

FY 2017



CSNO 636426
45G1
MAX. GROSS 32,500 KG
71,850 LBS
3,400 KG
8,300 LBS
28,700 KG
63,270 LBS
76.3 CUM.
2,897 CUFT

中远海运集团



CSNO 636426

中远海运集团



94346764

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EST. 1872

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**Georgian
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Economic
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Company Financial Highlights



Revenue

<u>Q4 2017</u>	<u>FY 2017</u>
131,237	434,534
+12% from Q4 2016 +20% from Q3 2017	-1.2% from FY 2016

EBITDA

<u>Q4 2017</u>	<u>FY 2017</u>
86,013	211,851
+43% from Q4 2016 +75% from Q3 2017	-25% from FY 2016

EBITDA margin

<u>Q4 2017</u>	<u>FY 2017</u>
65.5%	48.8%
+14 points from Q4 2016 +21 points from Q3 2017	-15 points from FY 2016

Adjusted EBITDA

<u>Q4 2017</u>	<u>FY 2017</u>
63,377	181,425
+16% from Q4 2016 +36% from Q3 2017	-7% from FY 2016

Adjusted EBITDA margin

<u>Q4 2017</u>	<u>FY 2017</u>
48.3%	41.8%
+2 points from Q4 2016 +5 points from Q3 2017	-3 points from FY 2016

Net Debt to EBITDA

<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
4.87	3.48
3.59 as at 30 Sep 2017	

Key Operating Measures



Total freight revenue per ton-km (in GEL)

Q4 2017
0.16

+26% from Q4 2016
+25% from Q3 2017

FY 2017
0.13

+12% from FY 2016

Passenger revenue per passenger-km (in GEL)

Q4 2017
0.03

+1% from Q4 2016
-33% from Q3 2017

FY 2017
0.04

+8% from FY 2016

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

Q4 2017
10.4

+14% from Q4 2016
+18% from Q3 2017

FY 2017
33.91

0% from FY 2016

Operating expenses per ton-km (in GEL)

Q4 2017
0.13

+15% from Q4 2016
-3% from Q3 2017

FY 2017
0.13

+17% from FY 2016

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

Q4 2017
132.22

-11% from Q4 2016
+4% from Q3 2017

FY 2017
524.44

-14% from FY 2016

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

Q4 2017
95.56

+23% from Q4 2016
-45% from Q3 2017

FY 2017
461.15

+26% from FY 2016

Fitch Ratings

B+, Outlook Stable

In January 2017 Fitch Ratings has downgraded Georgian Railway to 'B+' from 'BB-' and assigned a Stable Outlook. In November 2017 Fitch Ratings has affirmed the Group's rating at 'B+' with Stable Outlook.

“High strategic importance of the company to the Georgian economy.”

“Close ties with the state are a key rating factor”

“GR's liquidity buffer ... available committed credit lines ... fully offsets medium-term refinancing and negative cash flow risks.”

S&P Global

B+, Outlook Negative

In September 2017, S&P Global Ratings revised its outlook to negative from stable.

“We continue to believe that there is a very high likelihood that the Georgian government, the group's ultimate parent, would provide timely and sufficient extraordinary support to the company in case of emergency.”

“We expect that Georgian Railway's leverage will remain high over the coming years”

