eastern Gate, which is expected to become part of the free economic zone (FEZ), started in July 2014. In 2016, BAZIS Construction Company, which is the general contractor for Khorgos - Eastern Gate FEZ's construction, completed the construction of the project. The capacity of the dry port is 4 million tons of cargo per year.

Khorgos - Eastern Gate FEZ is situated near the Kazakh-Chinese border. The complex includes a dry port, logistics, industrial zone, access railways and road overpasses, and is located on an area of over 700 hectares. The dry port and other components of the special economic zone (SEZ) will allow Kazakhstan to become a commercial and transportation hub, significantly improving the cargo logistics of the country with China, and linking it to the East and the West.

The Khorgos - Eastern Gate FEZ together with the Zhezgazgan-Beyneu rail line and the Port of Aktau represents a huge logistics and distribution capacity and assists Kazakhstan's further integration into international trade and transportation.

Azerbaijan's infrastructure improvements

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

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

Construction of the new Alyat Port

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

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

Modernization of Azerbaijan's Railway

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

Azerbaijan Railways is also renewing its rolling stock. It signed a contract to purchase 50 locomotives from ALSTOM and purchased 10 diesel locomotives from Kazakhstan. Azerbaijan Railways has purchased four electric locomotives.

The modernization of different rail lines in Azerbaijan and the renewal of its rolling stock should increase the speed of trains and its cargo capacity, which are important steps toward increasing the potential of the whole corridor.

With this in mind, GR expects cargo flow to increase from Azerbaijan through Georgia.

Other infrastructure projects and developments

Development of Turkmenbashi International Seaport

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

Iran's infrastructure development

Georgia, Azerbaijan and Iran are planning to start operating a corridor that will carry cargo from the Black Sea to the Persian Gulf. In the summer of 2016, GR signed a memorandum of collaboration with Deutsche Bahn (German railway company), which is to be GR's partner for the new route.

Construction of the 8.3-km railway section between Astara (Azerbaijan) and Astara (Iran) began in the first half of 2016 and opened in 2017. Thereafter, there are plans to connect the line with the Iranian railway network at Qazvin, works on which are underway. This Azerbaijan-Iran project has potential to become one of the main routes connecting India and Europe.

Viking Container Train

The Viking Container Train is a joint project involving Lithuania, Ukraine, Belarus, Bulgaria and Romania. It connects the Baltic Sea and the Black Sea by rail. It 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 will become the connecting knot between this project and the TRACECA. In May 2016, Azerbaijan Railways also joined the project, which will make the Viking Container Train project even more competitive.

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

Uzbekistan developing its rail transport

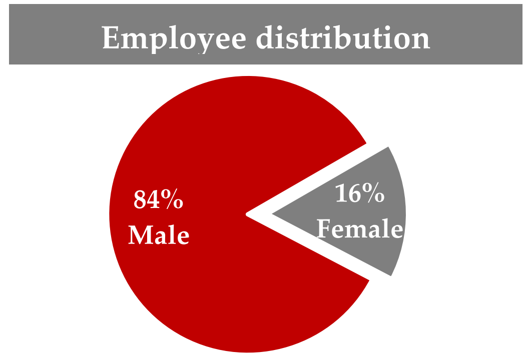
The Government of Uzbekistan has decided to develop its rail transport in order to transport foreign trade goods via the BTK line with an opportunity to reach the ports. This plan includes participation in the creation of an Azerbaijan-Georgia-Turkey-EU-countries transit corridor.

Bulgaria modernizing its railways

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

4. Employees

The Group is one of the largest corporate employers in Georgia, with approximately 13,000 employees as at 31 December 2019. Due to the physical nature of much of the work, the Group employs more men than women.



The Group continuously promotes employee efficiency and know-how through ongoing training programs at all levels of its workforce. The Group also provides a number of social benefits to its employees and family members such as medical insurance, financing certain expensive operations that are not covered by health insurance. The Company reports that its employee turnover rate is about 5% (not considering subsidiaries).

As one of the largest employers in Georgia, Georgian Railway has certain social responsibilities with respect to its workforce. The Group is permanently taking actions to optimize its labor resources.

Employee turnover rate by business unit	31-Dec-19
Head office	13%
Freight Transportation SBU	4%
Infrastructure SBU	6%
Passenger Transportation SBU	7%
WBS	11%
Total turnover	5%

Distribution of the Group's employees, by business unit

For the year ended 31 December

	2019	2018	2017	2016	2015
Freight SBU	43%	43%	44%	44%	43%
Infrastructure SBU	39%	39%	39%	39%	38%
Passenger SBU	10%	10%	10%	10%	11%
Head office	5%	5%	5%	5%	6%
Subsidiaries	3%	3%	3%	3%	2%

The Group's employees' age categories are shown in the table. The average age of the Group's employees is 48 years. The Group engages its workers in decision-making processes, which makes their work more challenging and gives employees opportunities to develop. At the same time,

Employee distribution by age	31-Dec-18
<20	0.3%
21-30	7.2%
31-40	18.4%
41-50	22.0%
51-60	29.2%
>60	22.9%

this process brings new and innovative ideas to an experienced team.

Labor productivity measures

For the year ended 31 December

	2019	2018	2017	2016	2015
Ton-km per average number of Freight SBU employees (millions)	0.5	0.5	0.5	0.6	0.8
Freight revenue per average number of Freight SBU employees (GEL '000)	73.3	58.1	59	64.4	89.2
Average number of Infrastructure SBU employees per average expanded length (km) of infrastructure	2.57	2.46	2.48	2.47	2.45
Passenger-km per average number of Passenger SBU employees (millions)	0.5	0.5	0.5	0.4	0.3
Passenger revenue per average number of Passenger SBU employees (GEL '000)	25	22	17.7	13	10.7

As at December 2019, about 60 percent of the Group's employees were members of two labor unions. Therefore, there is some risk that in the future the Group's business will be subject to interruptions through strikes or lockouts, as has been the case in the past.

Education and training

The Group promotes business education among its employees. By financing employees' training and education, the Group increases both its human capital and the effectiveness of its workforce. The Group spent more than GEL 60,000 on training and education in 2019.

In 2015, the Railway Transportation College was established and in 2016 it was granted vocational education status for six years. The college started running classes in 2018.

The founders of the college are:

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

The partners of the college are:

- Subsidiary of German railway company - DB Engineering and Consulting; and
- Iowa State University.

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

The college is financed by GR, the Ministry of Education and Science of Georgia and Georgian Technical University, while it was also granted around USD 2.3 million from the Millennium Challenge Account - Georgia. The instructors of the college finished training courses in specialized training institutes – DB Training in 2017, and in 2018 college instructors went through trainings conducted by an agency of the United States Department of Labor, the Occupational Safety and Health Administration (OSHA). The college offers free education to students with the relevant vouchers. Therefore, the establishment of the college is also considered to be a social project to some degree as it will be beneficial not only for GR but for any student seeking to gain professional knowledge in this field.

In 2018, the college building was modernized. The cost of the refurbishment was covered by the Ministry of Education and Science of Georgia and Georgian Railway: by 65% and 35%, respectively.

In 2019, and for the first time in Georgia, a machine operator vocational training program was implemented at the college. For one of the most demanding professions in the labor market, a relevant training laboratory was set up and equipped, funded by the Ministry of Education and Sciences and Georgian Railway. The project cost is 256,000 GEL.

Georgian Railway was actively involved in training qualified technical personnel. In addition to contributing financially to the development of the vocational program workshop, the Company also participated in the development of the educational program and the effective implementation of the practical component.

Soon, several new professional programs and short-term certificate courses will be available to both railway workers and anyone interested in the initiative of the Georgian Railway.

Other benefits

The Company has a bonus system, according to which bonuses are distributed to employees based on their performance evaluation. Before 2017, bonuses were distributed only to leading employees quarterly, which in 2017 changed to annual distributions and to all employees. Internal research shows that employee satisfaction has increased after these changes.

The Group offers medical insurance to its employees and finances some healthcare expenditure not covered by insurance. In 2019, the amount spent on employees' healthcare expenses totaled about GEL 214,000. The Group also offers other financial incentives for occasions such as the birth of a child and a child's first day at school, and offers other bonuses to employees for certain holidays, events, and special occasions.

Working conditions

Employees' working conditions are another high priority for the Management of Georgian Railway. In 2016, under the Management's initiative, the inspectors of labor from the Ministry of Labor Health and Social Affairs of Georgia checked GR's working conditions and the safety of its employees. The process of inspection was carried out in different sectors of GR across the country. Following the inspection, a conclusion was prepared and corresponding recommendations were issued. In 2018 and 2019, the recommendations were taken into consideration and changes were made accordingly.

Georgian Railway
Est. 1872

Management Discussion and Analysis for FY 2019

Financial and non-financial highlights

Revenue
FY 2019
491,038
+16% from FY 2018

Results from operating activities
FY 2019
108,215
-6.0x from FY 2018

EBITDA
FY 2019
223,178
+30% from FY 2018

EBITDA margin
FY 2019
45.5%
+5 points from FY 2018

Adjusted EBITDA
FY 2019
216,224
+38% from FY 2018

Adjusted EBITDA margin
FY 2019
44.0%
+7 points from FY 2018

Net Cash investment in PP&E
FY 2019
98,316
+13% from FY 2018

Net debt to EBITDA
31 Dec 2019
5.20
6.19 as at 31 Dec 2018

Main developments in 2019

- Freight volume increased by 9 percent;
- In 2019 Fitch upgraded Long-term rating to “BB-“with “stable” outlook from “B+ positive”, “S&P” affirmed “B+” rating and revised outlook to “developing” from “positive”.

Table of Contents

1. Profit or Loss Statement

Profit and loss statement

For the year ended 31 December

GEL '000	2019	2018	y-o-y % change	y-o-y Abs. change
Revenue	491,038	424,614	15.6%	66,423
Other income	12,751	19,512	-34.6%	-6,761
Impairment loss on property, plant and equipment	0	-691,387	-100.0%	691,387
Impairment loss on trade receivables	-33,729	-12,017	180.7%	-21,712
Employee benefits expense	-160,561	-154,338	4.0%	-6,223
Depreciation and amortization	-81,235	-113,804	-28.6%	32,569
Electricity, consumables and maintenance costs	-47,921	-43,708	9.6%	-4,213
Other expenses	-72,128	-73,758	-2.2%	1,630
Result from operating activities	**108,215**	**-644,886**	**-116.8%**	**753,101**
Net finance income/loss	**-113,282**	**-70,484**	**60.7%**	**-42,797**
Profit before income tax	**-5,067**	**-715,370**	**-99.3%**	**710,304**
Income tax expense(benefit)	-519	-1,169	-55.6%	650
Profit and total comprehensive income	**-5,586**	**-716,539**	**-99.2%**	**710,954**
EBITDA	223,178	172,322	29.5%	50,856
EBITDA margin	45.45%	40.58%	NA	4.9%
Adjusted EBITDA	216,224	156,846	37.9%	59,378
Adjusted EBITDA Margin	44.03%	36.94%	NA	7.1%

1.1Revenue

Most of the Group's revenue (about 63 percent in 2019) is derived from freight transportation. Thus, the Group's results are particularly sensitive to cargo flows. These mainly comprise transit shipments, which accounted for about 66 percent of freight transportation revenue in 2019. The transit transportation volume mainly comes from trade between Europe and Central Asia.

Revenue breakdown

For the year ended 31 December *In GEL '000*

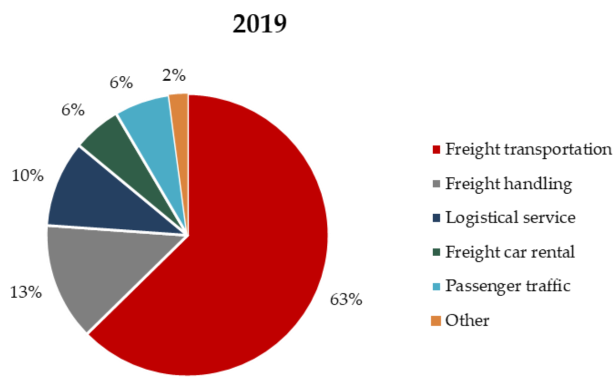
	2019	2018	% Change	% Change at constant currency	Abs. Change
Freight transportation*	308,515	241,313	27.8%	15.0%	67,202
Freight handling*	65,398	51,650	26.6%	13.9%	13,748
Logistical service*	48,814	70,318	-30.6%	-37.6%	-21,504
Freight car cross-border charge	14,156	17,468	-18.96%	-10.23%	-3,312
Passenger traffic	31,138	27,404	13.6%	2.2%	3,734
Other	23,017	16,462	39.82%	10.52%	6,555
Revenue	**491,038**	**424,615**	**15.6%**	**4.0%**	**66,423**
Other income	**12,751**	**19,512**	**-34.6%**	**-41.2%**	**-6,761**
Freight transportation	**308,515**	**241,313**	**27.8%**	**15.0%**	**67,201**
Liquid cargoes	**126,722**	**100,146**	**26.5%**	**13.8%**	**26,577**
Oil products	126,269	96,226	31.2%	18.0%	30,043
Crude oil	454	3,920	-88.4%	-89.6%	-3,466
Dry cargoes	**181,792**	**141,168**	**28.8%**	**15.8%**	**40,624**
Ores	39,169	28,229	38.8%	24.8%	10,939
Grain	8,930	7,692	16.1%	4.4%	1,238
Ferrous metals and scrap	9,683	9,802	-1.2%	-11.2%	-120
Sugar	13,926	11,309	23.1%	10.7%	2,617
Chemicals and fertilizers	16,416	13,711	19.7%	7.7%	2,705
Construction freight	8,531	6,693	27.5%	14.6%	1,838
Industrial freight	7,557	5,450	38.7%	24.7%	2,107
Cement	1,961	1,520	29.0%	16.0%	441
Other	75,619	56,761	33.2%	19.8%	18,859
Freight turnover (million ton-km)	2,909	2,571	13.1%	NA	338
Revenue / ton-km (in Tetri)	10.61	9.39	13.0%	1.6%	1.22

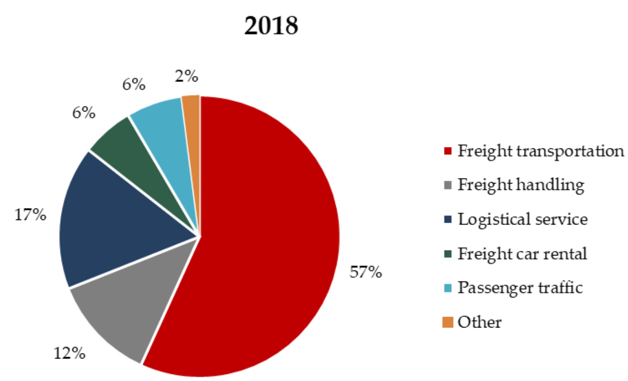
** For better presentation, we have separated "logistic services" from "freight transportation" and ''freight handling''. ''Logistic services'' represents revenue generated by freight forwarding subsidiaries.*

The majority of GR's freight volumes were transported from or to Azerbaijan (about 16 percent and 9 percent of transportation revenue in 2019, respectively). Besides, the share of freight traffic from Russia and to Armenia is significant (about 18 percent and 7 percent of transportation revenue in 2019, respectively). Other significant trade partners for the Company in 2019 were Turkmenistan, Ukraine and Kazakhstan (together generating 15 percent of transportation revenue in 2019). About 16 percent of total transportation revenue in 2019 was generated by domestic transportation.

