Georgian Railway
EST. 1872

2021

ANNUAL REPORT

MESSAGE FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The year 2021 was full of challenges for JSC Georgian Railway and the country as a whole. Overcoming the negative effects of Covid-19 proved to be a difficult procedure, but the railway team achieved great success by efficient and dedicated employees.

Along with improved efficiency, the amount of cargo and passengers on the mainline has increased significantly. This implies that JSC Georgian railway is becoming increasingly appealing to both freight owners and passengers. Turning a profit in 2021 after multiple years of net losses is obvious evidence of this. The Company's recent reforms have resulted in excellent outcomes and we believe that this upward trend will continue for the foreseeable future.

The rise in freight turnover is an obvious reflection of how well Georgian Railway complies with the Government strategy and significantly contributes to formation of the country as a logistics center. The average speed of transportation will improve even more after completion of the railway Modernization Project in 2023, which will also result in shorter travel time and lower operating costs. Transit and domestic freight transportation will also become even more appealing to customers.

In Georgia, as well as around the world, passenger transportation is commercially less attractive. At the same time, accessible public transportation is extremely vital to the State and shareholder. The passenger transportation segment also showed a noticeable improvement in 2021. We were able to transport more passengers across longer distances as a result of the optimization of train schedules and we were able to lower the losses from passenger transfers as a result of an increase in passenger turnover.

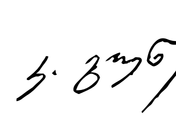
We have long been proud of the fact that a fully electrified railway like JSC Georgian Railway is quite rare in the world. By issuing 2021 Green Eurobonds, we managed not only to reduce the very significant refinancing risk and the annual interest rate, but with this transaction, we once again emphasized the eco-friendliness of rail transport and its potential to reduce negative impact on environment. JSC Georgian Railway agreed in 2021 to disclose the amount of carbon dioxide that its operations have prevented from being released into the atmosphere. The carbon dioxide saving amounted to 500,000 tons during a 4-year period. It is encouraging that the saving will grow along with the increase in passenger and freight traffic, meaning that the Company's operations have a positive impact on the environment.

JSC Georgian Railways' more than 12,000 railroaders, are the Company's greatest asset. Their diligence, assiduousness and sincerity is the primary precondition for growth and advancement. I want to express my gratitude for this and reassure them that it is only through their efforts that we will be able to advance. The Company's success affects not just our employees' and their families, but also the whole Country's quality of life.

As a highly responsible Company, JSC Georgian Railway, continually looks after the improving of personnel skills and retraining, as well as the professional growth of newly-hired employees. In 2015, the Company, together with the Ministry of Education and Science and Technical University of Georgia, established the Railway Transport College. The college aims to strengthen the railroad labor market and bring dual professional education to the industry. The College already has 15 professional educational programs by the end of 2021 and 120 professionals graduated the mentioned academic year. JSC Georgian Railway employed the vast majority of them.

Alongside with successful 2021, we need to properly plan the future of GR. Maintaining the favorable trends from recent years is our main goal. JSC Georgian Railway is now undergoing corporatization reforms, with assistance from the international experts and Ministries of Finance and Economy and Sustainable Development of Georgia. This comprises the development of a national policy for railway sector (including the infrastructure and passenger business units) and on the basis of that, the preparation of the development plan for JSC Georgian Railway. Development of the mentioned plan with the participation of the State authorities is essential for the growth of the Company. The economic impact of freight and passenger routes will be evaluated and advantageous decision about the funding and sources of funding will be made.

Konstantine Guntsadze



MESSAGE FROM THE GENERAL DIRECTOR

It has been a privilege to work with JSC Georgian Railway team for more than four years now. I had a wonderful chance to get to know and form solid relationships with many railroaders throughout this period who, in spite of the difficulties they face every day, work diligently and faithfully for the Company and, ultimately, for our nation. More than 12,000 professionals play a significant role in the growth and development of JSC Georgian Railway and the Country's economy as a whole.

In the last two eventful years, dominated by the Covid-19 pandemic, our employees came together with the intention of providing fast, reliable and competitive services to our customers. On the other hand, the Management managed to implement remote working for employees of the firm swiftly. Throughout the outbreak, Georgian Railway continued to run its business, demonstrating once more that it is a dependable and trustworthy partner for both freight owners and passengers.

JSC Georgian Railway constantly takes care of its employees and their career advancement. We were able to raise salaries to more than 12,000 employees for a second time in the third quarter of 2021 (first salary increase was in December 2019). Our annual employee benefits expenses grew by around GEL 30 million as a result of the monthly salary rise of more than GEL 2.4 million.

JSC Georgian Railway also puts a strong focus on the safety of its staff. More than 1,600 personnel received training for this purpose in 2021 and 500 Electrical Supply Department employees had their certificates of electrical safety qualification renewed. Additionally, there were numerous instructional, warning and prohibitive signs installed throughout the railroad facilities.

Our priority in 2021 was to strengthen Company's foundation and draw up the direction for the following years – with a strong priority towards improving financial performance and driving growth. In 2021 we were able to keep our operations up and running. With its dedicated employees, the Group managed to achieve impressive 10 percent increase in transported cargo volume and reached six year maximum – with 12.1 million tons. The Company has maintained an adjusted EBITDA margin on an industry leading, 41.36 percent, level.

In addition to the upward trend in freight traffic, we should mention, impact of Covid-19 on the passenger transportation business. Despite being loss making segment of our business, we subsidize it from profits generated by freight business. At the same time, we try to keep our ticket prices low, however in 2022 we were forced to raise the prices exclusively for Stadler trains traveling on Tbilisi-Batumi route, due to the increasing costs for electricity, repair, maintenance and other materials.

Looking back, another achievement of the passenger transportation unit was the multi-year agreement with the firm "Stadler" that guarantees high-quality repairs and efficient train operation. I believe that existence of Stadler trains in Georgia has once again demonstrated how much GR values its customers' safety and comfort.
I should mention that the refinancing of the 2012 Eurobonds was one of the most strategically significant events of the year for JSC Georgian Railway as well as for the whole country economy. We were successful in issuing Senior Unsecured Green Eurobonds worth USD 500.0 million in June 2021. The coupon rate was reduced from 7.75% to 4.0% and the maturity period was prolonged by 7 years. By 2028, GR will be able to save around USD 140 million due to decreased coupon rate. With this outstanding transaction, the first and only Company in Caucasus to receiving the "Green status" in the transportation sector is JSC Georgian Railway. Why does this matter? "Green status" is the proof of the Company's commitment to the improvement of the environmental, social and governance issues. Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD) participation, as well as additional investor base interested in the sustainable financing, emphasize the transparency and compatibility of our activities with modern standards.

A significant portion of the proceeds from the mentioned transaction was redirected to the railway Modernization Project, which is planned to be finalized in 2023. After the completion of this project, transportation capacity will grow from 27 million to 48 million tons and train speed, safety and infrastructure will all be enhanced. Our corridor will become even more attractive and Georgian Railway will be able to transport more cargo.

Discussion of the Company operations will not be complete without mentioning the developments we have in information technology. It is well recognized that the biggest challenge facing the world right now is cybercrime. We have established ITIL best practices and internal security policies to minimize such risks. Additionally, we are working on initiatives that will be completed and fully integrated into the business model by the end of 2022. Among these are a DWDM network modernization aiming at developing an advanced traffic engineering protocol for the data network, as well as an electronic ticket selling and accounting system. The Group's train stations will be linked to the data centers once the initiative is put into operation. Additionally, we are modernizing the data center to guarantee effective operation of IT services when used remotely.

In terms of environment protection, GR has spent about USD 338 million over the past four years on "Green Projects," of which USD 157 million were spent on Modernization Project. With the Company's "Green activities", we reduce the amount of electricity used and raise our rolling stock's efficiency, capacity and safety standards. This approach allowed us to avoid 500,000 tons of carbon dioxide (CO2) emission into the atmosphere from 2018 to 2021. The challenges associated with climate change can be greatly reduced by expanding the use of rail transportation. Sustainable development, always involves the positive effects of our operations, not only on the economy but also on the environment.

Every GR employee strives to encourage a healthy lifestyle through our actions. We support sports such as rugby, basketball, weightlifting and water polo in order to achieve this aim. GEL 850 thousand was allocated from the Company's budget for these sports only in 2021.

In terms of environmental protection actions, the Company has adopted a strategy of waste management produced as a result of its operations. 14 facilities were completely cleared in 2021 and more than 88,000 kg of hazardous material were burned and bioremediated. Considering the goals about sustainable development, we are attempt to gradually replace the materials used in the operating process with environmentally friendly materials, such as water-based timber and/or reinforced concrete sleepers.

GR takes part in green initiatives to help environment. The railway constantly ensures that the wood resources are planted and maintained within the depots, stations and alongside railway network. In November 2021, together with environmental non-governmental organizations, GR also participated in tree planting process for public and private schools in city of Rustavi, where we contributed plants grown on our facilities. It is important to note that our employees receive training on waste management and general environmental concerns every six months in an effort to increase environmental awareness.

Finally, I would like to inform you that JSC Georgian Railway is celebrating its anniversary this year. In 2022, it is 150 years since its foundation. Georgian Railway, which has a long and illustrious history, has encountered many obstacles over the years, triumphed over them all with dignity, responded quickly to difficulties and is currently in constant improvement and development. During the anniversary year, we plan to implement interesting projects, however our goals remain the same: growth in freight transportation, increase in quality of services, stability and transparency. JSC Georgian Railway will continue to strive to maintain its leading position. I am certain that GR and railroaders will be able to achieve all of the objectives discussed above.

David Peradze

SUPERVISORY BOARD MEMBERS

KONSTANTINE GUNTSADZE
Chairman of Supervisory Board | since 2012
The main field of competence | Jurisprudence
20 years of work experience in the industry
With GR, over 11 years

OLEG BICHIASHVILI
Supervisory Board member | since 2012
The main field of competence | Logistics
49 years of work experience in the industry
With GR, over 48 years

CLIFFORD STANLEY ISAAK
Chairman of Audit Committee | since 2011
The main field of competence | Finance
41 years of work experience in the industry
With GR, over 10 years

BEKA INJIA
Supervisory Board member with 2 votes| since 2019
Since 2021 representing partnership fund
The main field of competence | Jurisprudence
17 years of work experience in the industry
With GR, over 2 years

DAVID SAMKHARASHVILI
Supervisory Board member | since 2020
The main field of competence | Jurisprudence
16 years of work experience in the industry
With GR, over 15 years

MANAGEMENT BOARD MEMBERS

DAVID PERADZE
Chief Executive Officer | since 2017
19 years of work experience in the industry
With GR, over 4 years

IRAKLI TITVINIDZE
Chief Financial Officer | since 2013
18 years of work experience in the industry
With GR, over 8 years

KAKHABER GUDIASHVILI
Freight SBU Director | since 2021
28 years of work experience in the industry
With GR, over 27 years

GIORGI MARUKASHVILI
Infrastructure SBU Director | since 2020
14 years of work experience in the industry
With GR, over 2 years

DACHI TSAGURIA
Passenger SBU Director | since 2018
9 years of work experience in the industry
With GR, over 8 years

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.

Irakli Titvinidze, CFO

05.30.2022

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

For the year ('000 GEL)	2021	2020	2019
Revenue	547,868	489,370	491,038
Adjusted EBITDA	226,576	218,962	223,178
EBIT	165,388	129,246	108,215
Net income/(loss)	52,711	(164,644)	(5,586)
Cash provided by operating activities	247,300	212,716	215,236
Acquisition of property, plant and equipment (PPE)	77,156	55,904	112,151

As at 31 December ('000 GEL)	2021	2020	2019
Total assets	2,259,732	2,347,764	2,313,563
Total liabilities	1,846,603	1,988,478	1,790,198
Total equity	413,129	359,286	523,365

Financial ratios	2021	2020	2019
Revenue growth	11.95%	-0.34%	15.64%
Adjusted EBITDA margin	41.36%	44.74%	45.45%
Operating ratio	70.94%	73.38%	73.69%
Dividend payout ratio	0%	0%	0%
Interest coverage ratio	1.10	1.22	1.29
Net Debt to Adjusted EBITDA	5.88	6.35	5.20
Debt*/ Equity	3.9	4.9	3.0

Statistical data ('000)	2021	2020	2019
Tons	12,131	11,063	10,861
Ton-km	3,291,173	2,895,292	2,908,986
Number of passengers	816	939	3,027
Passenger-km	273,268	246,938	676,644
Average number of employees	12	12	13

Key operating measures	2021	2020	2019
Total freight revenue per ton-km (in Tetri)	12.9	13.4	13.2
Passenger revenue per passenger-km (in Tetri)	5.4	4.5	4.6
Revenue per average number of employees ('000 GEL)	44.2	39.1	38.9
Operating expenses per ton-km (GEL)	0.12	0.12	0.12
Ton-km per average number of Freight SBU employees ('000)	627	550	535
Passenger -km per average number of Passenger SBU employees ('000)	231	207	547

Safety indicators	2021	2020	2019
Accident rate per million ton-km	0.04	0.04	0.00
Injury per '000 number of average employees	0.50	0.58	0.00
Death per '000 number of average employees	0.00	0.41	0.00

*Debt is comprised of current and non-current loans and borrowings

CREDIT RATINGS

	First issued	LT	Outlook	ST	Last updated	LT	Outlook	ST
S&P Global	2010	B+	Stable	B	2022	B+	Positive	B
FitchRatings	2010	B+	Stable	B	2021	BB-	Stable	B

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1. DESCRIPTION OF THE COMPANY'S BUSINESS

1.1 HISTORY OF THE COMPANY

2021	Successfully refinancing Eurobonds issued in 2012 with new Green Eurobonds
2020	Update business processes to adopt to lockdowns and online working environment
2019	Initiating new feeder transportation in Black and Caspian seas to increase container flow in region
2017	First freight on BTK line
2016, 2017	Purchasing 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)
	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 Eurobonds placement on the London Stock Exchange
	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 on21 December
1993	TRACECA established, with Georgian Railway a founding member
1992	Formation of independent Georgian Railway
1991	The assets of the Transcaucasian Railway Company are divided and allocated to the national railroad companies of Georgia, Armenia and Azerbaijan
1883	A connection is made between Tbilisi and Baku
1872	The Transcaucasian Railway, which runs through Georgia, Armenia and Azerbaijan, commences operations

OVERVIEW OF THE GROUP

STRATEGIC ASSET FOR GEORGIAN ECONOMY

UNIQUE STRATEGIC LOCATION

STRONG CUSTOMER RELATIONS

VERTICALLY INTEGRATED FREIGHT AND PASSENGER TRANSPORTATION BUSINESS MODEL

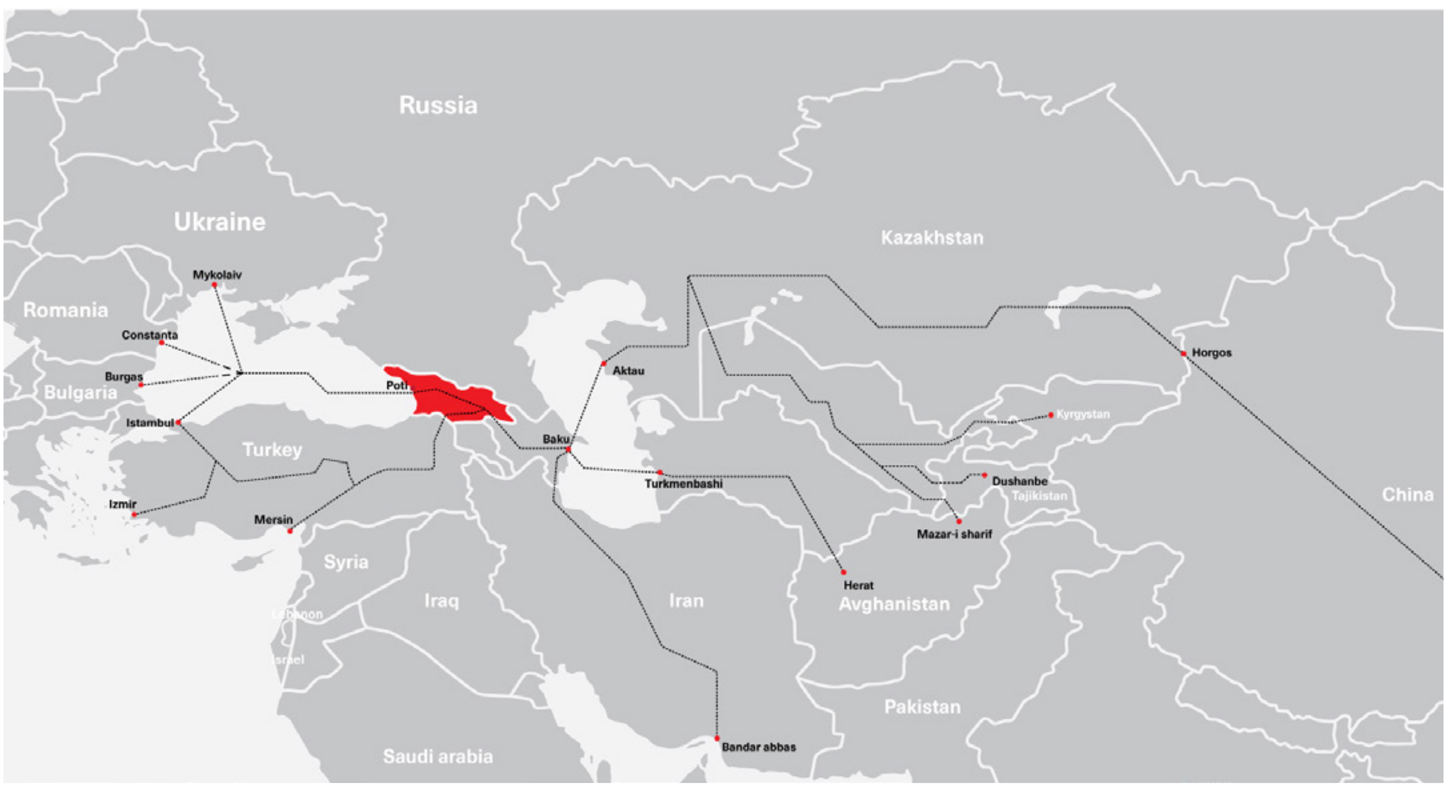
CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

1.2 BUSINESS PROFILE

JSC Georgian Railway (hereafter referred to as "GR" or "the Company" and as "the Group" with its subsidiaries) is by statute, Georgia's only integrated railway Company. It principally provides freight transshipping services of diversified cargo, including oil, oil products, ores, grains and other cargo, which mostly originate in the east and is transported from the Caspian Sea and Central Asia across Georgia to the Black Sea. The Group also provides passenger services and freight forwarding services. It has a vertically-integrated business model, owning and operating the tracks, stations, terminals, other infrastructure and rolling stock comprising Georgia's entire national railway system. The Company is not regulated and sets its tariffs independently, without further approval from any governmental entity.

The Group's mainline rail network, together with that of CFSC Azerbaijan Railway ("Azerbaijan Railway"), forms the Caucasus railway corridor, a key segment of the Transport Corridor Europe Caucasus Asia ("TRACECA") corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin. As a key link in the transportation chain between Europe and Central Asia, the Group believes that it is uniquely positioned to capitalize on trade between Europe and the Caspian Region and Central Asia. Three of the Group's lines connect to Georgian port cities of Batumi, Kulevi and Poti. Access to these ports allows easy on-shipment of transit cargo to the Black Sea and the world's oceans through Mediterranean Sea. Additional new railway line connects Azerbaijan and Georgia to Turkey and ultimately, directly to Europe.

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



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

CREDIT RATINGS

The Company is rated by two rating agencies: Fitch Ratings and Standard & Poor's (S&P). In December 2021, Fitch Ratings updated its rating for Georgian Railway to BB - with a "Stable" outlook. In March 2022, S&P Global Ratings affirmed B+ and revised the outlook for GR to "Positive" from "Stable".

SHAREHOLDER

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, JSC Partnership Fund, a wholly state-owned investment fund, is the Company's sole shareholder.

1.3 CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Company is not subject to the requirements of any national or international corporate governance code or rules. At the same time, we understand the value of good corporate governance for the long-term sustainable success and its over 10 years now that we updated our charter and internal instruction to include necessary set of good corporate governance principles.

The Group is governed by a Supervisory Board, which is elected by shareholders and is comprised of competent people with the abilities required to ensure the Company's long-term development. The board consists mostly of independent members and is responsible for establishing Company values, strategy and plans. Audit committee together with Internal Audit function makes sure that relevant risks are properly identified and internal control procedures are enforced detect and/or prevent them. External auditors are also selected by the audit committee to make sure annual financial statements are free of errors and are prepared in accordance with international standards.

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

SHAREHOLDER

The Company's sole shareholder is the Partnership Fund, a wholly state-owned investment fund.

The Partnership Fund was established in 2011 by the Law of Georgia on JSC Partnership Fund to promote investment activity and economic development and create job opportunities in Georgia. The Prime Minister of Georgia is the Chairman of the Supervisory Board of the Partnership Fund. The other members of the Supervisory Board of the Partnership Fund are the Ministers of Justice, Finance, Economic and Sustainable Development and Environment Protection and Agriculture, representatives of the private sector, mainly bankers and experienced business persons.

OVERVIEW OF THE COMPANY'S GOVERNING BODIES

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

GENERAL MEETING OF SHAREHOLDERS

Supervisory Board convenes annual GMS no later than two months following the completion of audit of the Group's annual IFRS financial statements. Shareholders responsibility includes but is not limited to passing resolutions on electing and dismissing Supervisory Board members, approving the Supervisory Board's decision on the appointment and dismissal of Management board members, authorizing material investments and funding, approving the Company's annual accounts and electing external auditors. Decisions on all other issues that are not specifically stated in the Charter as being the responsibility of the GMS are made by the Supervisory Board and the Board of Directors within their respective capacities.

SUPERVISORY BOARD

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

The Supervisory Board has established an audit committee, a nomination committee and a remuneration committee under its charter. Committees report their conclusions and recommendations to the Supervisory Board.

The Supervisory Board currently consists of four independent, non-executive and one non-executive members. Members of the Supervisory Board may be appointed and dismissed at a GMS. Unless otherwise specified at a GMS, each member of the Supervisory Board is elected for one-year term. There is, however, no statutory limit on the number of terms a member can be appointed. The Supervisory Board, as well as each holder of voting shares, is entitled to propose nominees for election to the Supervisory Board. A member of the Board of Directors may also serve as a member of the Supervisory Board simultaneously; however, members of the Board of Directors may not hold a majority of the seats on the Supervisory Board and a member of the Board of Directors cannot serve as the Chairman of the Supervisory Board. Meetings of the Supervisory Board are held at least once per quarter.

As of 31 December 2021, the Audit Committee was comprised of one independent, non-executive member. Committee members are selected by the Supervisory Board based on a recommendation of the Nomination Committee and at least one of which must be an independent member.

ESTABLISHED COMMITTEES		
AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE

1

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

2

NOMINATION COMMITTEE - reviews the structure and performance of the Supervisory Board and Board of Directors; recommend 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.

3

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

In 2021, some changes were made to the Supervisory Board and Committee. One member left its position and one member has given 2 votes on the board, at which point the Supervisory Board consisted of five members.

SUPERVISORY BOARD AND COMMITTEE				
31-Dec-21	Supervisory Board	Audit Committee	Nomination Committee	Remuneration Committee
Konstantine Guntsadze	●			
Oleg Bichiashvili	●			
Clifford Stanley Isaak	●	●		
Beka Injia	● ●			
David Samkharashvili	●			

*Clifford Stanley Isaak left the Company in 2022. GR is in the process of hiring new audit committee member
* Committees are currently inactive and without members.

BOARD OF DIRECTORS

The Board of Directors (Management Boards) is an executive body, which is responsible for the day-to-day management of the Company and consists of the General Director and at least three additional members. The members of the Board of Directors are appointed and dismissed by the Supervisory Board with the prior approval of the GMS. The Supervisory Board approves the remuneration and other employment benefits for each member of the Board of Directors.

As at 2021-year end, the Board of Directors consist of the General Director, freight transportation director, infrastructure director, passenger transportation director and financial director. The Board of Directors is quorate if at least three members are present and the decisions are adopted by approval of the majority of the members.

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

The Board of Directors is headed by the General Director. The General Director is responsible for chairing meetings of the Board of Directors, supervising the implementation of decisions of the Board of Directors, the Supervisory Board and the GMS, assigning tasks to the Board of Directors members and other managers of the Company and issuing relevant orders, instructions and other directives for these purposes.

BOARD OF DIRECTORS					
31-Dec-21	CEO	CFO	Freight SBU Director	Passenger SBU Director	Infrastructure SBU Director
David Peradze	●				
Irakli Titvinidze		●			
kakhaber Gudiashvili			●		
Dachi Tsaguria				●	
George Marukashvili					●

2. COUNTRY PROFILE AND INDUSTRY OVERVIEW

2.1 COUNTRY PROFILE

CROSSROADS BETWEEN EUROPE AND ASIA

Georgia is a country located at the intersection of Europe and Asia, which makes it an attractive place for economic activities. Over years Georgia has joined multiple treaties to strengthen its competitive advantage. Since 1991, the extensive economic reforms led the country to a relatively well functioning and stable market economy.

Georgia has been a member of the World Trade Organization (WTO) since 14 June 2000. With the Commonwealth of the Independent States and Turkey, the country has free trade agreements. Under the Generalized System of Preferences (GSP) program Georgia can export a variety of products duty-free to the United States or the EU or benefit from reductions in tariffs with Switzerland, Norway, Canada and Japan.

Signing an Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA) with the European Union (EU) in 2014 gave Georgian products access to the EU market with reduced taxes as well as the removal of technical barriers has increased the accessibility of EU to Georgian Market. Mentioned agreements were followed by the signing of a Free Trade Agreement (FTA) with China in 2017 and with Honk-Kong in 2018.

DOING BUSINESS

N7

Out of 190 countries

source: The world bank

OPEN GOVERNMENTS INDEX

N29

Out of 102 countries

source: The world justice project

OPEN BUDGET INDEX

N5

Out of 120 countries

source: The international budget partnership

CURRUPTION PERCEPTION INDEX

N45

Out of 190 countries

source: Transparency international

GLOBAL COMPETITIVENESS INDEX

N74

Out of 140 countries

source: The world bank

E-GOVERMENT DEVELOPMENT SURVEY

N65

Out of 193 countries

source: United nations

ECONOMIC FREEDOM

N26

Out of 177 countries

source: The heritage foundation

GOVERNANCE INDICATORS

N50

Out of 214 countries

source: The world bank

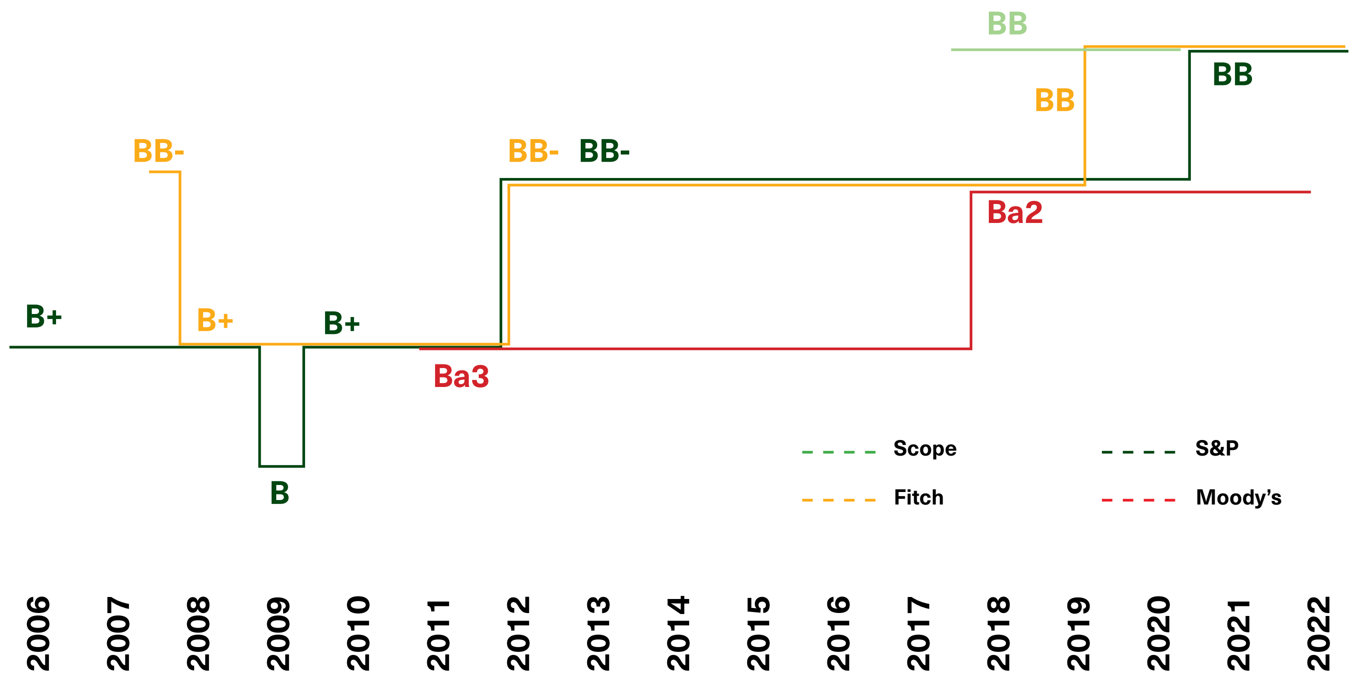
BUSSINES BRIBERY INDEX

N29

Out of 194 countries

source: Anti bribery complience solutions

SOVEREIGN RATINGS FOR GEORGIA



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

Well-known rating agencies permanently overview and analyze countries' macro-economic data to give a qualified and reliable opinion. Moody's, Fitch and S&P all upgraded Georgia's sovereign credit rating over the years.

The rating agency Fitch affirmed Georgia's sovereign credit rating at "BB" and improved its rating outlook from 'negative' to 'stable' in August 2021. Thus, Georgia returned to the pre-pandemic rate.

On February 25, 2022, S&P Global Ratings revised the outlook on Georgia to 'stable' and affirmed at "BB" credit rating.

On April 21, 2022, Moody's affirms Georgia's ratings at Ba2, revised outlook to 'negative '.

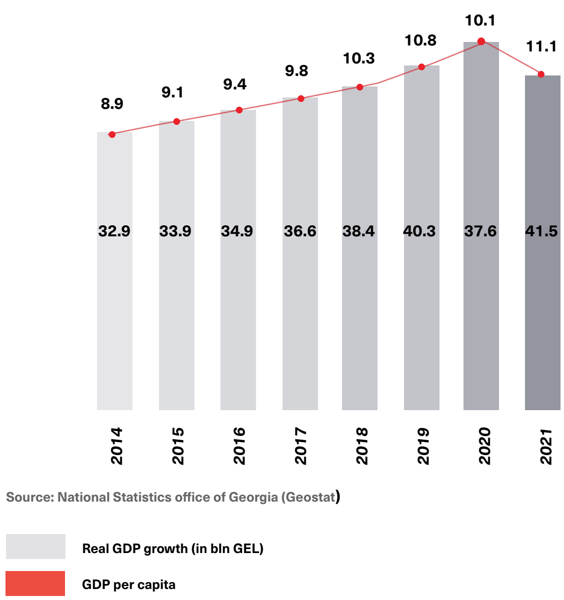
	RATING	OUTLOOK	LAST UPDATE
MOODY'S	Ba2	STABLE	21 September 2021
S&P GLOBAL	BB	STABLE	25 February 2022
FITCH	BB	STABLE	6 August 2021

MACRO-ECONOMIC OVERVIEW

Following the impact of pandemic-related limitations on Georgia's macroeconomic environment in 2020, 2021 was a year of recovery. Robust performance in the transportation, manufacturing, trade and hospitality sectors offset the decrease in construction activities and led the country to accelerated economic growth.

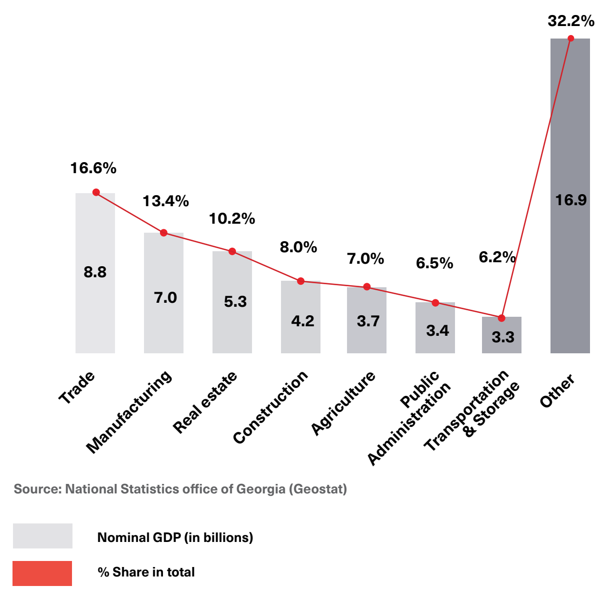
In 2021 diversified nominal GDP structure revealed that the trade sector has the highest share of total GDP, with 8.8 billion, which is followed by the manufacturing sector with 7.0 billion and real estate with 5.3 billion. The mentioned three types together represent 40 percent of the total nominal GDP of Georgia.

REAL GDP GROWTH (IN BLN GEL)



Source: National Statistics office of Georgia (Geostat)

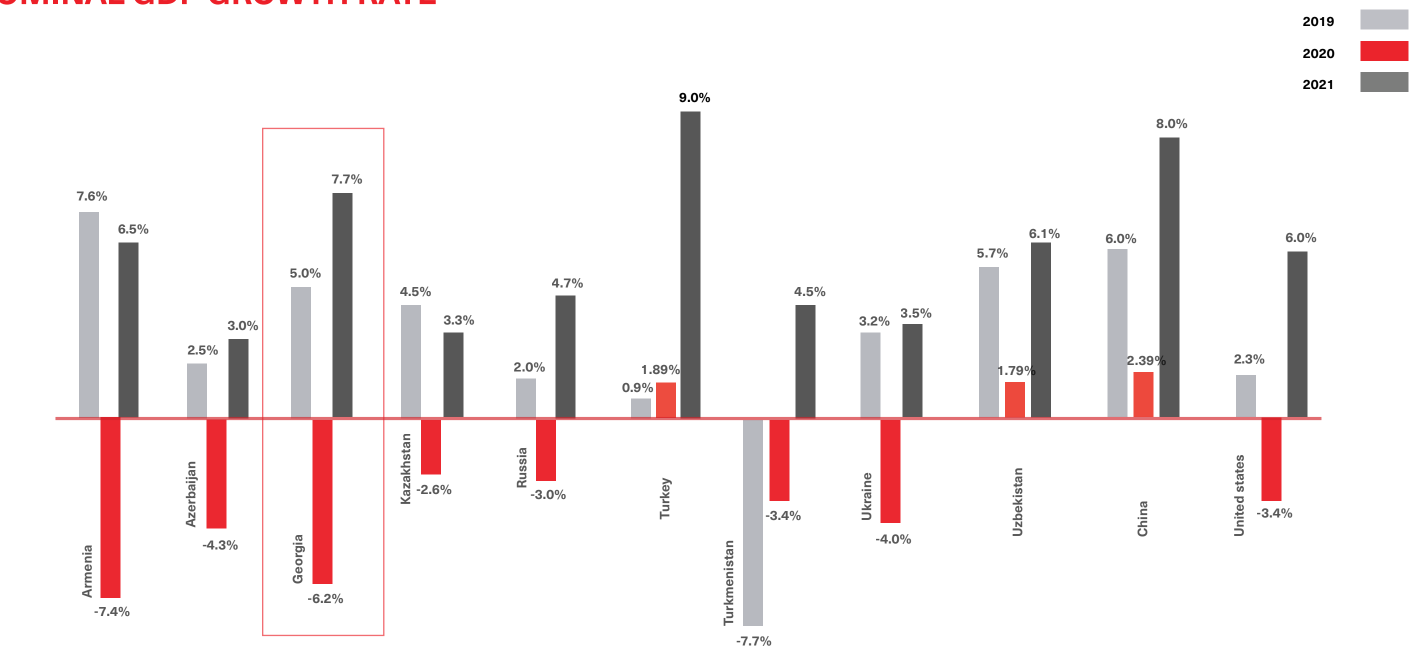
NOMINAL GDP STRUCTURE BY SECTORS FY 2021



Source: National Statistics office of Georgia (Geostat)

Georgia has a strong competitive position in terms of GDP growth compared to other countries.

NOMINAL GDP GROWTH RATE

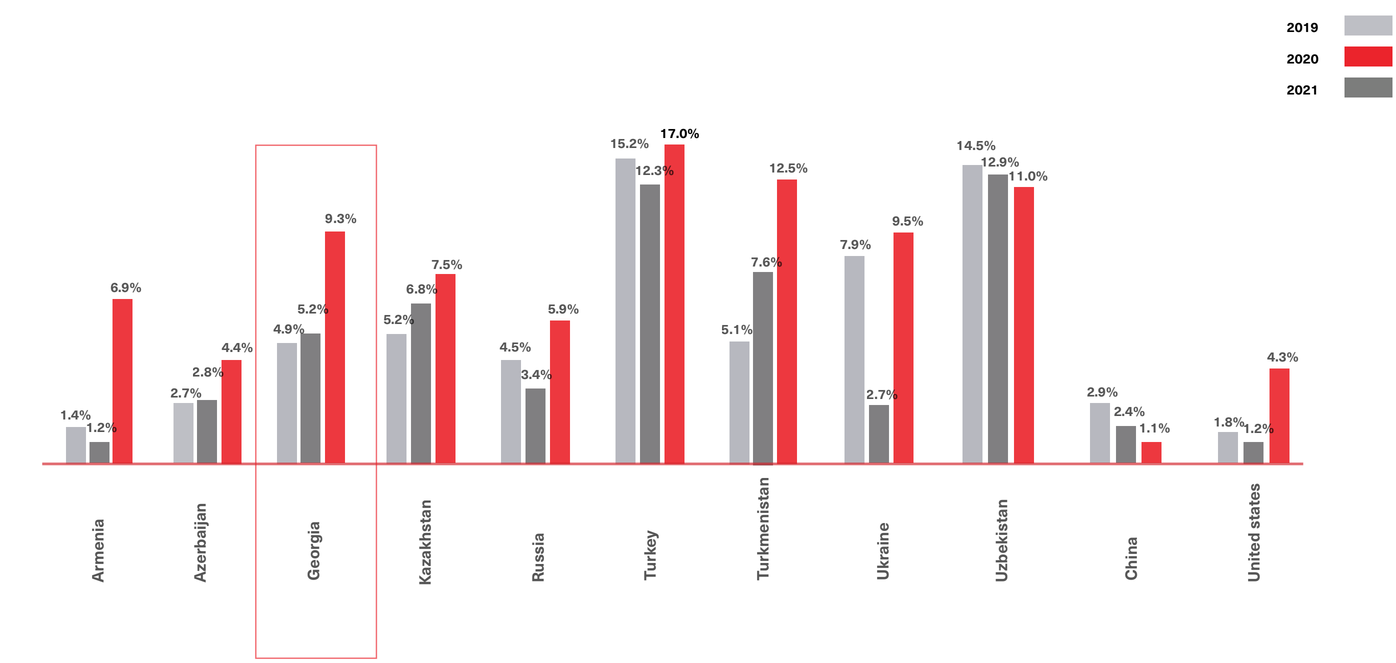


Source: International Monetary Fund (IMF)

INFLATION AND THE EXCHANGE RATE

The annual inflation was mostly influenced by the price changes for food and non-alcoholic beverages (+8.8 percent), transport (+22.0 percent), housing, water, electricity, gas and other fuels (+10.5 percent) Groups. To keep the inflation rate under control National Bank of Georgia gradually increased the monetary policy rate from 8% to 10.5%. The rise in prices is expected to gradually retreat to its target level in 2022.