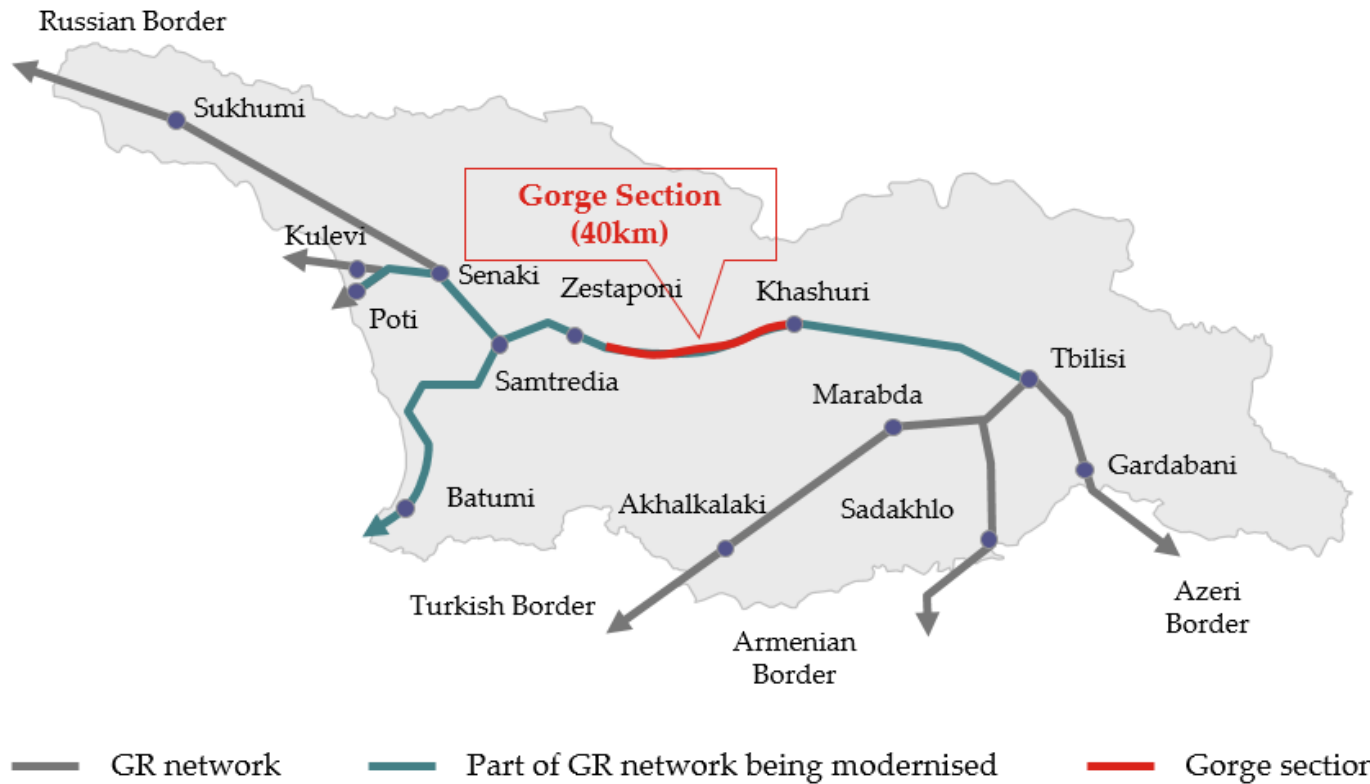
1,443km Operational network length

97% Electrified

102 Freight stations

32 Railroad tunnels

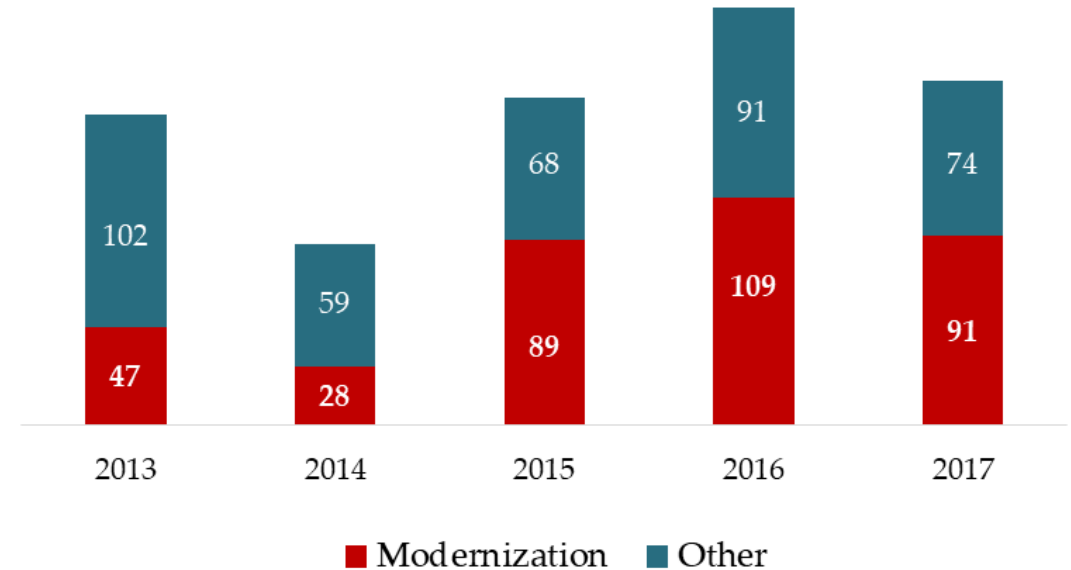
1,325 Railroad bridges



Modernization

- Expected to be completed by 2019;
- Designed to increase transportation capacity of infrastructure from the current annual 27 million tons to 48 million, with the possibility of further expansion to a potential 100 million per annum;
- Supports future corridor developments: Anaklia Deep Sea port, Poti Port expansion, etc.;
- Reduced operational expenses;
- Improved operational safety;
- Increased train speeds;
- From 2010 till 1 January 2018 the Company invested GEL 668m in Modernization project.