Revenue breakdown

The following charts represent revenue breakdown for full year of 2019 and 2018:





Freight transportation

The Group's freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in 2019 was about 41 percent and 59 percent, respectively.

Transportation revenue depends on multiple factors, some of which are stated here:

<u>Transportation volume</u> – measured in tons transported.

<u>Transportation turnover</u> – measured in ton-kilometers, which is the product of tons transported and the distance covered.

<u>Revenue per ton-kilometer</u> – the term refers to the average revenue that the Group receives per ton-kilometer. This parameter varies for different types of cargo and largely depends on the cargo type mix and transportation direction mix.

- Cargo type mix – the Group transports different cargo categories (such as grain, ore, sugar etc.). These categories themselves are comprised of many sub-categories, each of which has different tariffs. Therefore, while the actual tariffs for cargo sub-categories may remain the same, the average revenue per ton-kilometer of a main cargo category may still change due to changes in the sub-category mix.
- Transportation direction mix – tariffs differ according to freight origins and directions, as stated in the Group's tariff policy. Thus, when the tariffs for different cargo sub-categories and the sub-category mix remain the same, the average revenue per ton-kilometer may still change because of the change in the transportation direction mix.

GEL/USD exchange rate – one important issue in analyzing the performance of the Group is the fact that most of its tariffs are denominated in USD. As the Group reports its revenue in GEL, the changes in the GEL/USD exchange rate can have a significant impact on the Group's profitability, as most of its expenses are denominated in Georgian Lari.

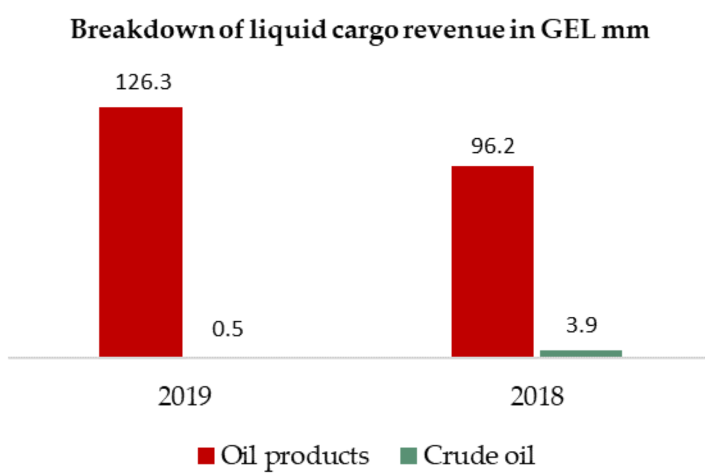
	Q4 2019	Q4 2018	% Change	2019	2018	% Change
USD	2.95	2.68	10.11%	2.82	2.53	11.21%
CHF	2.98	2.69	10.72%	2.84	2.59	9.44%

	31-Dec-19	31-Dec-18	% Change
USD	2.87	2.68	7.14%
CHF	2.95	2.73	8.14%

Liquid cargo

One of the key drivers of liquid freight traffic is the production of oil and related products in the Caspian region, which has large oil reserves. In 2019, about 51 percent of crude oil and oil products were transported from three Caspian region countries (Kazakhstan, Turkmenistan and Azerbaijan) mostly to European countries and Georgia.

Most of the Group's liquid cargo revenue comes from oil products.

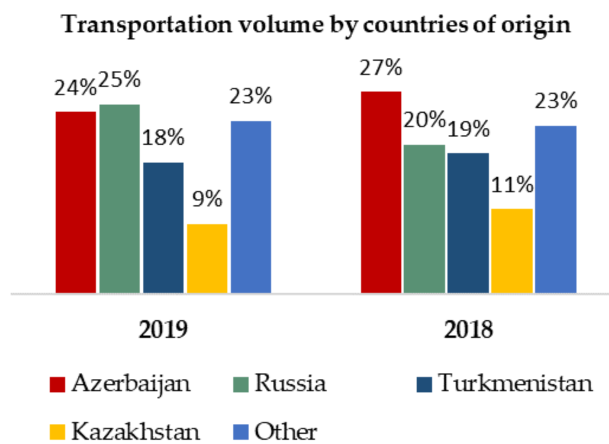


Oil products

Main directions of cargo

Oil products are currently the main component of liquid cargo (99.6 percent of the transportation volume of liquid cargo in 2019). They are mainly transported by rail, as there is practically no competition from pipelines.

Oil products transported by the Group during 2019 mainly originated from Azerbaijan, Turkmenistan, Russia and Kazakhstan, with changes in the transportation direction mix compared to the same period of 2018. The shares of Azerbaijan, Turkmenistan and Kazakhstan were down by 3 percent, 1 percent and 2 percent, respectively, while the share of Russia increased by 5 percent in total oil products transported by the Group.



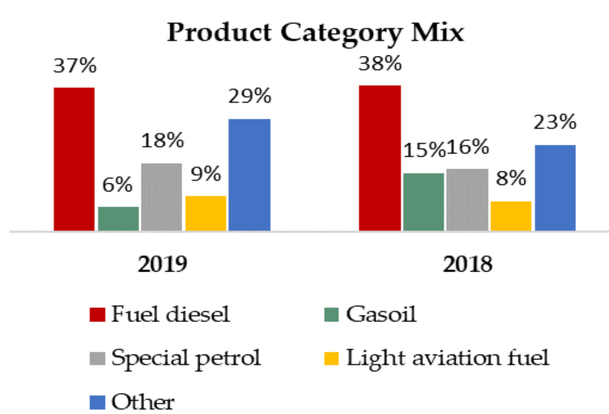
Oil Products

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	126.27	96.23	31.2%	18.0%
Freight volume (million ton)	3.06	2.97	3.0%	NA
Freight turnover (million ton-km)	892.79	857.28	4.1%	NA
Revenue / ton-km (in Tetri)	14.14	11.22	26.0%	13.3%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance



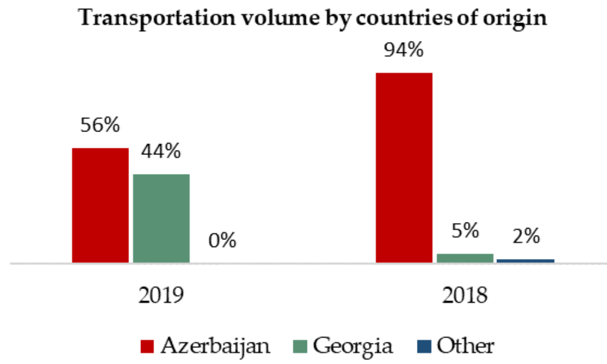
Ton-kilometers – a 4 percent increase in transportation turnover was mainly driven by increased transported volume by 3 percent, which was largely caused by increased volumes from Russia by 180,000 tons.

Revenue/ton-km (in Tetri) - an increase in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to changes in the product category mix. The shares of fuel diesel, special petrol and aviation light fuel (which are relatively more profitable products) have increased and the share of gasoil (which is a relatively less profitable product) has decreased in total oil products transported by Georgian Railway.

Crude oil

Main directions of cargo

The crude oil transported by Georgian Railway during 2019 originated from Azerbaijan (about 56 percent) and from Georgia (about 44 percent). The main country of destination in 2019 was Georgia.



Crude Oil

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL'000)	0.45	3.92	-88.4%	-89.6%
Freight volume (ton '000)	0.01	0.17	-91.7%	NA
Freight turnover (million ton-km)	3.77	65.69	-94.3%	NA
Revenue / ton-km (in Tetri)	12.03	5.97	101.7%	81.4%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – a 94 percent decrease in transportation turnover was caused by decreased volumes from Azerbaijan by 149,000 tons.

Revenue/ton-km (in Tetri) – a 81 percent increase in average revenue per ton-kilometer at constant currency during the period under review, compared to the same period of the previous year was driven by high tariffs on domestic transportation.

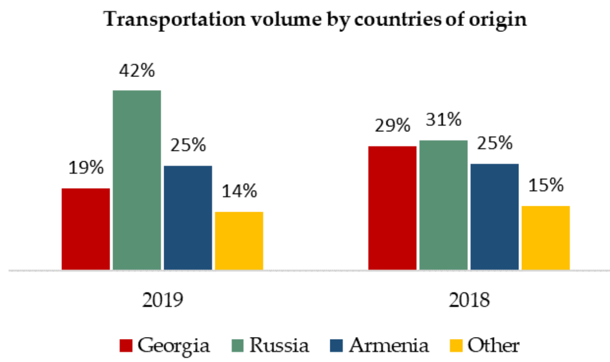
Dry cargo

Dry cargo contributed about 59 percent of total transportation revenue in 2019. The major factors driving the transportation of dry cargo are general national economic conditions and economic developments in Georgia and in partnering countries such as Azerbaijan, Armenia, Turkmenistan, Kazakhstan and other CIS countries.

Ore products

Main directions of cargo

The main origin countries for ore products during the period under review were Georgia, Armenia and Russia. The main destination points of ore products transported by the Group are Georgia, Cyprus and Bulgaria. Ore products transported by the Group in 2019 mostly comprise coal (about 36 percent), copper ores and concentrates (about 28 percent) and manganese ores and concentrates (about 18 percent).



Ores

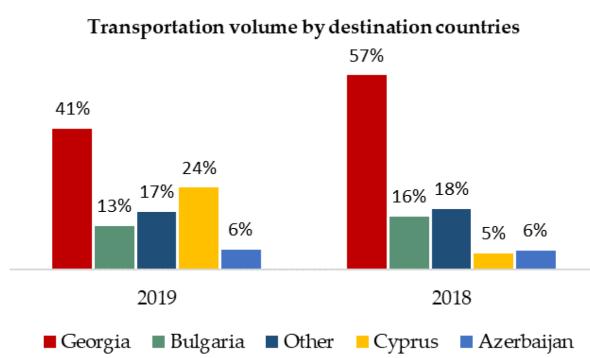
For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	39.17	28.23	38.8%	24.8%
Freight volume (million ton)	2.02	1.58	28.0%	NA
Freight turnover (million ton-km)	506.21	326.71	54.9%	NA
Revenue / ton-km (in Tetri)	7.74	8.64	-10.4%	-19.5%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – an increase in freight transportation turnover was mainly due to increases in transported volumes from Russia and Armenia, by 370,000 tons and 102,000 tons, respectively.

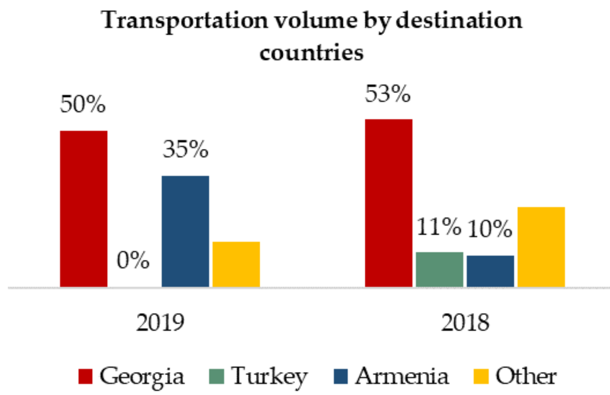


Revenue/ton-km (in Tetri) – the average revenue per ton-kilometer in 2019 decreased by 10 percent, compared to 2018. This decrease was mainly due to the product direction mix and product category mix. The transported share of volumes from Georgia and Brazil (more profitable directions) decreased and the transportation of more profitable products, such as coal, decreased significantly.

Grain and grain products

Main directions of cargo

The transportation volume of wheat represents about 84 percent of total grain and grain products transported in 2019. The main country of origin for grain and grain products during the period under review, were Russia and Kazakhstan, by 61 percent and 21 percent, respectively. The main destination countries were Georgia and Armenia.



Grain and grain products

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	8.93	7.69	16.1%	4.4%
Freight volume (million ton)	0.42	0.47	-10.7%	NA
Freight turnover (million ton-km)	98.03	102.75	-4.6%	NA
Revenue / ton-km (in Tetri)	9.11	7.49	21.7%	9.4%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – a decrease in freight turnover by 11 percent was mainly caused by the decreased transported volumes from Kazakhstan by 131,000 tons and to Georgia and Turkey together representing 93,000 tons.

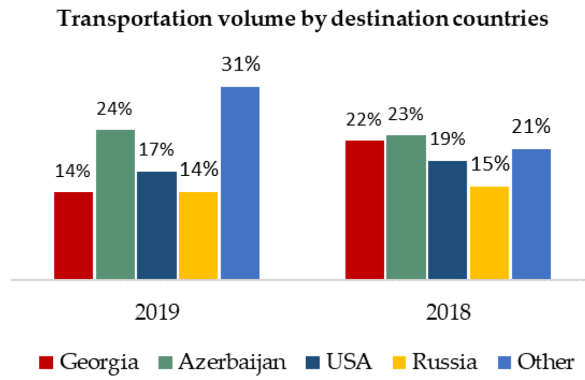
Revenue/ton-km (in Tetri) – a 22 percent increase in average revenue per ton-kilometer was driven by a change in the product direction mix and product category mix. The transportation share from Russia, which is a relatively more profitable direction, has seen a considerable increase during 2019, compared to the same period of 2018. Meanwhile, the transportation of wheat and meslin, which is a relatively more profitable product, has increased.