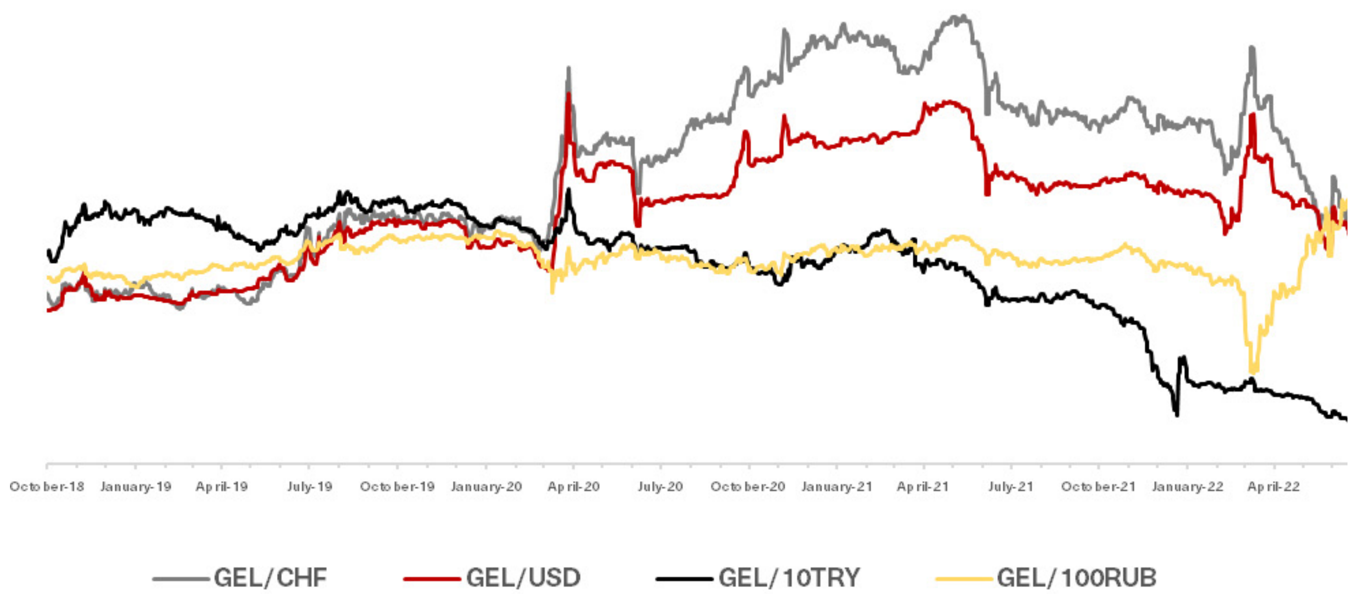
ANNUAL INFLATION RATE



Source: International Monetary Fund (IMF)

The GEL exchange rate against foreign currencies showed positive trends in 2021. Despite the average GEL exchange rate have depreciated by 3.6 percent against USD and by 6.2 percent against CHF in 2021, compared to 2020, GEL fluctuation stabilized by the end of 2021, the USD/GEL exchange rate was 3.0976 on 31 December, compared to 3.2766 on 31 December 2020, which means GEL appreciation against USD by 5.5 percent.

FOREIGN CURRENCIES AGAINST GEL

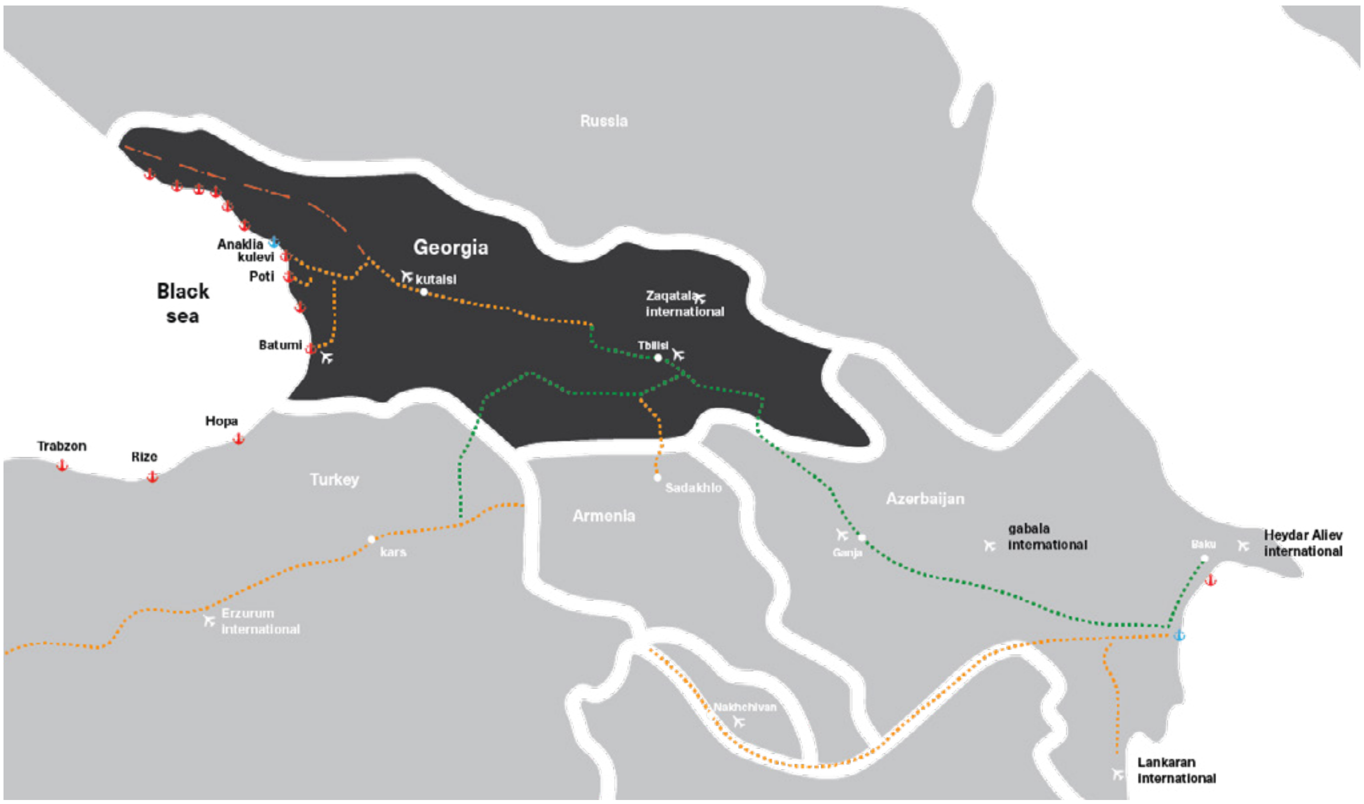


Source: National Bank of Georgia (NBG)

2.2 TRANSPORTATION SECTOR OVERVIEW

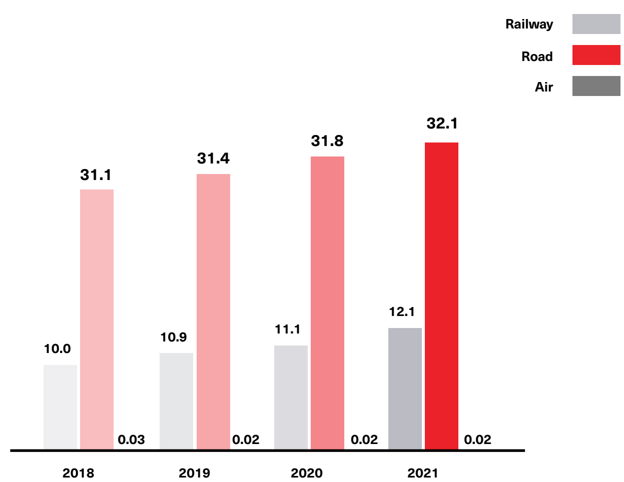
TRADE-IN GEORGIA

Georgia's transport system comprises five types - road, rail, sea, air and pipelines. Georgian Government concentrates on the development of international trade and travel since 2005. Local government, the private sector, as well as international agencies invest substantial funds to upgrade transport infrastructure and to increase the efficiency of related services. Foreign direct investment in this industry has exceeded USD 2.0 billion since 2015 .



On average, transported volumes of Georgia were 43.0 million tons over the last four years. In 2021, the highest amount of volumes, 44.2 million tons were transported through Georgia, representing a 3.2 percent increase, compared to 2020. The share of railway varies between 26-27 percent in total transported volumes and the share of the road varies between 73-74 percent in total volumes transported through Georgia .

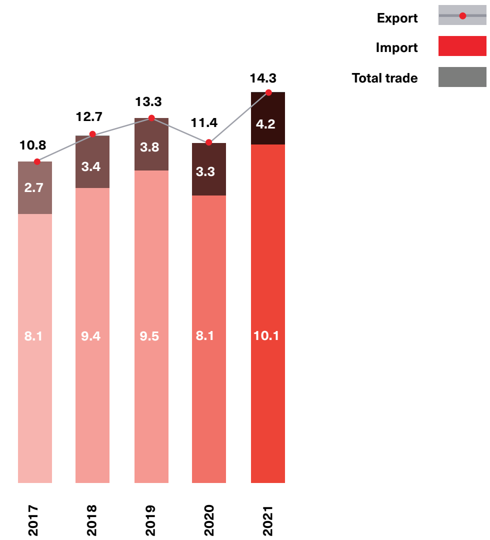
TRANSPORTED VOLUME BY TRANSPORTATION MODE



Source: Ministry of Economy and Sustaineble Development of Georgia

An upturn in international trade was influenced by the Covid-19 pandemic in 2020. Revenue from total transportation decreased by 14 percent, compared to non-pandemic 2019, however, Georgian transportation sector showed quick recovery and the following year revealed significant improvement. 2021 preliminary data showed a 26 percent increase, compared to 2020 and a 7 percent increase, compared to 2019. To compare directions separately, total import increased by 25 percent in 2021, compared to 2020 and by 6 percent, compared to 2019. Total export increased by 27 percent in 2021, compared to 2020 and by 12 percent, compared to 2019.

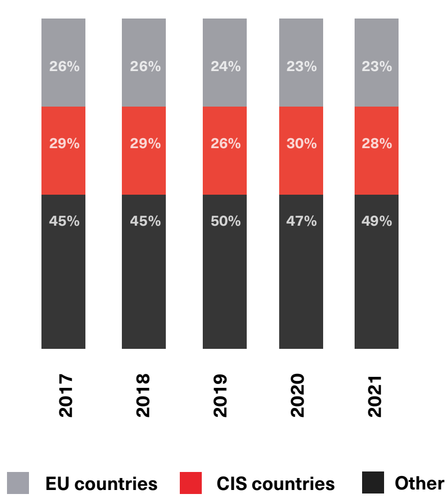
INTERNATIONAL TRADE (USD BILLION)



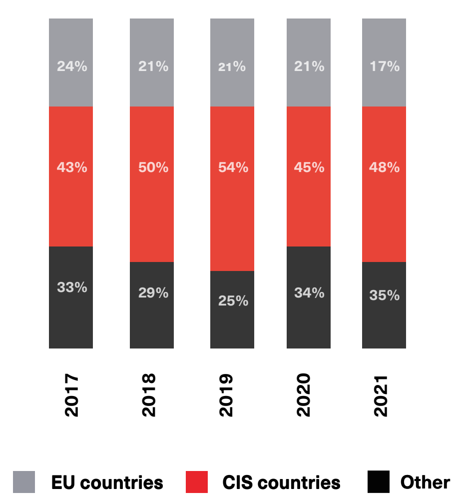
Source: National Statistics office of Georgia (Geostat)

The average share of EU countries in total transportation of Georgia is about 23 percent and the average share of CIS countries is 34% for the last five years. The charts below show the share of country Groups by transportation direction.

IMPORT BY COUNTRY GROUPS (USD)



EXPORT BY COUNTRY GROUPS (USD)



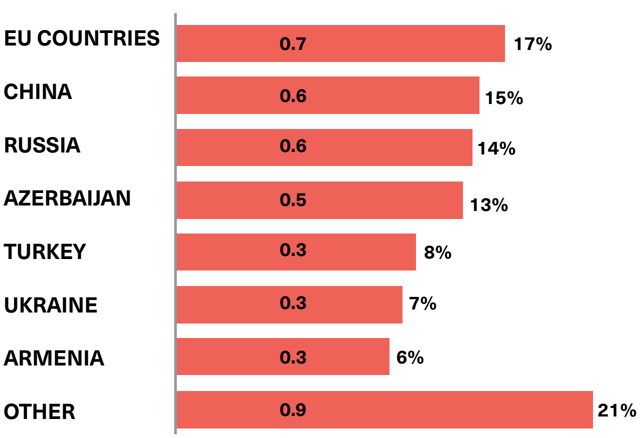
Source: National Statistics office of Georgia (Geostat)

There was a considerable recovery in trade with major trading partner countries in 2021, compared to 2020.

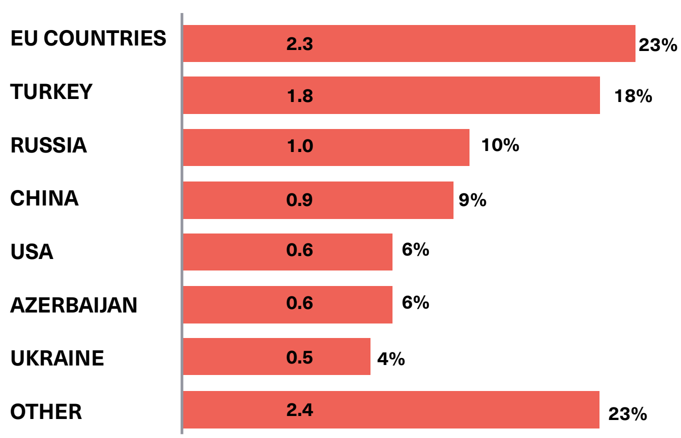
EXPORT	2019	2020	2021	2021 VS 2019
EU countries	13%	-14%	3%	-11%
China	4%	130%	29%	197%
Russia	14%	-11%	38%	23%
Azerbaijan	0%	-13%	20%	5%
Turkey	-16%	-6%	69%	59%
Ukraine	40%	-13%	41%	22%
Armenia	51%	-57%	37%	-41%
Other countries	10%	-23%	27%	-1%

IMPORT	2019	2020	2021	2021 VS 2019
EU countries	-6%	-20%	25%	0%
Turkey	10%	-13%	30%	13%
Russia	5%	-9%	16%	5%
China	3%	-17%	22%	1%
USA	35%	-18%	12%	-8%
Azerbaijan	-6%	-8%	18%	8%
Ukraine	-19%	-6%	16%	9%
Other countries	3%	-18%	36%	12%

REVENUE FROM EXPORT (MLN USD)



REVENUE FROM IMPORT (MLN USD)



*Percentages on the chart show the share of certain country in total export/import
Source: National Statistics office of Georgia (Geostat)

COVID-19 PANDEMIC

The COVID-19 outbreak started to have a significant impact in Georgia from late February 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and Georgian Government started to take measures to contain the virus – imposed restrictions on the cross-border movement, instructed the business community to transfer employees to work from home, etc. To enhance social distancing the schools, restaurants, cinemas and sports activities stayed suspended for most of 2020.

During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to the COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides a positive overlook on the future prospects of the economy and business environment both in Georgia and around the world. Despite the fact that in 2021 there was a high number of COVID -19 cases in the country, no lock-down is anticipated and the economy is gradually recovering with positive outlook. Preliminary real GDP has grown by 10.6% during 2021. (source: Geostat.ge).

Although the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group's passenger transportation segment.

Taking into account the Group's current operational and financial performance, management does not anticipate any more significant adverse impact of the COVID-19 outbreak on the Group's financial position and operating result. 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.

THE CAUCASUS TRANSPORTATION MARKET

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

TRACECA

TRACECA is a technical assistance programme financed by the EU, which was first established in 1993. TRACECA is aimed at the development of the transport corridor between Europe and Asia across the Black Sea, the countries of the South Caucasus and Central Asian countries.

In 1998, the Basic Multilateral Agreement on International Transport for development of the Transport Corridor (the "TRACECA Basic Agreement") was signed by Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Romania, Tajikistan, Turkey, Uzbekistan and Ukraine. Iran also became a signatory member in 2009, while Turkmenistan participates in the technical assistance programme without being a signatory member.

The main objectives of TRACECA are to (i) enhance the role and functions of the TRACECA corridor in international trade outside the TRACECA region as an important alternative to other corridors; (ii) ensure a sustainable multi-modal transport network, allowing for the smooth and uninterrupted flow of trade and passengers and to maximaze, the transit potential of the corridor; (iii) encourage stakeholders to make systematic evaluations of the regional and international consequences of national policies whilst solving transportation and logistics issues, which will promote further negotiations with donors; (iv) introduce and increase the use of best practices across the industry and to draw upon regional and international experience, modernized approaches and innovations across the TRACECA countries; (v) promote the improvement of global logistics of supply chains and develop transport processes based on international practices; (vi) arrange optimal conditions to attract private sector investors to create maritime routes, international logistic centers and the realization of combined projects; (vii) identify and prioritize infrastructure-related and other projects from the point of view of investment and financing schemes; and (viii) reinforce human resources and the capacity for development.

Five expert Groups have been established, comprising (i) aviation; (ii) security (about all modes of transport); (iii) road and rail transport; (iv) transport infrastructure; and (v) maritime transport Groups. In 2000, the Intergovernmental Commission TRACECA (the "IGC") was established to regulate issues relating to the implementation and application of the TRACECA Basic Agreement and, in 2001 the IGC TRACECA Permanent Secretariat was established in Baku. According to figures published by the EU, it has financed 70 completed technical assistance projects and 14 investment projects through TRACECA since 1993.

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 2021, this was about 85 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, war in 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 (see subheading 8.3 ongoing projects in the corridor) **and with the subsequent new route from China to Europe, through Georgia and Turkey, GR aims to capitalize on increased trade volumes. According to CHINA Railway (CR), 13,187 trains and 1.322 million TEU travelled between China and Europe between January and November 2021, a 23% and 30% respective year-on-year increase. China is also one of Turkey's biggest trading partners. Indeed, about 12% of Turkish imports were from China in 2021.** (see subheading 8.1 diversified directions).

OVERVIEW OF KEY PLAYERS

The key players in the railway transportation sector in the Caucasus region are Georgian Railway, Azerbaijan Railway and South Caucasus Railways (formerly Armenian Railways and now operating under a concession to Russian Railways). The Group's railway network connects with Azerbaijan Railway's network at the Azerbaijan border and management estimates that, in 2021, 89% of the Group's transit freight traffic was received from or transported to Azerbaijan Railway's network. The Group's rail network also connects with the South Caucasus Railways' network, although the tonnage transported through this connection is much lower. Since war in Abkhazia region in 1992, there has been no active link through Abkhazian Railway and there is no indication that this link will be reopened in the near term.

Upon completion of the construction of the new Baku-Tbilisi-Kars railway line, which is currently in test mode and expected to be fully completed by the end of 2023, the Group's rail network will also be connected to the railway network operated by the Turkish Railway (see subheading 8.3 ongoing projects in the corridor)**.**

3. RELATIONSHIP BETWEEN GOVERNMENT AND GEORGIAN RAILWAY

Economic development of the county, as it is viewed by the Government of Georgia, is directly related to the development of transport sector. Due to its location on the crossroad of Europe and Asia, where strategic cargo flows to both directions, for GoG, it is one of the top priorities to coordinate functioning of sector, modernize infrastructure and harmonize legislation to international law in order to ease the process of integration with Trans-European Transport Network.

Georgian Railway, as largest single player in transport sector, is of systemic importance for the Country and represents strategically important national asset. At the same time, as one of the largest corporate employers, the Company forms an important part of social infrastructure.

LARGEST CORPORATE EMPLOYER

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

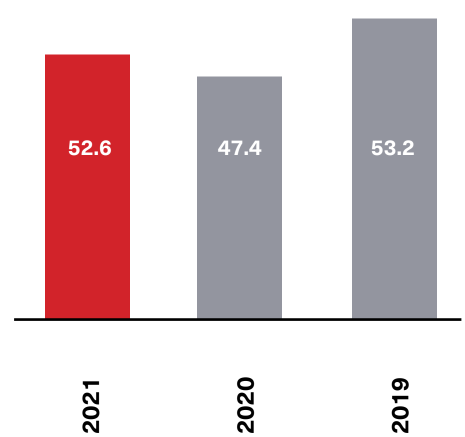
LARGEST TAXPAYER

0.5% share in tax recieves by budget

3.1 JSC GEORGIAN RAILWAY'S CONTRIBUTION TO THE ECONOMY

The Group is 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 crucial role in maintaining strong economic ties between Georgia and its partner countries, including Azerbaijan, Armenia, Kazakhstan, Tajikistan, Turkey and Turkmenistan. In particular, the Government has indicated that the development of the country's infrastructure is one of its highest priorities, with the aim of Georgia becoming a large transportation hub and that the Group's railway network is a critical component of that infrastructure. Moreover, the Group's provision of key passenger transportation services at affordable prices is considered akin to a public service obligation and enables the Government to promote regional development. The Group is a major taxpayer and a significant contributor to Georgia's GDP.

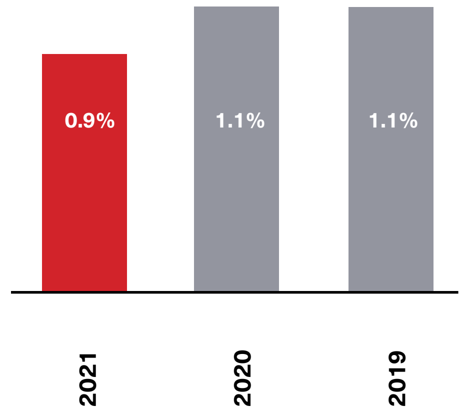
CASH OUTFLOW TO BUDGET (MLN GEL)



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

According to figures published by National Statistics office of Georgia (Geostat), the Group's consolidated revenue represented 0.9% of GDP in 2021, as compared to 1.1% in 2020 and 1.1% in 2019. The Group is also one of the largest corporate employers in Georgia, whose business also supports other employment opportunities in Georgia, as well as one of the largest tax payers in the country.

THE GROUPS REVENUE AS A PERCENTAGE OF GEORGIA'S GDP

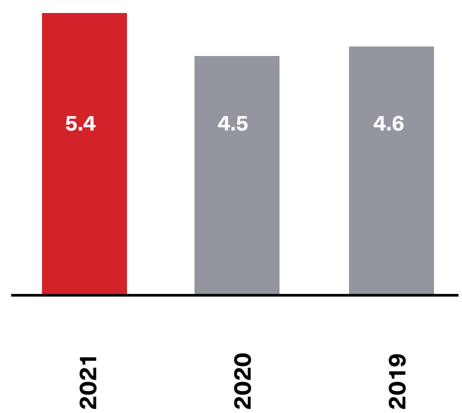


Supporting passenger transportation

Historically, the Group's passenger transportation services have generated net losses. The passenger transportation segment had a loss of GEL 21.3 million in 2021, as compared to losses of GEL 24.8 million and GEL 4.5 million in 2020 and 2019, respectively. Despite previously mentioned facts, passenger tariffs have remained low due to the importance for the Country to have affordable passenger rail transportation services.

Given the social importance of its passenger services, the Group is constrained in removing or reducing services on certain passenger routes, even where such routes are not economically viable. In accordance with the principles set out in Regulation (EC) 1370/2007 (the "EU Passenger Transportation Regulation"), the Company and the Government are expected to enter into a public service contract for compensation of the losses of the Passenger SBU starting from 2024 or earlier (see subheading 7.2 passenger transportation strategic business unit). This contract is expected to set out the conditions for passenger services, as well as the compensation to be granted to the Company for operating non-profitable passenger routes. Compensation received from government will have a positive impact on the Group's revenues and ultimately on profitability.

AVARAGE TARRIF PER PASSENGER-KILOMETER (TETRI)



3.2 GOVERNMENT SUPPORT

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

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

- **The Government injected up to 182 hectares of land for the Tbilisi Bypass Project in 2010 and 2011, with a value of GEL 33 million, to GR capital. This land comprised approximately 40 percent of the total land required for the Tbilisi Bypass railroad. Contributions of land and other related assets for GR's projects (mostly for the Modernization Project and Tbilisi Bypass Project) also took place from 2012 to 2016, amounting to around GEL 10 million** (see subheading 8.2 ongoing projects in the Company)**.**

- **Linear infrastructure such as railroads and transmission lines have been made exempt from property tax in Georgia;**

- **In 2015 and 2016, the building of a new passenger station in Batumi was financed by shareholders' dividends;**

- **An agreement on limitations relating to Eurobonds - the Group holds Eurobonds, which imposes restrictions on dividend payments. The covenants include a constraint according to which, dividend payments must not exceed 50 percent of the Group's cumulative consolidated net income. Additional limitations according to covenants are related to ownership changes and the Government declaration to maintain full ownership is a strong indication of its long-term support for the Group.**

4. ENVIRONMENTAL AND SOCIAL FOCUS

4.1 ISSUANCE OF THE GREEN EUROBONDS

“GREEN IS OUR CHOICE”

One of the most strategically important events of the year for JSC Georgian Railway and the whole national economy was the refinancing of the 2012 Eurobonds. In June 2021, the Company was able to successfully issue USD 500 million Senior Unsecured Green Eurobonds. The maturity was prolonged by 7 years and the coupon rate was decreased from 7.75% to 4.00%. With a reduced coupon, the Company will be able to save around $140.0 million by 2028.

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

The involvement of the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), as well as the pool of investors interested in Sustainable Financing, highlights the openness and compatibility of GR’s operations with modern standards.

	EUROBONDS (Old)	GREEN EUROBONDS (New)
Amount	USD 500,000,000	USD 500,000,000
Date of issuance	05/07/2012	17/06/2021
Maturity date	11/07/2022 (10 years)	17/06/2028 (7 years)
Interest rate	7.75%	4.00%
Annual Interest	USD $38,800,000	USD $20,000,000

SAVING OF AROUND $140.0 MILLION BY 2028

TRANSACTION PARTICIPANTS

JOINT LEAD MANAGERS AND BOOKRUNNERS

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

JOINT LEAD MANAGERS

Renaissance Securities (Cyprus) Limited and TBC Capital LLC.

CO-MANAGER (NO UNDERWRITING COMMITMENT)

JSC Galt & Taggart.

FISCAL AGENT, PAYING AND TRANSFER AGENT

Citibank, N.A., London Branch.

REGISTRAR

CitiGroup Global Markets Europe AG.

ANCHOR INVESTORS

European Bank for Reconstruction and Development (EBRD)

Asian Development Bank (ADB)

GREEN BOND FRAMEWORK

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

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

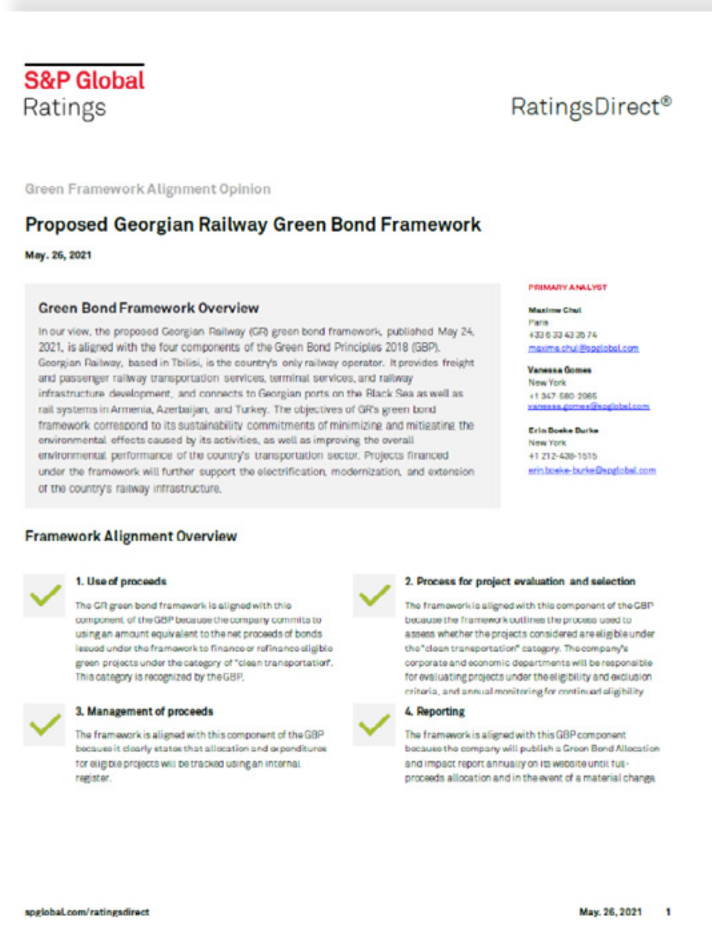
POSITIVE EXTERNAL REVIEW

JSC Georgian Railway received positive second party opining* on its Green Bond framework from a leading index provider and data source of independent credit ratings, Standard and Poor's:

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

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

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



S&P Global Ratings

RatingsDirect®

Green Framework Alignment Opinion

Proposed Georgian Railway Green Bond Framework

May. 26, 2021

Green Bond Framework Overview

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

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Framework Alignment Overview

1. Use of proceeds

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

2. Process for project evaluation and selection

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

3. Management of proceeds

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

4. Reporting

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

spglobal.com/ratingsdirect

May. 26, 2021 1

PROCEEDS ALLOCATED ON ELIGIBLE GREEN PROJECTS

According to the obligations under the Green Bond Framework GR Corporate and Economic Department evaluated projects based on their alignment with the eligibility criteria. The Company excluded following activities from the green bond's financing: fossil fuel energy; fossil fuel reliant transport; nuclear energy; alcohol; and defense.

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

GR publishes an annual Green Bond Allocation and Impact report until full allocation of the net proceeds, or in the event of a material change. This report includes details of the eligible green projects and the amounts allocated to their financing; the proportional allocation of proceeds between refinancing and new projects; and the remaining balance of cash or cash equivalents to be allocated.

According to Green Bond Allocation and Impact report JSC Georgian Railway allocated USD 337.6 million on five different eligible green projects during the last 4 years.

- USD 157.2 million from total USD 337.6 million is allocated on the Modernization Project. The Project is designed to modernize rail infrastructure, increase safety and capacity of the main line (see subheading 8.2 ongoing projects in the Company).
- USD 34.8 million from total USD 337.6 million is allocated on the acquisition and maintenance cost of the Company's wagon and locomotive fleet;
- USD 65.4 million from total USD 337.6 million is allocated on the costs related to freight and passenger stations, logistic terminals and platforms;
- USD 55.0 million from total USD 337.6 million is allocated on the extensions, modernization, maintenance, energy efficiency and electrification of existing electrified railway lines;
- USD 25.2 million from total USD 337.6 million is allocated on the costs related to signaling, centralization and blocking systems.

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

BENEFITS OF THE PROJECTS

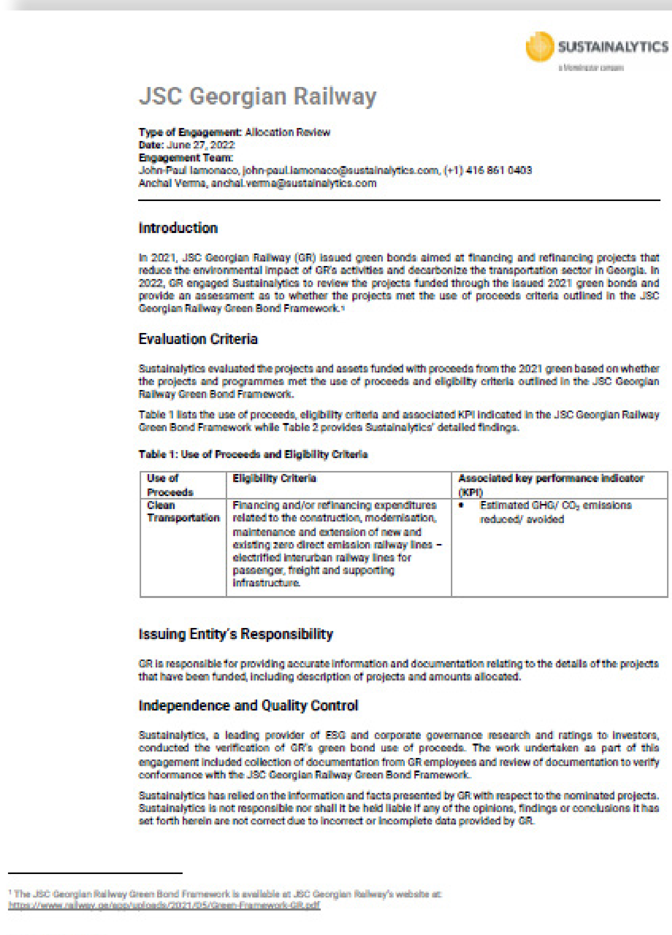
By investing in new Projects GR will be able to:

- Reduce travel time for freight, as well as passenger trains;
- Improve allowed speed on the mountainous gorge, as well as on the whole network;
- Increase annual volume of freight and cargo transported;
- Increase number of railway passengers;
- Increase freight capacity volume;
- Lengthen the railway network;

POSITIVE EXTERNAL REVIEW

JSC Georgian Railway received positive external annual review* on its allocated funds and avoided CO2 from a leading independent ESG and corporate governance research, ratings and analytics Company Sustainalytics.

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


SUSTAINALYTICS

JSC Georgian Railway

Type of Engagement: Allocation Review
Date: June 27, 2022
Engagement Team:
John-Paul Iamonaco, john-paul.iamonaco@sustainalytics.com, (+1) 416 861 0403
Anchal Verma, anchal.verma@sustainalytics.com

Introduction

In 2021, JSC Georgian Railway (GR) issued green bonds aimed at financing and refinancing projects that reduce the environmental impact of GR's activities and decarbonize the transportation sector in Georgia. In 2022, GR engaged Sustainalytics to review the projects funded through the issued 2021 green bonds and provide an assessment as to whether the projects met the use of proceeds criteria outlined in the JSC Georgian Railway Green Bond Framework.[1]

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2021 green based on whether the projects and programmes met the use of proceeds and eligibility criteria outlined in the JSC Georgian Railway Green Bond Framework.

Table 1 lists the use of proceeds, eligibility criteria and associated KPI indicated in the JSC Georgian Railway Green Bond Framework while Table 2 provides Sustainalytics' detailed findings.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria	Associated key performance indicator (KPI)
Clean Transportation	Financing and/or refinancing expenditures related to the construction, modernisation, maintenance and extension of new and existing zero direct emission railway lines – electrified interurban railway lines for passenger, freight and supporting infrastructure.	• Estimated GHG/ CO_2 emissions reduced/ avoided

Issuing Entity's Responsibility

GR is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects and amounts allocated.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of GR's green bond use of proceeds. The work undertaken as part of this engagement included collection of documentation from GR employees and review of documentation to verify conformance with the JSC Georgian Railway Green Bond Framework.

Sustainalytics has relied on the information and facts presented by GR with respect to the nominated projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by GR.

[1] The JSC Georgian Railway Green Bond Framework is available at JSC Georgian Railway's website at: https://www.railway.ge/app/uploads/2021/05/Green-Framework-GR.pdf

CONTINIOUS FOCUS ON SUSTAINABLE DEVELOMENT

Since its incorporation in mid 1990s, the Group's railway network has been an electrified (fully-electrified in terms of the Company's mainline and 97% electrified over the whole network), environmentally friendly mode of transport. The Group operates both freight and passenger transportation using electric locomotives and EMUs and using diesel locomotives only for shunting operations and on non-electrified sidings. The Group is devoted to avoiding, minimizing and mitigating the environmental impact caused by its activities and to improving its overall environmental performance. Effective measures are carried out to protect the environment, which is reflected in the implementation of long-term plans and effective emergency response measures. The Group acts with the slogan "Green is our choice" and contributes to State environmental policy. In addition, the Group has a waste management plan in order to properly utilize and dispose of the waste generated during its operations, with hazardous waste transferred for disposal or remediation on an annual basis.

Through its operation of non-profitable passenger transportation routes, the Company provides an important social function in Georgia by providing affordable domestic passenger transportation.

The Group is the largest employer in Georgia, with more than 12,400 employees as at 31 December 2021 and offers its employees a range of employee benefits and support systems. By way of example, the Group offers medical insurance to its employees and their family members and finances certain healthcare expenditure not covered by insurance.

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

Management considers its continued focus on the above and other sustainable development matters to be a competitive advantage.

E

Green transportation with low carbon emissions

97% of the railway is electrified

Responsible waste management:

All hazardous waste is disposed

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

Commitment to high ESG standards in new CAPEX projects

S

Over 12,400 people employed

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

Established HSE* policy

GEL 9.1mn employees' healthcare and insurance expenses in 2021

Own Railway Transport College established in 2015

G

Adherence to the best governance standards

All board members are independent

3 committees established on the Supervisory Board

* Health, safety and environmental

4.2 ENVIRONMENTAL FOCUS

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

GR if fully devoted to avoid, minimize and mitigate the environmental impact caused by its activities and to improve overall environmental performance. Effective measures are carried out to protect the environment, this is reflected in the implementation of long-term plans and effective emergency response measures. GR acts with the slogan - "Green is our choice" and makes a significant contribution to all the initiatives of the state to activate environmental policy.

The Group is subject to various environmental protection laws and regulations. According to the applicable laws, the construction of railway facilities, as well as the development of railway station infrastructure, is subject to mandatory ecological expertise.

According 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.

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.