Cash Flow used in Projects (GEL million)



Baku-Tbilisi-Kars (“BTK”)

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



**Economic
Overview**

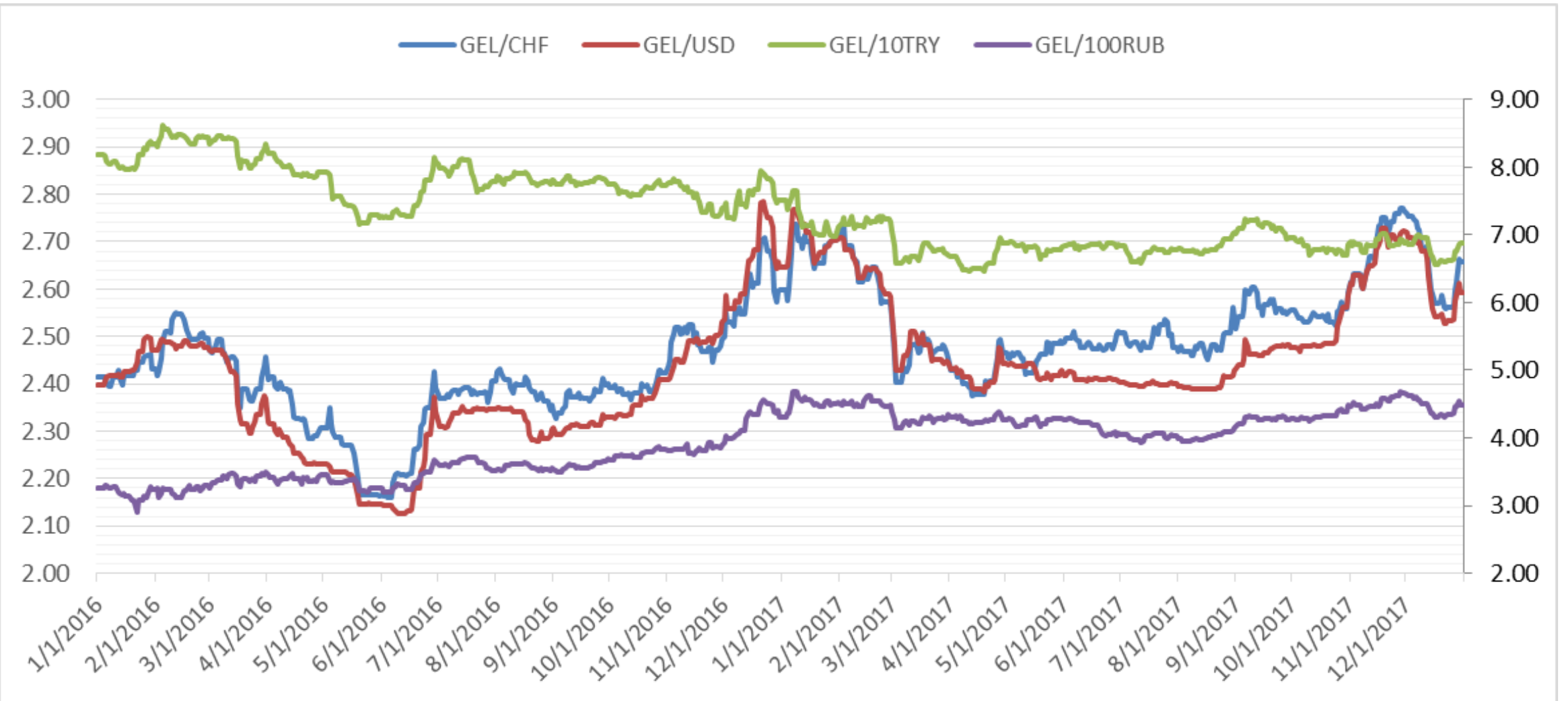
GR Today



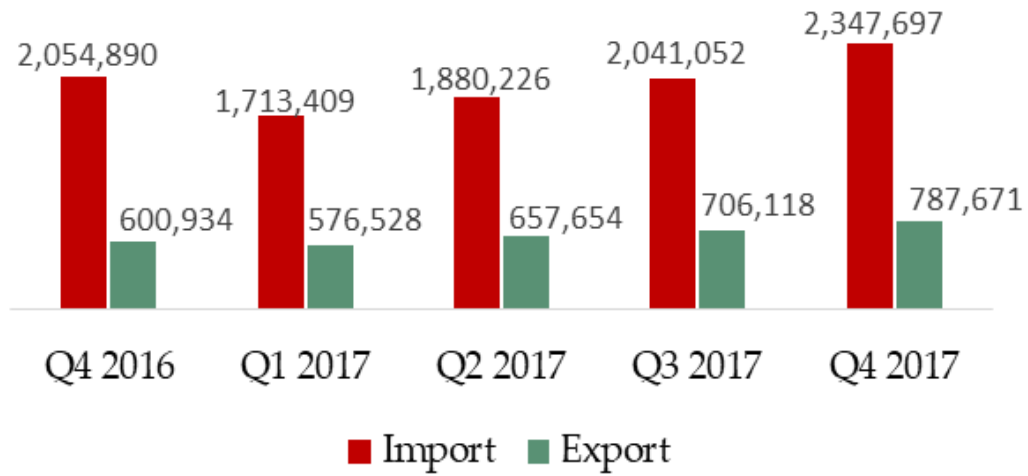
**Financial
Results**

**Liquidity
Position**

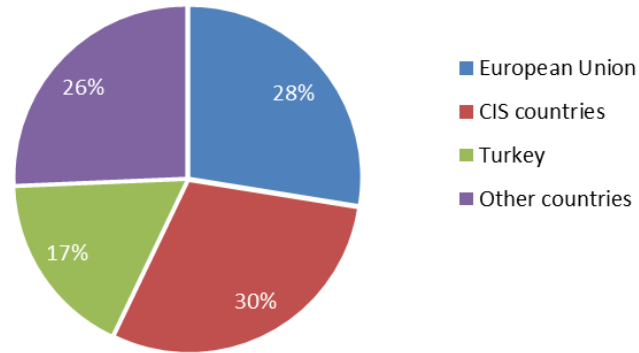
GEL Exchange Rate



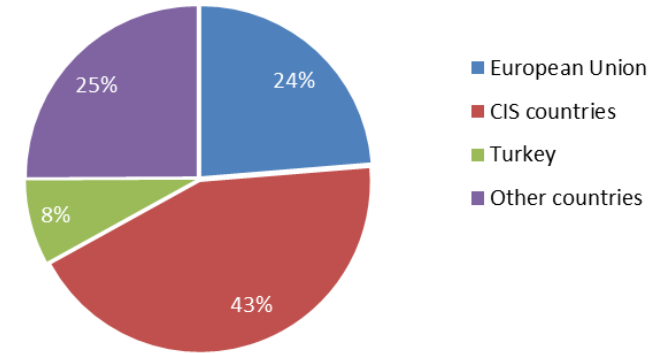
Georgian Trade Dynamics



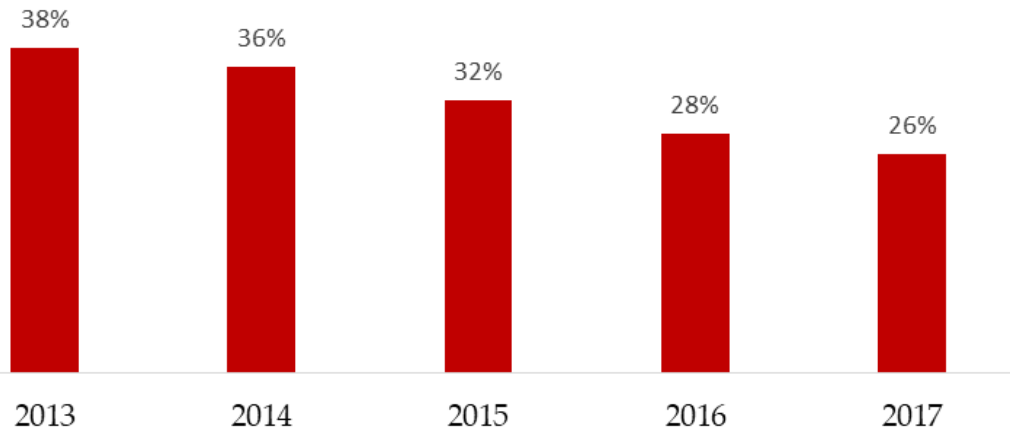
Import by countries for 2017



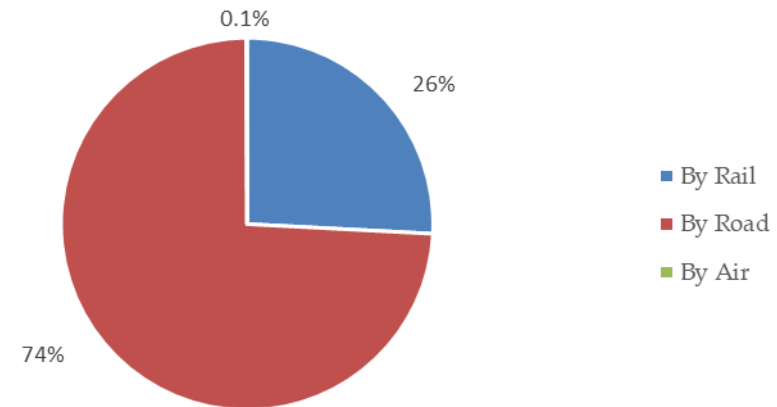
Export by countries for 2017



Share of GR in Total Freight Transportation in Georgia



Freight Transportation by Types for 2017



Macroeconomic Environment in Region

Global Commodity Prices (BLOOMBERG) Commodity	Spot price	% change		
	Q4 2017	Q1 2018	Q2 2018	Q3 2018
ICE Brent (Crude oil)	67.82	-1.00%	-0.60%	-0.60%
ICE Gasoil	607.5	-0.60%	-1.60%	-1.20%
UK NBP Nat Gas	53.6	-5.30%	-13.83%	3.50%
Wheat	458.3	1.35%	5.73%	4.87%
Aluminum	2202.5	-0.10%	0.50%	0.60%
Iron ores	70.78	-11.70%	-1.92%	-1.47%

Macroeconomic Measures of Partnering Countries for 2017 (IMF)

	% Change from 2016			
	GDP	Inflation rate	Import	Export
Azerbaijan	0.07%	13.00%	-9.99%	-11.0%
Turkey	7.05%	11.14%	8.73%	11.58%
Kazakhstan	3.99%	7.43%	4.50%	20.08%
Turkmenistan	6.47%	8.04%	-22.0%	-9.00%