Ferrous metals and scrap

Main directions of cargo

The main destination countries for ferrous metals and scrap during the period under review were Georgia, Azerbaijan, USA and Russia, together representing 69 percent of the total volume transported in 2019.

Ferrous metals and scrap transported by the Group during 2019 mainly originated from Georgia, China and Ukraine.



Ferrous metals and scrap

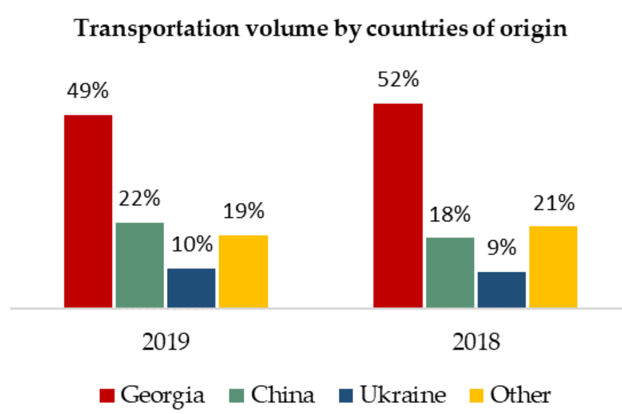
For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	9.68	9.80	-1.2%	1.2%
Freight volume (million ton)	0.52	0.55	-4.6%	NA
Freight turnover (million ton-km)	120.67	119.03	1.4%	NA
Revenue / ton-km (in Tetri)	8.02	8.24	-2.6%	-0.2%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – a 1 percent increase in freight turnover was mainly caused by a rise in average transportation distance, which was on its own driven by an increased share of freight transported to China and Ukraine (which cover longer distances) to 22 percent and to 10 percent, respectively in total volume transported, while the share of freight transported to Georgia (which covers a shorter distance) has decreased from 52 to 49 percent in 2019, compared to 2018.

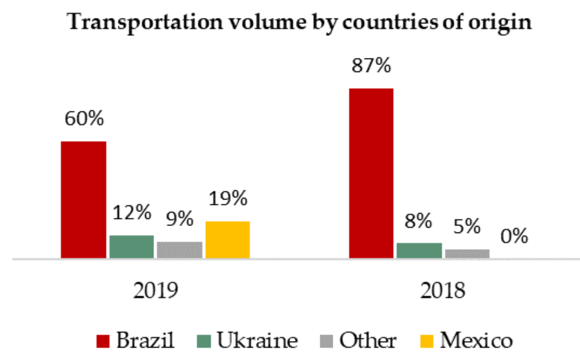


Revenue/ton-km (in Tetri) – a decrease in average revenue per ton-kilometer was mainly driven by changes in the product category mix. The share of rails (which is a relatively more profitable product) has decreased in total ferrous metals and scrap transported by the Group, while the share of flat products (which are relatively less profitable products) has increased.

Sugar

Main directions of cargo

Brazil was the main country of origin for transported volumes of sugar in 2019 and 2018, with a share of 60 percent and 87 percent, respectively. There was also a significant increase in transportation of sugar from Mexico, by 63,000 tons in 2019. The main destination countries of sugar were Azerbaijan, Georgia and Armenia (consisting of 92 percent of total volume transported by the Group).



Sugar

For the year ended 31 December

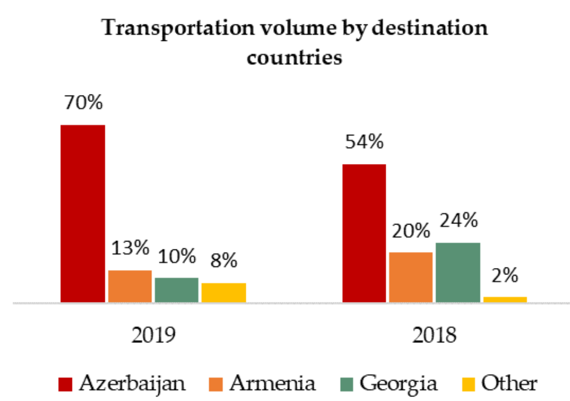
	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	13.93	11.31	23.1%	10.7%
Freight volume (million ton)	0.33	0.36	-8.1%	NA
Freight turnover (million ton-km)	120.19	128.53	-6.5%	NA
Revenue / ton-km (in Tetri)	11.59	8.80	31.7%	18.4%

* *Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – a 7 percent decrease in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by the reduced transportation of sugar from Brazil by 115,000 tons.

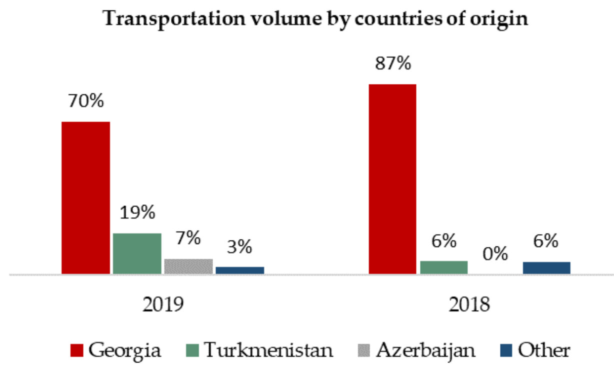
Revenue/ton-km (in Tetri) – an increase in average revenue per ton-kilometer was mainly caused by increased average tariffs to Azerbaijan, Armenia and Georgia (which are more profitable directions). Another reason was the change in the product category mix. The share of white sugar (a relatively more profitable product) has increased significantly in total sugar transportation volume.



Chemicals and fertilizers

Main directions of cargo

The main countries of origin for transported volumes for chemicals and fertilizers during the period under review were Georgia, Turkmenistan and Azerbaijan, together contributing 97 percent of total volume transported in 2019. Chemicals and fertilizers were mainly transported to Black Sea ports. In 2019, the Group mainly transported ammonium nitrate and urea under the chemicals and fertilizers freight category, with 71 percent and 19 percent of total share, respectively.



Chemicals and fertilizers

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	16.42	13.71	19.7%	7.7%
Freight volume (million ton)	0.72	0.55	30.4%	NA
Freight turnover (million ton-km)	220.79	193.97	13.8%	NA
Revenue / ton-km (in Tetri)	7.44	7.07	5.2%	-5.4%

* *Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

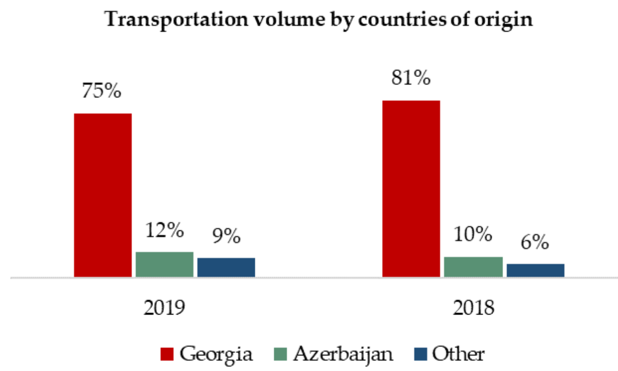
Ton-kilometers – a 14 percent increase in transportation turnover during 2019, compared to 2018, was mainly driven by a significant increase of freight volumes from Turkmenistan and Azerbaijan, by 102,000 tons and 51,000 tons, respectively.

Revenue/ton-km (in Tetri) – an increase in average revenue per ton-kilometer was mainly due to changes in the product category mix. The average revenue per ton-kilometer for ammonium nitrate and urea (which are relatively more profitable products) has increased.

Construction freight

Main directions of cargo

Transportation of construction freight correlates with the activities of the construction sector in Georgia. The share of construction freight transported within Georgia was about 75 percent. The second largest country of origin after Georgia in 2019 and 2018 was Azerbaijan, with 12 percent and 10 percent of total transported volume of construction freight, respectively. The main product under the construction freight category was limestone with 59 percent of the share of total volume in 2019, compared to 61 percent in 2018.



Construction freight

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	8.53	6.69	27.5%	123.1%
Freight volume (million ton)	1.03	1.17	-12.3%	NA
Freight turnover (million ton-km)	155.40	163.62	-5.0%	NA
Revenue / ton-km (in Tetri)	5.49	4.09	34.2%	134.9%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

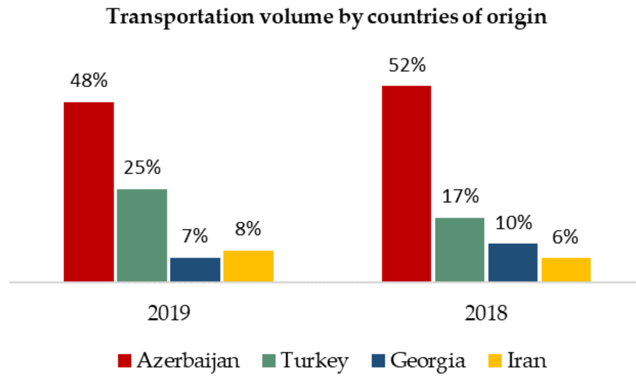
Ton-kilometers – a 5 percent decrease in transportation turnover was mainly driven by decreased volumes of limestone (by 105,000 tons) and crushed stone (by 25,000 tons).

Revenue/ton-km (in Tetri) – an increase in average revenue per ton-kilometer was mainly due to an increased share of more profitable products, such as gypsum, as well as an increased share of more profitable routes, such as Azerbaijan, Germany and Iran.

Industrial freight

Main directions of cargo

The main country of origin for total transported volume of industrial freight during 2019 was Azerbaijan and Georgia with 48 percent and 25 percent of the share, respectively. A significant part of the cargo (92 percent of the total volume transported) was directed to Georgia, Armenia and Azerbaijan. In 2019, the Group mainly transported cement clinker under the industrial freight category, with 70 percent of the total share.



Industrial freight

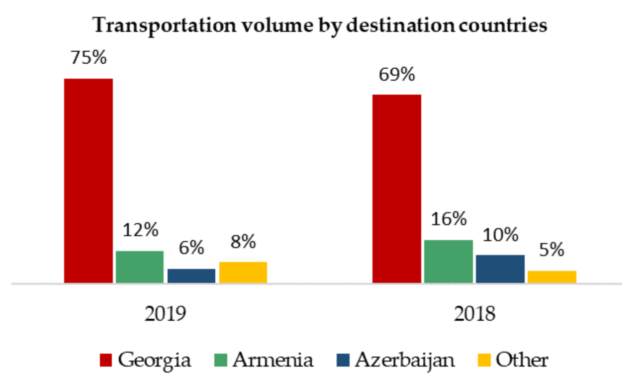
For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	7.56	5.45	38.7%	54.3%
Freight volume (million ton)	0.46	0.41	11.7%	NA
Freight turnover (million ton-km)	89.51	65.84	36.0%	NA
Revenue / ton-km (in Tetri)	8.44	8.28	2.0%	13.5%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

<ins>Ton-kilometers</ins> – a 36 percent upturn in transportation turnover was driven by increased volume by 12 percent, mainly caused by a significant rise in the volume amount transported to Georgia by 60,000 tons.

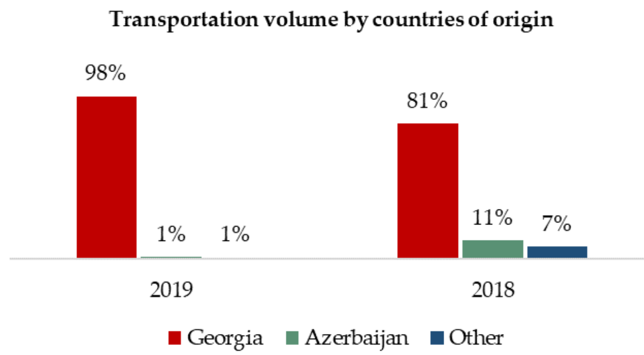


<ins>Revenue/ton-km (in Tetri)</ins> – an increase in the average revenue per ton-kilometer was mainly due to changes in the product category mix and product direction mix. The share of the transported volume to a relatively more profitable direction, such as Georgia, in total transported volume has increased, while the share of relatively less profitable directions (e.g. Armenia, Italy) has decreased. The share of relatively more profitable products, such as cement clinker in total transported volume was up from 61 percent in 2018 to 70 percent in 2019, while the share of barite (a less profitable product) has decreased.

Cement

Main directions of cargo

Cement is mainly transported within Georgia, the share of which rose from 81 percent in 2018 to 98 percent in 2019. This increase in the proportion was caused by the increased volume transported from Georgia, by 14,000 tons, which was notably offset by the decreased volume amount from Azerbaijan by 12,000 tons.



Cement

For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	1.96	1.52	29.0%	16.0%
Freight volume (million ton)	0.11	0.12	-4.9%	NA
Freight turnover (million ton-km)	27.63	25.41	8.7%	NA
Revenue / ton-km (in Tetri)	7.10	5.98	18.6%	6.7%

** Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

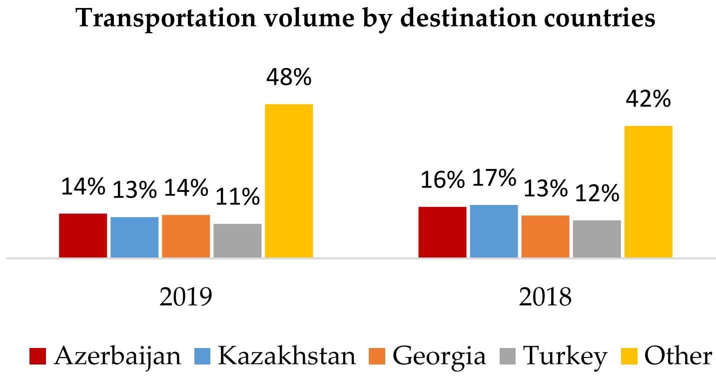
Ton-kilometers – transportation turnover has increased by 9 percent. Transported volume has decreased by 5 percent (caused by decreased transportation from Azerbaijan, by 12,000 tons). This disproportional change was mainly due to increased average transportation distance in 2019.

Revenue/ton-km (in Tetri) – a 19 percent increase in average revenue per ton-kilometer was caused by a significant increased share of cement originated from Georgia in total transportation volume during 2019.