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

GR has the waste management plan in order to properly utilize wastes, generated during its operations. Annual plan is prepared in compliance with "Waste Management Code" of Georgia requirements and includes:

- **Waste management goals and objectives,**
- **Hierarchy and principles of waste management,**
- **Information on waste generation,**
- **Information about the measures considering waste prevention and recovery,**
- **Description of generated waste separation methods,**
- **Methods and conditions for temporary storage and waste,**
- **Waste transportation rules and waste treatment methods used,**
- **Information about organization who will be responsible for further treatment of waste**
- **Requirements for the safe handling of waste and waste control methods.**

Once a year GR transfers the hazardous wastes for disposal and/or remediation.

ISO 9001:2015 is introduced in GR on a Corporate governance department level and in Passenger SBU (See subheading 7.2 passenger transportation strategic business unit)**. Risks are identified on an annual basis, are agreed with the management and action plans are implemented in accordance with the following standards:**

(a) the trains and passenger coaches have zero direct (tailpipe) CO2 emissions;
(b) the trains and passenger coaches have zero direct (tailpipe) CO2 emission when operated on a track with necessary infrastructure and use a conventional engine where such infrastructure is not available (bimode).

ENVIRONMENTALLY-FRIENDLY TRANSPORTATION MODE

GR' acts with a slogan **"GREEN IS OUR CHOICE"**

97% of Georgian Railway is electrified

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

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

Realization of strategic green projects, such as Modernisation project, aimed to reduce GR's environmental impact (reduced electricity consumption, lower CO2 emissions) and increase operations safety further

Environmental Protection Unit established at GR's corporate level

Fully compliant with applicable environmental protection laws and regulations

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

AVOIDED GHG EMISSIONS

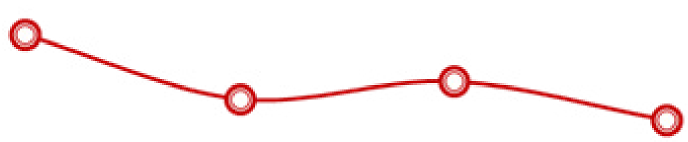
To estimate the greenhouse gas emissions avoided in Georgia due to the existence of JSC Georgian Railway, Company compared the greenhouse gases emitted into the atmosphere by energy consumed as a result of rail transport to the emissions in the absence of railway. Minibuses – for passengers and trailers – for freight was used as an alternative type of transportation.

Avoided by about 500,000 tons of CO2 eq. from 2018 to 2021

ZERO DIRECT EMISSIONS

t CO2 eq.	2021	2020	2019	2018
Total avoided Emissions	139,931	120,344	125,689	113,752

Avoided more than 19,000 t CO2 eq. in 2021, compared to 2020



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

4.3 SOCIAL FOCUS

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

Health and safety of employees and operations is critical for the Company and is in full compliance with Local and International law requirements. Each incident is thoroughly investigated to identify causes and take appropriate measures to prevent them in future.

GR offers medical insurance to its employees together with their family members and finances certain healthcare expenditure not covered by insurance policies. The Company also offers other financial aids 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.

In order to meet the needs of the public and the State in the field of railway transport, JSC Georgian Railway together with the Ministry of Education and Science of Georgia and Georgian Technical University, co-founded the Railway Transport College ("RTC"). The purpose of RTC is to supply the Company's operations with qualified graduates with relevant vocational backgrounds that meet the requirements of the modern international labor and rail market, reflecting national and international values and to create conditions for achieving their educational goals and successful employment. In addition, RTC building has been renovated and adapted to the necessary standards for inclusive learning, in order to better accommodate students with a range of disabilities.

STRONG SOCIAL IMPACT AND COMMITMENT TO ENSURE SAFE WORKING ENVIRONMENT

- GR is the largest employer and taxpayer in Georgia, providing workplaces to more than 12,000 people all over the country
- Providing passenger transportation with affordable tariffs is socially important and benefits regional development of the country
- Adherence to the best health & safety standards and management systems (ISO certification, SAP and 6 SIGMA programs)
- Established Health & Safety Policy
- Ca. 61% of the Group's employees are member of one or more trade unions

EMPLOYEES

The Group is one of the largest corporate employers in Georgia, with more than 12,000 employees as at 31 December 2021. Company creates additional employment in related industries, such as railcar manufacturing and construction industry.

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

For the year ended 31 December	2021	2020	2019	2021	2020	2019
Head office	772	636	630	6%	5%	5%
Infrastructure SBU	4,748	4,806	4,961	38%	39%	40%
Freight Transportation SBU	5,233	5,262	5,375	42%	42%	43%
Passenger Transportation SBU	1,172	1,195	1,242	9%	10%	10%
Subsidiaries	489	470	461	4%	4%	4%
Total	**12,414**	**12,369**	**12,669**	**100%**	**100%**	**100%**

*See heading 7. Focus on core business activities

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

The Group offers medical insurance to its employees together with their family members and finances certain healthcare expenditure not covered by insurance. In 2021, the amount spent on employees' healthcare expenses totaled GEL 304,000.
The Group also provides several social benefits to its employees and family members such as medical insurance and financing for certain expensive operations that are not covered by health insurance. As a result, Groups' average employee benefits (salary, bonuses, etc.), correlate quite closely to the average salary across the country. The Group also has a bonus system, according to which bonuses are distributed to all employees, twice a year.

AVERAGE EMPLOYEE BENEFITS

(GEL)

For the year ended 31 December	2021	2020	2019
JSC Georgian Railway	1,215	1,135	1,058
Georgia (Source: National Statistics Office of Georgia)	1,357	1,191	1,130

ADDITIONAL BENEFITS

('000 GEL)

For the year ended 31 December	2021	2020	2019
Loyalty program	554	432	611
Healthcare funding	304	350	262
Total	**858**	**782**	**873**

There is a huge competition in Georgia for executives and other personnel who are both sufficiently qualified and experienced. However, a favorable work environment in the Company for employees by a more or less competitive compensation, career opportunities and other advantages leads to a low employee turnover rate. The Company's employee turnover rate was 8% in 2021, 6% in 2020 and 5% in 2019 (excluding subsidiaries).

EMPLOYEE TURNOVER RATE BY BUSINESS UNIT

	31-Dec-21	31-Dec-20	31-Dec-19
Head office	9%	7%	13%
Freight Transportation SBU	7%	5%	4%
Infrastructure SBU	9%	8%	6%
Passenger Transportation SBU	5%	5%	7%
WBS	3%	7%	11%
Average turnover	**8%**	**6%**	**5%**

*See heading 7. Focus on core business activities

EMPLOYEE DISTRIBUTION BY AGE

	31-Dec-21
<20	0.4%
21-30	7.3%
31-40	18.3%
41-50	22.4%
51-60	28.0%
>60	23.7%

The table shows the various age Groups of the Company's personnel. The majority of GR employees are between the ages of 51 and 60. The Group incorporates its workers in decision-making processes, which boosts their workplace engagement and offers opportunities for career advancement. This approach simultaneously provides innovative thoughts to the Group.

LABOR PRODUCTIVITY MEASURES

For the year ended 31 December	2021	2020	2019
Ton-km per average number of Freight SBU employees (million)	0.6	0.5	0.5
Freight revenue per average number of Freight SBU employees ('000 GEL)	87.7	79.1	73.3
Average number of Infrastructure SBU employees per average expanded length (km) of infrastructure	2.5	2.4	2.57
Passenger-km per average number of Passenger SBU employees (million)	0.2	0.2	0.5
Passenger revenue per average number of Passenger SBU employees ('000 GEL)	12.5	9.2	25.0

*See heading 7. Focus on core business activities

As at 31 December 2021, approximately 61% of the Group's employees were a member of one of two labor unions (the NNLE Union and the Trade Union of Georgian Railways Employees). The Group does not have any collective bargaining agreements with its employees or a trade union, although the Group has in the past been party to arrangements with certain unions. In addition, pursuant to requirements of Georgian law, if 20 or more employees raise a single dispute, this become an employee collective dispute, which requires the Group to hold roundtable meetings between the Group and the trade unions.

RAILWAY TRANSPORT COLLEGE

In 2015, the Railway Transport College was established and in 2016 it was granted professional education status for six years. The college started running classes in 2018. The founders of the college are:

- JSC 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 Transport 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 U.S. Millennium Challenge Account.

In 2018, the college building has been renovated and adapted to the necessary standards for inclusive learning, in order to better accommodate students with a range of disabilities, as well as to provide the Railway Transport College with the necessary training inventories, computer equipment and locomotive simulators. The cost of the refurbishment was covered by the Ministry of Education and Science of Georgia and Georgian Railway.

A machine operator vocational training program was introduced at the institution in 2019 for the first time in Georgia. A suitable training laboratory was built up and furnished for one of the most demanding professions on the labor market.

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

The college joined the “professional training and qualification enhancement” State Program in 2021. Office Management and Accounting for Construction and Service Organizations were two training programs that were submitted for financing.

The modern electronic program “OPENBIBLIO” was purchased, thus electronic catalog was put into use, which reflects the library resource of 549 printed units and 86 e-books. The library catalog can be used remotely by teachers, professional students and all other interested persons.

As of the end of 2021, the college was eligible to implement a total of 15 professional educational programs, including railroad gauge construction, railroad gauge monitoring, railway power supply, electric rolling stock of the railway, railway transportation, railway transportation (integrated), signaling, centralization and blocking of railway transport, railcar management, locomotive management, freight transportation logistics, freight transportation logistics (integrated), machine tool operator, railway power supply (integrated).

In 2021, a total of 120 professional students have completed their chosen professional education program and have been awarded the relevant professional qualifications provided by the program. A total of 139 professional students graduated. The share of female students has increased by 29% in 2021, compared to 2020.

5. THE GROUP’S INFRASTRUCTURE

5.1 RAILWAY PROPERTY

The Group owns different types of real estate, machinery, rolling stock and other assets. The netbook value of its property, plant and equipment as of 31 December 2021 was approximately GEL 1.8 billion. It owns and operates the following assets :

Rail network	1,411-km
Freight railcars	4,469 active
Passenger wagons	40
Containers	586
Locomotives (diesel/electric)	Active/Non-active 151/46
Electric Multiple Units (EMUs)	25
Freight Stations	100 (of which 66 is commercial)
Passenger Stations	31
Land	52 km2
Tunnels	42
Pedestrian Tunnels	19
Bridges	1,349

* Table does not include property owned by Borjom-Bakuriani Railway (see subheading 7.4 subsidiaries and affiliates)

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

RAIL NETWORK

General description

The Group's mainline rail network, together with that of CFSC Azerbaijan Railway ("Azerbaijan Railway"), forms the Caucasus railway corridor, a key segment of the Transport Corridor Europe Caucasus Asia ("TRACECA") corridor. The Group's mainline rail network is thus a key link in the shortest route from the Caspian Sea and Central Asia to the Black Sea and the Mediterranean basin.

GR owns and operates a 1,411-km railway network, 296 km of which is a double-track line. The Company's network is 97% 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 2017, the first train passed through the line (see subheading 8.3 ongoing projects in the corridor).

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

1,411km

Network length

296km

Double-Track line length

97%

Fully electrified

Capacity

The Company's infrastructure capacity varies across different sections. 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 mainline. 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 with relatively minor investments.

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

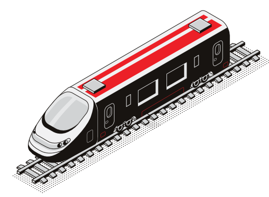
As of 31 December 2021, the Group had 4,469 active freight railcars and 39 active passenger wagons. In 2014 the Group purchased 480 containers to facilitate container transportation within the corridor.

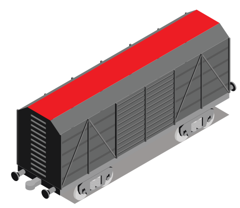
	31-Dec-21	31-Dec-20	31-Dec-19
Active freight railcars	4,469	4,407	4,939

The Group's rolling stock undergoes regular maintenance and repair. The Group's maintenance and repair work falls into two main categories: (i) scheduled repairs carried out according to current technical standards in the region and applicable regulations; and (ii) unscheduled repairs carried out according to the condition of railcars. Scheduled repairs are carried out based on either the period of operation or the mileage of operation. The Group's rolling stock is generally inspected regularly before loading, after unloading and during transportation through freight stations.

40

PASSENGER WAGONS





4'469

FREIGHT RAILCARS

Under Group procedures, the Group's maintenance staff performs routine depot repairs once every one to three years on average after manufacturing (depending on the class, the usage and condition of the railcar) and, thereafter, once every two years. In the middle of the useful life of a railcar, the Group performs capital depot repairs. After the end of its initially expected useful life, the Group currently uses third-party providers to perform capital repairs with life extensions (generally, by approximately 150- 200% of the expected useful life). Routine depot repairs are still performed after the useful life extensions. After this extension ends, it is possible to make a similar extension with third-party providers a second time. When the second extended useful life ends, the Group may yet make two further life extensions of five years each.

Unscheduled repairs are driven by the technical condition of the railcar and are directly related to the term and intensity of operation. In addition, the Group's railcars receive routine technical inspections, as a result of which minor repairs are performed at repair shops throughout the Group's network.

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

The following tables set forth the distribution of the Freight SBU's total Freight railcars by age, as at 31 December 2021:

Age	Total Workforce (%)
Less than 21 years	6
21-25 years	4
26-30 years	4
31-35 years	30
More than 35 years	56

*See subheading 7.1 freight transportation strategic business unit

The following tables set forth the distribution of the Passenger SBU's total Passenger wagons by age, as at 31 December 2021:

Age	Total Workforce (%)
Less than 36 years	3
36-40 years	30
41-45 years	53
46-50 years	10
More than 50 years	5

*See subheading 7.2 passenger transportation strategic business unit

Capacity

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

The information shown below indicates the Group's dependency on its wagons. Less than half of the Group's overall freight transportation in 2021 was performed by its railcars.

SHARE OF FREIGHT TRANSPORTED BY RAILCAR OWNERS

For the year ended 31 December	2021	2020	2019
Group's railcars	47%	51%	52%
Railcars owned by other railways	23%	21%	20%
Railcars of private companies	30%	28%	28%

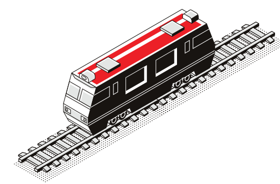
Management believes that its current rolling stock allows it to operate efficiently, provided that the required maintenance and capital repairs are performed. Management also believes that utilizing existing rolling stock is significantly more cost-efficient than purchasing new rolling stock or leasing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

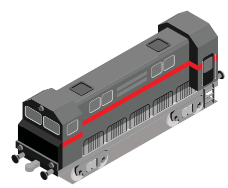
LOCOMOTIVES AND EMUs

As of 31 December 2021, the Group owned 25 units of EMUs and 151 active locomotives of which 89 were electric and 62 were diesel locomotives. In addition, the Group has 23 electrical and 23 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 with the electrified railway network.

25

PASSENGER TRAINS (EMUs)





89

ELECTRIC LOCOMOTIVES

The following tables set forth the distribution of the Freight SBU's total Locomotives by age, as at 31 December 2021:

Age	Total Workforce (%)
Less than 30 years	1
31-37 years	42
38-44 years	23
45-51 years	28
More than 51 years	6

*See heading 7.1 freight transportation strategic business unit

The following tables set forth the distribution of the Passenger SBU's total EMUs by age, as at 31 December 2021:

Age	Total Workforce (%)
Less than 21 years	52
21-25 years	0
26-30 years	0
31-35 years	0
More than 35 years	48

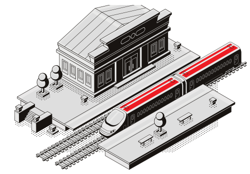
*See heading 7.2 passenger transportation strategic business unit

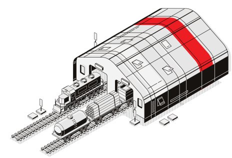
STATIONS AND ADMINISTRATIVE BUILDINGS

As of 31 December 2021, the Group owned and operated 100 freight stations in Georgia, 66 of which are available for commercial purposes. 10 freight stations have been closed since 2016 as a result of a management decision and the workforce from these stations has been transferred to other stations to boost efficiency. The Group also owned and ran 31 passenger stations with 51 ticket booths as of 31 December 2021. The Group's headquarter building is located in the center of Tbilisi.

31

PASSENGER STATIONS



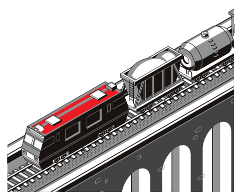


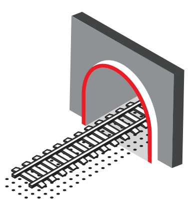
100

FREIGHT STATIONS

1'349

BRIDGES





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RAILROAD TUNNELS

TUNNELS AND BRIDGES

The Group's infrastructure assets comprise 42 railroad tunnels, 26 railroads and 1,323 bridges of various functions. It also owns signal equipment and other assets related to ensuring the safety of operations.

SIGNALING CENTRALIZATION AND BLOCKING

The Group's signaling centralization and blocking infrastructure is one of its most important assets, which it owns and operates. These assets are used to regulate and manage locomotive movement along the GR's railway; in addition, their reliable functioning directly affects the efficient and safe movement along the line.

It is crucial to invest in new technology and replace or renew outdated infrastructure in order to maintain good performance. As a result, new relay-microprocessor devices were selected that meet the SIL-4 level of accuracy and safety set by the European Committee for Electrical Standardization and the safety requirements of European standards (CENELEC). Mentioned systems will increase safety and simplify technical operations. The introduction of the electrical relay-microprocessor also creates new opportunities and capabilities, including:

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

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

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

Within the same framework, a tender to upgrade five stations along the Khashuri-Zestaponi railway line segment (Kvishkheti, Moliti, Marelisi, Kharagauli, Dzirula) with contemporary relay-microprocessor systems was announced in 2021. The tender includes three stages and will be completed in 2023.

Because the transition to new systems is a gradual and time-consuming process, GR develops and executes the following upgrades and repair works: removal of postal equipment from depreciated buildings and system rehabilitation, installation, replacement of board cables and so on. The renewal process is ongoing throughout the year and across the whole Company.

5.2 INSURANCE, SAFETY AND FAILURES

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 available. Moreover, to the extent insurance may be available to the Group outside Georgia (if at all), based on statistics relating to past failures on the railway, the Group does not believe it would be cost-effective. Accordingly, the Group does not have insurance coverage for its infrastructure and other assets, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. The Group's customers typically purchase insurance covering the cargo transported by the Group.

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

RAIL SAFETY AND FAILURES

The Group operates under a "self-regulation" policy in respect of rail safety. The Railway Code delegates safety regulation to the Group. Accordingly, the Group has developed and implemented its own safety policies.

The Group experiences minor derailments from time to time. These derailments occasionally result in damage to the rail track or cargo spillages, which, particularly in the case of oil spills, can cause environmental damage in the area proximate to the derailment. All such derailments are reported to the appropriate governmental authorities and addressed accordingly. In 2021, the Group did not experience any freight train derailments.

The following table sets forth details of train crashes for the periods indicated:

TRAIN CRASHES

For the year ended 31 December	2021	2020	2019
Human	16	14	17
Automobile	15	10	8
Animal	118	102	119
Total	**149**	**126**	**144**

ACCIDENTS

For the year ended 31 December	2021	2020	2019
Number of employees injured due to accidents	6	7	5
Number of employees died due to accidents	0	5	1

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

The employee injury rate in 2021 was one of the lowest during the last 10 years and comprised about 0.04% of the total. Fortunately, in 2021, the Group did not experience any employee fatalities.

6. COMPANY'S STRATEGY FOR SUSTAINABLE FUTURE

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

CONTINUE TO GROW FREIGHT SERVICE BUSINESS, WHILE INCREASING GEOGRAPHIC DIVERSIFICATION

MAINTAIN STRONG CUSTOMER RELATIONS THROUGH A FLEXIBLE TARIFF POLICY

DEVELOP AND MODERNIZE EXISTING INFRASTRUCTURE

INCREASE CONTAINERIZATION OF FREIGHT TRANSPORTATION

INCREASE THE SHARE OF PREMIUM PASSENGER SERVICES

CONTINUE TO GROW FREIGHT SERVICE BUSINESS, WHILE INCREASING GEOGRAPHIC DIVERSIFICATION

The Group is upgrading its infrastructure and rolling stock and selectively invests in new capacities to benefit from expected increases in freight volumes in its core markets. Management is focused on capturing volume growth through further diversification of the Group's freight mix, particularly dry cargo.

> "Management is focused on capturing volume growth through further diversification of the Group's freight mix"

To capture increased volumes, the Group also plans to continue to adapt its fleet to the transportation of containers. In 2009, the Group established GR Logistics and Terminals to promote the containerization of the corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by creating the necessary infrastructure, such as container terminals.

The Baku-Tbilisi-Kars route, which is expected to be completed in 2023 will provide a new single modal railway corridor from the Caspian Sea to Europe via Turkey. The Group intends to capture volume growth through longer-term expansion to this new geographic trading flow. The capacity of the line is designed to be 5.0 million tons per year. Management expects the route to be loaded to its optimal rate upon full completion of construction works (see subheading 8.3 ongoing projects in the corridor).

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

The Group may also consider leveraging the industry expertise, best-practices and extensive know-how of its management to establish strategic cross-border partnerships with railway and infrastructure companies.

MAINTAIN STRONG CUSTOMER RELATIONS THROUGH A FLEXIBLE TARIFF POLICY

The Group believes that its high-quality service and flexible tariff policy allow it to both foster long-term partnerships with existing freight customers and attract new ones. The Group continuously analyses demand to maintain a tariff system designed to foster the long-term attractiveness of the Caucasus corridor in a manner consistent with the Group's competitive position. The Group also engages in an ongoing dialogue with its customers to help them find transportation solutions within the Caucasus corridor, including managing relationships with neighboring railways. The Group believes that its measured approach to tariff setting offers its customers predictable costs. This predictability, in turn, encourages many customers to invest in infrastructure linked to the railway network, thereby reinforcing commercial relationships. The Group also believes that this measured approach to tariff setting also enhances the longer-term predictability for management of the Group's operations and strengthens the competitive position of the corridor through Georgia, as compared to alternative routes. The Group intends to continue these measures to maintain and further improve the attractiveness of transportation through Georgia, as well as its efficiency and customer service.

In recent years, the Group has faced increased competition to the business of its Freight SBU from trucking companies, as transportation can in certain situations and particularly for smaller cargo loads transported domestically, be a more efficient option for the customer. In response, the Group is seeking to market its railway transportation services more eco-friendly and socially responsible choice, in terms of lower carbon dioxide emissions, decreased traffic delays and a decreased risk of accidents on route, as well as requiring less Government contribution in maintenance and repair costs, as compared to the maintenance and investment required in Georgia's road network (see heading 7. Focus on core business activities).

> "The Group believes that its high-quality service and flexible tariff policy allow it to both foster long-term partnerships with existing freight customers and attract new ones"

The Group is also investing in an ongoing project to digitalize its information exchange systems, in order to minimize trains idle time waiting for documents to be processed. For example, the Group is participating in a project to create a digital corridor on the Trans-Caspian International Transport Route, by introducing artificial intelligence in consignment recognition. The Group has already digitalized its information exchange system for local cargo transportation processes. The digital information exchange system reduces the need for the manual processing of documents and minimizes the risk of human error, increasing the reliability of the process, optimizing documentation processing time and increasing freight traffic capacity, accordingly, the competitiveness of the Group.

DEVELOP AND MODERNIZE EXISTING INFRASTRUCTURE

Develop and modernize existing infrastructure is essential to ensure efficient and smooth operation of the business. Management plans to continue increasing the efficiency of the use of its assets, including by making investments to further develop and modernize its infrastructure.

Together with the maintenance capital repair works performed in the ordinary course of business, the Group is undertaking the Modernization Project in order to increase operational efficiencies and throughput capacity of the mainline infrastructure. Once the project if finalized, no more expansion capital expenditures are anticipated as the capacity will be enough for medium to long term operations.

One of the key part of the Modernization Project is to decrease the track gradient in the mountainous section of infrastructure. Reducing gradient will reduce wear and tear on wheels and tracks, will decrease the need for additional pushing locomotive and will eliminate need for extra stops to cool down the train brakes. In addition, the Group plans to make improvements to tunnels, bridges and level crossings and to procure new rolling stock. As a result of the Modernization Project, the Group expects diminished maintenance costs and an extended life-cycle of certain infrastructure assets. Management estimates that completion of the Modernization Project will result in operating costs saving of up to 10%, on sections affected by the Project. It is expected that the Project will be completed in 2023. The Group's objectives are to match the development of its rail network infrastructure with its planned volume growth and to match investments in rolling stock with evolving volume development. Completion of the Modernization Project, will increase the capacity of the Group's mainline infrastructure up to 48 million tons per annum, which is enough for the cargo flows expected within medium to long term period. (see subheading 8.2 ongoing projects in the Company).

> "Together with the maintenance capital repair works performed in the ordinary course of business, the Group is undertaking the Modernization Project in order to increase operational efficiencies and throughput capacity of the mainline infrastructure"

In its continuing efforts to develop and modernize its existing infrastructure, the Company will also continue to focus on the safety of its operations.

INCREASE CONTAINERIZATION OF FREIGHT TRANSPORTATION

One of the key strategic objectives of the Group is to achieve greater effectiveness in its operations and in corridor as a whole. Increase in containerization rates in the Caucasus and Central Asia corridor will significantly contribute to it. Container traffic has significant value for freight operators, as container transportation services are much cheaper than regular wagons and better suited for the intermodal corridor. In 2020, the COVID-19 pandemic had a significant effect on the volume of containers transported via Georgian ports, with volumes at such ports decreasing by approximately 24%, as compared to 2019.

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

INCREASE THE SHARE OF PREMIUM PASSENGER SERVICES

One of the Group's medium-term strategic objectives is to optimize expenses and maximize revenues of the Passenger SBU. Increasing the number of passengers and revenue per passenger could only be achieved through increasing the share of premium passenger services. Attracting premium passengers can only be achieved by improving quality of services. Investing in new railcars and improving existing ones, is the only way to provide improved speed and comfort for passengers. The Group aims to do so by taking, inter alia, the following measures:

(i) Adjusting passenger train timetables to optimize utilization;
(ii) Easing the accessibility of tickets via different sales channels; and
(iii) Launching a marketing campaign to attract potential customers.

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

(i) The purchase of two double-decker EMUs in July 2016 and additional two in 2017. These EMUs are in compliance with modern European standards, including safety and accommodation for disabled persons;

(ii) Adjustment of train timetables to add additional trains when demand is at its peak;

(iii) Rehabilitation of existing railway station near Kutaisi International Airport and running regular shuttles to the airport;

(iv) The rehabilitation of three passenger rail stations in 2019 and 2020;
(v) The introduction of certain discounts for tickets for various types of passengers (including veterans, students and Group employees); and

(vi) The introduction of several online platforms for ticket sales. The Group is also taking active steps in response to COVID-19, in order to ensure the safety and comfort of its customers.

Marketing and increasing consumer awareness on the benefits of rail transport, such as ecology, safety and efficiency as compared to the road are the measures that are intended to further attract tourists and new passengers to GR (see subheading 7.2 passenger transportation strategic business unit).

7. FOCUS ON CORE BUSINESS ACTIVITIES

The Group provides principally freight and passenger transportation services. It also operates its own railway infrastructure. Since 2013, the Group engaged in freight forwarding services through its subsidiaries . The Group's main operations are organized into three strategic business units.

JSC GEORGIAN RAILWAY

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

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

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

7.1 FREIGHT TRANSPORTATION STRATEGIC BUSINESS UNIT (SBU)

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

Freight transportation services encompass the transportation of cargo along with 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 foreign railways to use GR's railcars in transportation process.

The Freight Transportation SBU is the principal source of the Group's revenue, accounting for 80 percent of the Group's total revenue in 2021. Freight transportation generated 81 percent of the Freight Transportation SBU's revenue in 2021.

Responsibility for train dispatching, one of the key operations in a railway business, lies with the Freight SBU. Dispatch personnel schedule and, in the event of a delay, reschedule all freight and passenger trains. Although dispatching covers both freight and passenger services, management believes that placing the dispatching function within the Freight SBU promotes efficiency given the importance of freight transportation to the Group. At the same time, we understand the drawbacks of the structure and to minimize conflict of interest, this function is planned to be moved under Infrastructure SBU. This approach is also in line with EU directives related to railway transport.

FREIGHT COMPOSITION

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

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

FREIGHT TRANSPORTATION VOLUME

	'000 tons			% of total		
For the year ended 31 December	2021	2020	2019	2021	2020	2019
Liquid cargoes	**3,762**	**3,046**	**3,077**	**31.0%**	**27.5%**	**28.3%**
Oil products	3,690	3,040	3,063	30.4%	27.5%	28.2%
Crude oil	72	6	14	0.6%	0.1%	0.1%
Dry cargoes	**8,369**	**8,018**	**7,784**	**69.0%**	**72.5%**	**71.7%**
Ores	1,874	1,878	2,020	15.4%	17.0%	18.6%
Grain and grain products	189	308	424	1.6%	2.8%	3.9%
Ferrous metals and scrap	576	535	525	4.7%	4.8%	4.8%
Sugar	420	285	327	3.5%	2.6%	3.0%
Chemicals and fertilizers	1,337	940	719	11.0%	8.5%	6.6%
Construction freight	933	909	1,027	7.7%	8.2%	9.5%
Industrial freight	415	365	458	3.4%	3.3%	4.2%
Cement	35	46	113	0.3%	0.4%	1.0%
Other	2,590	2,751	2,171	21.4%	24.9%	20.0%
Total	**12,131**	**11,063**	**10,861**	**100.0%**	**100.0%**	**100.0%**

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

The Group upgrade container and multimodal shipping services. Container transportation is conducted on the following routes: (i) China-Europe (connecting through lines to the Black Sea ports and Turkey); (ii) Black Sea ports-Azerbaijan; (iii) Black Sea Ports-Armenia; and (iv) Black Sea Ports-Tbilisi.

The following table sets forth the primary direction of certain cargo transported by the Freight SBU:

LIQUID CARGOES	
Crude Oil	From Turkmenistan and Azerbaijan to Turkey and Georgia
Oil Products	From Azerbaijan, Turkmenistan, Russia and Bulgaria to Georgia, Italy, Armenia and Turkey
DRY CARGOES	
Ores	From Georgia, Armenia, Russia and Turkmenistan to Georgia China and Bulgaria
Construction Freight	From Georgia, Azerbaijan and Spain to Georgia and Azerbaijan
Ferrous metals and scrap	From Georgia, Russia, Ukraine and China to Turkey, Georgia, USA, Russia and Azerbaijan.
Grain	From Russia, Ukraine and India to Georgia, Armenia and Azerbaijan
Chemicals and Fertilizers	From Turkmenistan, Georgia, Azerbaijan and Uzbekistan to Brazil, Georgia, Turkey and Switzerland.
Cement	From Georgia to Georgia
Industrial Freight	From Azerbaijan, Georgia and Turkey to Georgia, Armenia,Poland and Azerbaijan.
Sugar	From Brazil, Mexico and Ukraine to Azerbaijan, Georgia and Armenia.

FREIGHT VOLUME BY DIRECTIONS

	Million tons			% of total		
For the year ended 31 December	2021	2020	2019	2021	2020	2019
Liquid cargoes	**3.8**	**3.0**	**3.1**	**31.0%**	**27.5%**	**28.3%**
Transit	2.6	1.8	1.7	21.4%	16.2%	16.1%
Export	0.0	0.0	0.0	0.2%	0.1%	0.2%
Import	1.1	1.1	1.1	8.7%	10.0%	10.2%
Local	0.1	0.1	0.2	0.7%	1.3%	1.9%
Dry cargoes	**8.4**	**8.0**	**7.8**	**69.0%**	**72.5%**	**71.7%**
Transit	4.1	3.8	3.5	34.1%	33.9%	32.4%
Export	1.1	1.1	1.3	9.4%	9.8%	11.6%
Import	1.3	1.4	1.5	11.0%	12.9%	13.8%
Local	1.8	1.8	1.5	14.5%	15.9%	13.9%
Total	**12.1**	**11.1**	**10.9**	**100.0%**	**100.0%**	**100.0%**

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

NUMBER OF RAILCARS TRANSPORTED

For the year ended 31 December	2021	2020	2019
Number of wagons	**180,419**	**162,160**	**169,240**
% change	11%	-4%	10%
Number of containers	**57,111**	**65,715**	**63,942**
% change	-13%	3%	38%
Number of containers in TEU	**74,196**	**82,524**	**78,943**
% change	-10%	5%	39%

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

CONTAINERIZED FREIGHT

('000 tons)

For the year ended 31 December	2021	2020	2019
Dry cargoes	**8,369**	**8,018**	**7,784**
of which: container cargoes	1,202	1,318	1,275
Total cargoes	**12,131**	**11,064**	**10,861**
Containers as % of total cargoes (%)	10%	12%	12%
Containers as % of dry cargoes (%)	14%	16%	16%

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

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

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

Products	Platform Car	Box Car	Open Top Box Car	Cement Hopper	Tank Car	Grain Hopper	Conteinerized	Other
Crude oil					✓			
Oil products		✓	✓		✓		✓	
Grain		✓				✓	✓	✓
Ores		✓	✓			✓	✓	✓
Industrial freight	✓	✓	✓				✓	
Construction freight	✓	✓	✓				✓	✓
Chemicals and fertilizers		✓	✓			✓	✓	
Ferrous metals and scrap	✓	✓	✓				✓	✓
Sugar		✓				✓	✓	
Cement				✓			✓	
Other	✓	✓	✓	✓	✓	✓	✓	✓

FREIGHT CAR CROSS-BORDER CHARGE

The Group has its own freight railcars and locomotive fleet and is, therefore, able to offer its clients wagons for rental. Accordingly, the Group generates revenue from freight car rental to its customers, including foreign railway companies who may choose to utilize the Group's railcars on freight routes through their countries. Payment for these services is based on agreement with the relevant railways and carriers.

STATION SERVICES

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

CUSTOMERS

The Freight SBU accepts freight from both direct cargo owners and freight forwarders. The Freight SBU works with freight forwarders in order to expand its marketing reach and to increase and diversify its customer and product base. As the Freight SBU does not generally enter into long-term contracts with customers it serves through freight forwarders, it is able to maintain operational flexibility and change the prices in accordance with market conditions. All of the Freight SBU's customers, whether direct or through freight forwarders, are required to pay for transportation and station services in advance. Only demurrage is paid in arrears, thus lowering credit risk to minimum.

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

Top five customers of liquid cargo, accounted for 53 percent of total liquid freight transported in 2021. In terms of dry cargo, the top five customers accounted for 47 percent of total dry freight transportation in 2021. In addition, it is essential to mention, that 58 percent of volume transported during the last five years are from reoccurring companies, which indicates the stability of the list of customers.

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 under market conditions. As there is no demand for strict commitments, the Freight Transportation SBU also provides flexibility for its customers.

TARIFFS

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

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

- Transportation tariffs, based on transportation from one station to another;
- Station charge, which is for providing services, railcars or locomotives to support the loading or unloading of cargo at the relevant station, as well as for services such as documentation, rolling stock usage and rail-track occupation if third party railcars are used; and
- additional station charges, such as:
  - storage fees, incurred in 24-hour increments, referred to as "demurrage", if customers fail to unload a railcar within 24 hours of arrival at its agreed destination;
  - fees for providing additional locomotives for maneuvering if necessary, for cargo loading/unloading; and
  - fees for cargo loading and unloading operations.
  The tariff policy is reviewed and modified annually in light of changes in the Group's strategic goals, market environment and industry developments, as well as domestic and global economic developments.

The tariff policy is reviewed and modified annually in light of changes in the Group's strategic goals, market environment and industry developments, as well as domestic and global economic developments.

Tariff currency – the Group's freight transportation tariffs are set in US Dollars (USD) except for container transportation for domestic directions and import/export from/to Azerbaijan, which comprised only 2 percent of total transportation revenue in 2021. (Before May 2017, when this tariff policy change was made, these services were also charged in USD). As a result, the Group received most of its total revenue (about 82.2 percent) in USD, about 1.8 percent of total revenue was in Swiss Francs (CHF) and about 16.0 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 as a hedge against foreign exchange risk.

AVERAGE TARIFFS

(Tetri)

For the year ended 31 December	2021	2020	2019
Oil products	12.8	13.7	14.1
Crude oil	4.8	12.0	12.0
Dry cargo	9.7	9.7	9.0

Average tariffs are calculated as freight traffic revenue (not including any handling charges) per thousand ton-kilometre. The Group uses a detailed formula for each individual transportation order that takes into consideration factors including the type and weight of freight and the distance over which the cargo is carried. Amounts stated are Tetri per ton-kilometre, unless otherwise indicated.

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

7.2 PASSENGER TRANSPORTATION STRATEGIC BUSINESS UNIT (SBU)

The Passenger SBU's primary activity is the transportation of passengers and, to a limited extent, unaccompanied luggage within Georgia and on international routes, connecting Georgia with Azerbaijan and Armenia. The passenger transportation segment accounted for 3% of the Group's total revenue for the year ended 31 December 2021.

The Group's medium-term strategic objectives is to optimize expenses and increase the revenue of the Passenger SBU by increasing the number of passengers and achieving increased revenue per passenger. To achieve this, the Group aims to introduce a higher level of service by investing in new railcars, or improving existing railcars, to provide improved speed and comfort when using the Group's passenger transportation services. The Group aims to do so by taking, inter alia, the following measures:

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

Pursuant to Georgia's obligations to implement certain EU legislation under the Association Agreement, the Government of Georgia has an obligation under the EU Social Market Economy principle to compensate the Group for its loss-making passenger transportation business and to subsidize certain activities of the Infrastructure SBU. In 2020, Parliament adopted amendment to the Railway Code recognizing railway passenger transportation services as a public service obligation and prohibited cross subsidy from freight transportation operator as required by principles set out in EU Passenger Transportation Regulation. Accordingly, the Company and the Government are expected to enter into a public service contract for the compensation of the Passenger SBU losses starting from 2024 or earlier. This contract is expected to define certain passenger rail routes and set out the conditions for the agreement of costs for such routes between the Company and the Government or relevant competent authority, as well as the compensation to be granted to the Company for operating nonprofitable passenger routes. This is expected to have a positive impact on the Group's revenues, although the exact quantum will not be known until the final terms and conditions of the contract have been agreed.

see heading 6. Company's strategy for sustainable future

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

('000 GEL)

For the year ended 31 December	2021	2020	2019
	21,307	**24,797**	**4,541**

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

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

CUSTOMERS

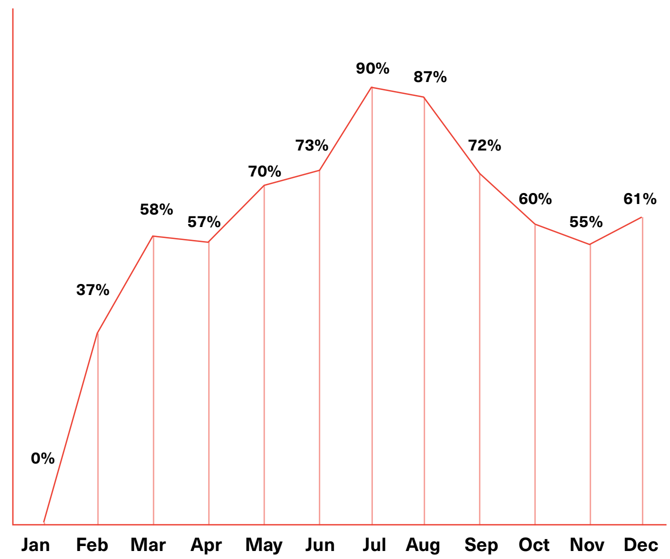
The Passenger Transportation SBU provides domestic and international transportation services.