Economic
Overview

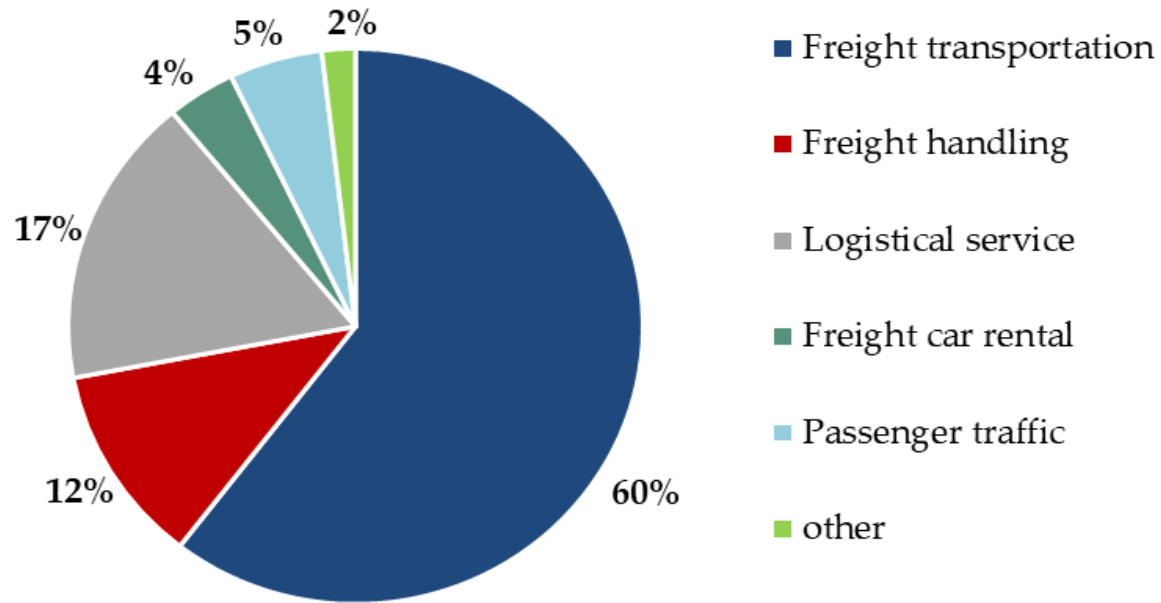
GR Today



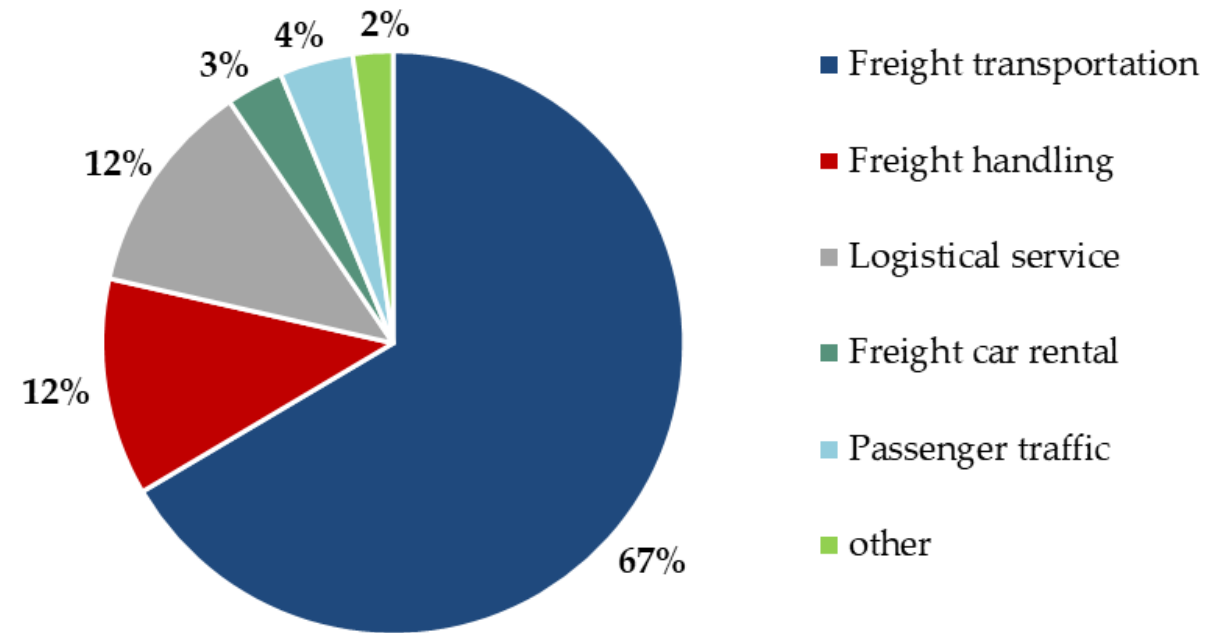
**Financial
Results**

Liquidity
Position

Revenue Breakdown 2017



Revenue Breakdown 2016



Revenue Breakdown

<i>GEL '000 period ended 31 December</i>	2017	2016	% Change	Abs. Change
Freight transportation	262,772	292,612	-10.2%	-29,840
Freight handling	50,189	52,974	-5.3%	-2,785
Logistical service	73,774	52,582	40.3%	21,192
Freight car rental	16,780	13,948	20.3%	2,832
Passenger traffic	22,843	18,007	26.9%	4,836
Other	8,176	9,799	-16.6%	-1,623
Revenue	434,534	439,922	-1.2%	-5,388
Income from transferred property	23,417	80,294	-70.8%	-56,877
Other income	15,560	19,122	-18.6%	-3,562

Significant Changes

- **Freight transportation:**
 - Tariffs denominated in USD;
 - The downturn in revenue caused by decreased volumes;
 - Average revenue per ton-kilometer increased by 3.9%.
- **Logistical service:**
 - Increased logistical revenue from ship-or-pay agreement, according to which Turkmenistan side should have reimbursed the contract amount, if it did not transport crude oil by Georgian Railway.
- **Freight car rental:**
 - Increased usage of open top-box wagons by Kazakhstan.
- **Passenger transportation:**
 - Increased number of passengers on the main line.
- **Income from transferred property assets:**
 - Transferred land plots to the state according to Bypass Project Memorandum.
- **Other income:**
 - Continuing operations decreased by about 36%, due to the decrease of accrued penalties on debtors by GEL 5.3 million.
 - Non-continuing operations increased by 12.3%.