Other product categories

Main directions of cargo

The main origin countries for other product categories in 2019 were Azerbaijan, Georgia, Ukraine, USA and China. The cargo was mainly directed to Azerbaijan, Kazakhstan, Georgia, and Turkey. The main products transported in 2019 were methanol (about 18 percent of total volume), mineral waters (about 8 percent of total volume) and meat products (about 7 percent of total volume).



Other products

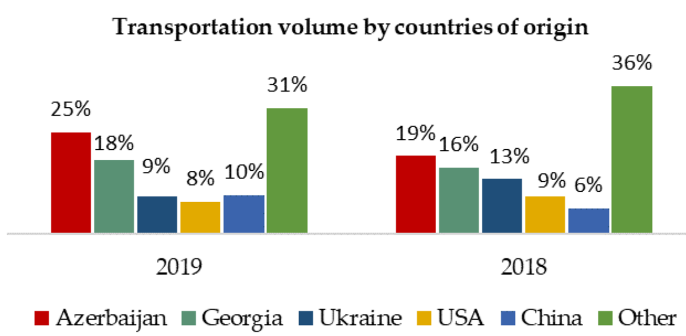
For the year ended 31 December

	2019	2018	% Change	% Change at constant currency
Revenue (GEL million)	75.62	56.76	33.2%	19.8%
Freight volume (million ton)	2.17	1.65	31.2%	NA
Freight turnover (million ton-km)	674.00	522.29	29.0%	NA
Revenue / ton-km (in Tetri)	11.22	10.87	3.2%	-7.2%

* *Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers.*

Factors influencing performance

Ton-kilometers – a 31 percent increase in transportation turnover was mainly driven by increased volumes transported from Azerbaijan, Georgia and China by 222,000 tons, 124,000 tons and 103,000 tons, respectively. Another reason was an increase in total transportation distance caused by changes in the transportation direction mix.



Revenue/ton-km (in Tetri) – an increase in average revenue per ton-kilometer was mainly driven by changes in the product direction mix. The shares of Azerbaijan and Georgia (a relatively more profitable directions) have increased, while the share of Ukraine (a relatively less profitable direction) has decreased in total volumes transported.

Freight handling

General description

Revenue from freight comprises several components:

- Revenue from station services, derived from railcar marshaling, freight pick-up, delivery at customer facilities and other related services;
- Revenue from 24-hour railcar delays, which is represented by a fee paid by customers for failing to load or unload a railcar within 24 hours from delivery of railcar at an agreed destination;
- Revenue from certain other services, derived from cargo loading/unloading, storage, accelerated service fees and other sources.

Currency and tariff setting

Most of the freight handling revenue, about 79 percent in 2019, was denominated in USD, while the rest was denominated in GEL (21 percent). The Group sets its tariffs independently.

Driver

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

Freight handling

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Station services	52,204	43,782	19.2%	8,422
24-hour service	9,248	4,319	114.1%	4,929
Other	4,530	3,549	27.64%	981
Total	**65,982**	**51,650**	**27.75%**	**14,332**

Factors influencing performance

A 27 percent increase in revenue from freight handling during the period under review, compared to the same period of the previous year, was mainly driven by a significant increase in station services and 24-hour services.

Logistical services

General description

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

Currency and tariff setting

Revenue from logistical services is denominated in USD and GEL, with 99 percent and 1 percent, respectively.

Driver

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

Logistical services

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Revenue from logistical services	48,814	70,318	-30.6%	-21,504

Factors influencing performance

A 31 percent decrease in logistical services (GEL 21.5 million) during 2019, compared to 2018, was mainly driven by decreased revenue from oil product transportation of GR's subsidiary company, which was partly offset by increased revenues from another GR's subsidiary company, which serves for container transportation.

Freight car cross-border charge

General description

Revenue from freight car cross-border charge is generated, when the Group's wagons cross Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

Currency and tariff setting

Freight car cross-border charge 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 according to tariffs and the number of days the Group's railcars are used by other railways.

Freight car cross-border charge

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Freight car cross-border charge	14,156	17,468	-19%	-3,312

Factors influencing performance

The revenue from freight car cross-border charge decreased by 11% percent (GEL 3.3 million) during the period under review, compared to the same period of 2018. GR's revenue from freight car cross-border charge declined, because of decreased usage of semi-wagons and grain carriers.

Passenger traffic

General description

Passenger transportation comprises domestic and international services. Domestic transportation includes regional and long-distance transportation. Long-distance traffic accounts for the majority of the Group's passenger traffic, while the regional services, in particular suburban services, typically serve the low-income sections of society and fares for such services are low. Georgian rail lines are linked to Azerbaijan and Armenia, and international transportation services are provided to both countries.

Currency and tariff setting

Tariffs for domestic transportation are set independently by the Group, in GEL. Tariffs are not determined by market forces and are kept relatively low, because the Group's affordable passenger transportation services have social importance. Accordingly, GR may be restricted from removing or reducing services on certain passenger routes, even in cases when such routes are not economically feasible.

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

Drivers

Passenger revenue fluctuations are in line with the tariffs and number of passengers transported.

Passenger transportation

For the year ended 31 December

	2019	2018	% Change	Abs. change
Revenue in GEL '000	31,138	27,404	13.63%	3,734
Number of passengers '000	3,027	2,851	6.16%	176

Factors influencing performance

Revenue from passenger transportation increased by 14 percent (GEL 3.7 million) in 2019, compared to 2017, while the number of passengers increased by 6 percent. The higher increase in revenue was driven by a significant rise in the number of passengers on the main line (which is a relatively more profitable direction). The average loading rate of the trains on the main line in 2019 was 72 percent, compared to 68 percent in 2018.

Other revenue

General description

Other revenue is mostly denominated in GEL and comprises items such as revenue from renting out spaces in buildings owned by the Group, the sale of scrap and repair services for third parties.

Other revenue

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Revenue from wagons rent	13,084	7,895	66%	5,189
Revenue from other rent	3,371	3,761	-10.4%	-390
Revenue from repair	792	643	23.1%	149
Revenue from sale of materials (scrap)	1,282	1,417	-9.6%	-135
Other	4,488	2,746	63.4%	1,741
Total	**23,017**	**16,462**	**39.82%**	**6,555**

Factors influencing performance

An increase in other revenue by GEL 1.4 million in 2019, compared to 2018 was mostly attributable to increased income from the sale of goods and materials (except scrap metal) – about GEL 1.3 million.

1.2 Other income

Other income

General description

Other income mostly includes items such as penalties accrued on debtors or creditors, the sale of fixed assets and provision reversals.

In order to better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as penalties on creditors and debtors) and non-continuing operations (such as provision reversals and sale of fixed assets, which are not expected to sustainably reoccur in the future).

Other income

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Continuing operations	4,767	2,786	71.1%	1,981
Non-continuing operations	7,984	16,726	-52.3%	-8,742
Total	**12,751**	**19,512**	**-34.6%**	**-6,761**

Factors influencing performance

Total other income in 2019, compared to the same period of 2018, decreased by about GEL 6.8 million.

The decrease in non-continuing operations in 2019, compared to 2018, was driven by a significant decrease in revenue from sales of fixed assets (about GEL 6.0 million) and due to decreased corrections of prior periods (about GEL 1.5 million in 2019). This decrease was partly offset by an increase in other income from continuing operations, due to a rise in other non-operating income.

Operating expenses

General description

Most of the Group's operating expenses are fixed. Variable expenses that depend on the volume of transportation include: freight car cross-border charge; electricity of traction; fuel expenses; materials, repair and maintenance expenses.

Operating expenses

For the year ended 31 December *In GEL '000*

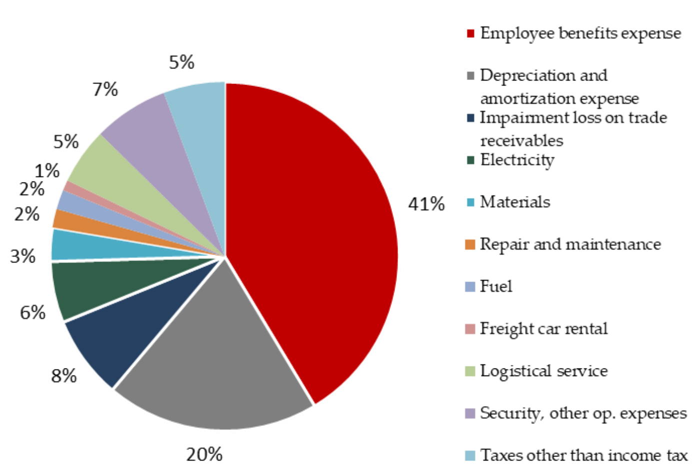
	2019	2018	% Change	Abs. change
Employee benefits expense	160,561	154,338	4.0%	6,223
Depreciation and amortization expense	81,235	113,804	-28.6%	-32,569
Impairment loss on property, plant and equipment	0	691,387	-100.0%	-691,387
Impairment loss on trade receivables	33,729	12,017	180.7%	21,712
Electricity	22,225	20,962	6.03%	1,263
Materials	12,135	11,929	1.7%	206
Repair and maintenance	6,694	4,113	62.7%	2,581
Fuel	7,023	6,704	4.8%	319
Freight car cross-border charge	3,780	4,177	-9.5%	-397
Logistical service	20,182	17,636	14.4%	2,547
Security, other op. expenses	25,941	25,133	3.2%	809
Taxes other than income tax	22,225	26,813	-17.1%	-4,588
Total	**395,730**	**1,089,013**	**-63.66%**	**-693,283**

Factors influencing performance

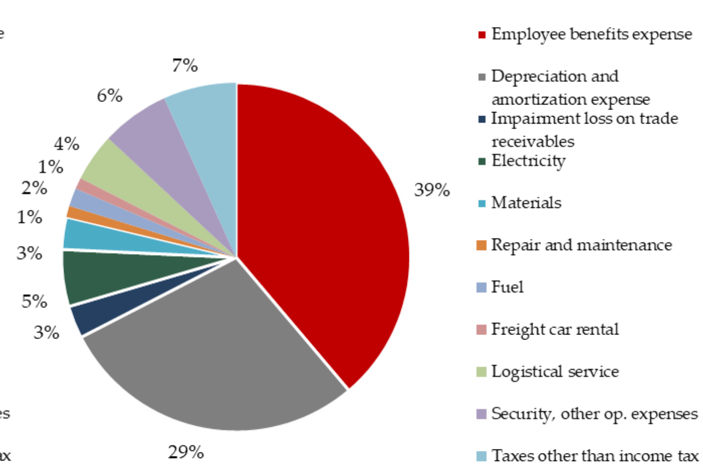
A decrease in total operating expenses in 2019, compared to 2018, was mainly driven by impairment loss on property, plant and equipment incurred by impairment of the group's fixed assets in 2018 and the related the decrease incurred in fixed expenses such as depreciation and amortization expenses (by GEL 32.6 million), as well as the taxes other than income tax (by GEL 4.6 million). These decreases were partly offset by an increase in impairment loss on trade receivables (by GEL 21.7 million), employee benefits expenses (by GEL 6.2 million) and electricity, consumables and maintenance costs (by GEL 4.2 million).

The following charts represent the cost structure for 2018 and 2019:

2019



2018



Employee benefits expense

General description

The Group's salary expenses are not related to changes in the transportation volume as employees' salaries are fixed. The salaries are denominated in GEL, thus FX changes do not affect the cost.

Employee benefits expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Salary	118,635	116,793	1.58%	1,842
Bonus-reward	9,783	8,315	17.65%	1,468
Other benefits	32,144	29,230	9.97%	2,914
Total	**160,561**	**154,338**	**4.03%**	**6,223**

Factors influencing changes

The Group is one of the largest corporate employers and taxpayers in Georgia. This fact underlines its importance for the Government of Georgia along with other important economic and social benefits for the country. Total employee benefits expenses increased by GEL 6.2 million in 2019, compared to 2018.

Salary expenses increased by GEL 1.8 million. Due to a board decision by the Management, from December 2019, the wages of about 11,000 employees increased by 10%.

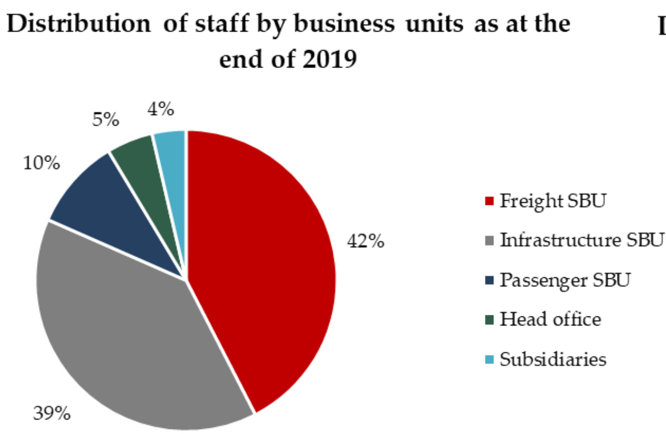
Bonus-reward were increased by 17.6% in the 2019. A GEL 2.9 million increase in other benefits, was mainly due to funded pension expenses.

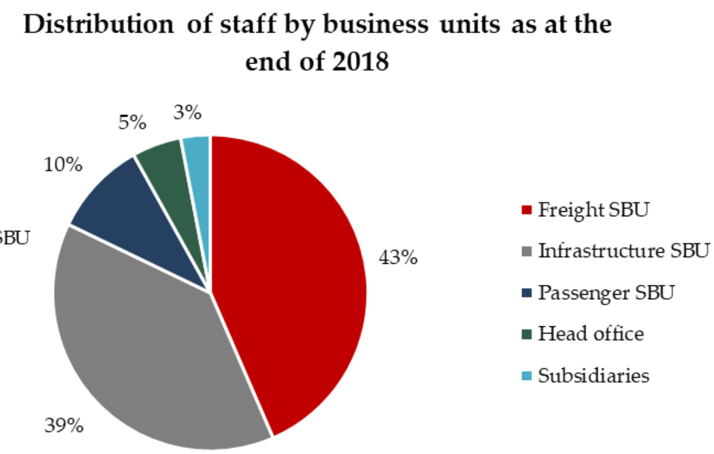
Law on funded pension

The Law on Funded Pension which was introduced in January 2019 regulates relations associated with funded pensions. The relations associated with funded pensions are implemented independently of the state pension and state compensation. Joining the funded pension scheme is mandatory for all employees, in the salary income part, except for employees who have reached the age of 60 (in the case of female employees, the age of 55) before the entry into force of this law. Joining the funded pension scheme is voluntary for all employees who have attained the age of 60 years.