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 (see heading 8.3 ongoing projects in the corridor)**, it will be possible to transport passengers to Turkey and further 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.

As a result of Government restrictions due to Covid-19, the number of passengers decreased by around 69% in 2020 compared to 2019. While the number of passengers continued to decline in 2021, revenue increased as a result of increased share of passengers on the mainline, which has a higher average tariff.

PASSENGER OCCUPANCY RATE ON MAIN LINE IN 2021



CREATING VALUE 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 repair a passenger rail station near Kutaisi International Airport in order to offer more comfortable travel to people traveling from and to the airport. The station opened in 2022.

As a result of Government restrictions due to Covid-19, the number of passengers decreased by around 69% in 2020 compared to 2019. While the number of passengers continued to decline in 2021, revenue increased as a result of increased share of passengers on the mainline, which has a higher average tariff.

The following table sets forth the revenue and number of passengers for the periods indicated:

For the year ended 31 December	2021	2020	2019
Revenue			('000 GEL)
Mainline	14,239	10,697	27,144
Regional	57	245	1,160
International	511	229	2,767
Total revenue	**14,808**	**11,171**	**31,071**
Number of passengers			('000 passengers)
Mainline	708	622	1,489
Regional	92	295	1,365
International	16	22	173
Total passengers	**816**	**939**	**3,027**

The primary customer relations, sales and marketing activity in the Group's passenger business are points of sale for tickets. Passengers can buy tickets directly at the station before travel, aboard certain trains, through tourist agencies, or via the internet. However, because a relatively small percentage of Georgian population uses the credit cards necessary to make internet purchases, the Group has also established points of sales, known as "Pay Boxes", where customers can buy tickets and locate detailed information about prices, availability and classes of travel. In addition, the Group has installed ticket machines on certain trains.

The Group also has a customer call center that handles approximately 11,000 calls per month.

TARIFFS

Similar to freight transportation tariffs, the Group is not subject to Government regulation in establishing prices for passenger transportation and luggage services. In many cases, however, passenger transportation tariffs are not determined by market forces due to the significant social importance to the State of providing affordable passenger transportation services.

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

AVERAGE TARIFF

(Tetri)

For the year ended 31 December	2021	2020	2019
Average revenue per passenger-km	5.4	4.5	4.6

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

Average revenue per passenger-km increased by around 19% in 2021, compared to 2020. It was driven by an increased share of more profitable direction such as mainline and increased demand for business class tickets.

The number of passengers on the mainline represented 87 percent in 2021 compared to 66 percent in 2020, in total passengers transported by the Group.

AVERAGE REVENUE PER PASSENGER

(GEL)

For the year ended 31 December	2021	2020	2019
Mainline	20.1	17.2	18.2
Regional	0.6	0.8	0.9
International	32.2	10.4	16
Average tariff	**18.2**	**11.9**	**10.3**

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

Tariffs for domestic transportation of passengers and luggage are approved by the Company's Board of Directors and are denominated in Lari. Tariffs for international transportation of passengers and luggage services within the CIS are determined at the CIS Rail Transport Tariffs Conference and are denominated in Swiss Francs.

The Group offers three classes of passenger service and tariffs are further differentiated between travel on modern or older trains. Tickets in the lowest class of rail service are generally less expensive than bus transportation. It is management's intention that any increases to tariffs will be made in line with the improvements in the Group's services, the provision of new trains and inflation and to make the Group's tariffs competitive with those for bus transportation and other passenger transportation services in Georgia, such as mini-buses. In respect of regional passenger traffic, where the majority of the passengers are from low income households and are sensitive to price increases, it is management's intention to consider price increases only when new modern trains have been commissioned by the Group and for such tariffs to be in line with alternative travelling costs.

7.3 INFRASTRUCTURE STRATEGIC BUSINESS UNIT (SBU)

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

The principal aims of Infrastructure SBU are to ensure safety, promote the efficient use of the Group's infrastructure assets and decrease maintenance costs. 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.

The main infrastructure assets comprised of railway network of 1,411 km of track (296 km of which is a double-track line), of which 97% is electrified, including a 527 km electrified mainline from the Azerbaijan and Armenian borders to the Black Sea; 42 railroad tunnels, 19 pedestrian tunnel, 26 railroads and 1,323 bridges of various functions; and signal equipment and other assets related to ensuring the safety of its operations. The Company's rail network is now connected to the Turkish railway as well after the BTK railway line became operational in 2017 (see subheading 8.3 ongoing projects in the corridor).

The Infrastructure SBU focuses on maintaining the Group's infrastructure assets in good condition. Capacity varies across the Group's different lines. As at 31 December 2021, the estimated capacity of the gorge section, which is the main bottleneck on the mainline, was 27 million tons of cargo annually. In 2021, in connection with the Modernization Project, the Infrastructure SBU made capital repairs (not including minor, non-technical repairs) to, or renovated, approximately 15.4 km of track, as compared to capital repairs or renovations of approximately 3 km in 2020. In total, 10.4 km and 24.6 km of railway were repaired in 2020 and 2021, respectively. During the year ended 31 December 2021, the Group paid GEL 77.2 million for the acquisition of property, plant and equipment, including rolling stock and equipment and to rehabilitate important infrastructure assets, including rail tracks, electric power supply lines and bridges and tunnels, as compared to GEL 55.9 million and GEL 112.2 million, respectively , for the years, ended 31 December 2021 and 31 December 2020

PROJECTS

COMMERCIAL PROJECT

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

SOCIO-COMMERCIAL PROJECT

The Kutaisi Airport Station Project is serving the passengers traveling from/to Kutaisi International Airport.

7.4 SUBSIDIARIES AND AFFILIATES

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

The share of the revenue from logistical services (revenue generated by GR's subsidiaries) in total revenue amounted to 12.7 percent in 2021 (as compared to 11.1 percent in 2020).

LOGISTICAL REVENUE

'000 GEL

For the year ended 31 December	2021	2020	2019
Revenue from logistical service	69,371	54,106	48,814
% share in total revenue	13%	11%	10%

LOGISTICAL REVENUE FROM SUBSIDIARIES

'000 GEL

For the year ended 31 December	2021	2020	2019
GR Logistics and Terminals LLC	25,222	20,606	26,347
% share in total revenue from logistic services	36%	38%	54%
GR Transit Line LLC	22,703	20,161	18,565
% share in total revenue from logistic services	33%	37%	38%
GR Transit LLC	21,445	13,339	3,903
% share in total revenue from logistic services	31%	25%	8%
Total revenue from logistic service	69,371	54,106	48,814

GR LOGISTICS AND TERMINALS LLC

GR Logistics and Terminals LLC (formerly Railway Trans-Container LLC): is a Georgian limited liability Company, wholly-owned by the Company and established in October 2009 to promote the containerization of the corridor. Its corporate objective is to help strengthen the Group's presence in the container transportation market, primarily by creating the necessary infrastructure, such as container terminals and to promote the containerization of the Caucasus corridor. To foster containerization, GR Logistics and Terminals has built and currently operates two terminals, one in Poti and the second in Tbilisi. The share of revenue from GR Logistics and Terminals LLC in total logistical revenue amounted to 36.4% in 2021 (as compared to 38.1% in 2020).

For the year ended 31 December	2021	2020	2019
Containers transported	34,964	36,164	32,937
Containers In TEU	48,203	46,684	40,657

GR TRANSIT LLC

In 2013, the Company acquired Georgia Transit LLC (later renamed to GR Transit LLC) to integrate liquid cargo logistical services to the business. This subsidiary is freight forwarders and serve crude oil and oil products transportation mainly from Azerbaijan, Kazakhstan and Turkmenistan. The share of revenue from GR Transit LLC in total logistical revenue amounted to 30.9% in 2021 (as compared to 24.7% in 2020).

'000 tons

For the year ended 31 December	2021	2020	2019
Crude oil	70.0	-	-
Oil products	2,494.7	2,057.3	1,720.1

GR TRANSIT LINE LLC

In 2014, GR established GR Transit Line LLC, another freight forwarder that carries oil products mainly transported to the direction of Azerbaijan and Armenia. The share of revenue from GR Transit Line LLC in total logistical revenue amounted to 32.7% in 2021 (as compared to 37.3% in 2020).

'000 tons

For the year ended 31 December	2021	2020	2019
Azerbaijanian Direction	37.7	25.0	71.9
Armenian direction	384.7	350.3	355.4

PROPERTY MANAGEMENT

GR Property Management LLC (formerly Railway Property Management LLC) was established in 2009 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.

BORJOMI-BAKURIANI RAILWAY

Borjomi-Bakuriani Railway LLC is a subsidiary of GR Property Management LLC. It owns 47 km narrow-gauge railway network that runs between two resort towns. Borjomi-Bakuriani LLC first entered into operation between 1898 and 1902 years. The line is fully electrified since 1966.

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

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

7.5 WORLD BUSINESS SOLUTIONS (WBS)

GR has accumulated significant experience creating IT solutions and serving not only internal, but also external clients. That is why in 2016 it was decided to give additional flexibility to IT division and that is how the name World Business Solutions (WBS) was created. Modern times necessitate modern technologies, thus, WBS is one of the most important divisions of the Company.

INFORMATION TECHNOLOGY

To ensure the smooth operation of its sophisticated logistics, dispatch and rolling stock- and freight-tracking services, the Group uses advanced information technology systems and software. The majority of the Group's software and information systems are developed in-house to meet the Group's specific needs. These systems include a centralized billing and electronic document management system used for document handling for freight transportation; an automated system that monitors and controls rolling stock in real-time; software designed to monitor movements of containers, railcars and trains in stations; electronic ticket sales and accounting system for passenger transportation; and a centralized multi-module software for internal bookkeeping, which improves internal processing of initial accounting documents with electronic signature authorizations, for financial and tax accounting, budgeting and treasury operations.

The Group operates enterprise resource planning software developed by the German Company SAP SE ("SAP SE"), which incorporates key business functions comprised of fourteen modules. All the fourteen modules are fully deployed and customized by the specific requirements of the Group.

HARDWARE

The Group generally utilizes hardware from Hewlett-Packard Enterprise, Dell Technologies, F5 Inc, Cisco Systems Inc and others. The Group has two geographically distributed and interconnected data centers equipped with Blade servers, data storage and network and security hardware. The distance between the data centers is approximately 360 km. Servers are managed with a centralized VMware vCenter High Availability platform, which ensures interoperability between physical servers and the datacenters. All operations at the head office and throughout the Group are performed on a real-time basis and management estimates that there is a delay of 7 - 27 seconds in the transfer of data from the main data center to the backup one. Critical information from data storage systems and databases is backed up periodically with the Dell EMC Data Domain solution. In addition, should service disruption or data corruption be detected, it is possible to recover data from the backup data center by way of a manual process within two to three hours. Data network throughput within the Group's infrastructure is provided via 636 km of backbone optical fiber cable laid along the railway tracks, equipped with DWDM cabling.

SECURITY AGAINST CYBER-ATTACKS

The Group uses different security layers to protect its internal business processes, internal and external services and IT networks from cyber-attacks. The physical layer is made-up of a modern Next-Generation Firewall, whilst the application layer is equipped with Web Application Firewalls. All of the Group's network devices undergo routine weekly updates with relevant threat and virus certificates and signatures. The Group's cyber-attack incident and alert response process are based on ITIL best practices and internal security policies. In 2014, the Group established information security-related activities to protect information security within the Group, including passing resolutions on the adoption of information security management, corporate network security and critical information backup system policies. In 2018, the Group established an information security council to oversee the adoption of new information security policies and to implement an Information Security Management System compliant with ISO/IEC standard 27001 2013/2017.

INFORMATION TECHNOLOGY PROJECTS

The Group is currently implementing three main information technology projects, including:

- The Electronic Ticket Sales and Accounting System. This project is taking place within the Passenger SBU and is intended to substitute existing internal software systems with modern systems more capable of supporting the Passenger SBU's business requirements.
- The Telephone Project (VoIP). This project aims to replace existing telephone systems, which have been in place since 2003 and are now outdated and out of production. The Group has been assigned 2,000 new telephone numbers and holds approximately six related telecommunications licenses and authorizations, including for the leasing-out of certain technologies.
- The DWDM network modernization project. This project is related to the above VoIP project and aims to develop an advanced traffic engineering protocol for the data network connecting the Group's train stations to the data centers.

In addition, the Group is currently renovating its main data center. Even though the Group's management believes that the current systems are adequate for their efficient operation, a continuous process of upgrading and development ensures that IT systems are close to state-of-the-art technologies in line with current and anticipated business activities.

8.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 the Caspian Sea region, such as the development of a deep-water seaport 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.

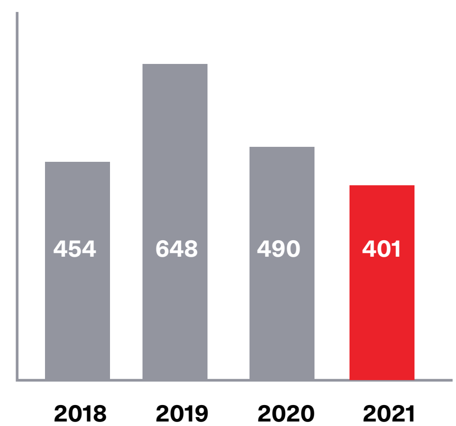
8.1 DIVERSIFIED DIRECTIONS

CONTAINERIZATION

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

In 2021, Covid-19 had a significant effect on the volume of containers transported by Georgian ports . In 2021 it decreased by 18%. Nonetheless, the share of containerized cargo transported by the Group stayed considerable stable at around 10% in total transported volume. This highlights the fact that demand for companies' services is high and with current low level of containerization, there is still significant room for improvement.

NUMBER OF CONTAINERS HANDLED BY SEA PORTS



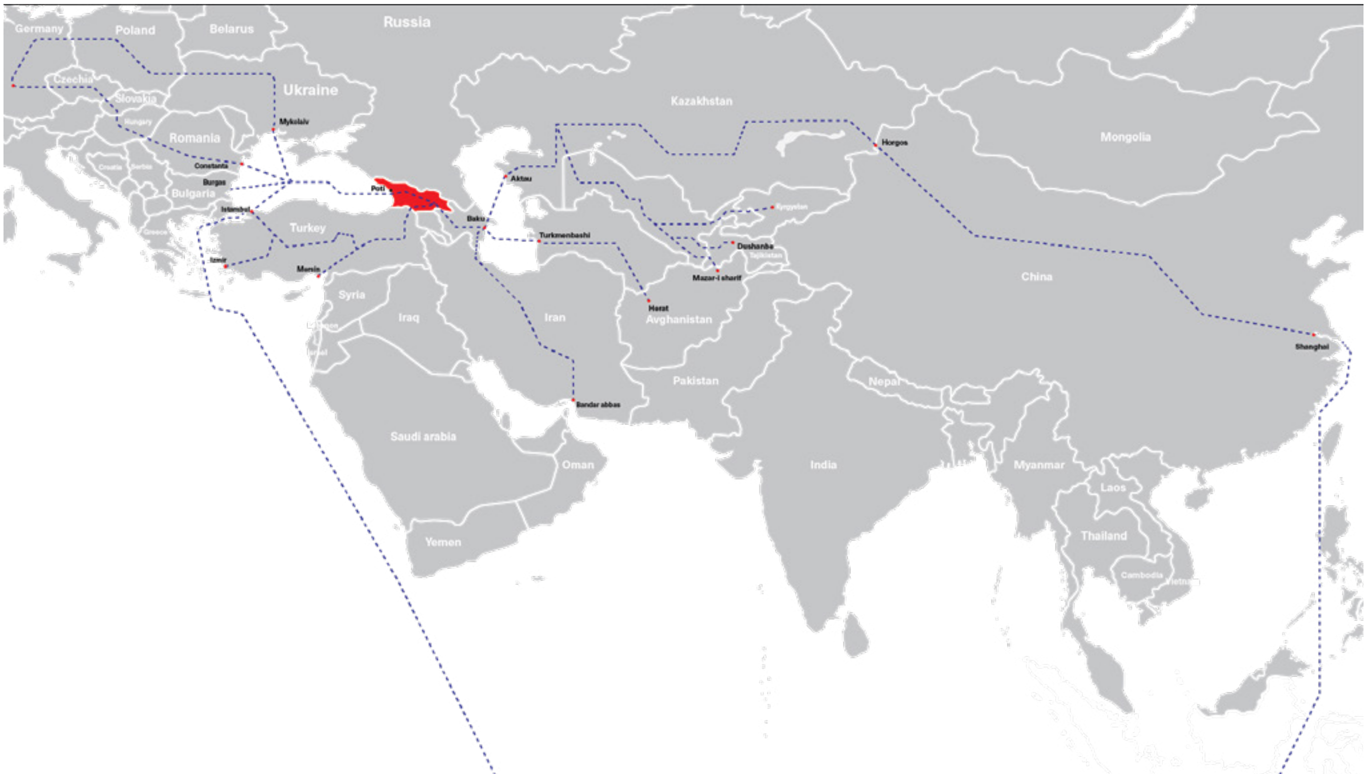
SHARE OF CONTAINERIZED CARGO IN TOTAL TRANSPORTED FREIGHT

For the year ended 31 December	2021	2020	2019
Share of containerized cargo in total cargo flows	9.9%	11.9%	11.7%
Number of containers in TEU	74,196	82,524	78,943
% change YoY	-10.1%	4.5%	39.1%
Number of containers	57,111	65,715	63,942
% change YoY	-13.1%	2.8%	38.2%

To boost containerization, the Company founded a subsidiary – GR Logistics and Terminals 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 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.

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 see below subheading 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 recent years, China's trade with Turkey and EU countries has increased. 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 line (see subheading 8.3 ongoing projects in the corridor)**.**

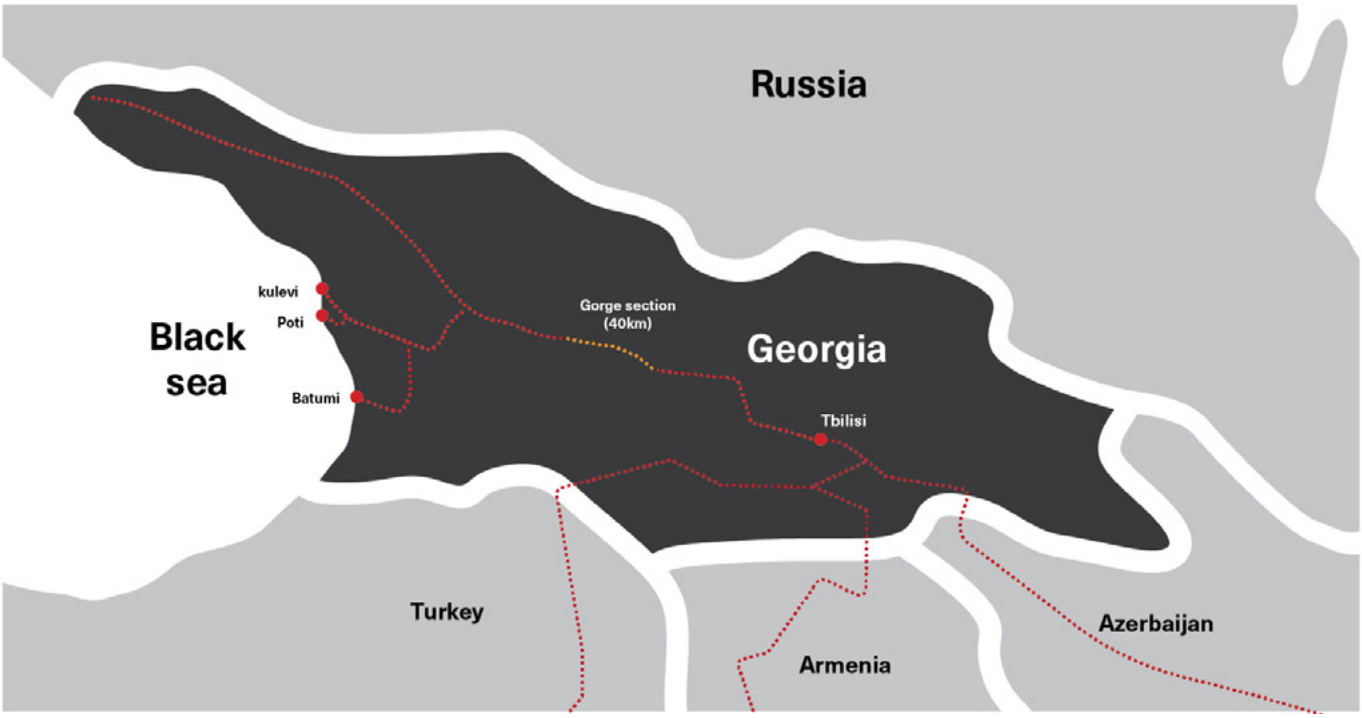
INTERNATIONAL AGREEMENTS

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 to multiple players being involved in transportation and 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.

8.2 ONGOING PROJECTS IN THE COMPANY

RAILWAY MODERNIZATION PROJECT



The Group launched its Modernization Project in 2010. the project aims to modernize the infrastructure of the Group and increase the capacity of the mainline. 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;
- 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 most significant aims of the project is to decrease the track gradient in the gorge section, which is expected to reduce electricity expenses. A lower 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 steps needed to cool the brakes on the trains. The project envisages building 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 Eurobonds placements in 2010 and 2012. The project is expected to be completed by the end of 2023. As at 31 December 2021, about 95% of the total works on the Modernization Project had been completed. Since the beginning of 2021, the Group has also started conducting a part of the works using its personnel for railway track construction, signaling centralization and blocking, power and electric traction lines.

PROCEEDS ALLOCATED ON THE PROJECT

(mln Gel)

For the year ended 31 December	2021	2020	2019
Modernization Project	38.7	24.8	109.1

Because the Modernization Project passes through the 40-kilometer-long gorge section, assets along the site belonging to various physical and legal persons may sustain some damage as a result of construction work. As a result, Group accepts full responsibility for those individuals and compensates them appropriately.

KUTAISI AIRPORT CONNECTION PROJECT

In 2017, GR took responsibility to link passenger rail station with Kutaisi International Airport to offer better comfort to people traveling from and to the airport.

The project is considered to be socio-commercial. 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.

Since 2017, IFB INSTITUT FÜR BAHNTECHNIK GmbH, located in Berlin, to conduct several feasibility studies 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 in 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, in March 2021, the Group agreed with a construction Company for the completion of the upgrade to increase the comfort of the passengers. The mentioned renovation has been fulfilled in 2021 and the station is ready for exploitation.

* From May 2022 Kopitnari railway station is operational and shuttles are running to the airport

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 on 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 2020, no decision had been made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

8.3 ONGOING PROJECTS IN THE CORRIDOR

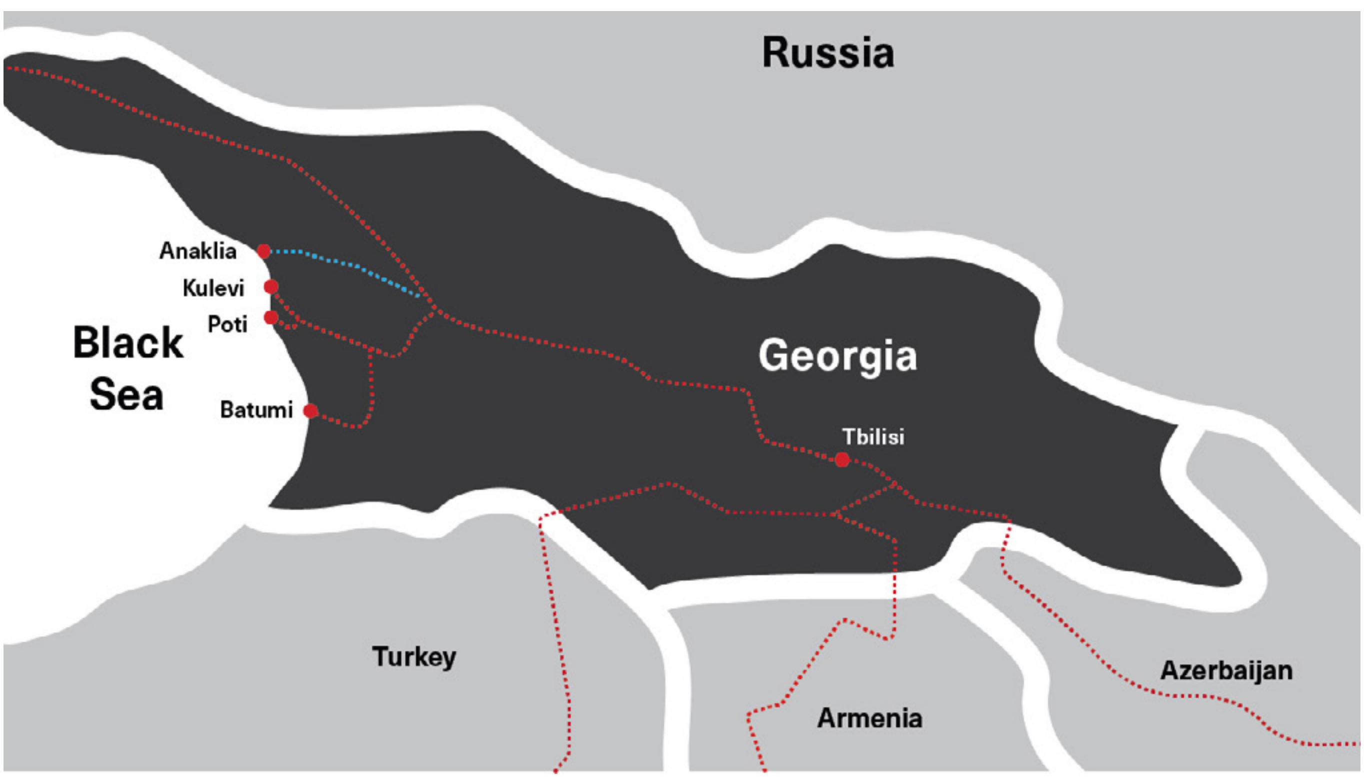
Ongoing projects in the corridor are also in line with the strategic goals of the Group:

Deep Water-Sea Port → Baku-Tbilisi-Kars → Other infrastructure projects

ANAKLIA DEEP WATER-SEA PORT

Currently, three ports are operational in Georgia: Poti, Batumi and Kulevi. There is also a liquid cargo terminal in Supsa. The depth of the currently operational ports however is not sufficient 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 was designed to accommodate containers and bulk cargo and should be capable of handling large vessels, carrying at least 10,000 containers. The depth at the planned location is sufficient to accept Panamax and VLCC vessels and should have the potential to handle the increasing cargo turnover between Europe and Asia.

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



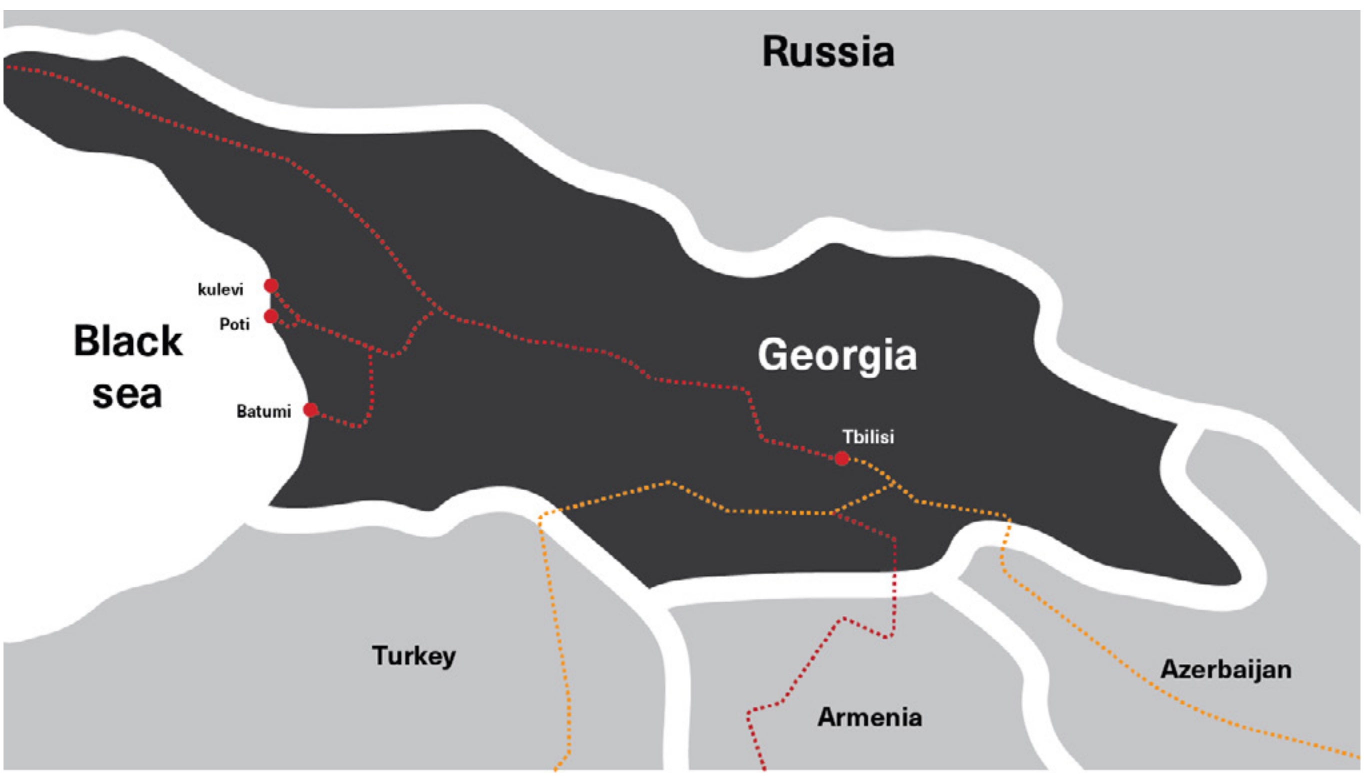
In 2016, Georgian Government and the Anaklia Development Consortium signed an investment agreement on the construction and operation of the deep-sea port in Anaklia. The Anaklia Development Consortium was jointly established by local Company TBC Holding and Conti International (based in the USA). The 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 was expected to be about USD 2.5 billion.

According to the project, the potential throughput of the port should have been 100 million tons per annum and it was expected that the port should have been 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. At the beginning of 2020, Government of Georgian canceled agreement with TBC Holding due to its 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 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 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 reaches Europe under the Marmaris project (a railway tunnel under the Bosporus), which will created a safe, fast and short route to transport goods from Asia to Europe and vice versa. This represents 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 Georgian Government without the financial participation of the Group. The project is being financed by the Government of Azerbaijan, which granted a loan to the Government of Georgia for its construction. However, when the tracks are built, the Group will be granted rights to operate Georgian part of the line.

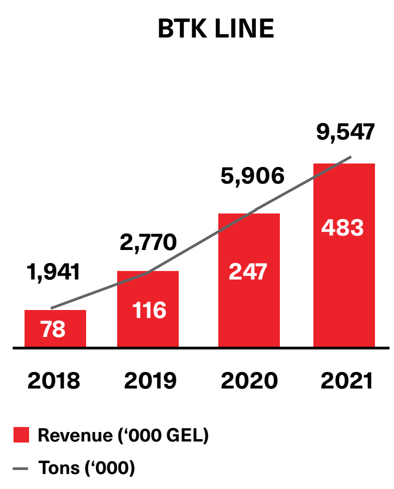
Test operations commenced on 30 October 2017. Since then, the volumes have increased considerably and reached around 500 thousand tons in 2021.

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

BTK LINE

For the year ended 31 December	2021	2020	2019
Revenue ('000 Gel)	9,547	5,906	2,770
Volumes ('000 Tons)	483	247	116
Number of containers in TEU	20,492	10,471	5,569
Number of containers transported	12,756	7,369	4,010
Number of railcars transported	3,642	1,940	541

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 to Chinese.



POTI SEA PORT

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

In 2020, APM Terminals Poti, an international terminal Company based in the Netherlands, presented a plan to the Government to expand Poti Port in two phases: (i) the construction of a multipurpose quay able to handle dry bulk cargo and with a berth capacious enough to accommodate container vessels of up to 9,000 TEU; and (ii) construction of a 300 metre container quay which would double the annual container capacity at Poti Port to over 1 million TEU. According to information published by APM Terminals Poti, it expects to invest USD 250 million to finance the first stage of the Poti Project. An environmental impact study will then be conducted in respect of the second stage of the project.

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 is 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, then to be transported across the Black Sea. The new logistics corridor will be the shortest and most convenient route from Central Asia to the Black Sea.

The technological project envisages the construction of transit terminals and storage facilities for the purpose of obtaining, storing and dumping mineral fertilizers. 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.

On 11 June 2021, the territory of the Batumi Sea Port officially opened a multimodal terminal. Terminal specialization: transfer of mineral fertilizers. Its capacity is up to 1.5 million tons per year. The cost of the project is $ 25 million. Partners were the British logistics Company "Wondernet Express" and the American "Tramo".

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 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 88 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 2021 to countries with which it has a free trade agreement. In 2021, significant shares of domestic export were distributed among the following:

- The Commonwealth of Independent States (CIS) – 35.7%
- The European Union – 20.5%
- China – 18.6%
- Turkey – 9.8%

8.4 INFRASTRUCTURE DEVELOPMENTS IN THE CORRIDOR

A significant number of projects are being carried out in the corridor to expand into new geographical locations and 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. It plays a key role in the formation of the so-called New Silk Road. Experts have calculated that the country accounts for 70 percent of land transit traffic from China to Europe and vice versa (source: astanatimes.com).

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

Construction of a new ferry complex at Kuryk Port

Previously, the only means by which Kazakhstan could transport cargo to other Caspian Sea countries was the Port of Aktau. However, in recent years the ferry terminal 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 port of Kazakhstan. Due to the port's importance and the expected increase in traffic, it was decided 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.

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.

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

Construction of the new Alyat Port

The geographical location of Azerbaijan means that it would benefit from the development of an effective maritime transportation system via the Caspian Sea. Baku port's current 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 the work 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.

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

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

OTHER INFRASTRUCTURE PROJECTS AND DEVELOPMENTS

Development of Turkmenbashi International Port

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.

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 network to transport foreign trade goods. 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.

9. 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 (see heading 7. Focus on core business activities).

To increase competitiveness and thus provide a better service to customers, GR entered the freight forwarding business in April 2013. To reduce the risk from the competition, the Group is trying to diversify the markets in which it operates, as well as the kinds of goods it transports. In 2021, about 31 percent of total goods transported by the Group were liquid goods and the remainder - were dry goods. To reduce risks and increase capacity, in 2010 the Group launched the Modernization Project. The project is expected to be completed by the end of 2023 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.

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

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

The share of crude oil transported by the Group in terms of total transportation volume dropped to 0.59 percent in 2021 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

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

Weaknesses

Changing the quality of crude oil - 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.

No pipelines for oil products - 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.

9.2 COMPETITION FROM ALTERNATIVE RAIL TRANSIT ROUTES

General description

The Group faces substantial competition from alternative rail transit routes and providers of other methods of transportation, which has increased in recent years and may continue to increase in the future. In particular, the existence of alternative railway routes through Russia and Iran, including routes providing access or onward transportation to or from Aktau port in Kazakhstan, Turkmenbashi port in Turkmenistan, Makhachkala and Novorossiysk ports in Russia, Bandar Anzali port in Iran and the Sea of Azov ports, could pose competition to the Group's Freight SBU (see subheading 7.1 freight transportation strategic business unit). In addition, Azerbaijan is considering establishing a direct rail connection with Turkey after regaining control over Nagorno-Karabakh, following its conflict with Armenia. Management does not expect this route to be finalized in the short term, but once finalized, the route would pose additional competition to the Group's freight transportation services. In addition, any improvement in political relations between Iran and western jurisdictions could increase freight traffic using routes through Iran rather than Georgia.

In particular, at this point, these routes include:

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

RUSSIAN ROUTES

Strengths

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

Political tensions - The war between Russia and Ukraine damaged Russia's foreign ties with the rest of the globe. Therefore, mentioned route became less attractive and stable for the market participants.

Longer distance - the Russian routes are significantly longer than 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 allow the Groupto attract new customers. In addition, the war with Ukraine may halt economic activity via the Russian railway, which will increase demand on Georgian route (see subheading 8.2 ongoing projects in the Company).

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 Georgian route due to the tense political relations between Iran and the West.

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

COMPETITIVE DEVELOPMENTS

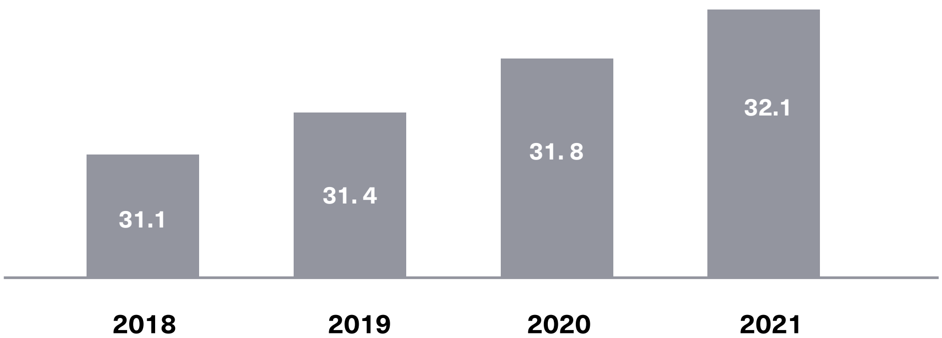
After the lifting of international sanctions on Iran, the country's high potential in trade is expected to be fulfilled in terms of both liquid and dry cargo. The lifting of sanctions is anticipated to unlock potential in terms of transporting goods between Iran and Europe through Armenia, Azerbaijan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

9.3 COMPETITION FROM ROAD TRANSPORTATION

General description

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

VOLUMES TRANSPORTED BY ROAD (MLN TONS)



Source: Ministry of Finance

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.**

Environmental factors – **deterioration of air quality, greenhouse gas emissions, increased risk of climate change, depletion of water resources, noise and habitat loss and fragmentation are characteristics of road transportation.**

Expensive in bulk transportation - **in case of transportation in bulk, the railway is considered cheaper than the road.**

Fuel Price – **the price of transportation depends on diesel price, which fluctuates considerably and increases concerns in the road transportation sector.**

COMPETITIVE DEVELOPMENTS

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

Passenger SBU

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

One intrinsic benefit of road transportation, whether by bus or minibus, over rail is that it is frequently more direct and may be faster since the routes available are not limited by the presence of railway tracks or stations. Because bus and minivan rates are comparable to passenger rail tickets, the passenger's choice is mostly determined by personal travel preferences and individual needs rather than variables under the Group's control (see subheading 7.2 passenger transportation strategic business unit).