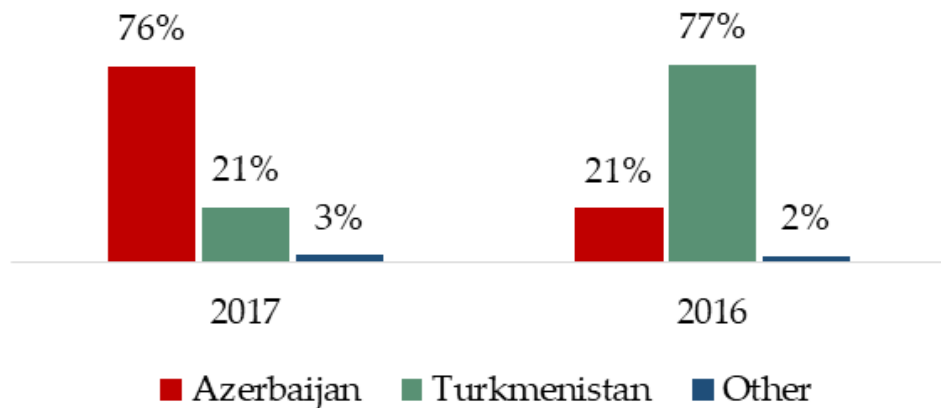
Freight Revenue Breakdown

<i>GEL '000 period ended 31 December</i>	2017	2016	% Change	% Change at constant currency	Abs. Change
Freight transportation	262,772	292,612	-10.2%	-15.3%	-29,840
Liquid cargoes	115,626	135,530	-14.7%	-17.4%	-19,903
Oil products	107,521	107,140	0.4%	-5.3%	381
Crude oil	8,105	28,389	-71.5%	-73.1%	-20,285
Dry cargoes	147,146	157,082	-6.3%	-11.6%	-9,936
Ores	25,294	24,820	1.9%	-0.5%	475
Grain	7,998	14,320	-44.1%	-47.3%	-6,322
Ferrous metals and scrap	10,508	20,936	-49.8%	-52.6%	-10,428
Sugar	18,364	18,333	0.2%	-5.5%	31
Chemicals and fertilizers	12,682	9,397	35.0%	27.3%	3,284
Construction freight	5,663	6,275	-9.8%	7.9%	-612
Industrial freight	5,246	3,440	52.5%	46.1%	1,806
Cement	1,182	933	26.7%	70.1%	249
Other	60,209	58,628	2.7%	-3.1%	1,581
Freight turnover (million ton-km)	2,930	3,391	-13.6%	-13.6%	-461
Revenue / ton-km (in Tetri)	8.97	8.63	3.9%	-14.3%	0.34

Crude oil

For the year ended 31 December	2017	2016	% Change	% Change at constant currency
Revenue (GEL million)	8.10	28.39	-71.5%	-73.1%
Freight volume (million ton)	0.40	1.81	-77.8%	-77.8%
Freight turnover (million ton-km)	157.60	713.65	-77.9%	-77.9%
Revenue / ton-km (in Tetri)	5.14	3.98	29.3%	22.0%

Transportation volume by countries of origin

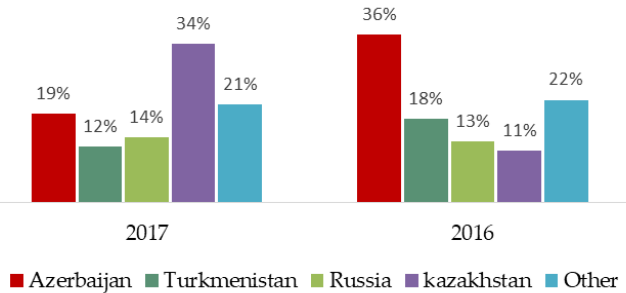


- Sharp fall (Down by -1.3 million tons, compared to 2016) in crude oil transportation volume from Turkmenistan to Italy;
- Increase in average revenue per ton-kilometer due to the changes in transportation direction mix;

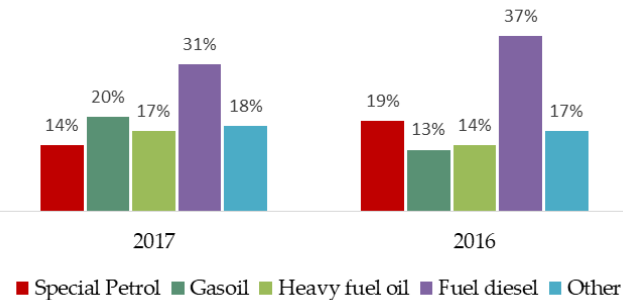
Oil products

For the year ended 31 December	2017	2016	% Change	% Change at constant currency
Revenue (GEL million)	107.52	107.14	0.4%	-5.3%
Freight volume (million ton)	3.95	3.69	7.1%	7.1%
Freight turnover (million ton-km)	1,221.24	1,087.94	12.3%	12.3%
Revenue / ton-km (in Tetri)	8.80	9.85	-10.6%	-15.7%