The number of employees (excluding subsidiaries) by the end of 2019 was equal to 12,208 and by the end of 2018, this figure was 12,244.

The following charts show the headcount by strategic business units, head office and subsidiaries of the Company.





Depreciation and amortization expenses

General description

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

Depreciation and amortization expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Depreciation and amortization	81,235	113,804	-28.62%	-32,569

Factors influencing changes

A decrease of GEL 32.6 million in depreciation and amortization expenses was caused due to the impairment of property, plant and equipment of GEL 691.4 million in 2018.

Electricity expenses

General description

Approximately 97 percent of GR's railway network is electrified. Until September 2011, the company purchased most of its electricity on the open market in Georgia. In 2011, the Company signed a 10-year contract with the electricity provider, JSC Energo-pro Georgia, securing a fixed price for more than 90 percent of its electricity needs (subject to certain circumstances in which these tariffs can be increased). The tariffs are denominated in GEL.

Electricity expenses are split into two categories: electricity expenses of traction, which are driven by transportation turnover (the Group uses electric locomotives for freight transportation and diesel locomotives for shunting operations); and utility expenses which is not related to transportation volume and is normally considered to be fixed.

Electricity expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Electricity expenses of traction	18,533	17,434	6.3%	1,099
Utility expenses	3,692	3,528	4.65%	164
Total	**22,225**	**20,962**	**6.03%**	**1,263**

Factors influencing changes

The increase in electricity expenses in 2019, compared to 2018 by GEL 1.1 million was caused by increased turnover during 2019, compared to the same period of the previous year.

Purchased electricity and weighted average tariff

For the year ended 31 December

	2019			2018		
	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	11.3	389.4	0.130	10.9	361.4	0.130
February	11.0	413.5	0.130	10.9	416.9	0.130
March	12.3	488.7	0.130	11.5	435.8	0.130
April	11.5	458.7	0.130	11.0	424	0.129
May	10.4	398.4	0.130	10.1	364.3	0.129
June	11.1	437.4	0.130	11.9	481.4	0.129
July	11.7	444.3	0.130	12.8	501.1	0.130
August	12.7	502.4	0.130	11.2	400.5	0.130
September	12.0	458.1	0.130	10.8	386.7	0.130
October	12.4	521.2	0.130	10.5	389.4	0.130
November	12.9	528.3	0.130	11.0	399.7	0.130
December	13.1	522.3	0.130	11.7	423.9	0.130
Total	**142.4**	**5,562.7**	**0.130**	**134.4**	**4,985.0**	**0.130**

Note: The table above includes only electricity consumed of traction

Materials, repair and maintenance expenses

General description
The Group consumes materials for repair works performed internally by its own 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, their utilization level and transportation volume. When the transportation volume and transportation by the Group's own rolling stock increases, so too do the expenses for materials, repair and maintenance. However, this expense can also be affected by increased capital expenditures on the fleet and infrastructure, which reduces operating expenditures on repairs.

Materials, repair and maintenance expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Materials expenses	12,135	11,929	1.7%	206
Repair and maintenance expenses	6,694	4,113	62.8%	2,581
Total	**18,829**	**16,042**	**17.4%**	**2,787**

Factors influencing changes
A 17 percent increase in materials, repair and maintenance expenses during 2019, compared to 2018, was mainly driven by more repair works of rolling stock and other facilities, together generating about GEL 2.8 million.

Fuel expenses

General description
The Group's fuel consumption principally relates to diesel locomotives fulfilling shunting operations. It should be noted that the main driver for these operations is dry cargo. In everyday business processes, diesel-locomotives are used for railcar marshaling, freight pick-up and delivery at customer facilities.

Another factor affecting fuel expenses, is the nature of the cargo (whether it is import, export, local or transit), and while transit cargo is mainly served at one of the Group's stations, most local, export and import cargoes are served in two stations (the origin and destination stations).

Fuel expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Fuel expenses	7,023	6,704	4.8%	319

Factors influencing changes
Total fuel expenses increased by 5 percent (GEL 0.3 million) in 2019, compared to 2018. This change was mainly caused by an increase in fuel prices.

Freight car cross-border charge

General description

Freight car cross-border charge represent short-term rent expenses derived from the usage of other railways' railcars by the Group, for which it is charged a daily fee. This expense counters the revenue from freight car cross-border charge. The expense is based on CHF tariffs and thus is tied to the GEL/CHF exchange rate and the amount of cargo GR transports using other railways' railcars.

Freight car cross-border charge

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Freight car cross-border charge	3,780	4,177	-9.5%	-397

Factors influencing changes

Freight car cross-border charges in 2019 compared to the same period of the previous year, decreased by about GEL 0.4 million. This decrease was caused by the implementation of a contract between Georgian Railway and one counterparty railway that released GR from certain freight car cross-border charges in 2019.

Logistical service expenses

General description

Expenses for logistical services refer to operating expenses relating to transportation and other logistics-related services of GR's subsidiaries, which are operating in freight forwarding and logistics fields.

Logistical service expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Logistical services	20,182	17,636	14.44%	2,546

Factors influencing changes

Expenses for logistical services in 2019 increased by 14 percent (GEL 2.5 million), compared to 2018. The increase was mainly caused by increased expenses of GR's subsidiary, which serves container transportation. This was partly offset by decreased expenses of another subsidiary that mainly serves crude oil and oil products transportation.

Security and other operating expenses

General description

Security expenses mainly comprise the Group's buildings, depots and station protection expenses. Other operating expenses consist of items such as communication, legal costs, consulting services, membership fees, rent expenses and advertising expenses.

Security and other operating expenses are mostly denominated in GEL and are mainly fixed.

Security and other operating expenses

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Security	9,246	9,209	0.4%	37
Other operating expenses	16,695	15,923	4.9%	772
Total	**25,941**	**25,132**	**3.2%**	**809**

Factors influencing changes

A 3 percent increase in security and other operating expenses in 2019, compared to 2018, was caused by an increase in other operating expenses, specifically in law provision expenses.

Taxes other than income tax

General description

Land taxes are determined by the municipalities in which the land is located, while property taxes are calculated at 1 percent of the average book value of the asset. Railway infrastructure assets, such as rail lines are exempt from property tax.

Taxes other than income tax

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Property tax	9,652	14,128	-31.7%	-4,476
Land tax	11,871	11,820	0.4%	51
Other taxes*	702	865	-18.8%	-163
Total	**22,225**	**26,813**	**-17.1%**	**-4,588**

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

Factors influencing changes

During 2019, compared to 2018, property tax has decreased by 32 percent (GEL 4.5 million), which was mainly caused by impairment of property, plant and equipment. Property tax will also be reduced after putting the Modernization Project into operation, as railway-infrastructure-related linear assets are exempt from property tax and assets under the project are taxed by property tax while construction is in progress.

Land tax remained at about the same level during 2019, compared to 2018.

An approximate GEL 0.2 million decrease in other taxes category, was mainly due to the decreased expenses of unpaid VAT.

Impairment loss on property, plant and equipment

Impairment loss on property, plant and equipment

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Impairment loss on property, plant and equipment	-	-691,387	-100.0%	-691,387

Factors influencing changes

As at 31 December 2019, in response to the changes on the market resulting in the revision of some of the expectations of the Group as at 31 December 2018, the Group reassessed its estimates and conducted an impairment test. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

Impairment loss on trade receivables

Impairment loss on trade receivables

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Impairment loss on trade receivables	33,729	12,017	180.67%	21,712

Factors influencing changes

Impairment loss on trade receivables was caused by provision made against one significant counterparty company serving liquid freight.

1.3 Finance income and cost

General description

The finance income of the Group mainly consists of interest income, which represents the interest accrued on the Group's cash balances and foreign exchange gains.

Finance cost mainly consists of interest expenses and foreign exchange losses. Some of the Group's interest expenses are capitalized, as the Group's main debt obligations were issued in order to finance capital projects, such as the Modernization Project. Thus, until this project is in the construction phase, part of the interest is capitalized in accordance with International Financial Reporting Standards (IFRS).

The main source of FX gain or loss is the Group's Eurobonds, which are denominated in USD. This is, however, partly countered by the Group's USD cash balances and receivables in foreign hard currencies. It must be noted that such FX gain or loss on Eurobonds is not monetary in nature 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

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Interest income	14,849	14,534	2.2%	315
Impairment loss on issued loans	-16	-10	58.8%	-6
Impairment loss on cash in bank	-23	-139	-83.4%	116
Interest expense	-42,843	-47,352	-9.5%	4,509
FX gain/loss	-85,248	-37,517	127.2%	-47,731
Net finance income/loss	**-113,281**	**-70,484**	**60.7%**	**-42,797**

Factors influencing changes

The net financial loss in 2019 increased by 61 percent (GEL 42.8 million), compared to the previous year. This was mainly caused by GEL/USD exchange rate fluctuation.

GEL/USD exchange rate fluctuation has a significant effect on net finance income/loss. Due to GEL depreciation against USD by 7 percent as at 31 December 2019 compared to 31 December 2018 (GEL/USD exchange rate 2.87 versus 2.68), the Group experienced a net foreign exchange loss of GEL 85.2 million in 2019. And due to the depreciation of GEL against USD (about 3 percent) as at 31 December 2018 compared to 31 December 2017 (GEL/USD exchange rate 2.68 versus 2.59), the Group showed a net foreign exchange loss of GEL 37.5 million in 2018.

A lower interest expense by GEL 4.5 million in 2019, compared to 2018, was mainly due to the increased capitalization of the interest expense in 2019. .

There was no significant change in other categories of finance income and loss.

1.4 Income tax expense/benefit

General description

In May 2016, the Parliament of Georgia adopted amendments to the Tax Code of Georgia effective from 1 January 2017. According to the new tax code, the previously active profit tax regulation was changed to the so-called "tax on distributed profits" model.

Income tax expense/benefit

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Income tax expense/benefit	-519	-1,169	-55.6%	650

Factors influencing changes

During 2019, the income tax expense decreased by GEL 0.7 million, compared to 2018.

2. Balance Sheet

2.1 Non-current assets

Non-current assets

As at 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Property, plant and equipment	1,865,352	1,826,591	2.1%	38,761
Other non-current assets	93,789	97,525	-3.8%	-3,736
Loan receivable	24,133	20,480	17.8%	3,653
Total	**1,983,274**	**1,944,596**	**2.0%**	**38,678**

Factors influencing changes

Property, plant and equipment – a GEL 38.8 million increase in property, plant and equipment in 2019, compared to 2018, was mainly due to the construction in progress (mostly under the Modernization Project).

Other non-current assets - a GEL 3.7 million decrease in other non-current assets was mainly due to the reduction in construction materials.

2.2 Current assets

Current assets

As at 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Inventories	40,224	32,882	22.3%	7,343
Tax assets	6,383	3,899	63.7%	2,484
Trade and other receivables	24,337	40,912	-40.5%	-16,575
Prepayments and other current assets	1,369	415	229.6%	954
Cash and cash equivalents	257,976	241,308	6.9%	16,668
Total	**330,289**	**319,416**	**3.4%**	**10,873**

Factors influencing changes

Inventories – a GEL 7.3 million increase in inventory was mainly due to the rise in purchased materials, mainly used in construction and repair works, which was partly offset by a decrease in rails in 2019, compared to 2018.

Trade and other receivables – a GEL 16.6 million decrease in trade and other receivables, was mainly due to provisions made against one significant counterparty company in 2019. (*see heading 1 "impairment on trade and other receivables"*).

Cash and cash equivalents - a GEL 16.7 million increase in 2019, compared to 2018, was mainly caused by the increased inflows from cash receipts from customers in 2019, compared to 2018 (*see heading 3 "Cash Flow Statement"*).

2.3 Equity

Equity

As at 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Share capital	1,053,371	1,053,714	0.0%	-343
Non-cash owner contribution reserve	100,322	100,244	0.1%	77
Accumulated losses	-630,328	-624,742	0.9%	-5,585
Total	**523,365**	**529,216**	**-1.1%**	**-5,851**

There was a GEL 5.9 million decrease in total equity in 2019, compared to the previous year, due to increase in accumulated losses.

2.4 Non-current liabilities

Non-current liabilities

As at 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Loans and borrowings	1,500,687	1,336,665	12.3%	164,022
Advanced received from the Government	46,593	46,594	0.0%	-1
Total	**1,547,280**	**1,383,259**	**11.9%**	**164,021**

Factors influencing changes

Loans and borrowings – During 2019, the increase of GEL 164.0 million in long-term borrowings, was mainly due to debt revaluation, as GEL depreciated against USD by about 7 percent and the Group's debts are denominated in USD.

2.5 Current liabilities

Current liabilities

As at 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Loans and borrowings	64,944	134,194	-51.6%	-69,250
Trade and other payables	149,864	191,610	-21.8%	-41,746
Liabilities to the Government	4,896	5,317	-7.9%	-422
Provisions	16,027	11,356	41.1%	4,670
Other current liabilities	7,187	9,060	-20.7%	-1,873
Total	**242,918**	**351,537**	**-30.9%**	**-108,620**

Factors influencing changes

Loans and borrowings – Currently, the Group has two debts: Eurobonds and a secured loan, obtained for the sole purpose of the acquisition of passenger trains. As at 31 December 2019, current loans and borrowings include a secured loan of about GEL 12.9 million while the current portion of unsecured bonds is about GEL 52.1 million.

Trade and other payables - a GEL 41.7 million decrease in trades and other payables was mainly due to a decreased amount of payments to suppliers as well as decreased liability on ongoing infrastructure projects such as modernization project.

3. Cash Flow Statement

By the end of 2019, the Group held GEL 258.0 million of cash and cash equivalents. These cash resources are held to support existing and future capital expenditures. Capital expenditures mainly entail the Modernization Project and the Tbilisi Bypass Project. Works on the Modernization Project continued in 2019, while the Tbilisi Bypass Project remained suspended.

The Group can also rely on its available undrowned credit lines of about GEL 146.7 million as at the end of 2019.

The Group mainly relies on its operating activities in order to fund its future cash requirements.