10. STRENGTHS

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

STRATEGIC ASSET FOR GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

UNIQUE STRATEGIC LOCATION

STRONG CUSTOMER RELATIONS

INTEGRATED FREIGHT AND TRANSPORTATION COMPANY

STRONG MARGINS AND A SOLID CASH FLOW GENERATION PROFILE BACKED BY FOREIGN CURRENCY-DENOMINATED REVENUE

A CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

DIVERSIFIED CARGO PORTFOLIO

STRATEGIC ASSET FOR GEORGIAN ECONOMY WITH STRONG STATE SUPPORT

The Group is considered to be a strategic partner in national and economic development, acting as a systemically important infrastructure operator facilitating development in other industrial sectors (i.e., locomotive construction, railcar repair, concrete sleeper production, etc.) and playing a key role in maintaining strong economic relations between Georgia and its partner countries. In particular, the Government has indicated that the development of the country's infrastructure is one of its highest priorities, with the aim of Georgia becoming a large transportation hub and that the Group's railway network is a critical component of that infrastructure. Moreover, the Group's provision of key passenger transportation services at affordable prices is considered akin to a public service obligation and enables the Government to promote regional development. The Group is a major taxpayer and a significant contributor to Georgia's GDP. According to figures published by Geostat, the Group's consolidated revenue represented 0.9% of GDP in 2021, as compared to 1.1% in 2020 and 1.1% in 2019. The Group is also one of the largest corporate employers in Georgia, whose business also supports other employment opportunities in Georgia.

> "The Group is also one of the largest corporate employers in Georgia, whose business also supports other employment opportunities in Georgia"

The Group's tariff policies are not subject to Government regulation and the Group sets its own freight tariff policy independently and without Government approval, despite being a statutory monopoly. In addition, the Group benefits from the strong support of the Government, which is its ultimate shareholder (through the state-owned Partnership Fund). The Group believes that the Government considers it to be a strategically important national asset.

The Government has shown strong support for the Group's initiatives over the years, including the contribution of land and other assets for the Group's Fixed Capital projects (in particular, the Modernization Project and Tbilisi Bypass Project (as defined below)), the exemption of linear infrastructure (such as, railroads and transmission lines) from property tax in Georgia and the agreement on limiting dividend distribution under the Group's existing Eurobonds (and as set out in the Terms and Conditions of the Notes). Given the strong alignment of interests between the Group and Georgia, management believes that the Government will continue supporting the Group's operations.

In addition, pursuant to Georgia's obligations to implement certain EU legislation under the Association Agreement, the Government has an obligation under the EU Social Market Economy principle to compensate the Group for its loss-making passenger transportation business and to subsidize certain of the activities of the Infrastructure SBU. In accordance with the principle set out in the EU Passenger Transportation Regulation for passenger transportation subsidies and prohibition of cross subsidies from freight transportation, in 2020, Parliament adopted an amendment to the Railway Code recognizing railway passenger transportation services as a public service obligation. Accordingly, the Company and the Government are expected to enter into a public service contract to compensate the Passenger SBU losses starting from 2024 or earlier.

STRONG CUSTOMER RELATIONS

Management believes that the Group has developed strong relationships with its key customers. A majority of revenues is from freight forwarding companies, which tend to have a diversified customer base of freight owners, thereby increasing demand for the transport of various types of cargo and multiplying the diversity of the Group's indirect freight-owner customer base. Management believes that the Group's well-established relationships with freight forwarders help foster long-term relationships between the Group and the owners of the cargo. Moreover, several key cargo owners have invested in port infrastructure in Georgia, including at the ports of Batumi, Kulevi and Poti all served by the Group's rail lines, which increases visibility over the need for the Group's freight transportation services in the future. The Group believes that its strong relationship with key customers, assisted by the measured approach of its flexible pricing policy, is a key competitive advantage.

> "Management believes that the Group's well-established relationships with freight forwarders help foster long-term relationships between the Group and the owners of the cargo."

UNIQUE STRATEGIC LOCATION

The Group benefits from its strategic location within the Caucasus region. The Group's railway network comprises a key part of the Caucasus corridor, which is the shortest route from the Caspian Sea to the Black Sea and the Mediterranean basin. The Caucasus corridor is itself part of the TRACECA corridor, an international transportation network involving the EU and 12 states in Eastern Europe, the Caucasus and Central Asia, aimed at development of regional emerging market economies through the promotion of international trade flows. As a link in the transportation chain between Europe and Central Asia, the Group believes it is a key beneficiary of the growing trade between these regions.

> "Management believes that future GDP growth in Georgia and other TRACECA member states will further drive demand for commodities, construction materials and ores, in turn, driving freight volumes travelling through the Caucasus corridor."

The Group believes that its strategic location will enable it to capitalize on increasing trade between Europe and the Caspian Region and Central Asia, as well as the increasing demand for transportation of oil and oil products from Central Asia. By way of example, in 2021, the volumes of products from Turkmenistan transported by the Group increased by 68.1%, as compared to 2020. Notwithstanding the recent impact of COVID-19, the Caucasus region, including Georgia, has experienced and is expected to continue experiencing strong GDP growth. GDP growth is an indicator of freight transportation volumes and the IMF forecasts Georgia's real GDP to grow by 5.8% in 2022. Management believes that future GDP growth in Georgia and other TRACECA member states will further drive demand for commodities, construction materials and ores, in turn, driving freight volumes travelling through the Caucasus corridor. Given its strategic location, as producers seek to diversify their transportation options, the Caucasus corridor should capture a relatively stable share of oil products transported in the region, management believes that future GDP growth in Georgia and other TRACECA member states will further drive demand for commodities, construction materials and ores, which, in turn, will drive freight volumes travelling through the Caucasus corridor.

INTEGRATED FREIGHT AND TRANSPORTATION Company

The Company is, by statute, Georgia's only vertically-integrated railway Company. The Group believes that its future growth is well supported by its own existing and planned infrastructure and asset base. As at 31 December 2021, the Group's railway network was comprised of 1,411 km of track, which is 97% electrified, including a 527 km electrified mainline from the Azerbaijan and Armenian borders to the Black Sea. During the three years ended 31 December 2021, the Group paid GEL 245.2 million to acquire property, plant and equipment, including rolling stock and equipment and to rehabilitate and modernize important infrastructure assets, including rail tracks, electric power supply lines and bridges and tunnels. This includes amounts spent on the Modernization Project.

The Group is undertaking the Modernization Project in order to increase further operational efficiencies. The Company has invested more than GEL 900 million in the Modernization Project, which is expected to improve transportation capacity by 78% and to reduce operating costs by 10% starting from 2023, when the project if completed (see subheading 8.2 ongoing projects in the Company)**.**

As at 31 December 2021, the Group had 4,469 active (7,621 working and 8,601 serviceable) freight railcars, as compared to 4,407 active (7,632 working and 8,622 serviceable) freight railcars as at 31 December 2020. The Group believes that its railcar fleet provides capacity for future growth. The Group has adopted a flexible policy in respect of its rolling stock, which includes refurbishment and works to extend the lifetime of existing rolling stock, as well as both the leasing of tank cars and the selective acquisition of new railcars, locomotives and wagons when there is demand. The Group's Capital Expenditure requirements are reduced by the fact that, as a transit railway, a large portion of the cargo transported by the Group is transported using third-party rolling stock. In the next few years, the Group expects that its principal investments will be aimed at increasing the Group's supply of rolling stock, when such increases are supported by expected increases in volumes to be transported. The Group prepares an annual renovation and repair program in respect of its rolling stock, with the aim of ensuring the availability of sufficient locomotives and rail cars to service its ongoing operations.

STRONG MARGINS AND A SOLID CASH FLOW GENERATION PROFILE BACKED BY FOREIGN CURRENCY-DENOMINATED REVENUE

A significant portion of the Group's operating expenses is fixed and denominated in Lari, which has resulted in relatively stable operating expenditures in recent years, while revenues (primarily denominated in USD) have increased, resulting in an increased Adjusted EBITDA Margin. For the year ended 31 December 2021, the Group had Adjusted EBITDA of GEL 226.6 million and an Adjusted EBITDA Margin of 41.36%, which is one of the highest in the region.

Deregulated tariff policy allows the Group to timely react to market changes and demand. In recent years, management has also made efforts to promote the containerization of the Caucasus corridor and increase the revenue derived from its logistics services. As a result, revenue from logistics services (which, for accounting purposes are classified as part of the freight transportation segment revenues) have become a significant portion of the Group's total revenue, accounting 12.7%of the Group's total 2021 revenue.

A CONTINUOUS FOCUS ON SUSTAINABLE DEVELOPMENT

Since its incorporation in mid 1990s, the Group's railway network has been fully electrified, environmentally friendly mode of transport. The Group operates both freight and passenger transportation using electric locomotives and EMUs and using diesel locomotives only for shunting operations and on non-electrified sidings. The Group is devoted to avoiding, minimizing and mitigating the environmental impact caused by its activities and to improving its overall environmental performance. Effective measures are carried out to protect the environment, which is reflected in the implementation of long-term plans and effective emergency response measures. The Group acts with the slogan "Green is our choice" and contributes to State environmental policy. In addition, the Group has a waste management plan in order to properly utilize and dispose of the waste generated during its operations, with hazardous waste transferred for disposal or remediation on an annual basis.

Through its operation of non-profitable passenger transportation routes, the Company provides an important social function in Georgia by providing affordable domestic passenger transportation.

The Group is the largest employer in Georgia, with 12,414 employees as at 31 December 2021 and offers its employees a range of employee benefits and support systems.

Establishment of the Railway Transport College in 2015 clearly indicates its devotion to provide stable flow of young railroaders to support the need for qualified human capital. The objectives of the Railway Transport College are to develop a dual vocational education method in the railway sector and to improve the railway labor market for the better future of the Company.

Management believes that the focus on the above and other sustainable development matters will enhance its competitive advantage even further.

DIVERSIFIED CARGO PORTFOLIO

The Group transports both dry and liquid cargo. GR transports various dry cargoes, including ores, construction freight, grains, ferrous metals and scrap, chemicals and fertilizers, cement, sugar and other, with no major concentration on any single type of freight. Dry cargo is more diversified than liquid cargo among local, export, import and transit shipments. The Group's ownership of a range of wagon types also supports diversification process. Especially, the increased containerization of the corridor contributes to the diversity of dry cargo that can be transported by the Group, including for example, cotton products, grains, ferrous metals and scrap and refrigerated products.

Management is seeking to increase the Group's profitability by further diversifying the types of cargoes that the Group transports internationally and within Georgia. In this respect, the Group has entered into and renewed contracts with other participants in the TRACECA corridor. The Group has been able to offer uniform shipping conditions to customers, which is important for a transit corridor in which a single shipping chain consists of many carriers. This format includes both container and wagon shipments.

11. RISK AND OPPORTUNITY

Despite the lack of a formal risk management policy, management assesses and addresses risks and opportunities on a daily basis at both the Company and business unit levels. The emphasis is on how changes in culture, politics, technology and the global economy affect our markets, as well as the risks that occur as a result of these changes.

Relevant risks and mitigation actions are listed below:

OPERATIONAL RISKS RELATING TO THE GROUP AND ITS BUSINESS

Economic conditions globally, in Caucasus region and Georgia

The Group's railway network comprises a key segment of the TRACECA corridor. A significant portion of the Group's total revenue is derived from its freight transportation segment, which involves the transport of goods through Georgia from or to neighbouring countries, whose rail networks, together with Georgia's, comprise the TRACECA corridor. The Group's financial condition and results of operations are, therefore, significantly influenced by the overall economic and political conditions affecting both Georgia and neighboring countries.

Because substantially all of the Group's revenues are derived from freight transportation, the results are particularly sensitive to trade flows of commodities that the Group transports, such as oil products, ores, grain and crude oil. Specifically, transit freight volumes are affected by trade between Europe and the member states of the TRACECA corridor, while intra-territorial cargo volumes are affected by economic activity within Georgia.

The COVID-19 has negatively impacted levels of trade and economic activity in Europe, in particular and in several TRACECA members, including Georgia and consequently trade undertaken among and between these countries declined and industrial activity slowed within Georgia. Despite the impact of COVID-19, the Group's revenue from freight traffic increased in 2021

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

To hedge against mentioned risk Group is actively working to diversify its circle of customers and reach new markets.

Harmonization with certain EU legislation

In June 2014, the Government signed an association agreement with the EU, which entered into force on 1 July 2016 (the "Association Agreement"). In addition, Georgia announced in January 2021 its intention to apply for EU membership in 2024 but considering the recent event process has been accelerated and the application was sent in 2022. As a result, the Government is in the process of harmonizing certain business and other standards in Georgia with EU standards to begin the process of integrating Georgia into the EU. Georgia has also previously announced its intention to join the North Atlantic Treaty Organization ("NATO") and contributes to NATO-led operations and co-operate with NATO-led reform efforts to further its goal of Euro-Atlantic integration.

Georgia has undertaken several commitments as part of the objectives agreed upon in the Association Agreement. The directives and regulations defined in the Association Agreement provide, inter alia, the framework for the creation of the common rules of the internal market in the rail transportation sector, which are expected to have a significant impact on the Group and how it conducts its business. In particular, Georgia has undertaken to implement certain provisions of Directive 2012/34 of the European Parliament and of the Council of 21 November 2012 establishing a single European rail area (recast)

("Directive 34"). This directive sets up rules applicable to the management of railway infrastructure and rail transport activities of railway undertakings. According to the Association Agreement, the deadline for implementation of Directive 34 is August 2022. In the short- to medium-term, the Group expects the required "unbundling" to achieve compliance with Directive 34 to take the form of the preparation of independent financial reports for each of the Company's SBUs and, potentially at a later date, the creation of a new holding Company and the splitting of the SBUs into separate wholly-owned subsidiaries.

If the Group becomes subject to increased regulation as a result of harmonization efforts with the EU, whether through tariff setting, licensing, required restructurings, or otherwise, it could hamper the Group's ability to operate its business in the same way as conducted presently.

Competition from alternative routes

The Group faces substantial competition from alternative rail transit routes and providers of other modes of transportation, which has increased in recent years and may continue to increase in the future. The Group's competitors may have more resources and better access to customers than the Group does. The Freight SBU also faces competition from other modes of transport for its freight transportation services, including transport by oil pipelines and in particular, by truck. In recent years, the Freight SBU has faced increased competition from trucking companies, as transportation by truck can, in certain situations and particularly for smaller cargo loads transported domestically, be a more efficient option for the customer. The Group's Passenger SBU faces competition in passenger transportation services from other forms of domestic transport, such as buses, mini-buses, passenger automobiles and airplanes (see heading 9. competition).

To minimize risk, the Group is actively diversifying the list of customers, freight type, implementing modern technologies and optimizing tariffs.

The Group faces risks related to the adverse impact of the pandemic

The outbreak of the COVID-19 pandemic, together with government measures aimed at mitigating the further spread of COVID-19, such as the imposition of quarantines, business closures, travel restrictions and other measures, had and continues to have, a significant adverse effect on the global economy and international financial markets, which have, in turn, adversely affected and may further affect the Group's business, financial condition, results of operations and prospects.

While the temporary restrictions imposed by the Government in 2020 on-air and land transportation positively impacted the freight volumes transported by the Group and its freight transportation segment, which accounted for 92.7% of total revenue for the year ended 31 December 2021, as compared to 95.3% for the year ended 31 December 2020, there can be no assurance that, if the pandemic continues, or worsens, the Group will not experience a decrease in demand for certain of its freight products or its revenue from freight transportation will not otherwise be adversely affected, which was a case in the passenger transportation segment, that was suspended during the period of the restriction imposed by Government.

There can also be no assurance that the demand for the key commodities transported by the Group and their production volumes will not decrease in the future and that no further restrictive measures will be introduced in Georgia as a result of any continued spread or further outbreaks of COVID-19, which could, amongst other things, decrease the Group's revenue, increase its operating expenses such as staff costs, increase its foreign exchange loss and finance costs due to any depreciation of the Lari against the USD, which, in turn, would impair the Group's ability to comply with covenants under its financing arrangements and to service its indebtedness generally.

Furthermore, certain of the Group's customers may be particularly vulnerable to the slowing macroeconomic conditions arising from COVID-19 and may not be in a position to continue or resume business as usual after a prolonged outbreak.

Any of these factors could have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

The long-term impact of the COVID-19 pandemic on the Group's business will depend on a range of factors, which are not possible to predict, including the duration, severity, potential recurrence and scope of the pandemic and the extensiveness of measures adopted by the Government. Should the COVID-19 pandemic continue to adversely affect the Group's business and financial results, it may also have the effect of heightening or aggravating many of the other risks.

Number of customers

The Group has well-established ties with several large customers for its freight services. The Group has historically earned and expects to continue to earn, a significant portion of its revenues from a small Group of large customers.

Several factors, including pricing and market demand for the Group's services, could cause the loss of a customer. Some of these factors may be unforeseeable. Moreover, in its liquid cargo transportation services, in particular, the Group largely works with freight forwarders, who aggregate volumes for the Group to transport. The Group does not have long-term contracts with the ultimate owners whose cargo the freight forwarders aggregate. As a result, there can be no assurance that cargo owners will continue to use the services of the freight forwarders with which the Group has relationships.

As a mitigation of risk, it should be mentioned, that 58% of the volume transported during the last five years are from reoccurring companies, which indicates the stability of customers list.

Aging infrastructure and rolling stock

A substantial portion of the infrastructure owned and operated by the Group, including its track network and the related engineering technology (including signaling and rolling stock maintenance depots), dates back to the Soviet era. Although the condition of this infrastructure is sufficient to carry out the Group's current and planned railway operations without significant disruptions, the Group continues to carry out extensive maintenance and improvement works on much of its network. The Group has already made and intends to continue making, substantial investments to modernize its infrastructure, including through the Modernisation Project. The Group had cash flows used in the acquisition of property, plant and equipment ("Capital Expenditures") of GEL 77.2 million and GEL 55.9 million in the years ended 31 December 2021 and 2020, respectively (see subheadings 5.1 railway property, 7.3 Infrastructure SBU)**.**

The Group owns and operates various freight and passenger transportation assets, including locomotives, railcars, electric multiple units ("EMUs") and other equipment. Although the condition of the Group's rolling stock and related assets is sufficient to carry out the Group's current railway operations without significant disruptions, the Group continues to carry out refurbishment works and, to the extent such rolling stock and related assets reach the end of their useful operating life (as extended by any capital repairs), they will require replacement. (see subheadings 7.2 Passenger Transportation SBU)**.**

Insufficient supply of, or increases in the price of, rolling stock

There are a relatively limited number of quality rolling stock manufacturers in Georgia and the region and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of railcar to another is limited. A significant part of the rolling stock fleet operated by the Group is aging and may require replacement.

To mitigate the risk of insufficient supply for rolling stock, the Group prepares an annual renovation and repair programme in respect of its rolling stock, intending to ensure the availability of sufficient locomotives and rail cars to service its ongoing operations and controlling utilization of such rolling stocks.

The Group's passenger services

One of the Group's medium-term strategic objectives is to reduce the expenses and increase the revenue of the Passenger SBU by increasing the number of passengers and achieving increased revenue per passenger. Historically, however, the Group's passenger transportation services have generated net losses. The passenger transportation segment had a loss before infrastructure costs, net impairment, interest cost and income tax of GEL 21.3 million in 2021, as compared to losses of GEL 24.8 million and GEL 4.5 million in 2020 and 2019, respectively. There can be no assurance that the Group's planned investment in new rolling stock to increase speed, decrease maintenance expenses and improve passenger comfort will enable it to increase passenger transportation tariffs or generate profits from its passenger rail operations. Historically, passenger tariffs have remained relatively low due to the social importance to the Government of the Group's provision of affordable passenger transportation services. Moreover, given the social importance of its passenger services, the Group may be constrained in removing or reducing services on certain passenger routes, even where such routes are not economical.

Following the principles set out in Regulation (EC) #1370/2007 (the "EU Passenger Transportation Regulation"), the Company and the Government are expected to enter into a public service contract for compensation for the losses of the Passenger SBU starting from 2024 or earlier. This contract is expected to set out the conditions for the agreement of costs between the Company and the Government or relevant competent authority, as well as the compensation to be granted to the Company for operating non-profitable passenger routes.

A major accident, derailment, or other incidents

The Group owns and operates the tracks, stations and other infrastructure and rolling stock comprising Georgia's entire national railway. As a result, the Group's infrastructure and transportation operations may be adversely affected by many factors, including accidents, derailments, the breakdown or failure of equipment or processes, natural disasters. A major incident could result in fatalities, damage to, or loss of, the Group's infrastructure or rolling stock and disruption to the Group's services, which could give rise to potential claims against the Group by freight shippers, injured passengers and others. A major rail accident or derailment involving oil or oil products cargo could also result in substantial environmental remediation costs. The Group did not experience any freight train derailments in 2021. The Group experienced no employee fatalities in 2021.

Negative publicity concerning any accident or derailment, even if caused by rolling stock not owned by the Group, could also have a material adverse effect on the Group's reputation and the attractiveness of its services in the future.

The Group is largely "self-insured", the Group does not carry external liability insurance or business interruption insurance concerning these matters. A significant uninsured event would cause the Group to incur additional expenses.

Group carries out permanent training and inspection to mitigate the risk of derailment and accident (see subheading 5.2 insurance,safety and failures).

Decisions and limitations in the capacity of other regional rail operators

The Group's mainline rail network comprises a key segment of the TRACECA corridor and, together with Azerbaijan Railway, forms the Caucasus corridor. Because the rail networks of TRACECA members are interlinked, capacity or other limitations of other regional rail networks, particularly Azerbaijan Railway, can constrain the Group's operations. Transit shipments are a significant portion of the Group's transportation volumes, accounting for 55.5% and 50.1% of the Group's total transportation volumes in the years ended 31 December 2021 and 2020, respectively.

In addition, railcars not owned by the Group may be used on the Group's rail network, as parties to the Tariff Agreement have the right to use their railcars on freight routes throughout the rail network of the member states. Operational decisions of other regional rail networks that result incapacity or other limitations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. To prevent such a development of events Group is permanently monitoring its railcar's condition and utilization (see heading 5. the Group's infrastructure).

Operations at seaports and terminals

Three of the Group's railway lines terminate at cargo or oil terminals at the Black Sea ports of Batumi, Poti and Kulevi, through or at which the majority of the freight the Group transports is received, stored, or on-shipped. Accordingly, the Group's freight operations are exposed to the risk of interruption at the ports or terminals, which may prevent the Group from delivering or receiving cargo to be transported at the ports or stored at the terminals. Any sustained disruption at the port or terminal facilities, including concerning the transportation of cargo to and from the Group's operations to the ships or terminal facilities.

Georgian seaports are an essential part of a logistical chain, accordingly owning and operating companies permanently invest in existing and new assets (see 8.3 ongoing projects in the corridor)**.**

Energy cost

Costs related to energy and particularly electricity, constitute a significant portion of the Group's operating expenses, making its operating expenses sensitive to changes in energy prices. Electricity costs include principally the costs of the electricity used to move the Group's locomotives and vehicles and the electricity used in the Group's buildings. Approximately 97% of the Group's railway network is electrified. The Group also uses diesel-powered shunting locomotives. Significant increases in the cost of electricity or diesel fuel, including as a consequence of increased regulation or taxation of greenhouse gases, could adversely affect the Group's operating expenses and results.

In September 2011, the Company agreed to the purchase and sale of electricity with JSC EnergoPro Georgia ("EnergoPro Georgia"), which fixed tariffs for electricity for ten years (the "Electricity Agreement"), securing a price for more than 90% of the Group's electricity needs. The Electricity Agreement was due to expire in September 2021, however, since July 2021, the Group has to purchase electricity on the open market, according to structural changes made to Georgian electricity market under Resolution #46 of 2020 of Georgian National Energy and Water Supply Regulatory Commission on Approving Electricity Market Rules.

As a result, electricity cost has increased by 58% in 2021 compared to 2020. Thus Any increase in electricity tariffs or other energy prices could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Market participants are still learning new game rules and avoid long-term contracts. Once the situation has stabilized, we expect to have long-term, stable tariffs.

Environmental and health and safety laws and regulations

The Group is subject to various environmental protection and occupational health and safety laws and regulations relating to the protection of the environment and protection of human health and safety in Georgia. These laws and regulations set various standards regulating certain aspects of health, safety, security and environmental quality and they provide for civil and criminal penalties and other liabilities for the violation of such standards and may in certain circumstances impose obligations to remediate current and former facilities and locations where operations are or were carried out. The cost of environmental and health and safety compliance in the future and potential liability due to any environmental damage that may be caused by the Group or that may already exist on land owned by the Group or any health and safety violations committed by the Group could be material.

To mitigate such an outcome, the Group is permanently monitoring its effect on the environment and so far, no official sanctions and penalties incurred. Group carries out permanent trainings to mitigate the risks related to environmental, health and safety issues.

FINANCIAL RISKS

Credit risk

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.

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. 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 working 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.

Typically, the Group receives advance payments for its freight transportation services. The Group neither receives nor makes payments from or to foreign railway companies for the usage of the Group's freight cars on their rail networks.

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 aims to have 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.

Foreign currency exchange risk

The Group's reporting currency is the Lari. There is a mismatch between the denomination of the Group's revenues, which are predominantly denominated in foreign currencies and expenses, which are largely denominated in Lari. For example and to a material extent, the Group enters into transactions denominated in USD and, to a lesser extent, Swiss Francs and carries a portion of its liabilities and assets in such currencies and the remainder in Lari. Therefore, variations between the rate of exchange among the USD, the Swiss Franc and the Lari had and will continue to have, some effect on the 17 Group's results of operations.

The Group quotes its freight tariffs in USD. In addition, a significant part of the Group's Capital Expenditures and its operating expenses, including the Group's rental charges for using the railcars of other national railway operators, have been and continue to be denominated in Swiss Francs. In addition, as at 31 December 2021, the Group's outstanding current and non-current loans and borrowings, which were GEL 1,606.8 million, were denominated in USD. The Group also incurs a portion of its trade payables in USD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FY 2021 AND Q4 2021

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

Revenue

Q4 2021	FY 2021
138,917	547,868
+11.0% from Q4 2020 +5.8% from Q3 2021	+12.0% from FY 2020

Results from operating activities

Q4 2021	FY 2021
39,169	165,388
+8.1% from Q4 2020 +18.7% from Q3 2021	+28.0% from FY 2020

Adjusted EBITDA

Q4 2021	FY 2021
47,074	226,576
+1.2% from Q4 2020 -7.3% from Q3 2021	+3.5% from FY 2020

Adjusted EBITDA margin

Q4 2021	FY 2021
33.89%	41.36%
-3.3 points from Q4 2020 -4.8 points from Q3 2021	-3.4 points from FY 2020

Net cash investment in PP&E

Q4 2021	FY 2021
12,728	74,254
+282% from Q4 2020 +449% from Q3 2021	+38.6% from FY 2020

Net debt to Adjusted EBITDA

31 Dec 2021	31 Dec 2020
5.88	6.35
5.71 as at 30 Sep 2021	

Tons ('000)

Q4 2021	FY 2021
3,080	12,131
+4.2% from Q4 2020 +1.4% from Q3 2021	+9.6% from FY 2020

TKM (in million)

Q4 2021	FY 2021
836	3,291
+9.7% from Q4 2020 +4.9% from Q3 2021	+13.7% from FY 2020

N of Passengers ('000)

Q4 2021	FY 2021
217	816
+202.4% from Q4 2020 - 39.7% from Q3 2021	-13.1% from FY 2020

Passenger-kilometers (in million)

Q4 2021	FY 2021
70	273
+234.6% from Q4 2020 - 44.5% from Q3 2021	+10.7% from FY 2020

MAIN DEVELOPMENTS IN 2021

- Freight volume increased by 10 percent;
- In December 2021 Fitch affirmed Long-term outlook to "stable" and "BB-" rating, in March 2022 "S&P" affirmed "B+" rating and outlook to "positive" from "stable".

I. PROFIT OR LOSS STATEMENT

PROFIT AND LOSS STATEMENT

For the year ended 31 December	TOTAL		CHANGE		
'000 GEL	2021	2020	%	% constant currency	Absolute
Revenue	547,868	489,370	12.0%	8.1%	58,498
Other income	8,951	12,547	-28.7%	-31.1%	-3,595
Impairment loss on trade receivables	-2,791	-13,560	-79.4%	-80.1%	10,769
Employee benefits expense	-180,701	-170,502	6.0%	2.3%	-10,199
Depreciation and amortization	-58,397	-76,156	-23.3%	-26.0%	17,758
Electricity, consumables and maintenance costs	-54,566	-41,411	31.8%	27.2%	-13,155
Other expenses	-94,975	-71,042	33.7%	29.1%	-23,933
Result from operating activities	**165,388**	**129,246**	**28.0%**	**23.5%**	**36,144**
Net finance income/loss	**-112,177**	**-293,376**	**-61.8%**	**-63.1%**	**181,198**
Profit before income tax	**53,211**	**-164,130**	**-132.4%**	**-131.3%**	**217,341**
Income tax expense(benefit)	-500	-514	-2.7%	-6.1%	14
Profit and total comprehensive income	**52,711**	**-164,644**	**-132.0%**	**-130.9%**	**217,355**
Adjusted EBITDA	**226,576**	**218,962**	**3.5%**	**-0.1%**	**7,614**
Adjusted EBITDA Margin	**41.36%**	**44.74%**	**NA**	**NA**	**-3.4%**

*Adjusted EBITDA and EBITDA in previous reports are calculated using the same methodology

PROFIT AND LOSS STATEMENT(QUARTERLY)

For the period ended

'000 GEL	Q4 2021	Q4 2020	y-o-y	Q3 2021	q-o-q
Revenue	138,917	125,128	11.0%	131,324	5.8%
Other income	3,988	2,838	40.5%	1,468	171.7%
Impairment loss on trade receivables	-1,893	6,135	-130.9%	-412	359.5%
Employee benefits expense	-53,575	-47,751	12.2%	-42,501	26.1%
Depreciation and amortization	-6,011	-16,418	-63.4%	-17,388	-65.4%
Electricity, consumables and maintenance costs	-18,304	-11,064	65.4%	-14,618	25.2%
Other expenses	-23,952	-22,623	5.9%	-24,870	-3.7%
Result from operating activities	**39,170**	**36,246**	**8.1%**	**33,004**	**18.7%**
Net finance income/loss	**2,790**	**-31,125**	**-109.0%**	**9,982**	**-72.0%**
Profit before income tax	**41,961**	**5,121**	**719.4%**	**42,987**	**-2.4%**
Income tax expense(benefit)	-109	-128	-14.8%	-93	16.0%
Profit and total comprehensive income	**41,852**	**4,993**	**738.2%**	**42,893**	**-2.4%**
Adjusted EBITDA	**47,074**	**46,529**	**1.2%**	**50,803**	**-7.3%**
Adjusted EBITDA Margin	**33.89%**	**37.19%**	**NA**	**38.69%**	**NA**

*Adjusted EBITDA and EBITDA in previous reports are calculated using the same methodology

1.1 REVENUE

Most of the Group's revenue (about 65 percent in 2021) 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 70 percent of freight transportation revenue in 2021. The transit transportation volume mainly comes from trade between Europe and Central Asia.

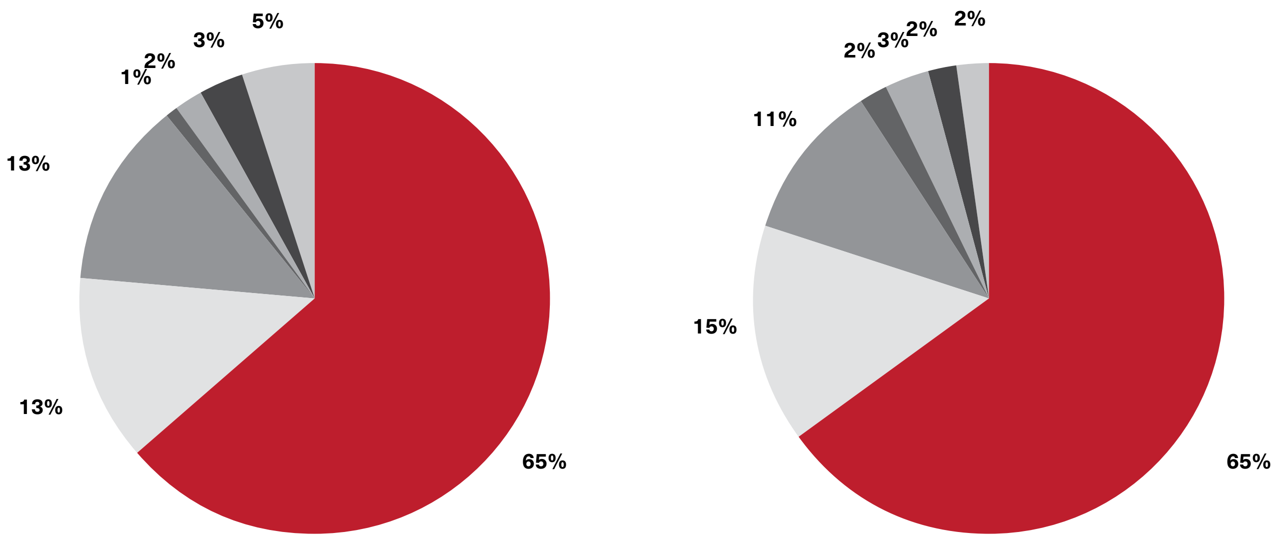
REVENUE BREAKDOWN

For the year ended 31 December	TOTAL		CHANGE		
'000 GEL	2021	2020	%	% constant currency	Absolute
Freight transportation	353,929	316,452	11.8%	8.0%	37,477
Freight handling	69,865	72,855	-4.1%	-7.4%	-2,990
Logistical service	69,371	54,106	28.2%	23.8%	15,265
Rent of wagons and other rental income	4,647	8,838	-47.4%	-49.2%	-4,191
Freight car cross-border charge	9,910	14,147	-29.9%	-32.4%	-4,237
Passenger traffic	14,808	11,201	32.2%	27.6%	3,606
Other	25,337	11,770	115.3%	107.8%	13,567
Revenue	**547,868**	**489,370**	**12.0%**	**8.1%**	**58,497**
Other income	8,951	12,547	-28.7%	-31.1%	-3,596

REVENUE BREAKDOWN (QUARTERLY)

For the period ended '000 GEL	Q4 2021	Q4 2020	y-o-y	Q3 2021	q-o-q
Freight transportation	89,950	84,852	6.0%	81,935	9.8%
Freight handling	18,198	19,079	-4.6%	16,162	12.6%
Logistical service	19,792	14,728	34.4%	15,288	29.5%
Rent of wagons and other rental income	797	1,056	-24.5%	1,444	-44.8%
Freight car cross-border charge	2,432	3,189	-23.7%	2,327	4.5%
Passenger traffic	3,505	922	280.2%	7,411	-52.7%
Other	4,243	1,302	225.9%	6,757	-37.2%
Revenue	**138,917**	**125,128**	**11.0%**	**131,324**	**5.8%**
Other income	3,988	2,838	40.5%	1,468	171.7%

The following charts represent the revenue breakdown for the full years of 2021 and 2020:



Freight transportation

Freight handling

Logistical service

Rent of wagons and other rental income

Freight car cross-border charge

Passenger traffic

Other

FREIGHT TRANSPORTATION

The Group's freight transportation revenue consists of liquid and dry cargoes. The split between liquid and dry cargo revenue in 2021 was about 43 percent and 57 percent, respectively.

The majority of GR's freight volumes were transported from Azerbaijan, Turkmenistan, Russia and Georgia (about 25 percent, 16 percent, 14 percent and 11 percent of transportation revenue in 2021, respectively). The main destination countries were Georgia, Armenia and Azerbaijan (about 19 percent, 15 percent and 12 percent of transportation revenue in 2021, respectively). About 3 percent of total transportation revenue in 2021 was generated by domestic transportation.

FREIGHT TRANSPORTATION REVENUE BREAKDOWN

For the year ended 31 December	TOTAL		CHANGE		
'000 GEL	2021	2020	%	% constant currency	Absolute
Freight transportation	**353,929**	**316,452**	**11.8%**	**8.0%**	**37,477**
Liquid cargoes	**150,465**	**121,466**	**23.9%**	**19.6%**	**28,999**
Oil products	149,125	121,227	23.0%	18.8%	27,897
Crude oil	1,340	239	460.7%	441.3%	1,101
Dry cargoes	**203,464**	**194,986**	**4.3%**	**0.7%**	**8,478**
Ores	32,467	33,209	-2.2%	-5.6%	-742
Grain	6,538	8,042	-18.7%	-21.5%	-1,503
Ferrous metals and scrap	11,165	11,484	-2.8%	-6.1%	-320
Sugar	12,083	12,059	0.2%	-3.3%	24
Chemicals and fertilizers	33,434	22,860	46.3%	41.2%	10,574
Construction freight	6,234	6,994	-10.9%	-13.9%	-760
Industrial freight	6,071	6,173	-1.7%	-5.0%	-102
Cement	444	620	-28.4%	-30.9%	-176
Other	95,028	93,546	1.6%	-1.9%	1,482
Freight turnover (million ton-km)	**3,291**	**2,895**	**13.7%**	**9.8%**	**396**
Revenue / ton-km (in Tetri)	**10.75**	**10.93**	**-1.6%**	**-3.5%**	**-0.18**

FREIGHT TRANSPORTATION REVENUE BREAKDOWN (QUARTERLY)

For the period ended '000 GEL	Q4 2021	Q4 2020	y-o-y	Q3 2021	q-o-q
Freight transportation	**89,950**	**84,852**	**6.0%**	**81,935**	**9.8%**
Liquid cargoes	**29,883**	**35,846**	**-16.6%**	**37,960**	**-21.3%**
Oil products	29,097	35,846	-18.8%	37,474	-22.4%
Crude oil	786	0	100.0%	486	61.7%
Dry cargoes	**60,067**	**49,006**	**22.6%**	**43,975**	**36.6%**
Ores	6,936	6,166	12.5%	9,200	-24.6%
Grain	4,100	1,708	140.0%	351	1068.1%
Ferrous metals and scrap	2,468	2,498	-1.2%	3,015	-18.1%
Sugar	3,770	5,108	-26.2%	-2,932	-228.6%
Chemicals and fertilizers	11,464	5,653	102.8%	7,098	61.5%
Construction freight	1,558	1,693	-8.0%	1,579	-1.3%
Industrial freight	1,926	1,748	10.2%	1,192	61.6%
Cement	135	221	-38.9%	76	77.6%
Other	27,709	24,210	14.5%	24,396	13.6%
Freight turnover (million ton-km)	**836**	**762**	**9.7%**	**797**	**4.9%**
Revenue / ton-km (in Tetri)	**10.76**	**11.14**	**-3.4%**	**10.28**	**4.7%**

Revenue from Freight transportation is dominated in USD by 99.9 percent.

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

Transportation volume – measured in tons transported.

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

Revenue per ton-kilometer – 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 the 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 operating expenses are denominated in Georgian Lari.

AVERAGE EXCHANGE RATES

	Q4 2021	Q4 2020	% Change	Q3 2021	% Change	2021	2020	% Change
USD	3.13	3.27	-4.44%	3.12	0.15%	3.22	3.11	3.58%
CHF	3.39	3.62	-6.31%	3.40	-0.30%	3.52	3.32	6.24%

REPORTING DATE SPOT RATES

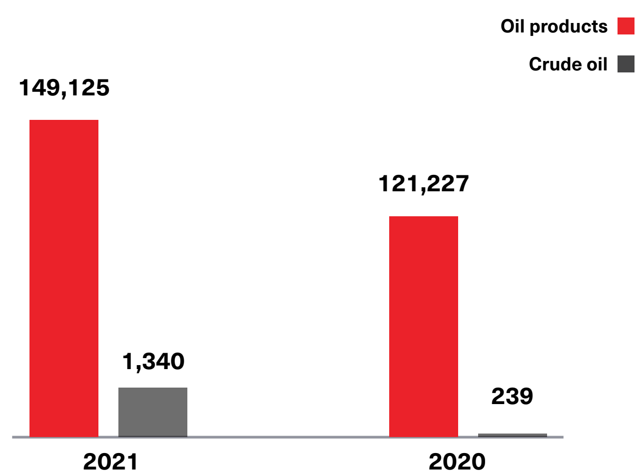
	31-Dec-21	31-Dec-20	% Change	30-Sep-21	% Change	31-Dec-19
USD	3.10	3.28	-5.46%	3.12	-0.81%	2.87
CHF	3.38	3.71	-8.98%	3.36	0.45%	2.95

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 2021, about 84 percent of crude oil and oil products were transported from three countries (Azerbaijan, Turkmenistan and Russia,) with destinations to Europe, Georgia and various other countries.

Most of the Group's liquid cargo revenue comes from oil products (about 99 percent).

BREAKDOWN OF LIQUID CARGO REVENUE (‘000 GEL)



OIL PRODUCTS

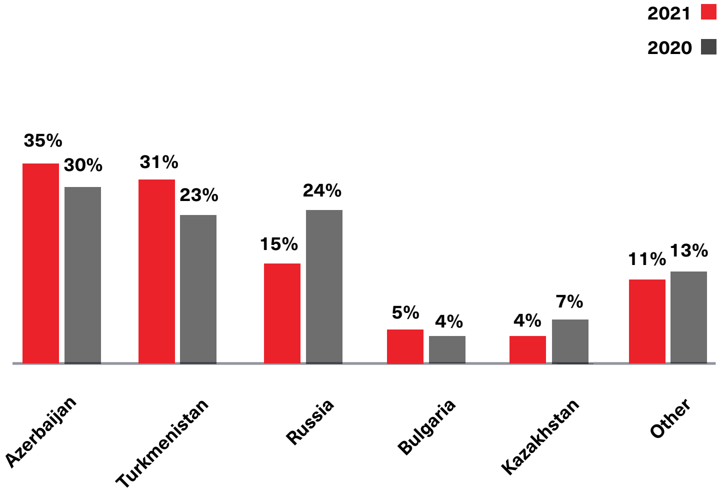
Revenue from the transportation of oil products for Q4 2021 decreased by 18.8 percent, compared to Q4 2020 and by 22.4 percent, compared to Q3 2021.

Main directions of cargo

Oil products are currently the main component of liquid cargo. They are mainly transported by rail, as there is practically no competition from pipelines.

Oil products transported by the Group during 2021 mainly originated from Azerbaijan, Turkmenistan, Russia and Bulgaria with changes in the transportation direction mix compared to the same period of 2020. The shares of Russia and Kazakhstan were down by 9 percent and 3 percent, respectively, while the shares of Turkmenistan and Azerbaijan increased by 8 percent and 5 percent respectively in total oil products transported by the Group.

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



OIL PRODUCTS

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	149.12	121.23	23.0%	18.8%
Freight volume (million tons)	3.69	3.04	21.4%	NA
Freight turnover (million ton-km)	1,160.98	882.94	31.5%	NA
Revenue / ton-km (in Tetri)	12.84	13.73	-6.4%	-9.7%

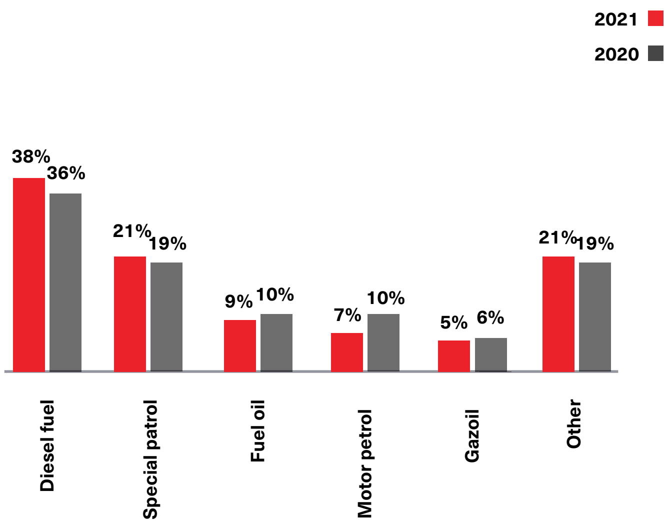
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

Factors influencing performance

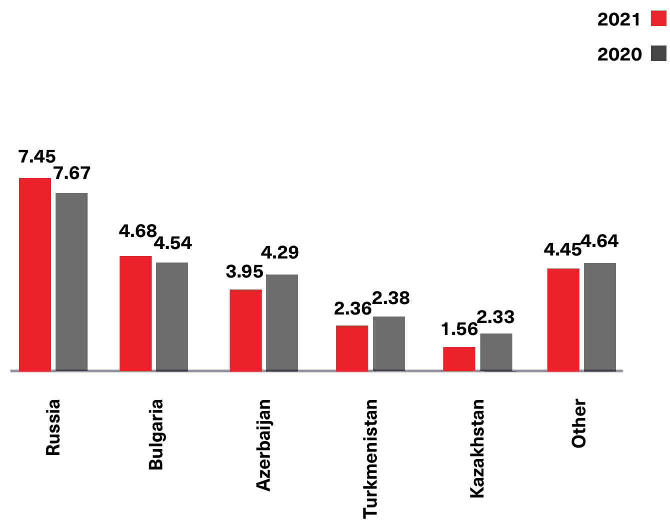
Ton-kilometers – about a 32 percent increase in transportation turnover was mainly driven by increased transported volume by 21 percent, which was largely caused by increased volumes from Turkmenistan and Azerbaijan by 442,000 tons and 377,000 tons, respectively in 2021, compared to 2020.

Revenue/ton-km (in Tetri) – about 6 percent decrease in average revenue per ton-kilometer during the period under review, compared to the same period of the previous year, was mainly due to changes in the product direction mix. The share of Russia (which is a relatively more profitable direction) decreased, while the share of Turkmenistan (which is a relatively less profitable direction) increased. As well as, the share of volume transported to Georgia (which is a relatively more profitable direction) decreased, while the share of volume transported to Italy (which is a relatively less profitable direction) increased.

PRODUCT CATEGORY MIX



AVERAGE REVENUE PER TKM (CENTS)



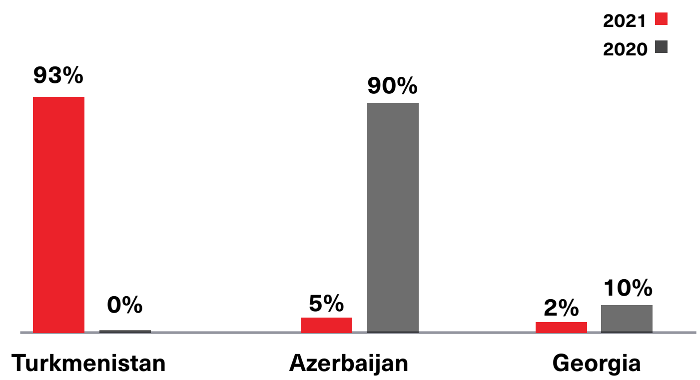
CRUDE OIL

Revenue from crude oil transportation in Q4 2021 was GEL 0.8 million, while there was no crude oil transportation in Q4 2020. The revenue from the transportation of mentioned product in Q4 2021 increased by 61.7 percent, compared to Q3 2021.

Main directions of cargo

The crude oil transported by Georgian Railway in 2021 originated from Turkmenistan (about 93 percent) and Azerbaijan (about 5 percent).

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



CRUDE OIL

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	1.34	0.24	460.9%	441.5%
Freight volume (million ton)	0.07	0.01	1191.3%	NA
Freight turnover (million ton-km)	28.09	2.00	1305.9%	NA
Revenue / ton-km (in Tetri)	4.77	11.96	-60.1%	-61.5%

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

Factors influencing performance

Ton-kilometers – significant increase in transportation turnover was caused by increased transported volumes from Turkmenistan by 66.7 million tons.

Revenue/ton-km (in Tetri) – a 60 percent decrease in average revenue per ton-kilometer during the period under review, was driven by lower tariffs put on transportation from Turkmenistan, which is the main origin country in 2021.

DRY CARGO

Dry cargo contributed about 57 percent of total transportation revenue in 2021. The major factors driving the transportation of dry cargo are general national economic conditions and economic developments in Georgia and partnering countries, such as Turkey, Azerbaijan, Armenia, Turkmenistan, Kazakhstan and other CIS countries.

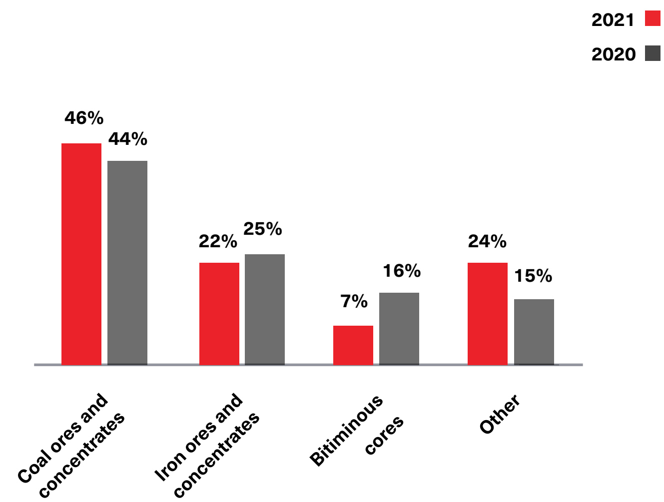
ORE PRODUCTS

Revenue from the transportation of ore products for Q4 2021 increased by 12.5 percent, compared to Q4 2020, but decreased by 24.6 percent, compared to Q3 2021.

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 for ore products transported by the Group are Georgia, China, and Bulgaria. Ore products transported by the Group in 2021 mostly comprise coal ores and concentrates (about 46 percent), iron ores and concentrates (about 22 percent), and bituminous coal (about 7 percent).

PRODUCT CATEGORY MIX



ORES PRODUCTS

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	32.47	33.21	-2.2%	-5.6%
Freight volume (million ton)	1.87	1.88	-0.2%	NA
Freight turnover (million ton-km)	316.78	326.50	-3.0%	NA
Revenue / ton-km (in Tetri)	10.25	10.17	0.8%	-2.7%

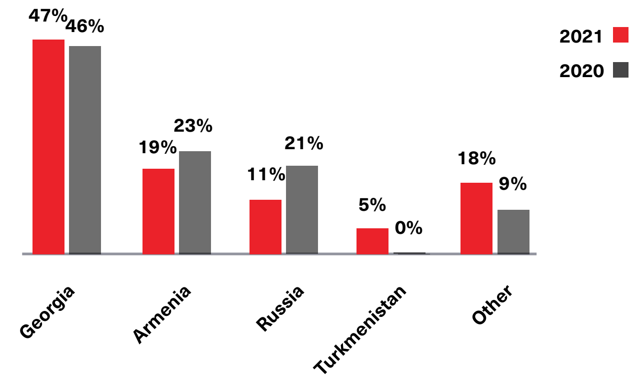
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

Factors influencing performance

Ton-kilometers **– a 3 percent decrease in freight transportation turnover was mainly due to a decrease in transported volumes from Russia and Armenia, by 192,000 tons and 92,000 tons, respectively.**

Revenue/ton-km (in Tetri) **– the average revenue per ton-kilometer in 2021 remained at about the same percent, compared to 2020. There were no significant changes in product direction mix and product category mix.**

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



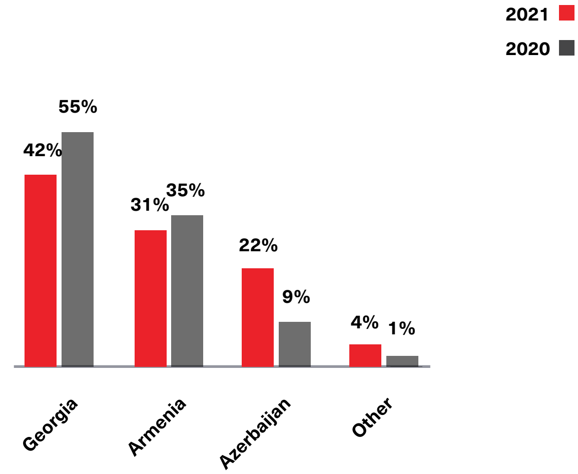
GRAIN AND GRAIN PRODUCTS

Revenue from the transportation of grain and grain products for Q4 2021 increased by GEL 2.4 million, compared to Q4 2020 and by GEL 3.7 million, compared to Q3 2021.

Main directions of cargo

The transported volume of wheat represents about 64 percent of total grain and grain products transported in 2021. The main countries of origin for grain and grain products during the period under review, were Russia, Ukraine and India with 64 percent, 12 percent and 7 percent, respectively. The main destination countries were Georgia, Armenia and Azerbaijan, by 42 percent, 31 percent and 22 percent, respectively in 2021.

TRANSPORTATION VOLUME BY DESTINATION COUNTRIES



GRAIN AND GRAIN PRODUCTS

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	6.54	8.04	-18.7%	-21.0%
Freight volume (million ton)	0.19	0.31	-38.5%	NA
Freight turnover (million ton-km)	50.25	71.99	-30.2%	NA
Revenue / ton-km (in Tetri)	13.01	11.17	16.5%	13.1%

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

Factors influencing performance

Ton-kilometers **– reduction of freight turnover by about 30 percent was mainly caused by the decreased transported volumes from Russia by 133,000 tons.**

Revenue/ton-km (in Tetri) **– about a 17 percent increase in average revenue per ton-kilometer was driven by a change in the product category mix. The average revenue per tkm for soybeans (which is a more profitable product) increased, while the share of rice (which is a relatively less profitable product) decreased, during 2021, compared to 2020.**

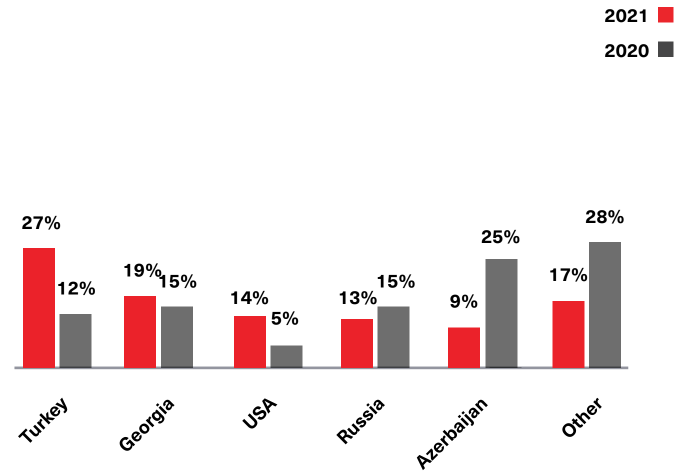
FERROUS METALS AND SCRAP

Revenue from the transportation of ferrous metals and scrap for Q4 2021 decreased by 1.2 percent, compared to Q4 2020 and by 18.1 percent compared to Q3 2021.

Main directions of cargo

The main destination countries for ferrous metals and scrap during the period under review were Turkey, Georgia, the USA, Russia and Azerbaijan, together representing 83 percent of the total volume transported in 2021. Ferrous metals and scrap transported by the Group during 2021 mainly originated from Georgia, Russia, Ukraine and China, together generating 92 percent of the total ferrous metals and scrap transported in 2021.

TRANSPORTATION VOLUME BY DESTINATION COUNTRIES



FERROUS METALS AND SCRAP

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	11.16	11.48	-2.8%	-4.8%
Freight volume (million ton)	0.58	0.53	7.8%	NA
Freight turnover (million ton-km)	124.96	130.00	-3.9%	NA
Revenue / ton-km (in Tetri)	8.93	8.83	1.1%	-1.0%

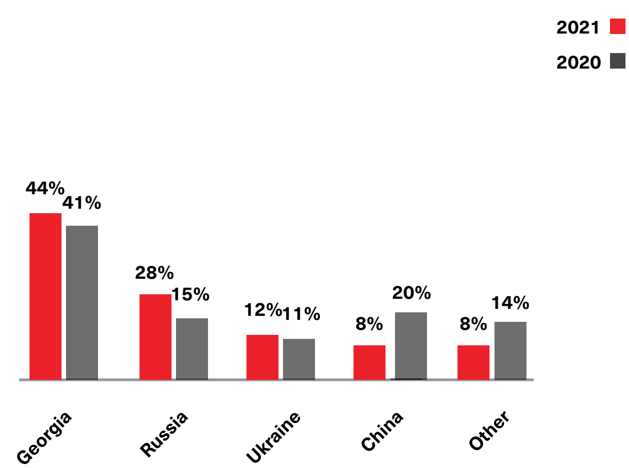
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

Factors influencing performance

Ton-kilometers **– 4 percent decrease in freight turnover was mainly caused by a decrease in average transportation distance, which was on its own driven by a reduced share of freight transported from China (which covers a relatively longer distance) in total volume transported in 2021, compared to 2020.**

Revenue/ton-km (in Tetri) **– 1 percent increase in average revenue per ton-kilometer was mainly driven by changes in the product direction mix and the product category mix. The share of Ukraine (which is relatively more profitable direction) has increased, while the share of China (which is relatively less profitable direction) has decreased. As well as, the share of flat-rolled products and silicomanganese (which are relatively more profitable products) have increased in total ferrous metals and scrap transported by the Group, while the share of bars of iron or non-alloy steel (which is relatively less profitable product) has decreased.**

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN

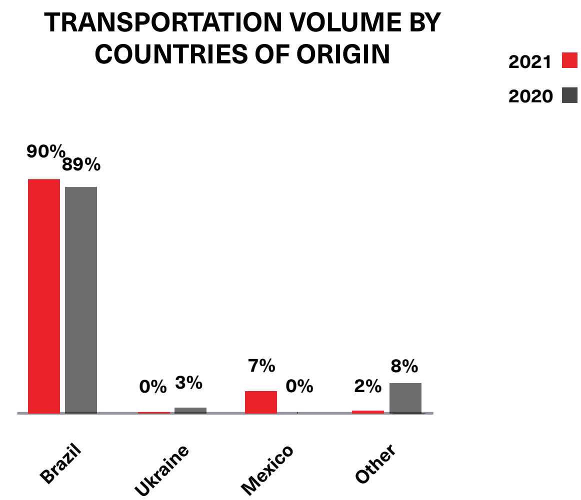


SUGAR

Revenue from the transportation of sugar for Q4 2021 decreased by 26.2 percent, compared to Q4 2020. Negative figures of revenue from Sugar in Q3 2021, was due to special tariffs set on the clients for maintaining competitive edge.

Main directions of cargo

Brazil was the main country of origin for transported volumes of sugar in 2021 and 2020, with a share of 90 percent and 89 percent, respectively. The main destination countries of sugar were Azerbaijan, Georgia and Armenia (consisting of 98 percent of the total volume transported by the Group).



SUGAR

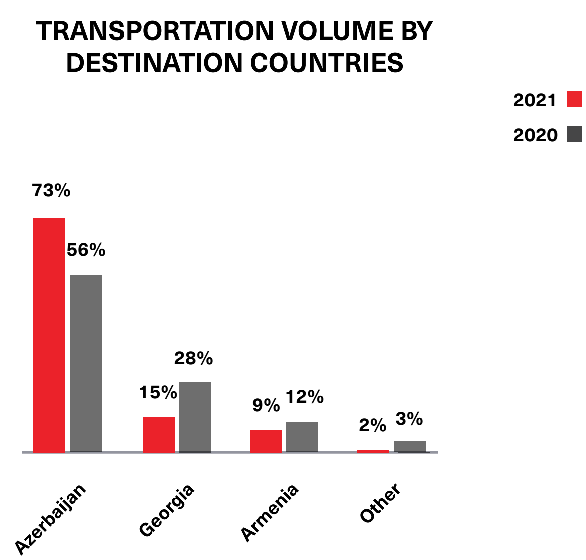
	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	12.08	12.06	0.2%	-3.3%
Freight volume (million ton)	0.42	0.28	47.5%	NA
Freight turnover (million ton-km)	155.61	98.21	58.5%	NA
Revenue / ton-km (in Tetri)	7.77	12.28	-36.8%	-38.9%

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

Factors influencing performance

Ton-kilometers – **a 59 percent increase in freight turnover during the period under review, compared to the same period of the previous year, was mainly driven by the rise in transportation of sugar from Brazil and Mexico by 126,000 tons and by 30,000 tons, respectively.**

Revenue/ton-km (in Tetri) – **a 37 percent decrease in average revenue per ton-kilometer was due to a higher increase in average haul, rather than in revenue, which in turn is related to the increased share of volumes transported from/to the countries covering longer distances in 2021, compared to 2020.**



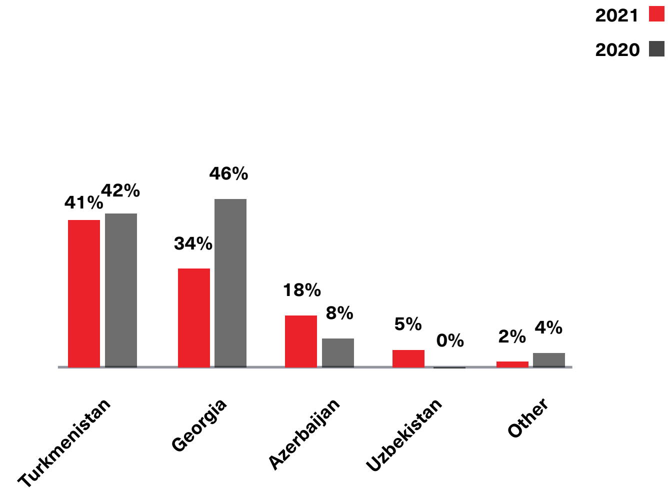
CHEMICALS AND FERTILIZERS

Revenue from the transportation of chemicals and fertilizers for Q4 2021 increased by about 102.8 percent compared to Q4 2020 and by 61.5 percent, compared to Q3 2021.

Main directions of cargo

The main countries of origin for transported volumes of chemicals and fertilizers during the period under review were Turkmenistan, Georgia and Azerbaijan, together generating 93 percent of the total volume transported in 2021. Chemicals and fertilizers were mainly transported to Black Sea ports. In 2021, the Group mainly transported ammonium nitrate and urea under the chemicals and fertilizers freight category, with 34 percent and 64 percent of the total share, respectively.

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



CHEMICALS AND FERTILIZERS

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	33.43	22.86	46.3%	41.2%
Freight volume (million ton)	1.34	0.94	42.2%	NA
Freight turnover (million ton-km)	458.57	308.65	48.6%	NA
Revenue / ton-km (in Tetri)	7.29	7.41	-1.6%	-5.0%

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

Factors influencing performance

Ton-kilometers – **a 49 percent increase in transportation turnover during 2021, compared to 2020, was mainly driven by a significant increase in freight volumes from Azerbaijan and Turkmenistan, 170,000 tons and 152,000 tons respectively.**

Revenue/ton-km (in Tetri) – **a 2 percent decrease in average revenue per ton-kilometer was mainly due to changes in the product direction mix and the product category mix. The share of Brazil and Turkey has increased (which are relatively less profitable directions) by 9 percent and 5 percent, respectively, while the share of other countries (which are relatively more profitable directions) remained at about the same level, in 2021 compared to 2020. In addition, share of Urea has increased (which is relatively less profitable product) by 14 percent, which led to decrease in average revenue/ton-km.**

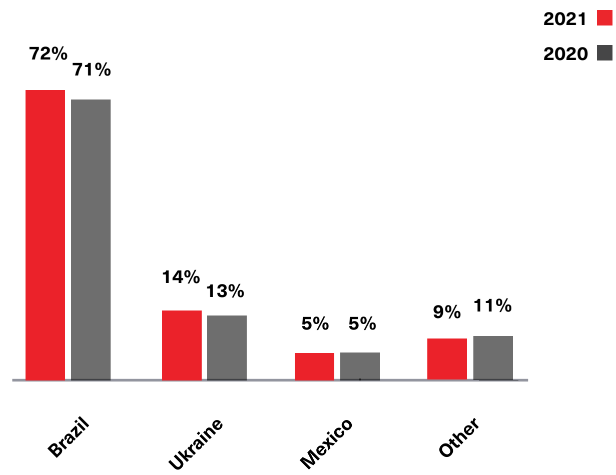
CONSTRUCTION FREIGHT

Revenue from the transportation of construction freight for Q4 2021 decreased by 8.0 percent, compared to Q4 2020 and by 1.3 percent, compared to Q3 2021.

<u>Main directions of cargo</u>

Transportation of construction freight is correlated with the activities of the construction sector in Georgia. The share of construction freight transported within Georgia was about 72 percent. The second-largest country of origin after Georgia in 2021 and 2020 was Azerbaijan, with 14 percent and 13 percent of the total transported volume of construction freight, respectively. The main products under the construction freight category were limestone and gypsum, with 61 percent and 14 percent, respectively, in total construction freight transported in 2021.

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



CONSTRUCTION FREIGHT

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	6.23	6.99	-10.9%	-1.5%
Freight volume (million ton)	0.93	0.91	2.6%	NA
Freight turnover (million ton-km)	135.23	141.68	-4.6%	NA
Revenue / ton-km (in Tetri)	4.61	4.94	-6.6%	3.3%

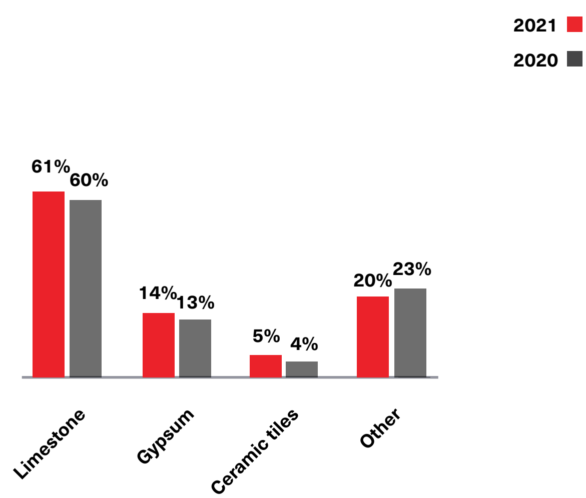
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

<u>Factors influencing performance</u>

<u>Ton-kilometers</u> **– a 5 percent decrease in transportation turnover was mainly driven by decreased volumes from Turkey and China (which cover longer distances), while the volumes transported from Azerbaijan and Georgia (which cover relatively shorter distances) increased in 2021, compared to 2020.**

<u>Revenue/ton-km (in Tetri)</u> **– a 7 percent decrease in average revenue per ton-kilometer was mainly due to product direction mix and product category mix. The share of Turkey and China (which are relatively more profitable directions) decreased, while the share of Georgia (which is relatively less profitable direction) increased. As well as, the share of marble and slag (which are relatively more profitable products) decreased, while the share of limestone and ceramic tiles (which are relatively less profitable products) increased in 2021, compared to 2020.**

PRODUCT CATEGORY MIX



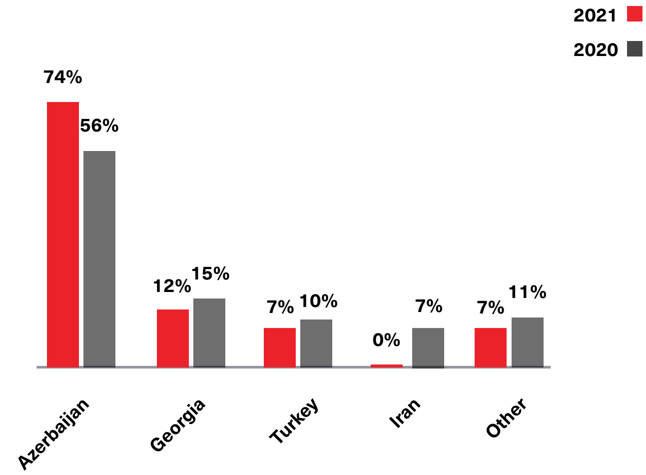
INDUSTRIAL FREIGHT

Revenue from the transportation of industrial freight for Q4 2021 increased by 10.2 percent, compared to Q4 2020 and by 61.6 percent, compared to Q3 2021.

Main directions of cargo

The main countries of origin for the total transported volume of industrial freight during 2021 were Azerbaijan, Georgia and Turkey with 74 percent, 12 percent and 7 percent of the transported share, respectively. A significant part of the cargo (together generating 90 percent of the total volume transported) was directed to Georgia, Armenia and Azerbaijan. In 2021, the Group mainly transported cement clinker under the industrial freight category, with 75 percent of the total industrial freight transported.

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



INDUSTRIAL FREIGHT

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	6.07	6.17	-1.7%	-1.9%
Freight volume (million ton)	0.41	0.37	13.5%	NA
Freight turnover (million ton-km)	58.64	63.10	-7.1%	NA
Revenue / ton-km (in Tetri)	10.35	9.78	5.8%	5.6%

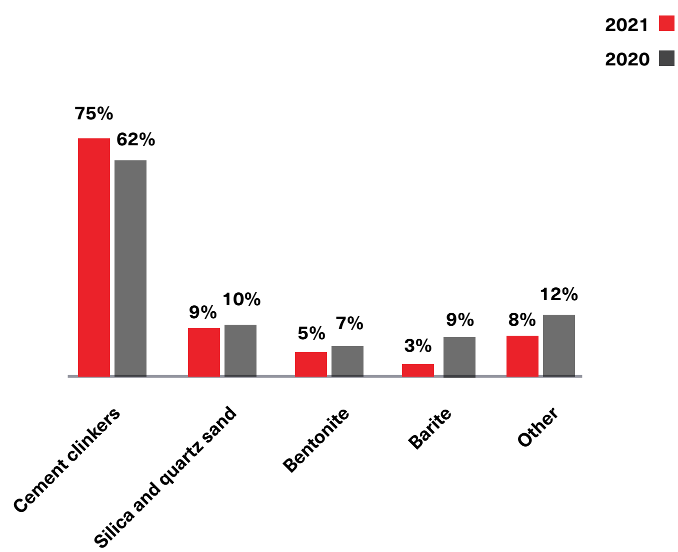
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

Factors influencing performance

Ton-kilometers **– a 7 percent downturn in freight turnover was mainly caused by a decrease in average transportation distance. The share of volumes transported from Turkey and China (which cover relatively longer distances) decreased, while the share of volumes transported from Azerbaijan (which covers relatively shorter distances) increased in 2021, compared to 2020.**

Revenue/ton-km (in Tetri) **– a 6 percent increase in the average revenue per ton-kilometer was mainly due to changes in the product direction mix and product category mix. The share of the transported volume from a relatively more profitable direction, such as Azerbaijan, in total transported industrial freight has increased, while the share of relatively less profitable directions (e.g. China, Georgia) has decreased in 2021, compared to 2020. As well as, the share of cement clinkers (which is a relatively more profitable product) increased, while the share of bentonite (which is a relatively less profitable product), decreased in total industrial freight transported by the Group, during 2021, compared to 2020.**

PRODUCT CATEGORY MIX



CEMENT

Revenue from the transportation of cement for Q4 2021 decreased by 38.9 percent, compared to Q4 2020, but increased by 77.6 percent, compared to Q3 2021.

Main directions of cargo

Cement is mainly transported within Georgia, with 100 percent of the total share in 2021 and 99 percent in 2020.

CEMENT

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	% constant currency
Revenue (million GEL)	0.44	0.62	-28.4%	-30.8%
Freight volume (million ton)	0.04	0.05	-24.6%	NA
Freight turnover (million ton-km)	8.65	11.47	-24.5%	NA
Revenue / ton-km (in Tetri)	5.14	5.41	-5.1%	-8.3%

* 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 decreased by 25 percent, mainly due to a significant decrease in cement transportation from Georgia, by 11,000 tons in 2021, compared to 2020.**

Revenue/ton-km (in Tetri) **– a 5 percent decrease in average revenue per ton-kilometer was caused by a significant decrease in transported volumes.**

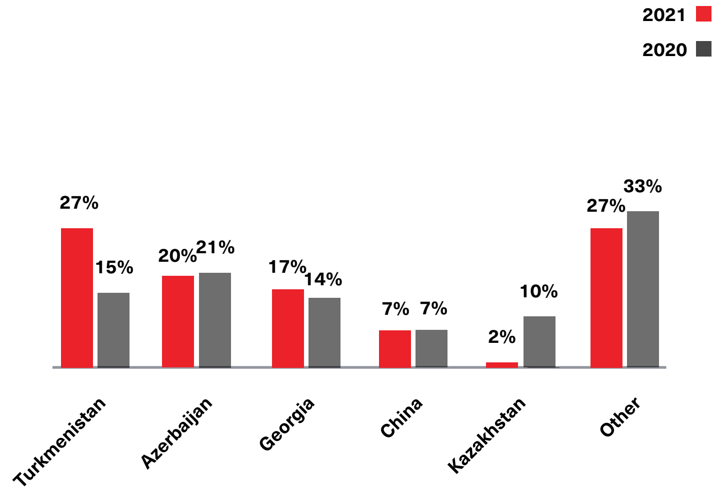
OTHER PRODUCT CATEGORY

Revenue from the transportation of other product category for Q4 2021 increased by 14.5 percent, compared to Q4 2020 and by 13.6 percent, compared to Q3 2021.

Main directions of cargo

The main origin countries for other product category in 2021 were Turkmenistan, Azerbaijan, Georgia, China and Kazakhstan. The cargo was mainly directed to Turkey, Russia, Georgia and Azerbaijan. The main products transported in 2021 were sulfur (about 27 percent of total volume), methanol (about 14 percent of total volume), meat products (about 5 percent of total volume) and mineral waters (about 8 percent of total volume) in 2021, compared to 2020.

TRANSPORTATION VOLUME BY COUNTRIES OF ORIGIN



OTHER PRODUCT CATEGORY

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	% Change	% constant currency
Revenue (million GEL)	95.03	93.55	1.6%	6.2%
Freight volume (million ton)	2.59	2.75	-5.8%	NA
Freight turnover (million ton-km)	793.41	858.76	-7.6%	NA
Revenue / ton-km (in Tetri)	11.98	10.89	10.0%	14.9%

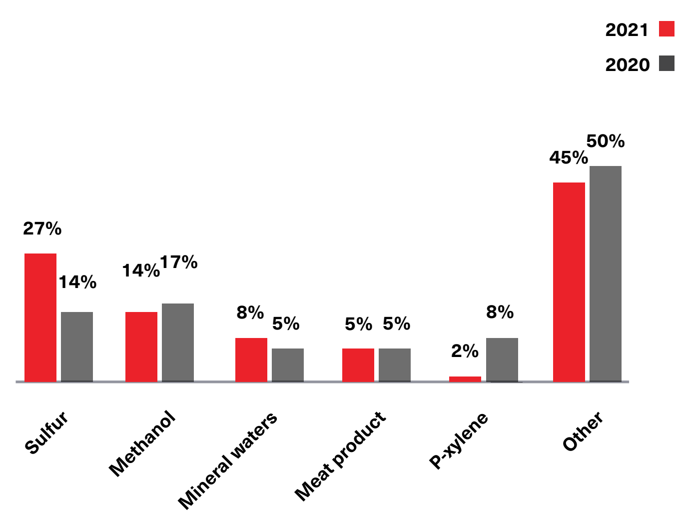
* Revenue per ton-kilometer represents revenue from freight transportation (excluding revenue from logistic service) divided by ton-kilometers

Factors influencing performance

Ton-kilometers – an 8 percent decrease in transportation turnover was mainly driven by decreased volumes transported from Kazakhstan, Azerbaijan and China by 217,000 tons, 58,000 tons and 21,000 tons respectively.

Revenue/ton-km (in Tetri) – a 10 percent increase in average revenue per ton-kilometer was mainly driven by changes in the product direction mix and the product category mix. The share of transported volumes from Georgia (which is relatively more profitable direction) increased, while the share of volumes transported from Kazakhstan (which is relatively less profitable direction) decreased. As well as, the share of mineral waters (which is relatively more profitable product) has increased, while the share of p-xylene (which is relatively less profitable product) has decreased in the total other product categories transported in 2021, compared to 2020.

PRODUCT CATEGORY MIX



FREIGHT HANDLING

General description

Revenue from freight handling comprises several components:

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

Currency and tariff setting

Most of the freight handling revenue, about 85 percent in 2021, was denominated in USD, while the rest was denominated in GEL (15 percent). The Group sets its tariffs independently.

Driver

The revenue from this source largely changes in line with transportation volumes in tons. The correlation, however, is not perfect as many other factors influence it.