3.1 Operating activities

Operating activities

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Cash receipts from customers	503,900	455,638	10.6%	48,262
Cash paid to suppliers and employees	-288,414	-276,328	4.4%	-12,086
Income tax paid	-250	-270	-7.4%	20
Net cash from operating activities	**215,236**	**179,040**	**20.2%**	**36,197**

Factors influencing changes

Net cash from operating activities increased by GEL 36.2 million in 2019 compared to 2018. This change was mainly driven by the increase in cash receipts from customers which was partly offset by a increase in cash paid to suppliers.

3.2 Investing activities

Investing activities

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Acquisition of property, plant and equipment	-112,151	-104,694	7.1%	-7,457
Proceeds from sale of property, plant and equipment	13,835	17,357	-20.3%	-3,522
Interest received	12,653	11,856	6.7%	797
Net cash used in investing activities	**-85,663**	**-75,481**	**13.5%**	**-10,182**

Factors influencing changes

Cash used in investing activities increased by GEL 10.2 million in 2019, compared to the previous year. This change was mainly driven by an increase in acquisition of property, plant and equipment in 2019, compared to 2018.

The increase in interest received was mainly caused by a higher average cash balance and higher interest rates during the period under review, compared to the same period of the previous year.

3.3 Financing activities

Financing activities

For the year ended 31 December *In GEL '000*

	2019	2018	% Change	Abs. change
Interest paid	-110,033	-101,022	8.9%	-9,011
Repayment of borrowings	-12,343	-11,327	9.0%	-1,017
Net cash used in financing activities	**-122,376**	**-112,349**	**8.9%**	**-10,027**

Factors influencing changes

Cash used in financing activities increased by GEL 10.0 million in 2019, compared to 2018. This change was caused by higher interest paid and increased repayment of borrowings in 2019, compared to the same period of the previous year, due to a significant depreciation of GEL against USD, as the Group's debts are denominated in USD.

Appendix 1

Breakdown of freight transportation in tons

For the year ended 31 December *In million tons*

	2019	2018	% Change	Abs. Change
Liquid cargoes	**3.1**	**3.1**	**-2.0%**	**-0.1**
Oil products	3.1	3.0	3.0%	0.1
Crude oil	0.0	0.2	-91.7%	-0.2
Dry cargoes	**7.8**	**6.9**	**13.4%**	**0.9**
Ores	2.0	1.6	28.0%	0.4
Grain	0.4	0.5	-10.7%	-0.1
Ferrous metals and scrap	0.5	0.6	-4.6%	0.0
Sugar	0.3	0.4	-8.1%	0.0
Chemicals and fertilizers	0.7	0.6	30.4%	0.2
Construction freight	1.0	1.2	-12.3%	-0.1
Industrial freight	0.5	0.4	11.7%	0.0
Cement	0.1	0.1	-4.9%	0.0
Other	2.2	1.7	31.2%	0.5
Total	**10.9**	**10.0**	**8.6%**	**0.9**

Appendix 2

Breakdown of freight transportation in ton-kilometers

For the year ended 31 December *In million ton-kilometers*

	2019	2018	% Change	Abs. Change
Liquid cargoes	**897**	**923**	**-2.9%**	**-26**
Oil products	893	857	4.1%	36
Crude oil	4	66	-94.3%	-62
				0
Dry cargoes	**2,012**	**1,648**	**22.1%**	**364**
Ores	506	327	54.9%	180
Grain	98	103	-4.6%	-5
Ferrous metals and scrap	121	119	1.4%	2
Sugar	120	129	-6.5%	-8
Chemicals and fertilizers	221	194	13.8%	27
Construction freight	155	164	-5.0%	-8
Industrial freight	90	66	36.0%	24
Cement	28	25	8.7%	2
Other	674	522	29.0%	152
Total	**2,909**	**2,571**	**13.1%**	**338**

Appendix 3

Calculations of ratio of Net Financial Indebtedness to EBITDA:

'000 GEL	Twelve-month period ended 31-Dec-19	Twelve-month period ended 31-Dec-18
Revenue	491,038	424,614
Income from the transferred property	0	0
Other income	12,751	19,512
Impairment loss on property, plant and equipment	0	-691,387
Impairment loss on trade receivables	-33,729	-12,017
Employee benefits expenses	-160,561	-154,338
Depreciation and amortization expense	-81,235	-113,804
Electricity, consumables and maintenance costs	-47,921	-43,708
Other expenses	-72,128	-73,758
Results from operating activities	**108,215**	**-644,886**
Finance income	14,849	14,534
Finance costs	-128,131	-85,018
Net finance costs	**-113,282**	**-70,484**
Profit/(loss) before income tax	**-5,067**	**-715,370**
Income tax benefit	-519	-1,169
Profit/(loss)and total comprehensive income/(loss) for the year	**-5,586**	**-716,539**
Results from operating activities	**108,215**	**-644,886**
Depreciation add-back	81,235	113,804
Impairment loss on property, plant and equipment add-back	0	691,387
Impairment loss on trade receivables	33,729	12,017
EBITDA	**223,178**	**172,322**
Net Financial Indebtedness:		
Financial Indebtedness	1,565,631	1,470,859
less:		
Available Credit Facilities	146,708	162,800
Cash	257,975	241,308
Net Financial Indebtedness:	**1,160,949**	**1,066,751**
Net Financial Indebtedness/EBITDA	**5.20**	**6.19**

Glossary

Average revenue per passenger-kilometer: Unit of measurement calculated as passenger traffic revenue per passenger-kilometer

BTC: Baku-Tbilisi-Ceyhan

BTK: Baku-Tbilisi-Kars

Cargo type mix: The Group's transportation is divided into different cargo categories (such as grain, ore, sugar, etc.). These categories also comprise many sub-categories.

CEO: Chief Executive Officer

CFO: Chief Financial Officer

CIS: Commonwealth of Independent States

CJSC: Closed Joint Stock Company

CPC: The Caspian Pipeline Consortium

EBIT: Earnings before interest and tax

EBITDA: Earnings before interest, taxes, depreciation, and amortization

EMU: Electric Multiple Unit

EU: European Union

FEZ: Free Economic Zone

FX: Foreign Exchange. The value of the Georgian Lari relative to the US Dollar or any other currency.

GDP: Gross Domestic Product

GEL: Georgian Lari

GMS: General Meeting of Shareholders

GR: Georgian Railway

JSC GRC: Georgian Railway Construction

LLC IFRS: International Financial Reporting Standards

JSC: Joint-stock Company

LLC: Limited Liability Company

NM: Not Meaningful

OPEC: The Organization of the Petroleum Exporting Countries. OPEC comprises 13 member countries: Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Qatar, Libya, the United Arab Emirates, Algeria, Nigeria, Ecuador, Gabon and Angola.

OTB: Open Top Box railcars

PPE: Property, plant and equipment

Revenue per ton-kilometer: The term refers to the average revenue that the Group receives per ton-kilometer, calculated by dividing the freight revenue for a commodity by the ton-kilometer of the given period.

SBU: Strategic Business Unit

SEZ: Special Economic Zone

TEU: Twenty-Foot Equivalent Unit

Tetri: Minor unit of Georgian national currency

The Company: Georgian Railway

TITR: Trans-Caspian International Transport Route

The Government: The Government of Georgia

The Group: Georgian Railway and its subsidiaries

The State: Republic of Georgia

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 direction mix: The Group performs transportation to different countries (Kazakhstan, Armenia, Georgia, Azerbaijan etc.) which form the Group's direction mix.

JSC Georgian Railway

Consolidated Financial Statements for 2019

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Independent Auditors' Report

To the Shareholder of JSC Georgian Railway

Opinion

We have audited the consolidated financial statements of JSC Georgian Railway (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Property, Plant and Equipment

Please refer to the Note 11 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
In 2019 the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of the new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2019. As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be higher than its carrying amount and no additional impairment loss was recognised in 2019.	We have performed the following audit procedures to address the key audit matter: - Performed inquiries of management to obtain an understanding of the process for the impairment analysis; - Evaluated the design and implementation of the processes and internal controls of the Group, surrounding the preparation of the impairment model, to assess the reliability and accuracy of the Group's forecasting and budgeting process;

The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgement involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting future cash flows related to the impairment assessment.	- Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment-testing model, such as liquid and dry cargo growth rates, inflation rate, discount rate, period of cash flow projections, annual maintenance capital expenditure and payments for the finalisation of the Main Line Modernization project by comparing those inputs to externally derived data, as well as our own expectations; - We compared the current year's actual results with the figures for the same period included in the impairment model prepared as at 31 December 2018, to assess management's ability to accurately budget the expected results; - We obtained the Group's budget for the year ending 31 December 2020 and assessed whether expected cash flows in that budget are consistent with those included in the current year's impairment model; - We evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and - We evaluated the adequacy of the disclosures made in Note 11 (c) of the consolidated financial statements by reference to the requirements of IAS 36 –Impairment of Assets and IAS 1 – Presentation of financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, covering the Management Report, prepared for statutory purposes, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We have read the other information and based on the work we have performed, we conclude that the other information:

– is consistent with the consolidated financial statements and does not contain material misstatement;
– Management Report contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is

Irina Gevorgyan:

KPMG Georgia LLC
1 June 2020

000 GEL	Note	31 December 2019	31 December 2018*
Assets			
Property, plant and equipment	11	1,865,352	1,826,591
Loans receivable	12	24,133	20,480
Other non-current assets	13	93,789	97,525
Non-current assets		**1,983,274**	**1,944,596**
Inventories	14	40,224	32,882
Tax assets		6,383	3,899
Prepayments and other current assets		1,369	415
Trade and other receivables	15	24,337	40,912
Cash and cash equivalents	16	257,976	241,308
Current assets		**330,289**	**319,416**
Total assets		**2,313,563**	**2,264,012**
Equity			
Share capital	17 (a)	1,053,371	1,053,714
Non-cash owner contribution reserve	17 (b)	100,322	100,244
Accumulated losses		(630,328)	(624,742)
Total equity		**523,365**	**529,216**
Liabilities			
Loans and borrowings	19	1,500,687	1,336,665
Advance received from the Government	17 (e)	46,594	46,594
Non-current liabilities		**1,547,281**	**1,383,259**
Loans and borrowings	19	64,944	134,194
Trade and other payables	20	149,864	191,610
Liabilities to the Government	17 (c)	4,896	5,317
Provisions	21	16,027	11,356
Other current liabilities		7,186	9,060
Current liabilities		**242,917**	**351,537**
Total liabilities		**1,790,198**	**1,734,796**
Total equity and liabilities		**2,313,563**	**2,264,012**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	Note	2019	2018*
Revenue	7	491,038	424,614
Other income		12,751	19,512
Employee benefits expense		(160,561)	(154,338)
Depreciation and amortization expense	11	(81,235)	(113,804)
Electricity, consumables and maintenance costs	8	(47,921)	(43,708)
Impairment loss on trade receivables	22(b)(ii)	(33,729)	(12,017)
Impairment loss on property, plant and equipment	11 (c)	-	(691,387)
Other expenses	9	(72,128)	(73,758)
Results from operating activities		**108,215**	**(644,886)**
Finance income	10	14,849	14,534
Finance costs	10	(128,131)	(85,018)
Net finance costs		**(113,282)**	**(70,484)**
Loss before income tax		**(5,067)**	**(715,370)**
Income tax expense		(519)	(1,169)
Loss and total comprehensive loss for the year		**(5,586)**	**(716,539)**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

These consolidated financial statements were approved by the Management Board on 1 June 2020 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	Share capital	Non-cash owner contribution reserve	Retained earnings/ (Accumulated losses)	Total equity
Balance at 1 January 2018	1,053,271	98,192	91,797	1,243,260
Loss and total comprehensive loss for the year	-	-	(716,539)	(716,539)
Transactions with owner, recorded directly in equity				
Increase in share capital (Note 17 (a))	443	-	-	443
Non-cash contributions by owners	-	2,052	-	2,052
Total transactions with owner, recorded directly in equity	**443**	**2,052**	**-**	**2,495**
Balance at 31 December 2018*	**1,053,714**	**100,244**	**(624,742)**	**529,216**
Balance at 1 January 2019	1,053,714	100,244	(624,742)	529,216
Loss and total comprehensive loss for the year	-	-	(5,586)	(5,586)
Transactions with owner, recorded directly in equity				
Net decrease in share capital (Note 17 (a))	(343)	-	-	(343)
Non-cash contributions by owners	-	78	-	78
Total transactions with owner, recorded directly in equity	**(343)**	**78**	**-**	**(265)**
Balance at 31 December 2019	**1,053,371**	**100,322**	**(630,328)**	**523,365**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

'000 GEL	**Note**	**2019**	**2018***
Cash flows from operating activities			
Cash receipts from customers		503,900	455,638
Cash paid to suppliers and employees		(288,414)	(276,328)
Cash flows from operations before income taxes paid		**215,486**	**179,310**
Income tax paid		(250)	(270)
Net cash from operating activities		**215,236**	**179,040**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(112,151)	(104,694)
Proceeds from sale of property, plant and equipment		13,835	17,357
Interest received		12,653	11,856
Net cash used in investing activities		**(85,663)**	**(75,481)**
Cash flows from financing activities			
Repayment of borrowings	19 (b)	(12,343)	(11,327)
Interest paid	19 (b)	(110,033)	(101,022)
Net cash used in financing activities		**(122,376)**	**(112,349)**
Net increase/(decrease) in cash and cash equivalents		**7,197**	**(8,790)**
Cash and cash equivalents at 1 January		241,308	243,018
Effect of exchange rate fluctuations on cash and cash equivalents		9,486	7,635
Effect of movements in ECL on cash and cash equivalents		(15)	(555)
Cash and cash equivalents at 31 December	16	**257,976**	**241,308**

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated, see Note 5.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 43.

1. Reporting entity

(a) Georgian business environment

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC Georgian Railway (the "Company") and its subsidiaries (the "Group") comprise Georgian joint stock and limited liability companies as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The Company's registration number is 03/4-965.

The Company's registered office is 15 Queen Tamar Avenue, Tbilisi 0112, Georgia.

The Group's principal activity is the operation of a nationwide railway system providing freight and passenger transportation services, freight forwarding services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

The Company is wholly owned by JSC Partnership Fund, a wholly state-owned company. The ultimate controlling party of the Group is the Government of Georgia. JSC Partnership Fund produces publicly available consolidated financial statements.

Related party transactions are disclosed in Note 26.

2. Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 11 (c) – impairment of property, plant and equipment;
- Note 15 – impairment allowances for trade and other receivables;
- Note 29 (h) (iii) – useful lives and residual values of property, plant and equipment.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 11 (c) – sensitivity of impairment of property, plant and equipment;
- Note 22(b)(ii) – measurement of ECL allowance for financial assets.

Measurement of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.
Further information about the assumptions made in measuring fair values is included in the following note:

- Note 22 (a) – fair value of financial assets and liabilities.

5. Changes in significant accounting policies

IFRS 16

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, recognises right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Group has applied IFRS 16 using the modified retrospective approach and has measured right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Group does not have significant lease contracts where it acts as a lessee as at 1 January 2019 and 31 December 2019. Consequently, the Group used practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases with a term ending less than 12 months after the date of initial application of IFRS 16 *Leases*.

(c) As a lessor

The Group leases out its other buildings, wagons, containers, locomotives and fittings. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group is not involved in sub-lease transactions.

(d) Impact on consolidated financial statements

On transition to IFRS 16, the Group has not recognized either additional right-of-use assets or additional lease liabilities. Consequently, there was no impact on the consolidated financial statements of the Group on transition date. Rent expense related to the leases with a term ending less than 12 months after the date of initial application amounted to GEL 1,149 thousand (2018: GEL 1,030 thousand).

A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements, including amendments in IAS 23 *Borrowing Costs*.

6. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

– *Freight transportation – includes transportation of goods and commodities and related services.*
– *Passenger transportation – includes transportation of passengers.*

There are no inter-segment charges.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before infrastructure costs, which are the cost of maintaining the rail network used by both reportable segments, central overheads, interest and income tax, as included in the internal management reports that are reviewed by the Group's Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Group's Management Board does not monitor segment liabilities.

(i) Information about reportable segments

	Freight transportation		**Passenger transportation**		**Total**	
'000 GEL	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External revenues	449,967	388,643	31,138	27,404	481,105	416,047
Depreciation and amortization	(17,196)	(36,303)	(11,121)	(8,457)	(28,317)	(44,760)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	310,148	220,452	(4,541)	(5,166)	305,607	215,286
Reportable segment assets	181,553	184,898	137,510	147,654	319,063	332,552
Capital expenditure and other additions to non-current assets	1,750	2,496	391	812	2,141	3,308

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and other material items

'000 GEL	2019	2018
Revenues		
Total revenue for reportable segments	481,105	416,047
Other revenue	9,933	8,567
Consolidated revenue	**491,038**	**424,614**
Profit or loss		
Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax	305,607	215,286
Employee benefits expense – infrastructure and headquarters	(68,500)	(67,860)
Depreciation expenses – infrastructure and headquarters	(52,918)	(69,044)
Impairment	-	(691,387)
Net finance costs	(113,282)	(70,484)
Other net unallocated expenses*	(75,974)	(31,881)
Consolidated loss before income tax	**(5,067)**	**(715,370)**
Assets		
Total assets for reportable segments	319,063	332,552
Property, plant and equipment - infrastructure and headquarters	1,568,891	1,520,426
Other unallocated assets, principally cash and non-current assets	425,609	411,034
Consolidated total assets	**2,313,563**	**2,264,012**

* Other net unallocated expenses include logistic services expense of GEL 20,182 thousand (2018: GEL 17,636 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

(iii) Other material items in 2019

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	2,141	111,767	113,908
Depreciation and amortization	28,317	52,918	81,235

(iv) Other material items in 2018

'000 GEL	Reportable segment totals	Infrastructure and headquarters	Consolidated totals
Capital expenditure and other additions to non-current assets	3,308	239,287	242,595
Depreciation and amortization	44,760	69,044	113,804

(v) Geographical information

Approximately 90% of the Group's revenue is generated in Georgia with the remainder generated in CIS countries. The non-current assets of the Group are located in Georgia.

(vi) Major customer

In 2019, one customer of the Group's freight transportation segment represented approximately 11% of the Group's total revenue (2018: 7%).

7. Revenue

'000 GEL	**2019**	**2018**
Freight traffic	373,913	292,963
Logistic services *	48,814	70,318
Passenger traffic	31,138	27,404
Rent of wagons and other rental income	16,090	11,297
Freight car cross-border charge	14,156	17,468
Other	6,927	5,164
	491,038	**424,614**

* On 28 September 2017, GR Transit LLC concluded a Ship-or-Pay Agreement (SoP) with foreign company, according to which foreign company had to pay for transportation of 50% of annual quantity of crude oil sourced from Turkmenistan and delivered to Baku-Tbilisi-Ceihan pipeline until the end of 2018 regardless of whether such transportation has occurred. No revenue was recognised in terms of SoP in 2019 (2018: GEL 23,471 thousand).

Railroad transportation in Georgia is a natural monopoly, however, the prices are not subject to government regulation. According to clause 64 of the Railway Code of Georgia, which came into force on 1 July 2005, the Government of Georgia allowed the Group to set the prices for all services provided, including freight transportation, freight transportation-related additional services and passenger transportation.

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable.

a) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Freight traffic - Revenue generated by transporting freight from one point to another in return of the consideration determined based on the agreement.

Logistics services - Revenue for provision of general freight transportation supervision, document preparation and other related services to the external parties.

Passenger traffic - Revenue generated by charging the individuals for transporting from one place to another through sale of railway tickets.

Freight car cross-border charge - Revenue generated, when the Group's wagons cross Georgian border and enter another country's territory, based on daily charges for wagons, containers and any other services.

Rent of wagons and other rental income – Income represents operating lease and is accounted for under IFRS 16, see Note 24.

Other revenue - Revenue is predominantly comprised of sale of scrap.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Revenue Type	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Freight traffic, logistic services and passenger traffic	Freight traffic, logistic services and passenger traffic revenue streams are to be recognized "over time" since transportation is the service, during which customer receives and consumes simultaneously the benefit as the Group performs. The customer benefits from the distance travelled.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation.
Freight car cross-border charge	Freight car cross-border charge stream is to be recognized "over time" since it is the service, during which customer receives and consumes simultaneously the benefit as the Group performs.	Revenue for such services is recognised over time.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods was transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers at the Group`s warehouse.

8. Electricity, consumables and maintenance costs

’000 GEL	2019	2018
Electricity	22,069	20,962
Materials	12,135	11,929
Repair and maintenance	6,694	4,113
Fuel	7,023	6,704
	47,921	**43,708**

9. Other expenses

’000 GEL	2019	2018
Property and land tax	22,225	26,813
Logistic services	20,182	17,636
Security	9,246	9,209
Freight car cross-border charge	3,780	4,177
Other *	16,695	15,923
	72,128	**73,758**

* Included in the other above are the fees paid to the audit firms of about GEL 432 thousand, for the provision of audit and other professional services (2018: GEL 208 thousand).

10. Finance income and finance costs

’000 GEL	2019	2018
Recognised in profit or loss		
Interest income under the effective interest method	14,849	14,534
Finance income	**14,849**	**14,534**
Impairment loss on other financial assets	(39)	(149)
Interest expense on financial liabilities measured at amortised cost	(42,843)	(47,352)
Net foreign exchange loss	(85,249)	(37,517)
Finance costs	**(128,131)**	**(85,018)**
Net finance costs recognised in profit or loss	**(113,282)**	**(70,484)**

11. Property, plant and equipment

'000 GEL	Land	Buildings and constructions	Rail track infrastructure	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2018	538,684	130,060	956,138	1,031,351	1,004,407	3,660,640
Additions	1,024	950	5,694	6,854	254,320	268,842
Disposals and write-offs	(156)	(71)	(2,495)	(13,080)	-	(15,802)
Transfers	173	62	7,663	(1,015)	(6,883)	-
Balance at 31 December 2018	**539,725**	**131,001**	**967,000**	**1,024,110**	**1,251,844**	**3,913,680**
Balance at 1 January 2019	539,725	131,001	967,000	1,024,110	1,251,844	3,913,680
Additions	489	605	5,232	6,370	111,569	124,265
Disposals and write offs	(308)	(402)	(1,764)	(16,822)	(2)	(19,298)
Transfers	81	127	11,098	197	(11,503)	-
Balance at 31 December 2019	**539,987**	**131,331**	**981,566**	**1,013,855**	**1,351,908**	**4,018,647**
Depreciation and impairment loss						
Balance at 1 January 2018	32,101	36,021	345,954	527,669	350,515	1,292,260
Depreciation for the year	-	3,364	57,840	52,600	-	113,804
Disposals and write offs	-	(26)	(868)	(9,468)	-	(10,362)
Impairment loss	139,383	25,165	154,883	124,469	247,487	691,387
Balance at 31 December 2018	**171,484**	**64,524**	**557,809**	**695,270**	**598,002**	**2,087,089**
Balance at 1 January 2019	171,484	64,524	557,809	695,270	598,002	2,087,089
Depreciation for the year	-	2,575	45,359	33,325	-	81,259
Disposals and write offs	(79)	(217)	(1,406)	(13,351)	-	(15,053)
Transfers of impairment	21	33	2,908	52	(3,014)	-
Balance at 31 December 2019	**171,426**	**66,915**	**604,670**	**715,296**	**594,988**	**2,153,295**
Carrying amounts						
At 1 January 2018	**506,583**	**94,039**	**610,184**	**503,682**	**653,892**	**2,368,380**
At 31 December 2018	**368,241**	**66,477**	**409,191**	**328,840**	**653,842**	**1,826,591**
At 31 December 2019	**368,561**	**64,416**	**376,896**	**298,559**	**756,920**	**1,865,352**

(a) Construction in progress

By the end of 2010, the Group started two large capital projects:

- The Main Line Modernisation; and
- Tbilisi Bypass Project.

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see Note 19).

The borrowing costs were capitalized on the above two projects in proportion to the costs incurred on those projects based on a capitalization rate of approximately 8% (2018: 8%). Capitalised borrowing costs of GEL 73,518 thousand during 2019 relate to the Main Line Modernization project (2018: GEL 57,114 thousand).

(b) Impairment of Tbilisi Bypass Project (the Project)

In June 2013, the Group announced a decision to redesign the Tbilisi Bypass Project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the Project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalised since October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of Tbilisi Bypass project will last for 18 months until the final modified project is presented.

During 2016 and 2015, the Group was in discussion with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. One of the scenarios under discussion included an option envisaging a change of the original bypass location, because of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2019 and the date these consolidated financial statements were authorized for issue, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

Due to significant uncertainties associated with either the continuation of the existing Project or implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that Management does not expect that the Project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the Project was written-down by GEL 382,616 thousand in 2017 to its recoverable amount GEL 14,689 thousand, representing land included in the construction in progress heading above.

During 2019 and 2018 no event or change in circumstances occurred which would result in a reversal of the provision.

(c) Impairment of property, plant and equipment (excluding Tbilisi Bypass Project)

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal.

At 31 December 2018, the impairment testing was carried out by the Group due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018). As a result of the impairment testing, the Group recognized impairment loss of GEL 691,387 thousand in 2018 and the impairment loss was allocated to items of property, plant and equipment on a pro-rata basis, but not less than the fair value less costs to sell of the individual items.

The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

As at 31 December 2019, in response to the changes on the market resulting in the revision of some of the expectations of the Group as at 31 December 2018, the Group reassessed its estimates and conducted a new impairment test. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations.
- Volumes are projected based on the budgeted quantities during 2020, adjusted for the Georgian GDP growth rate of 4.9% up to 2024. No volume growth is projected from 2025. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2020, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 1.9% and 2.1% during the first two projected years and 1.7% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 55 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2022 and 2023;
- A pre-tax discount rate of 11.01% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 2%.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 180 million;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 135 million;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 130 million.

(d) Capital contributions and distributions

The Government of Georgia contributes and distributes certain property, plant and equipment in the form of an increase or decrease in share capital. In 2019 the share capital has been decreased by the carrying amount of assets of GEL 343 thousand, unlike to 2018, when share capital increased by the fair value of assets contributed of GEL 443 thousand (See Note 17 (a)).

(e) Security

At 31 December 2019, property with a carrying amount of GEL 74,274 thousand (31 December 2018: GEL 76,717 thousand) is pledged in respect of the secured loan (See Note 19).

(f) Capital commitment

As at 31 December 2019, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 331,617 thousand (2018: GEL 333, 188 thousand) mainly relating to the Main Line Modernization project of GEL 91,152 thousand (2018: GEL 109,113 thousand) and Tbilisi Bypass project of GEL 240,012 thousand (2018: GEL 222,203 thousand, increased only due to foreign exchange rate fluctuation).

Management does not expect that the cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

12. Loans receivable

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and credit risk, see Note 22.

'000 GEL	2019	2018
Non-current assets		
Parent company	24,133	20,480
	24,133	**20,480**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2019		31 December 2018	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Parent company	USD	9.75%	2021	24,133	24,133	20,480	20,480
Total interest-bearing assets				**24,133**	**24,133**	**20,480**	**20,480**

13. Other non-current assets

'000 GEL	2019	2018
Prepayments for non-current assets*	60,768	60,630
Construction materials	23,240	26,463
Intangible assets	9,735	10,386
Other	46	46
	93,789	**97,525**

* Prepayments for non-current assets are related to Bypass project, which was suspended as at 31 December 2019 and 31 December 2018. Per Management's assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

14. Inventories

'000 GEL	2019	2018
Materials	32,238	27,227
Fuel	3,582	3,405
Rails	1,422	1,264
Other	4,743	2,937
	41,985	**34,833**
Allowance for inventory obsolescence	(1,761)	(1,951)
	40,224	**32,882**
Reversal of previous write-down of inventories	190	1,307

15. Trade and other receivables

’000 GEL	2019	2018
Trade receivables *	204,605	186,373
Impairment allowance on trade receivables *	(180,461)	(146,732)
	24,144	**39,641**
Receivable from the Government **	25,205	25,205
Impairment allowance on receivable from the Government **	(25,205)	(25,205)
	-	-
Other receivables	193	1,271
	24,337	**40,912**

* Trade receivables as at 31 December 2019 and 31 December 2018 include the receivable from a foreign company (See Note 7), amounting to GEL 40,115 thousand and GEL 37,441 thousand, respectively. As at 31 December 2019 and 31 December 2018 and the date these financial statements were authorised for issue, the receivable above was fully overdue. Provision for the receivable as at 31 December 2019 amounts to GEL 40,115 thousand (31 December 2018: GEL 18,373 thousand).