FREIGHT HANDLING

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Station services	59,221	55,559	6.6%	3,661
24-hour service	8,389	13,040	-35.7%	-4,651
Other	2,256	4,255	-47.0%	-2,000
Total	**69,865**	**72,855**	**-4.1%**	**-2,990**

Revenue from freight handling for Q4 2021 decreased by 4.6 percent, compared to Q4 2020 and increased by 12.6 percent, compared to Q3 2021.

Factors influencing performance

A 4.1 percent decrease 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 decrease in 24-hour services and a reduction in contract-related earnings.

LOGISTICAL SERVICES

<u>General description</u>

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

<u>Currency and tariff setting</u>

Revenue from logistical services is denominated in USD and GEL, with 74 percent and 26 percent , respectively.

<u>Driver</u>

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

LOGISTICAL SERVICES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Revenue from logistical services	69,371	54,106	28.2%	15,265

Revenue from logistical services for Q4 2021 increased by 34.4 percent, compared to Q4 2020 and by 29.5 percent, compared to Q3 2021.

<u>Factors influencing performance</u>

A 28.2 percent increase in logistical services (GEL 15.3 million) during 2021, compared to 2020, was mainly driven by increased revenue from GR's subsidiary providing container transportation, as well as other subsidiaries providing services for crude oil and oil product transportation .

**Logistical revenue and expenditures should be taken into consideration jointly. (See pg.125 Logistical service expenses)*

RENT OF WAGONS AND OTHER RENTAL INCOME

<u>General description</u>

The Group rents out wagons not used in transportation and other property in order to improve utilization of its assets.

<u>Currency and tariff setting</u>

Revenue from the rent of wagons and other operating leases is mostly denominated in USD.

<u>Drivers</u>

Rent of wagons and other rental income changes in accordance with availability of the Group's wagons not used in transportation and demand of that specific type of wagon in the region.

RENT OF WAGONS AND OTHER RENTAL INCOME

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Rent of wagons and other rental income	4,647	8,838	-47.4%	-4,191

Rent of wagons and other rental income for Q4 2021 decreased by 24.5 percent, compared to Q4 2020 and by 44.8 percent, compared to Q3 2021.

Factors influencing performance

Rent of wagons and other rental income decreased by 47.4 percent (GEL 4.2 million) during 2021, compared to 2020. The decrease was due to the expiration of some contracts and not extending them due to COVID-19.

FREIGHT CAR CROSS-BORDER CHARGE

General description

Freight car cross-border charge revenue is derived when the Group's railcars are used by other railways.

Currency and tariff setting

Revenue from Freight car cross-border charges is denominated in CHF and tariffs are set by the Council for Rail Transport of CIS states (CRT CIS).

Drivers

Freight car cross-border charge revenue changes in line with the number of days the Group's railcars are used by other railway companies, which in its turn depends on the cargo mix and the availability of freight cars in the region.

FREIGHT CAR CROSS-BORDER CHARGE

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Rent of wagons and other rental income	9,910	14,147	-29.9%	-4,237

Freight car cross-border charge revenue for Q4 2021 decreased by 23.7 percent, compared to Q4 2020, but increased by 4.5 percent, compared to Q3 2021.

Factors influencing performance

The revenue from Freight car cross-border charges decreased by about 30 percent (GEL 4.2 million) during 2021, compared to 2020. This downturn was primarily due to a decrease in the usage of GR's semi-wagons and tank cars on foreign railway networks.

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 segments of society, with symbolic/minimal ticket fares. 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 trains are set independently by the Group, in GEL. As a social partner to the Government of Georgia, the Group's maintains affordable passenger transportation services by setting tariffs much below its market prices. At the same time, GR maintains certain passenger trains even when such routes are not economically feasible.

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

Drivers

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

PASSENGER TRANSPORTATION

	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Revenue ('000 GEL)	14,808	11,201	32.2%	3,606
Number of passengers ('000)	816	939	-13.1%	-123

Revenue from passenger transportation for Q4 2021 increased by 280.2 percent (GEL 2.6 million), compared to Q4 2020, but decreased by 52.7 percent (GEL 3.9 million) compared to Q3 2021.

Factors influencing performance

Revenue from passenger transportation has increased by 32.2 percent in 2021, compared to 2020, while the number of passengers has decreased by 13.1 percent. The disproportional change is related to the increased share of more profitable, long distance trains, as well as increased demand for high class tickets.

COVID-19 had material negative impacted on Passenger SBU as in line with Government regulations, all public passenger transportation was stopped from March 2020 till June 2020 and, subject to certain limited exceptions, from November 2020 till February 2021.

OTHER REVENUE

General description

Other revenue is mostly denominated in GEL and comprises items such as revenue from the sale of scrap, communication services, electricity transportation and repair services for third parties.

OTHER REVENUE

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Revenue from repair	144	466	-69.0%	-321
Revenue from sale of materials (scrap)	23,026	8,112	183.8%	14,914
Other	2,167	3,192	-32.1%	-1,025
Total	**25,337**	**11,770**	**115.3%**	**13,568**

Other revenue for Q4 2021 increased by 225.9 percent, compared to Q4 2020 and decreased by about 37.2 percent, compared to Q3 2021.

Factors influencing performance

An increase in other revenue by GEL 13.6 million in 2021, compared to 2020 was mostly attributable to increased income from the sale of scrap – consisting of GEL 14.9 million in 2021. This was, in turn, due to increased demand for scrap metal.

1.2 OTHER INCOME

General description

Other income mostly includes items such as penalties to clients and suppliers, the sale of fixed assets, provision reversals, etc.
To better illustrate the operational profitability of the Group, other income is split into two categories: continuing operations (such as clients' and suppliers' penalties) and non-continuing operations (such as provision reversals or sale of fixed assets), which are not recurring part of the business.

OTHER INCOME

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Continuing operations	3,391	3,091	9.7%	300
Non-continuing operations	5,560	9,456	-41.2%	-3,896
Total	**8,951**	**12,547**	**-28.7%**	**-3,596**

Other income for Q4 2021 increased by 40.5 percent (GEL 1.1 million), compared to Q4 2020 and increased by 171.7 percent (GEL 2.5 million), compared to Q3 2021.

Factors influencing performance

Total other income in 2021, compared to the same period of 2020, decreased by about GEL 3.6 million. This decrease was primarily due to a decrease in other income generated from non-continuing operations. Which, in turn, was due to a reduction in revenue from law provisions (about GEL 2.7 million) and additional income due to received services free of charge (about GEL 3.0 million) in 2021, compared to 2020.

1.3 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 for traction; fuel expenses; materials, repair and maintenance expenses.

OPERATING EXPENSES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Employee benefits expense	180,701	170,502	6.0%	10,199
Depreciation and amortization expense	58,397	76,156	-23.3%	-17,758
Impairment loss on trade receivables	2,791	13,560	-79.4%	-10,769
Electricity	30,857	19,519	58.1%	11,338
Materials	12,103	10,306	17.4%	1,797
Repair and maintenance	5,062	5,402	-6.3%	-340
Fuel	6,545	6,184	5.8%	360
Freight car cross-border charge	4,065	3,688	10.2%	377
Logistical service	32,918	21,105	56.0%	11,813
Security and other operating expenses	27,533	22,311	23.4%	5,223
Taxes other than income tax	30,458	23,938	27.2%	6,520
Total	**391,431**	**372,671**	**5.0%**	**18,759**

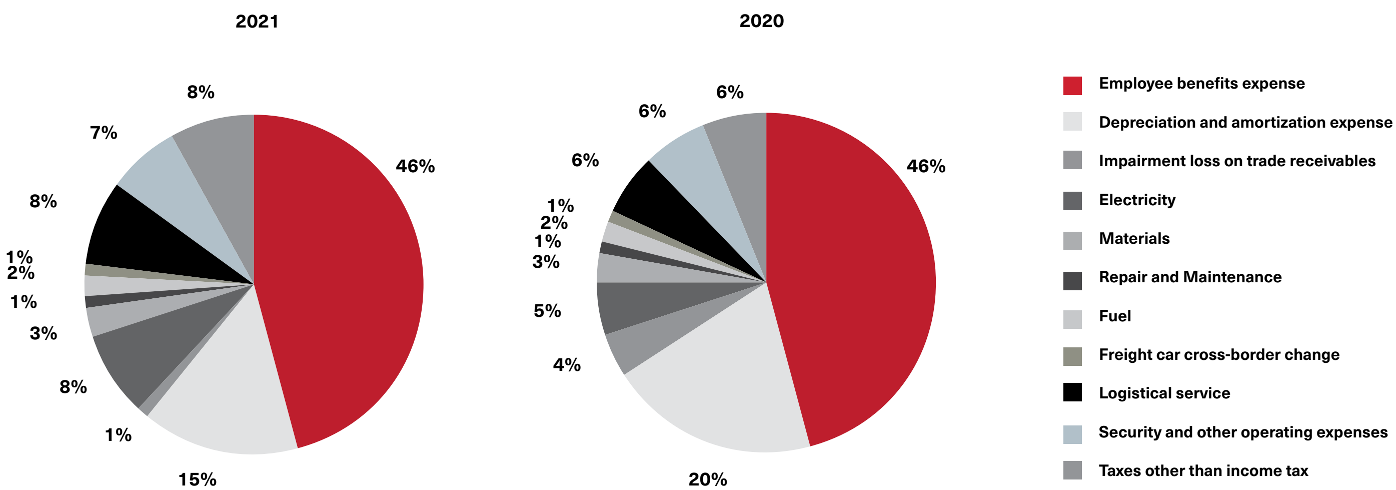
Total operating expenses for Q4 2021 increased by 13.1 percent, compared to Q4 2020 and by 4.0 percent, compared to Q3 2021.

Factors influencing performance

Increase in total operating expenses in 2021, was mainly driven by increase in employee benefits (GEL 10.2 million), electricity (GEL 11.3 million) and logistical service expenses (GEL 11.8 million).

This increase was partially offset by a decrease in impairment loss on trade receivables (by GEL 10.8 million) and depreciation and amortization expense (by GEL 17.8 million),.

The following charts represent the cost structure for 2021 and 2020:



EMPLOYEE BENEFITS EXPENSES

<u>General description</u>

The Group's salary expenses are fixed and are denominated in GEL. As a result, it is not affected neither by transportation volume, nor by FX changes.

EMPLOYEE BENEFITS EXPENSES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Salary	150,613	140,992	6.82%	9,621
Bonus-reward	10,480	10,501	-0.21%	-22
Other benefits	19,607	19,008	3.15%	599
Total	**180,701**	**170,502**	**5.98%**	**10,199**

Employee benefits expenses for Q4 2021 increased by 12.2 percent, compared to Q4 2020 and by 26.1 percent compared to Q3 2021.

<u>Factors influencing changes</u>

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 10.2 million in 2021, compared to 2020.

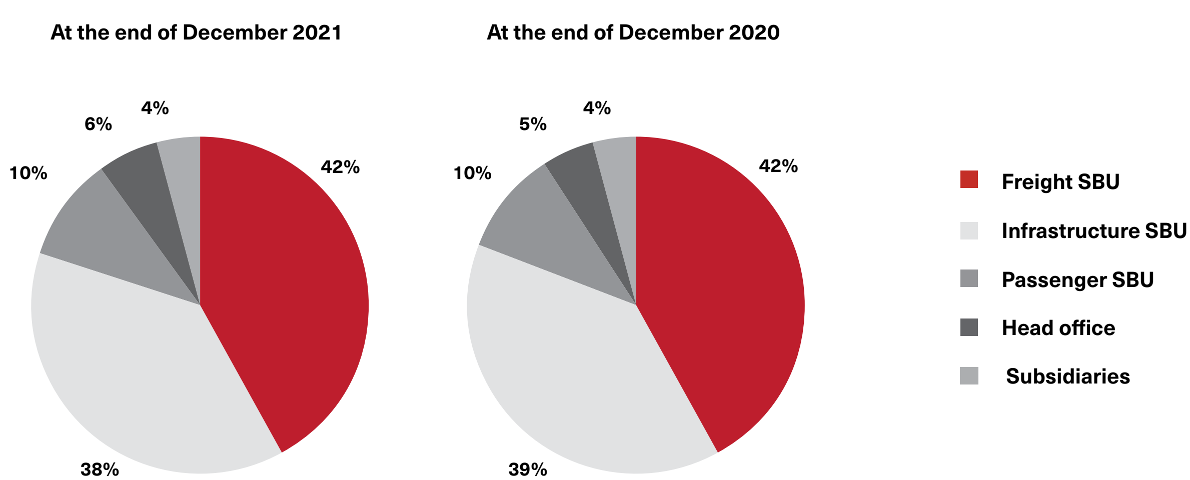
In September 2021, the Group management increased the wages of approximately 12,000 employees. As a result, 2021 salary expense increased by GEL 9.6 million.

Bonus-reward program has not changed 2021, thus respective expenses also remained at about 2020 level.

GEL 0.6 million increase in other benefits, was mainly due to expenses related to additional financial support provided to the employees.

The number of GR employees (excluding subsidiaries) by the end of 2021 was equal to 11,925 and by the end of 2020, this figure was 11,899.

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



LAW ON FUNDED PENSION

The Law on Funded Pension, introduced in January 2019, regulates relations associated with funded pensions. The payments of funded pension are conducted independently from the state pension and state compensation. Joining the funded pension scheme was mandatory for all employees, except for employees who have reached retirement age (60 for men and 55 for women) before the entry into force of this law. Additionally, employees had the option to exit a paid pension scheme if they reached the age of 40 prior to the law's enforcement. Employees could withdraw from accumulative pension plan no later than 5 months after the statute went into effect, but no sooner than 3 months. All employees over the retirement age are eligible to join the funded pension program on a voluntary basis. The number of GR by the end of 2021 was more than 5,500 participating in the pensions scheme.

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

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Depreciation and amortization	58,397	76,156	-23.32%	-17,759

Depreciation and amortization expenses for Q4 2021 decreased by 63.4 percent, compared to Q4 2020 and decreased by 65.4 percent, compared to Q3 2021.

Factors influencing changes

Decrease of GEL 17.8 million in depreciation and amortization expenses in 2021, compared to 2020, was primarily due to changes in market prices of scrap.

ELECTRICITY EXPENSES

General description

Approximately 97 percent of GR's railway network is electrified. Before September 2011, the Company purchased most of its electricity on the open market in Georgia. In September 2011, the Company entered into a 10-year agreement for the purchase of electricity with fixed tariffs (the "Electricity Agreement"), securing a price for more than 90% of the Company's needs. The remaining amount was procured on an open market. The Electricity Agreement expired in September 2021, therefore, starting from July 2021, the Company purchases electricity on the open market. The tariffs are denominated in GEL.

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

ELECTRICITY EXPENSES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Electricity expense of traction	25,889	16,143	60.4%	9,746
Utility expenses	4,968	3,377	47.1%	1,592
Total	**30,857**	**19,519**	**58.1%**	**11,338**

Electricity expenses for Q4 2021 increased by 115.5 percent, compared to Q4 2020 and by 25.0 percent, compared to Q3 2021.

Factors influencing changes

The increase in electricity expenses in 2021, compared to 2020 by GEL 11.3 million was mainly caused by increased electricity expense on traction, which in turn was due to increased transported volumes by 1.1 million tons (GEL 37.5 million), as well as a significant increase in electricity tariffs.

PURCHASED ELECTRICITY AND THE WEIGHTED AVERAGE TARIFF

	2021			2020		
For the year ended 31 December	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)	GWh	Gross ton-km (million)	Weighted av. tariff (GEL)
January	9.9	479.6	0.155	13.2	543.7	0.131
February	9.3	452.0	0.155	11.1	434.1	0.130
March	12.1	585.1	0.156	11.1	468.9	0.130
April	10.0	489.8	0.153	9.1	436.6	0.130
May	10.9	537.9	0.153	9.6	459.8	0.130
June	10.0	461.1	0.153	9.7	442.8	0.130
July	10.9	497.3	0.188	10.0	442.1	0.130
August	11.0	503.2	0.243	10.1	407.2	0.130
September	10.7	508.7	0.264	9.3	384.3	0.130
October	10.4	474.4	0.270	10.6	458.2	0.130
November	10.6	491.8	0.263	10.2	454.6	0.130
December	12.1	579.8	0.259	10.1	491.5	0.130
Total	**127.9**	**6,060.8**	**0.201**	**124.0**	**5,423.8**	**0.130**

Note: The table above includes only electricity consumed by traction

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

General description

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

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

MATERIALS, REPAIR AND MAINTENANCE EXPENSES

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Materials expenses	12,103	10,306	17.4%	1,797
Repair and maintenance expenses	5,062	5,402	-6.3%	-340
Total	**17,165**	**15,708**	**9.3%**	**1,457**

Materials, repair and maintenance expenses for Q4 2021 increased by 20.2 percent, compared to Q4 2020 and increased by 28.0 percent, compared to Q3 2021.

Factors influencing changes

A 9.3 percent increase during 2021 was mainly driven by increased internal repair works and respective material usage/expenses. Increase was due to increased purchases of materials for restoration of railway lines (In 2021, 24.6 km of rail lines were renovated or rebuild compared to 2020 with 10.4 km).

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

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Fuel expenses	6,545	6,184	5.8%	361

Fuel expenses for Q4 2021 increased by 42.7 percent, compared to Q4 2020 and by 19.3 percent, compared to Q3 2021.

Factors influencing changes

Total fuel expenses increased by 5.8 percent (GEL 0.4 million) in 2021, compared to 2020.

FUEL CONSUMPTION

	TOTAL		
For the year ended 31 December	2021	2020	2019
Consumption ('000 tons)	2,913	2,980	3,064
Fuel expenses ('000 GEL)	6,545	6,184	7,023
Average tariff	2.25	2.07	2.29

FREIGHT CAR CROSS-BORDER CHARGE EXPENSE

General description

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

FREIGHT CAR CROSS-BORDER CHARGE EXPENSES

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Freight car cross-border charge expenses	4,065	3,688	10.2%	377

LOGISTICAL SERVICE EXPENSES

General description

Expenses for logistical services refer to costs incurred by the Group's logistics business for international transportation and/or for other modes of transport.

Freight car cross-border charge expenses for Q4 2021 decreased by 37.4 percent, compared to Q4 2020 and by 15.7 percent, compared to Q3 2021.

Factors influencing changes

Freight car cross-border charge expenses increased by GEL 0.4 million in 2021, compared to 2020. This increase was mainly caused by increased usage of platform cars, semi-wagons and tank cars.

LOGISTICAL SERVICE EXPENSES

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Logistical services	32,918	21,105	56.0%	11,813

Expenses for logistical services for Q4 2021 increased by 22.0 percent, compared to Q4 2020 and by 96.9 percent compared to Q3 2021.

Factors influencing changes

Expenses for logistical services in 2021 increased by 56.0 percent (GEL 11.8 million), compared to 2020. This change was primarily due to increased freight forwarding expenses of GR's subsidiaries in Azerbaijan and Kazakhstan.

SECURITY AND OTHER OPERATING EXPENSES

General description

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

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

SECURITY AND OTHER OPERATING EXPENSES

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Security	9,731	9,917	-1.9%	-196
Other operating expenses	17,803	12,394	43.6%	5,409
Total	**27,534**	**22,311**	**23.4%**	**5,223**

Security and other operating expenses for Q4 2021 decreased by 102.3 percent, compared to Q4 2020 and by 101.3 percent, compared to Q3 2021.

Factors influencing changes

A 23.4 percent increase in security and other operating expenses in 2021, compared to 2020, was mainly caused by an increase in other operating expenses.

Security expenses decreased by 1.9% (or GEL 0.2 million) in 2021 to GEL 9.7 million, as compared to GEL 9.9 million in 2020.
GEL 5.4 million increase in other operating expenses in 2021, compared to 2020, was mainly due to of the lost litigation with GEL 5.1 million of claim.

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 and transmission lines are exempt from property tax.

TAXES OTHER THAN INCOME TAX

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Property tax	11,965	11,960	0.0%	5
Land tax	11,840	11,865	-0.2%	-24
Other taxes*	6,652	113	5791.6%	6,539
Total	**30,458**	**23,938**	**27.2%**	**6,520**

Taxes other than income tax for Q4 2021 increased by 110.4 percent, compared to Q4 2020 and increased by 102.6 percent, compared to Q3 2021.

Factors influencing changes

In 2021, taxes other than income tax increased by 27.2 percent (GEL 6.5 million), which was mainly due to taxes related to penalties on general cash card for closing scrap realization.

IMPAIRMENT LOSS ON TRADE RECEIVABLES

General description

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 .

IMPAIRMENT LOSS ON TRADE RECEIVABLES

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Impairment loss on trade receivables	2,791	13,560	-79.42%	-10,769

Impairment loss on trade receivables for Q4 2021 decreased by 130.9 percent, compared to Q4 2020, but increased by 359.5 percent (GEL 1.5 million), compared to Q3 2021.

Factors influencing changes

GEL 13.6 million impairment loss on trade receivables in 2020 was caused by increased of overall gross receivables balance.

1.4 FINANCE INCOME AND COST

General description

The finance income of the Group mainly consists of interest income accrued on the Group's cash balances and foreign exchange gains.
Finance cost mainly consists of interest expenses on the Group's debt and foreign exchange losses.
The main source of FX gains or loss is the Group's Eurobonds, which are denominated in USD. This is, however, partially offset by the Group's USD cash balances and receivables in foreign hard currencies. It must be noted that such FX gain or loss on Eurobonds is not monetary and will not be realized until maturity. The Group's revenues are mostly denominated in hard currencies (USD and CHF). As most of the tariffs are set in USD, the Group's revenue creates a natural economic hedge against foreign exchange fluctuations.

FINANCE INCOME AND COST

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Interest income	23,631	18,920	24.9%	4,711
Gain on modification of financial instru-ments	0	7.367	-100.0%	-7,367
Impairment gain/loss on cash in bank	39	221	-82.4%	-182
Unwinding of discount	-987	-1,225	-19.4%	238
Loss on modification of financial instruments	-1,927	0	100.0%	-1,927
Premium on early redemption of issued bonds	-115,734	0	100.0%	-115,734
Interest expense	-101,423	-126,758	-20.0%	25,335
FX gain/loss	84,224	-191,901	-143.9%	276,125
Net finance income/loss	**-112,177**	**-293,376**	**-61.8%**	**181,199**

Factors influencing changes

In 2021, the Group showed GEL 112.2 million net finance loss compared to a net finance loss of GEL 293.4 million in 2020. The positive difference of GEL 181.2 million, was mainly caused by the fluctuation of GEL against foreign currencies.

GEL/USD exchange rate fluctuation has a significant effect on net finance income/loss. Due to GEL appreciation against USD by 5.5 percent as at 31 December 2021 compared to 31 December 2020 (GEL/USD exchange rate 3.10 versus 3.28), the Group experienced a net foreign exchange gain of GEL 84.2 million in 2021. And due to the depreciation of GEL against USD (about 14 percent) as at 31 December 2020 compared to 31 December 2019 (GEL/USD exchange rate 3.28 versus 2.87), the Group showed a net foreign exchange loss of GEL 191.9 million in 2020.
Higher interest income of GEL 4.7 million in 2021 compared to 2020 was mostly due to changes in the monetary policies of the National Bank of Georgia. The refinancing rate, in particular, has a direct influence on interest income on cash in the bank and term deposits. The refinancing rate declined from 9% to 8% in 2020 before climbing to 10.5 % at the end of 2021.

Lower interest expense during 2021, compared to 2020, was mainly due to due to issuing New Green Eurobonds with coupon rate 4 percent (2020: 7.75 percent).

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

Decrease in gain on modification of financial instruments by GEL 7.4 million is a result of amortization of long-term liabilities.

1.5 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

In GEL '000	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Income tax expense/benefit	-500	-514	-2.7%	14

Factors influencing changes

During 2021, the income tax expense decreased by 3 percent, compared to 2020.

The Tax Code of Georgia charges corporate income tax only on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit.

II. BALANCE SHEET

2.1 NON- CURRENT ASSETS

'000 GEL	TOTAL		CHANGE	
As at 31 December	2021	2020	%	Absolute
Property, plant and equipment	1,825,474	1,829,561	-0.2%	-4,087
Other non-current assets	162,243	129,467	25.3%	32,776
Total	1,987,717	1,959,028	1.5%	28,689

Factors influencing changes

Property, plant and equipment – GEL 4.1 million decrease in property, plant and equipment in 2021, compared to 2020, was mainly due to depreciation of the fixed assets.
Other non-current assets - GEL 32.8 million increase in other non-current assets was mainly due significant rise in prepayments for non-current assets, as well as due to reclassification of some construction materials from inventory to other non-current assets.

2.2 CURRENT ASSETS

'000 GEL	TOTAL		CHANGE	
As at 31 December	2021	2020	%	Absolute
Inventories	36,937	38,399	-3.8%	-1,462
Trade and other receivables	13,965	23,579	-40.8%	-9,614
Prepayments and other current assets	5,635	1,942	190.2%	3,693
Current tax assets	0	1,830	-100.0%	-1,830
Cash and cash equivalents	212,224	322,986	-34.3%	-110,762
Cash deposit	3,254	0	100.0%	3,254
Total	**272,015**	**388,736**	**-30.0%**	**-116,721**

Factors influencing changes

Trade and other receivables – **GEL 9.6 million decrease were mainly attributable to decreased receivables from partnering railways by GEL 12.3 million in 2021, compared to 2020, which was partially offset by decrease in impairment allowance on trade receivables by GEL 3.8 million.**

Prepayments and other current assets – **GEL 3.7 million increase in prepayments and other current assets were due to increased advances paid to suppliers in 2021, compared to 2020.**

2.3 EQUITY

'000 GEL	TOTAL		CHANGE	
As at 31 December	2021	2020	%	Absolute
Charter capital	1,054,805	1,053,936	0.1%	870
Non-cash owner contribution reserve	100,585	100,322	0.3%	262
Retained earnings	-742,261	-794,972	-6.6%	52,711
Total	**413,129**	**359,286**	**15.0%**	**53,842**

There was GEL 53.8 million increase in total equity in 2021, compared to the previous year, mainly due to a change in retained earnings (net income of GEL 52.7 million in 2021).

2.4 NON-CURRENT LIABILITIES

'000 GEL	TOTAL		CHANGE	
As at 31 December	2021	2020	%	Absolute
Loans and borrowings	1,590,817	1,702,980	-6.6%	-112,163
Advanced received from the Govern-ment	46,594	46,594	0.0%	0
Trade and other payables	56,198	53,535	5.0%	2,663
Total	**1,693,609**	**1,803,109**	**-6.1%**	**-109,500**

Factors influencing changes

Loans and borrowings – **During 2021, the decrease of GEL 112.2 million in long-term loans and borrowings, was mainly caused by the appreciation of GEL against USD by about 5.5 percent.**

2.5 CURRENT LIABILITIES

'000 GEL	TOTAL		CHANGE	
As at 31 December	2021	2020	%	Absolute
Loans and borrowings	16,015	74,356	-78.5%	-58,341
Trade and other payables	105,873	82,331	28.6%	23,542
Liabilities to the Government	4,718	4,734	-0.3%	-15
Provisions	14,397	16,551	-13.0%	-2,155
Current Tax liabilities	3,515	0	100.0%	3,515
Other current liabilities	8,476	7,397	14.6%	1,079
Total	**152,994**	**185,369**	**-17.5%**	**-32,375**

Factors influencing changes

Loans and borrowings – **Currently, the Group has two debts: Green Eurobonds and a secured loan, obtained for the sole purpose of the acquisition of passenger trains. Decrease in loans and borrowing was mainly due to change in interest payment date on new Green Eurobonds.**

Trade and other payables - **GEL 23.5 million increase in 2021, compared to 2020 was due to increased payables to suppliers. As well as, increase in advances received from partnering railways.**

III. CASH FLOW STATEMENT

By the end of 2021, the Group held GEL 215 million of cash and cash equivalents. These cash resources are held to support working capital and fixed capital expenditures. Fixed capital expenditures mainly entail the Modernization Project, works on which is expected to be finalized by 2023 (see subheading 8.2 ongoing projects in the Company).

The Group can also rely on its available undrawn committed credit lines of about GEL 63 million as at the end of 2021.

The Group mainly relies on its operating activities to fund its current and future cash requirements.

3.1 OPERATING ACTIVITIES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Cash receipts from customers	557,864	487,815	14.4%	70,048
Cash paid to suppliers and employees	-310,564	-275,099	12.9%	-35,465
Net cash from operating activities	**247,300**	**212,716**	**16.3%**	**34,584**

Factors influencing changes

Net cash from operating activities increased by GEL 34.6 million in 2021 compared to 2020. This change was principally due to an increase in cash receipts from customers, which was, in turn, due to an increase in transported volumes. Increase was partially offset by a rise in cash paid to suppliers and employees.

3.2 INVESTING ACTIVITIES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Acquisition of property, plant and equipment	-77,156	-55,904	38.0%	-21,252
Proceeds from sale of property, plant and equipment	2,902	2,330	24.6%	572
Interest received	20,907	16,261	28.6%	4,646
Decrease (Increase) in term deposits	-3,254	0	100.0%	-3,254
Net cash used in investing activities	**-56,601**	**-37,313**	**51.7%**	**-19,287**

Factors influencing changes

Cash used in investing activities increased by GEL 19.3 million in 2021, compared to the previous year. This change was mainly driven by an increase in cash used for the acquisition of property, plant and equipment which was, in turn, primarily due to higher cash outflows related to the Modernization Project in 2021, as compared to 2020.

Higher interest income of GEL 4.6 million in 2021 compared to 2020 was mostly due to increased interest rates on bank accounts and deposits.

3.3 FINANCING ACTIVITIES

'000 GEL	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Proceeds from borrowings	1,577,389	0	100.0%	1,577,389
Repayment of borrowings	-1,589,975	-14,310	11010.9%	-1,575,665
Premium on early redemption of issued bonds	-115,686	0	100.0%	-115,686
Interest paid	-152,780	-117,300	30.2%	-35,480
Loan refinancing fees paid	-3,976	0	100.0%	-3,976
Net cash used in financing activities	**-285,028**	**-131,610**	**116.6%**	**-153,418**

Factors influencing changes

Cash used in financing activities increased by GEL 153.4 million in 2021, compared to 2020. Proceeds from borrowing increased by GEL 1.6 billion increased by issuing New Green Eurobonds (USD 500.0 million) due to refinance insecure bonds issued in 2012. The Group has paid premium on early redemption on unsecured bonds about GEL 115.7 million. In full year ended 31 December 2021 compared to same period of 2020, interest paid increased by GEL 35.0 million due to changes interest payment date on Green Eurobonds.

APPENDIX

APPENDIX 1

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

In million tons	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Liquid cargoes	**3.8**	**3.0**	**23.5%**	**0.7**
Oil products	3.7	3.0	21.4%	0.6
Crude oil	0.1	0.0	1191.3%	0.1
Dry cargoes	**8.4**	**8.0**	**4.4%**	**0.4**
Ores	1.9	1.9	-0.2%	0.0
Grain	0.2	0.3	-38.5%	-0.1
Ferrous metals and scrap	0.6	0.5	7.8%	0.0
Sugar	0.4	0.3	47.5%	0.1
Chemicals and fertilizers	1.3	0.9	42.2%	0.4
Construction freight	0.9	0.9	2.6%	0.0
Industrial freight	0.4	0.4	13.5%	0.0
Cement	0	0.0	-24.6%	0.0
Other	2.6	2.8	-5.8%	-0.2
Total	**12.1**	**11.1**	**9.6%**	**1.1**

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS (QUARTERLY)

In million tons

For the year ended 31 December	Q4 2021	Q4 2020	y-o-y	Q3 2021	q-o-q
Liquid cargoes	**0.7**	**0.9**	**-24.4%**	**0.9**	**-25.9%**
Oil products	0.6	0.9	-29.2%	0.9	-28.6%
Crude oil	0.0	0.0	100.0%	0.0	72.2%
Dry cargoes	**2.4**	**2**	**16.9%**	**2.1**	**13.5%**
Ores	0.5	0.5	-1.2%	0.6	-17.8%
Grain	0.1	0.1	55.2%	0.0	819.1%
Ferrous metals and scrap	0.1	0.1	4.8%	0.2	-16.5%
Sugar	0.1	0.1	-4.9%	0.1	5.8%
Chemicals and fertilizers	0.5	0.2	127.6%	0.3	54.6%
Construction freight	0.2	0.2	-2.7%	0.3	-8.9%
Industrial freight	0.1	0.1	32.1%	0.1	24.6%
Cement	0.0	0.0	-39.8%	0.0	73.3%
Other	0.7	0.7	3.6%	0.6	22.1%
Total	**3.1**	**3.0**	**4.2%**	**3.0**	**1.4%**

APPENDIX 2

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

In million ton-kilometers	TOTAL		CHANGE	
For the year ended 31 December	2021	2020	%	Absolute
Liquid cargoes	**1,189**	**885**	**34.4%**	**304**
Oil products	1161	883	31.5%	278
Crude oil	28	2	1305.9%	26
Dry cargoes	**2,102**	**2,010**	**4.6%**	**92**
Ores	317	327	-3.0%	-10
Grain	50	72	-30.2%	-22
Ferrous metals and scrap	125	130	-3.9%	-5
Sugar	156	98	58.5%	57
Chemicals and fertilizers	459	309	48.6%	150
Construction freight	135	142	-4.6%	-7
Industrial freight	59	63	-7.1%	-5
Cement	9	11	-24.5%	-3
Other	793	859	-7.6%	-65
Total	**3,291**	**2,895**	**13.7%**	**396**

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS (QUARTERLY)

In million ton-kilometers

For the year ended 31 December	Q4 2021	Q4 2020	y-o-y	Q3 2021	q-o-q
Liquid cargoes	**213**	**268**	**-20.8%**	**281**	**-24.2%**
Oil products	195	268	-27.2%	271	-27.7%
Crude oil	17	0	100.0%	10	70.0%
Dry cargoes	**623**	**493**	**26.3%**	**516**	**20.8%**
Ores	79	61	30.1%	100	-20.7%
Grain	30	16	86.7%	3	1009.3%
Ferrous metals and scrap	27	30	-9.9%	35	-22.3%
Sugar	40	39	1.3%	36	9.9%
Chemicals and fertilizers	169	72	135.0%	109	54.6%
Construction freight	34	37	-7.7%	37	-7.8%
Industrial freight	16	17	-1.8%	13	29.1%
Cement	3	4	-39.8%	2	73.3%
Other	225	217	3.7%	181	24.1%
Total	**836**	**762**	**9.7%**	**797**	**4.9%**

APPENDIX 3

BREAKDOWN OF FREIGHT TRANSPORTATION IN TONS

'000 tons	2020				2021			
For the year ended 31 December	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Liquid cargoes	**767**	**694**	**671**	**914**	**1,113**	**1,024**	**933**	**691**
Oil products	762	694	670	914	1,112	1,023	907	647
Crude oil	5	0	0	-	1	1	26	44
Dry cargoes	**2,007**	**1,994**	**1,974**	**2,043**	**1,868**	**2,007**	**2,105**	**2,389**
Ores	463	392	563	460	387	478	554	455
Grain	53	83	104	68	41	31	11	105
Ferrous metals and scrap	160	135	114	126	130	156	158	132
Sugar	1	97	74	112	105	107	101	107
Chemicals and fertilizers	364	214	151	211	338	208	311	480
Construction freight	182	235	246	246	204	227	263	239
Industrial freight	93	78	93	102	74	99	108	134
Cement	17	2	10	18	9	9	6	11
Other	674	758	620	700	579	692	594	725
Grand Total	**2,774**	**2,688**	**2,644**	**2,957**	**2,981**	**3,031**	**3,038**	**3,080**

APPENDIX 4

BREAKDOWN OF FREIGHT TRANSPORTATION IN TON-KILOMETERS

mln ton-kilometers	2020				2021			
For the year ended 31 December	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Liquid cargoes	**231**	**196**	**189**	**268**	**367**	**329**	**281**	**213**
Oil products	229	196	189	268	366	329	271	195
Crude oil	2	0	0	-	0	0	10	17
Dry cargoes	**541**	**526**	**450**	**493**	**472**	**490**	**516**	**623**
Ores	104	83	79	61	62	75	100	79
Grain	9	22	25	16	8	10	3	30
Ferrous metals and scrap	42	31	27	30	28	34	35	27
Sugar	0	33	26	39	40	40	36	40
Chemicals and fertilizers	120	67	50	72	112	69	109	169
Construction freight	31	37	37	37	31	33	37	34
Industrial freight	16	15	15	17	16	13	13	16
Cement	4	0	3	4	2	2	2	3
Other	214	238	190	217	174	213	181	225
Grand Total	**772**	**722**	**639**	**762**	**839**	**819**	**797**	**836**

APPENDIX 5

CALCULATIONS OF THE RATIO OF NET FINANCIAL INDEBTEDNESS TO ADJUSTED EBITDA:

'000 GEL	Twelve-month period ended 31-Dec-21	Twelve-month period ended 31-Dec-20	Twelve-month period ended 31-Dec-21
Revenue	547,868	489,370	547,868
Income from the transferred property	0	0	0
Other income	8,951	12,547	8,951
Impairment loss on trade receivables	-2,791	-13,560	-2,791
Employee benefits expenses	-180,701	-170,502	-180,701
Depreciation and amortization expense	-58,397	-76,156	-58,397
Electricity, consumables and maintenance costs	-54,567	-41,411	-54,567
Other expenses	-94,975	-71,042	-94,975
Results from operating activities	**165,388**	**129,246**	**165,388**
Finance income	107,893	26,508	107,893
Finance costs	-220,071	-319,884	-220,071
Net finance costs	**-112,177**	**-293,376**	**-112,177**
Profit/(loss) before income tax	**53,211**	**-164,130**	**53,211**
Income tax benefit	-500	-514	-500
Profit/(loss)and total comprehensive income/(loss) for the year	**52,711**	**-164,644**	**52,711**
Results from operating activities	**165,388**	**129,246**	**165,388**
Depreciation add-back	58,397	76,156	58,397
Impairment loss on trade receivables	2,791	13,560	2,791
Adjusted EBITDA	**226,576**	**218,962**	**226,576**
Net Financial Indebtedness:			
Financial Indebtedness	1,606,832	1,777,336	1,606,832
less:			
Available Credit Facilities	62,976	64,766	0
Cash	212,224	322,986	212,224
Net Financial Indebtedness:	**1,331,632**	**1,389,584**	**1,331,632**
Net Financial Indebtedness/Adjusted EBITDA	**5.88**	**6.35**	**6.16***

*Net financial indebtedness to Adjusted EBITDA excluding available credit facilities.

Assumptions

Adjusted EBITDA is calculated by adding back depreciation and amortization as well as impairment losses on financial and non-financial assets to the results from operating activities.
Financial result variances at constant currency are obtained by converting the comparable period of the current -year results denominated into Georgian Lari (GEL) at the average foreign exchange rates for the prior period.