** Receivable from the Government of Georgia (hereinafter the Government or the GoG) was recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU), the Government will reimburse the Group for the value added tax payable incurred on such transfers (See Note 17 (e)).

Based on discussions with the GoG and due to uncertainties associated with the reimbursement of the above receivable, the Group recognized an impairment loss on the receivable from the Government, which was recognised in finance cost during 2017.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 22.

16. Cash and cash equivalents

’000 GEL	2019	2018
Current accounts in banks	104,342	91,716
Call deposits	154,122	150,028
Petty cash	82	119
Provision for cash and cash equivalents	(570)	(555)
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**257,976**	**241,308**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group’s exposure to interest rate risk is disclosed in Note 22.

17. Equity and liabilities to the Government

(a) Share capital

Number of shares	**Ordinary shares**	
	2019	**2018**
In issue at 1 January	1,053,713,624	1,053,271,005
Net (reduction)/increase for property, plant and equipment (See Note 11 (d))	(342,600)	442,619
In issue at 31 December, fully paid	**1,053,371,024**	**1,053,713,624**
Authorised shares - par value	**1**	**1**

All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Non-cash owner contribution reserve

The difference between the nominal amount of registered share capital for non-cash assets contributed by the owner and the fair value of the contributed assets is recognised in the non-cash owner contribution reserve.

(c) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in share capital but not yet transferred formally to the Government. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

'000 GEL	**2019**	**2018**
Liabilities to the Government	4,896	5,317

(d) Dividends

No dividends were declared in 2019 and in 2018.

(e) Advance received from the Government

In April 2012, the Company and the Government entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 701,281 square meters of land plots with attached constructions which would be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agreed to pay to the Group CHF 138 million equivalents in national currency through the reduction in the amount of dividends payable to the Government.

In 2012, the Company declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Company agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand. No transfer of the aforementioned land plots to the Government took place in 2018 or in 2019.

18. Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and unsecured bonds. With these measures the Group aims for steady profits growth.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 22.

'000 GEL	**2019**	**2018**
Non-current liabilities		
Secured loan	68,092	-
Unsecured bonds	1,432,595	1,336,665
	1,500,687	**1,336,665**
Current liabilities		
Secured loan	12,876	85,594
Current portion of unsecured bonds	52,068	48,600
	64,944	**134,194**
	1,565,631	**1,470,859**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 December 2019		**31 December 2018**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	7.75%	2022	1,484,663	1,484,663	1,385,265	1,385,265
Secured loan	USD	Libor +1.25%	2026	80,968	80,968	85,594	85,594
Total interest-bearing liabilities				**1,565,631**	**1,565,631**	**1,470,859**	**1,470,859**

In July 2012, the Group carried out the issuance, placement and registration (listing) of unsecured bonds of USD 500 million on the London Stock Exchange with an interest rate of 7.75% due in 2022.

Part of the above bonds were used for an early redemption of the unsecured bonds of USD 250 million issued by the Group in 2010.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 74,274 thousand as at 31 December 2019 (31 December 2018: GEL 76,717 thousand) (See Note 11 (e)).

As at 31 December 2018 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached. As a result, the lender could request repayment on demand and Group had classified the loan as short-term borrowings as at 31 December 2018. The Group obtained a preliminary agreement from the lender on waiving the covenant at 31 December 2018 and the final waiver was received and became effective as of 10 January 2019.

(b) Changes in liabilities arising from financing activities

’000 GEL	2019	2018
Balance at 1 January	**1,470,859**	**1,433,172**
Repayment of borrowings	(12,343)	(11,327)
Interest paid	(110,033)	(101,022)
Total change from financing cash flows	**(122,376)**	**(112,349)**
The effect of changes in foreign exchange rates	**100,787**	**45,570**
Other changes		
Interest expense recognised in finance cost	42,843	47,352
Interest expense capitalised as borrowing costs (Note 11 (a))	73,518	57,114
Total liability-related other changes	**116,361**	**104,466**
Balance at 31 December	**1,565,631**	**1,470,859**

20. Trade and other payables

’000 GEL	2019	2018
Payables for non-current assets	97,323	158,359
Trade payables	32,884	18,552
Advances received from customers	19,657	14,699
	149,864	**191,610**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

21. Provisions

’000 GEL	2019	2018
Balance at 1 January	11,356	7,953
Net additional provision during the year	4,671	3,403
Balance at 31 December	**16,027**	**11,356**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2019 and as at 31 December 2018 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

22. Fair values and risk management

(a) Fair value of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Group has determined fair values of financial assets and liabilities using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 10% higher than the carrying amount.

The carrying values of other financial assets and liabilities of the Group are a reasonable approximation of their fair values.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

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

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivable and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
'000 GEL	**2019**	**2018**
Cash and cash equivalents	257,894	241,189
Trade receivables	24,144	39,641
Loans receivable	24,133	20,480
Balance at 31 December	**306,171**	**301,310**

Cash and cash equivalents

The Group usually holds funds with banks with good credit ratings. As at 31 December 2019, approximately 99% (31 December 2018: 99%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base including the default risk of the industry and country in which customers operate. During 2019, about 11% (2018: 7%) of the Group's revenue is attributable to sales transactions with a single customer.

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

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

No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses in respect of trade receivables.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
'000 GEL	**2019**	**2018**
Foreign countries	17,047	37,646
Domestic	7,097	1,995
	24,144	**39,641**

The Group's two most significant customers (2018: two customers) account for GEL 9,051 thousand of the trade receivables carrying amount as at 31 December 2019 (31 December 2018: GEL 21,975 thousand).

Expected credit loss assessment for corporate customers as at 31 December 2019 and 31 December 2018

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2019:

'000 GEL	**2019**	**2019**	**2019**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	9,520	-	9,520
Medium risk	10,030	5,081	15,111
High risk	-	179,974	179,974
Total Gross carrying amount	**19,550**	**185,055**	**204,605**
Loss allowance	(1,563)	(178,898)	(180,461)
	17,987	**6,157**	**24,144**

’000 GEL	**2018**	**2018**	**2018**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	3,589	-	3,589
Medium risk	-	9,382	9,382
High risk	-	173,402	173,402
Total gross carrying amount	**3,589**	**182,784**	**186,373**
Loss allowance	-	(146,732)	(146,732)
	3,589	**36,052**	**39,641**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, information on potential financial difficulties of the counterparties and information on past due days) and applying experienced credit judgement.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status, external credit rating and actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group’s view of economic conditions over the expected lives of the receivables.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

’000 GEL	**2019**	**2018**
Balance at 1 January	**146,732**	**165,149**
Net charge for the year	33,729	12,017
Net write-off during the year	-	(30,434)
Balance at 31 December	**180,461**	**146,732**

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Loans receivable

As at 31 December 2019 and 31 December 2018, the Group has issued loan to the parent company. The loan is not secured.

Management believes that the Group is not exposed to a significant amount of credit risk relating to the parent company loan, as the loan is not past due as at 31 December 2019 and 31 December 2018. There are no indications that the parent company will fail to meet its obligations, when it falls due and management assessed expected credit loss from loans receivable at GEL 108 thousand as at 31 December 2019 (31 December 2018: GEL 90 thousand). The balance is categorized under Stage 1.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters or global pandemic.

As at 31 December 2019, the Group maintains committed unused credit lines of GEL 86,031 thousand maturing in 2020 and GEL 60,677 thousand maturing in 2022 with the local banks (31 December 2018: GEL 162,800 thousand).

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2019

’000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	80,968	98,025	7,686	7,562	14,800	41,993	25,984
Unsecured bonds	1,484,663	1,767,220	55,562	55,562	111,123	1,544,973	-
Trade payables	130,207	130,207	130,207	-	-	-	-
	1,695,838	**1,995,452**	**193,455**	**63,124**	**125,923**	**1,586,966**	**25,984**

31 December 2018

’000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	85,594	108,559	7,719	7,516	14,677	41,329	37,318
Unsecured bonds	1,385,265	1,753,173	51,859	51,859	103,718	1,545,737	-
Trade payables	176,911	176,911	176,911	-	-	-	-
	1,647,770	**2,038,643**	**236,489**	**59,375**	**118,395**	**1,587,066**	**37,318**

(iv) Market risk

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

Currency risk

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

Borrowings and related interest are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

Exposure to currency risk

The Group’s exposure to foreign currency risk was as follows:

’000 GEL	USD - denominated 2019	CHF – denominated 2019	USD - denominated 2018	CHF - denominated 2018
Cash and cash equivalents	186,711	128	180,680	17
Loan receivable	24,133	-	20,480	-
Trade receivables	6,816	6,957	33,324	4,323
Secured loan	(80,968)	-	(85,594)	-
Unsecured bonds	(1,484,663)	-	(1,385,265)	-
Trade and other payables	(7,115)	(15)	(659)	-
Net exposure	**(1,355,086)**	**7,070**	**(1,237,034)**	**4,340**

The following significant exchange rates applied during the year:

in GEL	**Average rate**		**Reporting date spot rate 31 December**	
	2019	**2018**	**2019**	**2018**
USD 1	2.8192	2.5345	2.8677	2.6766
CHF 1	2.8374	2.5910	2.9488	2.7268

Sensitivity analysis

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

’000 GEL	**Profit or loss and equity**
2019	
USD (10% weakening)	(135,509)
CHF (10% weakening)	707
2018	
USD (10% weakening)	(123,703)
CHF (10% weakening)	434

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

(v) Interest rate risk

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

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was as follows:

’000 GEL	**Carrying amount**	
Fixed rate instruments	**2019**	**2018**
Financial assets	178,255	170,508
Financial liabilities	(1,484,663)	(1,385,265)
	(1,306,408)	**(1,214,757)**
Variable rate instruments		
Financial liabilities	(80,968)	(85,594)
	(80,968)	**(85,594)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as FVTPL or FVOCI. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates as at 31 December 2019 would have affected profit or loss by GEL 810 thousand (31 December 2018: GEL 856 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

23. Subsidiaries

Subsidiary	Country of incorporation	Principal activities	2019 Ownership/ voting	2018 Ownership/ voting
GR Property Management LLC	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC	Georgia	Container transportation and terminal services	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit Line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	100%
GR Transit LLC	Georgia	Transportation services	100%	100%

24. Operating leases

The Group leases out its wagons, other buildings, containers, locomotives and fittings. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2019 was GEL 16,090 thousand (2018: GEL 11,297 thousand) and included in revenue. See Note 5.

The following table sets out a maturity analysis of lease payments under non-cancellable period of a lease contracts entered into as at 31 December 2019, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2019 – Operating leases under IFRS 16	
Less than one year	4,946
Between one and five years	7,762
More than five years	23,178
Total	**35,886**
2018 – Operating leases under IAS 17	
Less than one year	5,400
Between one and five years	4,610
More than five years	17,753
Total	**27,763**

25. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability not already provided for, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

26. Related parties

(a) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in employee benefits expenses:

'000 GEL	**2019**	**2018**
Salaries and bonuses	**1,031**	**1,102**

(b) Other related party transactions

(i) Transactions with the Government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The Group's other related party transactions are disclosed below.

(ii) Revenue, purchases and expenses

The Group purchases security services from a state agency, which amounted to GEL 9,246 thousand for 2019 (2018: GEL 9,209 thousand). The Group usually does not have significant balances for these purchases.

Management estimates that the aggregate amounts of other income and expenses and the related balances with other Government-related entities are not significant.

(iii) Loans issued

’000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2019	2018	2019	2018
Loans issued:				
Parent company	-	-	24,133	20,480

During 2019, interest income of GEL 2,181 thousand (2018: GEL 1,775 thousand) was recognised in profit or loss in respect of a related party loan.

(iv) Credit line

As at 31 December 2019, the Group does not have an unused credit line from the parent company (2018: USD 7 million with bearing interest rate of 10% per annum, maturing in June, 2019).

27. Subsequent events

The outbreak of COVID-19 in early 2020 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Government of Georgia have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities.

In response to the aforementioned restrictions imposed by the Government of Georgia, the Group temporarily terminated the passenger transportation services, which is about 6% of total revenue for the year ended 31 December 2019 (2018: 6%), see Note 7. However, irrespective of the aforementioned measures, as at 31 December 2019 and as of the date these consolidated financial statements were authorized for issue, the Group, apart from the passenger transportation services, continues its operations in its normal way. Furthermore, temporary lock down of air and overland transportation has positively affected the revenue from freight traffic which is about 76% of total revenue for the year ended 31 December 2019 (2018: 69%) during the first months of 2020.

Taking into account the Group’s current operational and financial performance along with other currently available public information, management does not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Groups financial position and operating results.

The management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. The Group also considers negative development scenarios and is ready to adapt its operational plans accordingly.

Management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

28. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment, which was revalued to determine deemed cost as a part of the adoption of IFRSs.

29. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the adoption of IFRS 16 from 1 January 2019, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 7.

(i) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

(e) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective at a later date.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholder as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

Set off the tax payable on dividends declared and paid is available for the corporate income tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 *Income Taxes* and accounts for the tax on such items as taxes other than on income.

(ii) Deferred Tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRS, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Maintenance and repair expenses are recognised as follows:

- Rolling stock:

- current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
- expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
- overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations:

- current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
- labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
- costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Major scheduled capital repairs for wagons and locomotives, estimated at 16% of the cost, are considered as major components and depreciated separately for an average useful life of 7 to 15 years based on the expected timing of the capital repairs.

The estimated average useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

– buildings and constructions	30-44 years;
– rail track infrastructure	13-25 years;
– transport, machinery, equipment and other	10-16 years.

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

(i) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade and other receivables, loans receivable and cash and cash are classified as measured at amortised cost.

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(j) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Increase of share capital

Share capital increase is affected through the issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as a fair value adjustment reserve for non-cash owner contributions.

Reduction of share capital

Share capital reductions and non-cash distributions are recognized at the carrying amount of the assets distributed. Non-cash distributions of the Company are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

(k) Impairment

(i) Non-derivative financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

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

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

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

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

Measurement of ECLs

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

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment lossrecognised in prior periods, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

The Group did not have significant lease agreements where it acts as a lessee as at 31 December 2019 and 2018. The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. (See Note 5)

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated as the Group has not implemented systems for such allocations. The Group's Management Board does not monitor segment liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

30. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *IFRS 17 Insurance Contracts.*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*