Glossary

AA	Association Agreement
ADB	Asian Development Bank
Alstom SA	French multinational rolling stock manufacturer operating worldwide in rail transport markets
BTC	Baku-Tbilisi-Ceyhan
BTK	Baku-Tbilisi-Kars
CAPEX	Capital expenditure
CENELEC	Commission Européenne de Normalisation Électrique (EU standards organization for electrical goods)
CEO	Chef Executive Officer
CFO	Chief Financial Officer
CG/LA Forum	Global Infrastructure Leadership
CHF	Swiss Franc
CIS	Commonwealth of Independent States
CPC	Caspian Pipeline Consortium
CPU	Central Processing Unit
CRT	Council for Rail Transport
DB	Deutsche Bahn
DCFTA	Deep and Comprehensive Free Trade Areas
DWDM	Dense wavelength-division multiplexing
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EMU	Electric Multiple Unit
ESG	Environmental, Social and Governance
EU	European Union
FEZ	Free Economic Zone
FTA	Free Trade Agreement
FX	Foreign Exchange. The value of Georgian Lari relative to the US Dollar or any other currency.
GBP	British pound sterling
GBP	Green Bond Principles

GDP	**Gross Domestic Product**
GEL	**Georgian Lari**
GMS	**General Meeting of Shareholders**
GR	**Georgian Railway**
GSP	**Generalized System of Preferences**
ICMA	**Institute of Cost and Management Accountants**
IEC	**International Electrotechnical Commission**
IFB	**INSTITUT FÜR BAHNTECHNIK GmbH**
IGC	**The Intergovernmental Commission**
IMF	**International Monetary Fund**
IPCC	**Intergovernmental Panel on Climate Change**
ISO	**International Organization for Standardization**
ITIL	**Information Technology Infrastructure Library**
JSC	**Joint-stock Company**
LLC	**Limited Liability Company**
LT	**Long-term**
MPS	**Multiprocessor Specification**
NATO	**North Atlantic Treaty Organization**
NBG	**National Bank of Georgia**
NNLE	**Non-entrepreneurial Non-commercial Legal Entity**
OPEC	**The Organization of the Petroleum Exporting Countries. OPEC**
OPEX	**Operational expenditure**
PP&E	**Property, plant and equipment**
Revenue per ton-kilometer	**The term refers to the average revenue that the Group receives per ton-kilometer**
RTC	**Railway Transport College**
SAP	**System Applications and Products in Data Processing**
SBU	**Strategic business unit**
SEZ	**Special Economic Zone**
SIL	**Safety Integrity Level**
ST	**Short term**
Tetri	**Minor unit of Georgian national currency**
TEU	**Twenty-foot equivalent unit**
TFI	**Task Force on National Greenhouse Gas Inventories**
The Company	**Georgian Railway**
The Government	**The Government of Georgia**
The Group	**Georgian Railway and its subsidiaries**

The State	**Republic of Georgia**
TITR	**Trans-Caspian International Transport Route**
Ton-kilometer	**Unit of measurement representing the movement over a distance of one kilometer of one ton of contents (also referred as tkm or ton-km)**
TRACECA	**Transport Corridor Europe Caucasus Asia Transportation**
ULCC	**Ultra-large crude carrier**
US	**United States**
USD	**United States Dollar**
VAT	**Value-added tax**
VLCC	**Class of large oil tanker, larger than Suezmax and smaller than ULCC**
WBS	**World Business Solutions**
WTO	**World Trade Organization**

JSC Georgian Railway

Consolidated Financial Statements for 2021

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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 2021, 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 2021, 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 Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) *(IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of Property, Plant and Equipment

Please refer to the Note 10 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Due to significant changes in market trends during 2021 and considering that the impairment test conducted at 31 December 2020 was sensitive to changes in key assumptions the Management concluded that there was a need to perform an impairment test at 31 December 2021.	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;

As a result of the impairment test conducted, the recoverable amount of the Group's property, plant and equipment was determined to be close to and not lower of its carrying amount and no additional impairment loss or reversal was recognised in 2021. The impairment of property, plant and equipment is a Key Audit Matter due to the level of judgemental assumptions involved in Management's impairment analysis and inherent estimation uncertainties involved in the forecasting and discounting of future cash flows related to the impairment assessment.	- Involved our own valuation specialists to challenge the key assumptions and judgements underpinning the impairment testing model, such as cargo growth rates, inflation rate, discount rate, period of cash flow projections, annual maintenance capital expenditure and payments for the finalisation of the Main Line Modernization project by comparing those inputs to externally derived data, as well as our own expectations; - Compared the current year's actual results with the figures for the same period included in the impairment model prepared as at 31 December 2020, to assess management's ability to accurately budget the expected results; - Obtained the Group's budget for the year ended 31 December 2021 and assessed whether expected cash flows for future years per that budget are consistent with those included in the current year's impairment model; - Evaluated the sensitivity of the impairment model outcomes by considering the downside scenarios against reasonably plausible changes to the key assumptions; and - Evaluated the adequacy of the disclosures made in Note 10 (c) of the consolidated financial statements by reference to the requirements of IAS 36 – Impairment of Assets and IAS 1 – Presentation of financial statements.

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 auditor's report thereon. The other information is expected to be available to us after the date of this auditors' report.

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

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

When we read the other information, we conclude 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, actions taken to eliminate threats or safeguards applied.

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

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

Natia Tevzadze:

ნათია

KPMG Georgia LLC
23 May 2022

LIMITED LIABILITY COMPANY KPMG GEORGIA 404437695

'000 GEL	Note	31 December 2021	31 December 2020
Assets			
Property, plant and equipment	10	1,825,474	1,829,561
Loans receivable	11	31,282	30,336
Other non-current assets	12	130,961	99,131
Non-current assets		**1,987,717**	**1,959,028**
Inventories	13	36,937	38,399
Tax assets		-	1,830
Prepayments and other current assets		5,635	1,942
Trade and other receivables	14	13,965	23,579
Term deposit		3,254	-
Cash and cash equivalents	15	212,224	322,986
Current assets		**272,015**	**388,736**
Total assets		**2,259,732**	**2,347,764**
Equity			
Share capital	16 (a)	1,054,805	1,053,936
Non-cash owner contribution reserve	16 (b)	100,585	100,322
Accumulated losses		(742,261)	(794,972)
Total equity		**413,129**	**359,286**
Liabilities			
Loans and borrowings	18	1,590,817	1,702,980
Advance received from the Government	16 (e)	46,594	46,594
Payables for non-current assets	19	56,198	53,535
Non-current liabilities		**1,693,609**	**1,803,109**
Loans and borrowings	18	16,015	74,356
Trade and other payables	19	105,873	82,331
Liabilities to the Government	16 (c)	4,718	4,734
Provisions	20	14,397	16,551
Tax liabilities		3,515	-
Other current liabilities		8,476	7,397
Current liabilities		**152,994**	**185,369**
Total liabilities		**1,846,603**	**1,988,478**
Total equity and liabilities		**2,259,732**	**2,347,764**

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 42.

'000 GEL	Note	2021	2020
Revenue	6	547,868	489,370
Other income		8,951	12,547
Employee benefit expenses		(180,701)	(170,502)
Depreciation and amortization expense		(58,397)	(76,156)
Electricity, consumables and maintenance costs	7	(54,567)	(41,411)
Impairment loss on trade receivables	21(b)(ii)	(2,791)	(13,560)
Other expenses	8	(94,975)	(71,042)
Profit from operating activities		**165,388**	**129,246**
Finance income	9	23,670	26,508
Finance costs	9	(220,071)	(127,983)
Net foreign exchange gain/ (loss)	9	84,224	(191,901)
Net finance costs		**(112,177)**	**(293,376)**
Profit/(loss) before income tax		**53,211**	**(164,130)**
Income tax expense		(500)	(514)
Profit/(loss) and total comprehensive income/(loss) for the year		**52,711**	**(164,644)**

These consolidated financial statements were approved by the Management Board on 23 May 2022 and were signed on its behalf by:

David Peradze
General Director

Irakli Titvinidze
Financial Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 42.

’000 GEL	Share capital	Non-cash owner contribution reserve	Accumulated losses	Total equity
Balance at 1 January 2020	1,053,371	100,322	(630,328)	523,365
Loss and total comprehensive loss for the year	-	-	(164,644)	(164,644)
Transactions with owner, recorded directly in equity				
Net increase in share capital (Note 16 (a))	565	-	-	565
Total transactions with owner, recorded directly in equity	**565**	**-**	**-**	**565**
Balance at 31 December 2020	**1,053,936**	**100,322**	**(794,972)**	**359,286**
Balance at 1 January 2021	1,053,936	100,322	(794,972)	359,286
Profit and total comprehensive income for the year	-	-	52,711	52,711
Transactions with owner, recorded directly in equity				
Net increase in share capital (Note 16 (a))	869	-	-	869
Non-cash distribution from owner	-	263	-	263
Total transactions with owner, recorded directly in equity	**869**	**263**	**-**	**1,132**
Balance at 31 December 2021	**1,054,805**	**100,585**	**(742,261)**	**413,129**

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 42.

'000 GEL	**Note**	**2021**	**2020**
Cash flows from operating activities			
Cash receipts from customers		557,864	487,815
Cash paid to suppliers and employees		(310,564)	(275,099)
Net cash from operating activities		**247,300**	**212,716**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(77,156)	(55,904)
Proceeds from sale of property, plant and equipment		2,902	2,330
Interest received		20,907	16,261
Increase in term deposit		(3,254)	-
Net cash used in investing activities		**(56,601)**	**(37,313)**
Cash flows from financing activities			
Proceeds from Bonds	18 (b)	1,577,389	-
Repayment of borrowings	18 (b)	(1,589,975)	(14,310)
Premium paid on early redemption of issued bonds		(115,686)	-
Loan refinancing fees paid	18 (b)	(3,976)	-
Interest paid	18 (b)	(152,780)	(117,300)
Net cash used in financing activities		**(285,028)**	**(131,610)**
Net (decrease)/increase in cash and cash equivalents		**(94,329)**	**43,793**
Cash and cash equivalents at 1 January		322,986	257,976
Effect of exchange rate fluctuations on cash and cash equivalents		(16,473)	20,968
Effect of movements in ECL on cash and cash equivalents		40	249
Cash and cash equivalents at 31 December	15	**212,224**	**322,986**

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 42.

1. Reporting entity

(a) Georgian business environment

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The COVID-19 coronavirus pandemic and increased tensions over Ukraine in 2022 have further increased uncertainty in the business environment.

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 25.

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with 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 and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

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

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

– Note 10 (c) – impairment of property, plant and equipment;
– Note 18 (a) – recognition of green bonds;
– Note 28 (h) (iii) – useful lives and residual values of property, plant and equipment;
– Note 10 (a) -suspension of capitalisation of borrowing costs.

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

– Note 10 (c) – sensitivity of impairment of property, plant and equipment;
– Note 10 (g) – sensitivity of residual values of property, plant and equipment.

Measurement of fair values

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

– Note 21 (a) – fair value of financial assets and liabilities.

5. Operating segments

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

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

There are no inter-segment charges.

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

(i) Information about reportable segments

	Freight transportation		**Passenger transportation**		**Total**	
'000 GEL	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
External revenues	505,407	463,459	14,808	11,201	520,215	474,660
Depreciation and amortization	(9,563)	(17,203)	(11,548)	(12,339)	(21,111)	(29,542)
Reportable segment profit/(loss) before infrastructure costs, net impairment, interest cost and income tax	358,079	322,741	(21,307)	(24,797)	336,772	297,944
Reportable segment assets	189,935	183,949	112,554	127,784	302,489	311,733
Capital expenditure and other additions to non-current assets	6,163	5,432	1,723	2,315	7,886	7,747

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

'000 GEL	**2021**	**2020**
Revenues		
Total revenue for reportable segments	520,215	474,660
Other revenue	27,653	14,710
Consolidated revenue	**547,868**	**489,370**
Profit or loss		
Total profit or loss for reportable segments before infrastructure costs, net impairment, interest cost and income tax	336,772	297,944
Employee benefits expense – infrastructure and headquarters	(78,236)	(73,029)
Depreciation expenses – infrastructure and headquarters	(37,287)	(46,614)
Net finance costs	(112,177)	(293,376)
Other net unallocated expenses*	(55,861)	(49,055)
Consolidated profit/ (loss) before income tax	**53,211**	**(164,130)**
Assets		
Total assets for reportable segments	302,489	311,733
Property, plant and equipment - infrastructure and headquarters	1,564,612	1,543,936
Other unallocated assets, principally cash and non-current assets	392,631	492,095
Consolidated total assets	**2,259,732**	**2,347,764**

* Other net unallocated expenses include logistic services expense of GEL 32,918 thousand (2020: GEL 21,105 thousand) which was not included in the freight transportation segment profit presented to the Group's Management Board.

(iii) Other material items in 2021

'000 GEL	**Reportable segment totals**	**Infrastructure and headquarters**	**Consolidated totals**
Capital expenditure and other additions to non-current assets	7,886	68,771	76,657
Depreciation and amortization	21,111	37,286	58,397

(iv) Other material items in 2020

'000 GEL	**Reportable segment totals**	**Infrastructure and headquarters**	**Consolidated totals**
Capital expenditure and other additions to non-current assets	7,747	47,036	54,783
Depreciation and amortization	29,542	46,614	76,156

(v) Geographical information

Approximately 98% of the Group's revenue is generated in Georgia with the remainder generated in CIS countries. The non-current assets of the Group are located in Georgia.

(vi) Major customer

In 2021, two customers of the Group's freight transportation segment represented approximately 18% of the Group's total revenue (2020: two customers - 23%).

6. Revenue

’000 GEL	2021	2020
Freight traffic	423,795	389,308
Logistic services	69,371	54,106
Passenger traffic	14,808	11,201
Rent of wagons and other rental income	4,647	8,838
Freight car cross-border charge	9,910	14,147
Other	25,337	11,770
	547,868	**489,370**

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

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

(a) Performance obligations and revenue recognition policies

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

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

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

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

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

Rent of wagons and other rental income – Income represents operating lease and is accounted for under IFRS 16, see Note 23.

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

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

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

7. Electricity, consumables and maintenance costs

’000 GEL	**2021**	**2020**
Electricity	30,857	19,519
Materials	12,103	10,306
Fuel	6,545	6,184
Repair and maintenance	5,062	5,402
	54,567	**41,411**

8. Other expenses

’000 GEL	**2021**	**2020**
Logistic services	32,918	21,105
Taxes, other than on income	30,458	23,938
Security	9,731	9,917
Freight car cross-border charge	4,065	3,688
Other *	17,803	12,394
	94,975	**71,042**

* Included in Other above are fees paid to audit firms of about GEL 687 thousand for the provision of audit and other professional services (2020: GEL 337 thousand). In 2021 the Group recognised GEL 5,070 thousand of expense related to lost litigation, started in 2016 (see Note 20).

9. Finance income and finance costs

’000 GEL	**2021**	**2020**
Recognised in profit or loss		
Interest income under the effective interest method	23,631	18,920
Gain on modification of financial instruments	-	7,367
Impairment reversal on other financial assets	39	221
Finance income	**23,670**	**26,508**
Unwinding of discount on provisions and financial liabilities measured at amortised cost	(987)	(1,225)
Loss on modification of financial instruments	(1,927)	-
Premium on the early redemption of issued bonds (note 18)	(115,734)	-
Interest expense on financial liabilities measured at amortised cost	(101,423)	(126,758)
Finance costs	**(220,071)**	**(127,983)**
Net foreign exchange gain/(loss)	84,224	(191,901)
Net finance costs recognised in profit or loss	**(112,177)**	**(293,376)**

10. Property, plant and equipment

'000 GEL	Land	Buildings and constructions	Rail track infrastructure	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost						
Balance at 1 January 2020	539,987	131,331	981,566	1,013,855	1,351,908	4,018,647
Additions	200	442	2,857	4,107	35,899	43,505
Disposals and write-offs	(2,630)	(155)	(2,545)	(5,257)	(115)	(10,702)
Transfers	386	1,440	37,975	7,337	(47,138)	-
Balance at 31 December 2020	**537,943**	**133,058**	**1,019,853**	**1,020,042**	**1,340,554**	**4,051,450**
Balance at 1 January 2021	537,943	133,058	1,019,853	1,020,042	1,340,554	4,051,450
Additions	1,492	604	472	142	52,877	55,587
Disposals and write offs	(1,989)	(900)	(4,441)	(50)	(240)	(7,620)
Transfers	292	288	13,067	8,372	(22,019)	-
Balance at 31 December 2021	**537,738**	**133,050**	**1,028,951**	**1,028,506**	**1,371,172**	**4,099,417**
Depreciation and impairment loss						
Balance at 1 January 2020	171,426	66,915	604,670	715,296	594,988	2,153,295
Depreciation for the year	-	2,783	38,382	34,488	-	75,653
Disposals and write offs	(521)	(144)	(2,012)	(4,330)	(52)	(7,059)
Transfer of impairment loss allocated to construction in progress	2,086	556	8,976	(19,845)	8,227	-
Balance at 31 December 2020	**172,991**	**70,110**	**650,016**	**725,609**	**603,163**	**2,221,889**
Balance at 1 January 2021	172,991	70,110	650,016	725,609	603,163	2,221,889
Depreciation for the year	-	2,805	30,093	24,792	-	57,690
Disposals and write offs	(492)	(193)	(4,612)	(339)	-	(5,636)
Reallocation of depreciation and impairment	7	(11)	639	11	(646)	-
Balance at 31 December 2021	**172,506**	**72,711**	**676,136**	**750,073**	**602,517**	**2,273,943**
Carrying amounts						
At 1 January 2020	**368,561**	**64,416**	**376,896**	**298,559**	**756,920**	**1,865,352**
At 31 December 2020	**364,952**	**62,948**	**369,837**	**294,433**	**737,391**	**1,829,561**
At 31 December 2021	**365,232**	**60,339**	**352,651**	**278,433**	**768,819**	**1,825,474**

(a) Construction in progress

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

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

The Group commenced the initiation of the above projects in September 2010 and November 2010, respectively. The Group issued unsecured bonds in 2010 to partly finance the projects above. During 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes. The bonds were further refinanced in 2021(see Note 18).

No borrowing costs were capitalized in 2021 and 2020 due to significant slowdown of the works performed on the Modernization project, mainly linked with the COVID-19 pandemic situation in Georgia.

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

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

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

During 2015 and 2016, the Group was in discussion with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. One of the scenarios under discussion included an option envisaging a change of the original bypass location, because of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2021 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 2021 and 2020 no event or change in circumstances occurred which would result in a reversal of the provision.

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

At each reporting date, the Group assesses whether there is any indication that the recoverable amount of the Group's non-financial assets has declined below the carrying value or previously recognized impairment loss is subject to reversal. The Group allocates all its non-financial assets to one cash-generating unit (“CGU”) for impairment test purposes.

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

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

In 2020, the Group revisited some of its key assumptions with respect to longer-term prospects of growth as a result of new developments in the market, outside of the control of the Group. Consequently, the Group conducted an impairment test at 31 December 2020. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

As at 31 December 2021, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is a need to perform an impairment test because of the significant changes in market trends during 2021 and considering that the impairment test conducted at 31 December 2020 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2021. 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 2022, adjusted for the Georgian GDP growth rate of 5.2%-5.8% during the projected years. No volume growth is projected from 2026. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2022, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 4.3% and 1.9% during the first two projected years and 2.2% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 52.1 million associated with the Modernization project above.
- A pre-tax discount rate of 10.76% 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 2.04%.

The key assumptions to which the impairment indicator analysis is most sensitive include:

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 135 million;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 66 million;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 84 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 2021 the share capital has been increased by the fair value of assets contributed of GEL 869 thousand (2020: GEL 565 thousand) (See Note 16 (a)).

(e) Security

At 31 December 2021, property with a carrying amount of GEL 70,252 thousand (31 December 2020: GEL 72,494 thousand) is pledged in respect of the secured loan (See Note 18).

(f) Capital commitment

As at 31 December 2021, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 362,972 thousand (2020: GEL 367,643 thousand) mainly relating to the Main Line Modernization project of GEL 87,486 thousand (2020: GEL 65,369 thousand) and Tbilisi Bypass project of GEL 274,881 thousand (2020: GEL 301,993 thousand, decreased only due to foreign exchange rate fluctuation).

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

(g) Sensitivity of changes in residual values of property, plant and equipment

The key assumptions to which the depreciation is most sensitive include:

- Residual Values – Decrease of 5% point in the scrap price used would have resulted in a depreciation expense of approximately GEL 2 million.

11. Loans receivable

This note provides information about the contractual terms of the Group's interest-bearing loans receivable, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and credit risk, see Note 21.

'000 GEL	**31 December 2021**	**31 December 2020**
Non-current assets		
Parent company	31,282	30,336
	31,282	**30,336**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2021		**31 December 2020**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Parent company	USD	6.50%	2026	31,282	31,282	30,336	30,336
Total interest-bearing assets				**31,282**	**31,282**	**30,336**	**30,336**

In September 2021, terms of the parent company loan were amended as follows: maturity date was shifted from March 2022 to 31 December 2026, interest rate decreased from 9.75% to 6.5% in order to align the interest rate to the current market conditions and an additional credit line of USD 7 million was agreed, that was fully disbursed to the parent company in 2022.

As a result of the mentioned changes to the contractual terms, the Group derecognised previous financial asset and recognised a new financial asset. This did not have a material effect on the amounts recognised in profit or loss or on the consolidated statement of financial position.

12. Other non-current assets

'000 GEL	**31 December 2021**	**31 December 2020**
Prepayments for non-current assets*	87,650	63,719
Construction materials	35,058	26,084
Intangible assets	8,253	9,328
	130,961	**99,131**

* Prepayments for non-current assets are mainly related to the Bypass project, which was suspended as at 31 December 2021 and 31 December 2020. Per Management's assessment the prepayments are fully recoverable based on the performance guarantee from a foreign bank.

13. Inventories

'000 GEL	31 December 2021	31 December 2020
Materials	29,212	31,374
Fuel	2,824	2,370
Rails	1,379	1,402
Other	5,071	5,045
	38,486	**40,191**
Write-down for inventory obsolescence	(1,549)	(1,792)
	36,937	**38,399**

14. Trade and other receivables

'000 GEL	31 December 2021	31 December 2020
Trade receivables	239,600	253,070
Impairment allowance on trade receivables	(225,974)	(229,789)
	13,626	**23,281**
Other receivables	339	298
	13,965	**23,579**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

15. Cash and cash equivalents

'000 GEL	31 December 2021	31 December 2020
Current accounts in banks	45,196	124,622
Call deposits	167,270	198,687
Petty cash	41	-
Provision for cash and cash equivalents	(283)	(323)
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**212,224**	**322,986**

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

The Group's exposure to interest rate risk is disclosed in Note 21.

16. Equity and liabilities to the Government

(a) Share capital

Number of shares	**Ordinary shares**	
	2021	**2020**
In issue at 1 January	1,053,936,024	1,053,371,024
Net increase for property, plant and equipment (See Note 10 (d))	869,211	565,000
In issue at 31 December, fully paid	**1,054,805,235**	**1,053,936,024**
Authorised shares - par value	**1**	**1**

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

Ordinary shares

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

(b) Non-cash owner contribution reserve

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

(c) Liabilities to the Government

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

'000 GEL	31 December 2021	31 December 2020
Liabilities to the Government	4,718	4,734

(d) Dividends

No dividends were declared in 2021 and in 2020.

(e) Advance received from the Government

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

In 2012, the Group declared dividends of GEL 231,592 thousand (CHF 138 million). Subsequently, the Group agreed with the Government that the declared dividend amount would represent a consideration due from the Government for the future sale of the land plots in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land. As of the date these consolidated financial statements were authorized for issue, there is no decision by the Government about these advances and no indication from the Government that this amount is due on demand. No transfer of the aforementioned land plots to the Government took place in 2020 or in 2021.

17. Capital management

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

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

18. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 21.

'000 GEL	31 December 2021	31 December 2020
Non-current liabilities		
Secured loan	50,102	65,546
Unsecured bonds	1,540,715	1,637,434
	1,590,817	**1,702,980**
Current liabilities		
Secured loan	13,632	14,453
Current portion of unsecured bonds	2,383	59,903
	16,015	**74,356**
	1,606,832	**1,777,336**

(a) Terms and debt repayment schedule

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

				31 December 2021		31 December 2020	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	4.00%	2028	1,546,776	1,543,098	-	-
Unsecured bonds	USD	7.75%	2022	-	-	1,697,337	1,697,337
Secured loan	USD	Libor +1.25%	2026	67,460	63,734	79,999	79,999
Total interest-bearing liabilities				**1,614,236**	**1,606,832**	**1,777,336**	**1,777,336**

The secured loan was obtained for the sole purpose of the acquisition of passenger trains.

The secured loan is collateralized by the underlying passenger trains, with a carrying amount of GEL 70,252 thousand as at 31 December 2021 (31 December 2020: GEL 72,494 thousand) (See Note 10 (e)). As at 31 December 2021 a financial covenant related to Net debt to EBITDA ratio on the secured loan above was breached allowing the lender to request repayment on demand, however on 27 December 2021 the Group obtained a waiver from the lender on this covenant until 31 December 2022, consequently the Group classified the loan as long-term borrowings as at 31 December 2021 (As at 31 December 2020 the same breach occurred and was waived till 31 December 2021).

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

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

In June 2021 the Group has successfully issued USD 500 million worth of green bonds on the London Stock Exchange due 2028 with an interest rate of 4%. The proceeds from the issuance were used for redemption of the USD 500 million unsecured bonds.

As a result of early redemption, the green bonds were considered as a new financial instrument and accounted for at amortized cost using the effective interest rate method. The Group incurred directly attributable transaction expenses of GEL 8,999 thousand in connection with the issue of the green bonds, including, amongst other, legal counsel fees, rating agency expenses, listing expenses, etc. These expenses are accounted for as transaction costs. They are included in the calculation of the effective interest rate of the green bonds and are deferred over 7 years. Part of the transaction costs were deducted directly from the proceeds from green bonds and are presented netted off with the proceeds from bonds in the consolidated statement of cash flows.

In addition, the Group paid premia and fees in connection with the new issuance and the tender offer and consent solicitation (early redemption premium) of GEL 115.7 million (see note 9). Which are expensed, since such fees are associated with the repayment of previous Eurobonds.

(b) Changes in liabilities arising from financing activities

'000 GEL	2021	2020
Balance at 1 January	**1,777,336**	**1,565,631**
Proceeds from Bonds	1,577,389	-
Repayment of secured loans	(14,413)	(14,310)
Repayment of Bonds	(1,575,562)	-
Loan refinancing fees paid	(3,976)	-
Interest paid	(152,780)	(117,300)
Total change from financing cash flows	**(169,342)**	**(131,610)**
The effect of changes in foreign exchange rates	**(102,585)**	**216,557**
Other changes		
Interest expense recognised in finance costs	101,423	126,758
Total liability-related other changes	**101,423**	**126,758**
Balance at 31 December	**1,606,832**	**1,777,336**

19. Trade and other payables

'000 GEL	31 December 2021	31 December 2020
Current		
Payables for non-current assets	54,884	37,380
Trade payables	31,482	26,122
Advances received from customers	19,507	18,829
	105,873	**82,331**
Non-current		
Payables for non-current assets	56,198	53,535
	56,198	**53,535**

The management determined that as at 31 December 2021 it has an unconditional right to defer the payment related to the construction contract for the Modernisation Project for over 1 year.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

20. Provisions

'000 GEL	31 December 2021	31 December 2020
Balance at 1 January	16,551	16,027
Additional provision during the year	2,105	2,362
Provision used	(4,319)	(1,007)
Reversal of provision during the year	(659)	(2,182)
Unwinding of provision	799	843
Net foreign exchange loss	(80)	508
Balance at 31 December	**14,397**	**16,551**

The Group recognised a provision for the estimated cash outflow required to settle legal cases against the Group existing as at 31 December 2021 and as at 31 December 2020 as well as to settle the legal obligations towards the employees injured during the performance of their duties.

In 2021 the Group lost litigation started in 2016 amounting to GEL 16,981 thousand as per court decision, out of which GEL 3,471 thousand was already provisioned and GEL 8,440 thousand was recognised as payable at 31 December 2020, respectively GEL 5,070 thousand recognised as an expense (see Note 8). Total amount of litigation was fully settled in 2022.

21. Fair values and risk management

(a) Fair value of financial assets and liabilities

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

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

Management's estimate of the fair value of the unsecured bonds yielded a range of values from a fair value approximately equal to the carrying amount to a fair value approximately 5% higher than the carrying amount.

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

The existing green bonds were traded with a lower yielding (approx. 3.9%) compared to the initial yield of 4%.

(b) Financial risk management

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

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

(i) Risk management framework

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

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

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

(ii) Credit risk

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

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

	Carrying amount	
'000 GEL	**31 December 2021**	**31 December 2020**
Cash and cash equivalents	212,183	322,986
Trade receivables	13,626	23,281
Loans receivable	31,282	30,336
Balance at 31 December	**257,091**	**376,603**

Cash and cash equivalents

As at 31 December 2021, 100% (31 December 2020: 100%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base including the default risk of the industry and country in which customers operate. During 2021, about 18% of the Group's revenue is attributable to sales transactions with two customers (2020: 23% with two customer).

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

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

No collateral in respect of trade receivables is generally required.

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

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

	Carrying amount	
'000 GEL	**31 December 2021**	**31 December 2020**
Foreign countries	6,401	15,084
Domestic	7,225	8,197
	13,626	**23,281**

The Group's two most significant customers (2020: two customers) account for GEL 3,521 thousand of the trade receivables carrying amount as at 31 December 2021 (31 December 2020: GEL 8,951 thousand).

Expected credit loss assessment for corporate customers

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

The following tables provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 December 2021 and 31 December 2020:

'000 GEL	**31 December 2021**	**31 December 2021**	**31 December 2021**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	10,322	-	10,322
High risk	-	229,278	229,278
Total Gross carrying amount	**10,322**	**229,278**	**239,600**
Loss allowance	(764)	(225,210)	(225,974)
	9,558	**4,068**	**13,626**

'000 GEL	**31 December 2020**	**31 December 2020**	**31 December 2020**
Customer Credit risk grade	**Not credit-impaired**	**Credit-impaired**	**Total**
Low risk	5,816	-	5,816
Medium risk	-	12,967	12,967
High risk*	-	234,287	234,287
Total Gross carrying amount	**5,816**	**247,254**	**253,070**
Loss allowance	(453)	(229,336)	(229,789)
	5,363	**17,918**	**23,281**

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

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

* The Group has a receivable from the Government of Georgia (hereinafter the Government or the GoG) of GEL 25,205 thousand recognized as a result of the transfer of property to the GoG, according to the Bypass Project Memorandum of Understanding (MoU).

Due to uncertainties associated with the reimbursement of the above receivable, total balance of GEL 25,205 thousand is impaired since 2017 (See Note 16 (e)).

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

'000 GEL	**2021**	**2020**
Balance at 1 January	**229,789**	**205,666**
Net charge for the year	2,791	13,560
Effect of movements in foreign exchange rates	(6,606)	10,563
Balance at 31 December	**225,974**	**229,789**

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 2021 and 2020, 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 disclosed in note 11. The loan is not past due as at 31 December 2021 and 31 December 2020. 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 140 thousand as at 31 December 2021 (31 December 2020: GEL 136 thousand). The balance is categorized under Stage 1. The extension of loan maturity and change of its terms did not result in significant increase of credit risk, see note 11.

(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 2021, the Group maintains committed unused credit lines of GEL 62,976 thousand maturing in 2022 with local banks (31 December 2020: GEL 64,766 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 2021

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	63,734	56,178	7,245	7,202	14,245	27,486	-
Unsecured bonds	1,543,098	1,920,512	30,976	30,976	61,952	185,856	1,610,752
Trade payables*	142,564	117,740	86,077	318	6,835	24,510	-
	1,749,396	**2,094,430**	**124,298**	**38,496**	**83,032**	**237,852**	**1,610,752**

31 December 2020

'000 GEL	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured loan	79,999	89,853	7,789	7,735	15,298	44,598	14,433
Unsecured bonds	1,697,337	1,892,236	63,484	63,484	1,765,268	-	-
Trade payables	117,037	124,107	63,169	365	27,667	32,906	-
	1,894,373	**2,106,196**	**134,442**	**71,584**	**1,808,233**	**77,504**	**14,433**

* Based on the agreement signed between the Group and the construction company responsible for the Modernization Project, there is a specified percentage of each milestone payment to be withheld (retention fee), to protect the Group from the contractor failing to adequately complete its obligations under the contract. Such retention fee is due to pay within two years after the completion of the project.

(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 2021	CHF – denominated 2021	USD - denominated 2020	CHF - denominated 2020
Cash and cash equivalents	35,715	2,947	194,823	1
Loan receivable	31,282	-	30,336	-
Trade receivables	10,761	320	18,549	507
Secured loan	(63,734)	-	(79,999)	-
Unsecured bonds	(1,543,098)	-	(1,697,337)	-
Trade and other payables	(20,988)	(1,571)	(5,468)	-
Net exposure	**(1,550,062)**	**1,696**	**(1,539,096)**	**508**

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate 31 December	
	2021	2020	2021	2020
USD 1	3.2209	3.1097	3.0976	3.2766
CHF 1	3.5249	3.3178	3.3772	3.7103

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
2021	
USD (10% weakening)	(155,006)
CHF (10% weakening)	170
2020	
USD (10% weakening)	(153,910)
CHF (10% weakening)	51

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

(v) Interest rate risk

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

Exposure to interest rate risk

At the reporting date the Group's exposure to interest rate risk was as follows:

'000 GEL	**Carrying amount**	
Variable rate instruments	**31 December 2021**	**31 December 2020**
Financial liabilities	(63,734)	(79,999)
	(63,734)	**(79,999)**

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 2021 would have affected profit or loss by GEL 637 thousand (31 December 2020: GEL 800 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22. Subsidiaries

Subsidiary	**Country of incorporation**	**Principal activities**	**2021 Ownership/ voting**	**2020 Ownership/ voting**
GR Property Management LLC	Georgia	Property management and development	100%	100%
GR Logistics and Terminals LLC	Georgia	Container transportation and terminal services	100%	100%
Georgian Railway Construction JSC	Georgia	Construction and other projects	100%	100%
Georgia Transit LLC	Georgia	Transportation services	100%	100%
GR Transit Line LLC	Georgia	Transportation services	100%	100%
GR Trans Shipment LLC	Georgia	Transportation services	100%	100%
GR Transit LLC	Georgia	Transportation services	100%	100%

23. Operating leases

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

Rental income recognised by the Group during 2021 was GEL 4,647 thousand (2020: GEL 8,838 thousand) and included in revenue.

The following table sets out a maturity analysis of lease payments under non-cancellable period of lease contracts entered into as at 31 December 2021, showing the undiscounted lease payments to be received after the reporting date.

’000 GEL	
2021 – Operating leases under IFRS 16	
Less than one year	4,397
Between one and five years	5,920
More than five years	16,861
Total	**27,178**
2020 – Operating leases under IFRS 16	
Less than one year	4,013
Between one and five years	10,510
More than five years	27,526
Total	**42,049**

24. Contingencies

(a) Insurance

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

(b) Taxation contingencies

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

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

(c) Litigation

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

25. Related parties

(a) Transactions with key management personnel

(i) Key management remuneration

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

’000 GEL	2021	2020
Salaries and bonuses	**963**	**933**

(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 9,813 thousand for 2021 (2020: GEL 9,655 thousand). The Group purchases electricity service from a state-owned entity, which amounted to GEL 13,416 thousand (2020: nil). 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**	
	2021	**2020**	**2021**	**2020**
Loans issued:				
Parent company	-	-	31,282	30,336

During 2021, interest income of GEL 2,723 thousand (2020: GEL 2,659 thousand) was recognised in profit or loss in respect of a related party loan.

26. Impact of COVID-19

The COVID-19 outbreak started to have a significant impact in Georgia in late February 2020. On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic and the Georgian government started to take measures to contain the virus – imposed restrictions on the cross-border movement, instructed the business community to transfer employees to work from home, etc. To enhance social distancing the schools, restaurants, cinemas and sports activities stayed suspended for most of 2020.

During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to the COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides a positive overlook on the future prospects of the economy and business environment both in Georgia and around the world. Despite the fact that currently there is still a high number of COVID -19 cases in the country, no lock-down is anticipated and the economy is gradually recovering with positive outlook. Preliminary real GDP has grown by 10.6% during 2021. (source: Geostat).

Although the freight transportation sector tends to be more resilient than most of the other sectors, still COVID-19 did have a negative impact on the Group's passenger transportation segment (note 5) and infrastructural project (note 10).

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

27. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

28. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

A number of new or amended standards and interpretations are effective from 1 January 2021 but they do not have a material effect on the Group's consolidated financial statements.

(a) Basis of consolidation

(i) Business combination

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

(b) Revenue

Information about the Group's accounting policies relating to contracts with customers is provided in Note 6.

(i) Commissions

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

(c) Finance income and costs

The Group's finance income and finance costs include:

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

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

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(d) Foreign currency

(i) Foreign currency transactions

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

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

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

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

(e) Employee benefits

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

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

(f) Income tax

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

(i) Current tax

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

On 13 May 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.

(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 Group are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

(k) Impairment

(i) Non-derivative financial assets

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

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

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss recognised in prior periods, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(m) Leases

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At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee

The Group does not have significant lease agreements where it acts as a lessee as at 31 December 2021 and 2020. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(n) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly railway infrastructure, corporate assets (primarily the Group's headquarters), head office expenses, financial income and expenses, tax expenses and tax assets and liabilities. Items related to infrastructure are not allocated as the Group has not implemented systems for such allocations. The Group's Management Board does not monitor segment liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

29. Changes in significant accounting policies

The Group has initially adopted *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* from 1 January 2021.

The Group applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

Specific policies applicable from 1 January 2021 for interest rate benchmark reform.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

Interest rate benchmark reform does not have impact on the 2021 consolidated financial statements due to the following:

As disclosed in Note 18, on 28 June 2016 the Group obtained a secured loan from Credit Suisse (CS) for the sole purpose of the acquisition of passenger trains, with nominal interest rate: 6-month USD Libor + 1.25% p.a. margin with maturity of 10 November 2026.

In 2021, the Group did not make an amendment to the contract with CS to replace the USD Libor rate with another applicable rate, since USD Libor will be published until June 2023.

Based on recent discussion with CS, parties are planning to replace USD Libor with Secured Overnight Financing Rate (SOFR) in 2023.

30. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2021 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.

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).*
- *COVID-19-Related Rent Concessions (Amendments to IFRS 16).*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *References to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*