Transportation volume by countries of origin

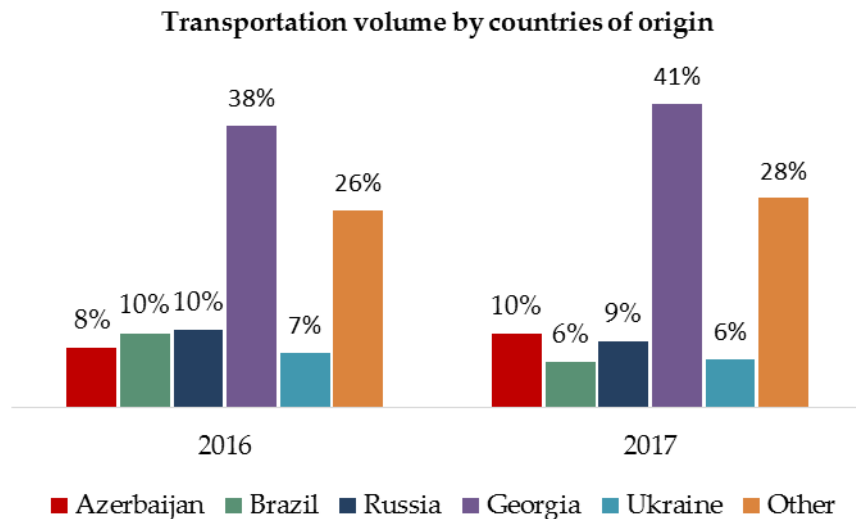


Product category mix



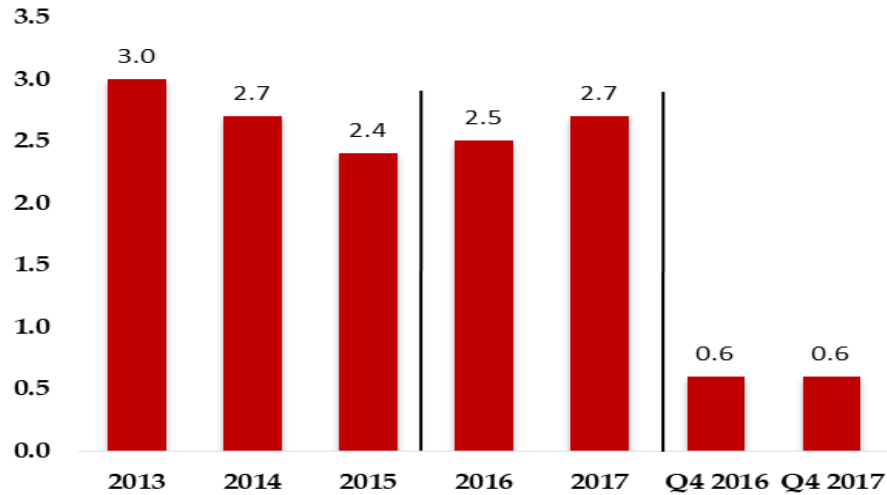
- Increased volumes from Kazakhstan and Russia, by 957,000 tons and 62,000 tons, respectively, which was partly offset by decreased volumes from Azerbaijan and Turkmenistan, by 591,000 tons and 162,000 tons, respectively;
- Increased average transportation distance caused by changes in transportation direction mix;
- Changes in product category mix. The share of fuel diesel (which is relatively more profitable product) has decreased and share of gasoil (which is relatively less profitable product) has increased in total volume.

For the year ended 31 December	2017	2016	% Change	% Change at constant currency
Revenue (GEL million)	147.15	157.08	-6.3%	-11.6%
Freight volume (million ton)	6.33	6.39	-1.0%	-1.0%
Freight turnover (million ton-km)	1,551	1,589	-2.4%	-2.4%
Revenue / ton-km (in Tetri)	9.49	9.88	-4.0%	-7.7%

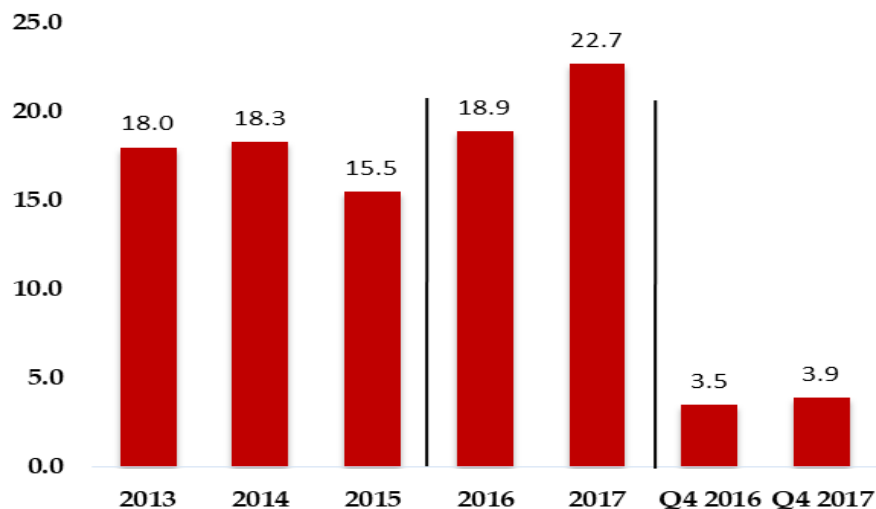


- Decreased transportation of grain (by 146,000 tons), ferrous metal and scrap (by 134,000 tons) and sugar (by 121,000 tons);
- Increased Transportation of chemicals and fertilizers (by 136,000 tons), construction freight (by 91,000 tons), industrial freight (by 132,000 tons) and cement (by 33,000 tons);
- Reduced revenue per ton-km was mainly caused by change in product category mix and transportation direction mix.

Passenger Transported (in million)



Passenger Revenues (GEL million)



Overview

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

Roadmap to Profitability

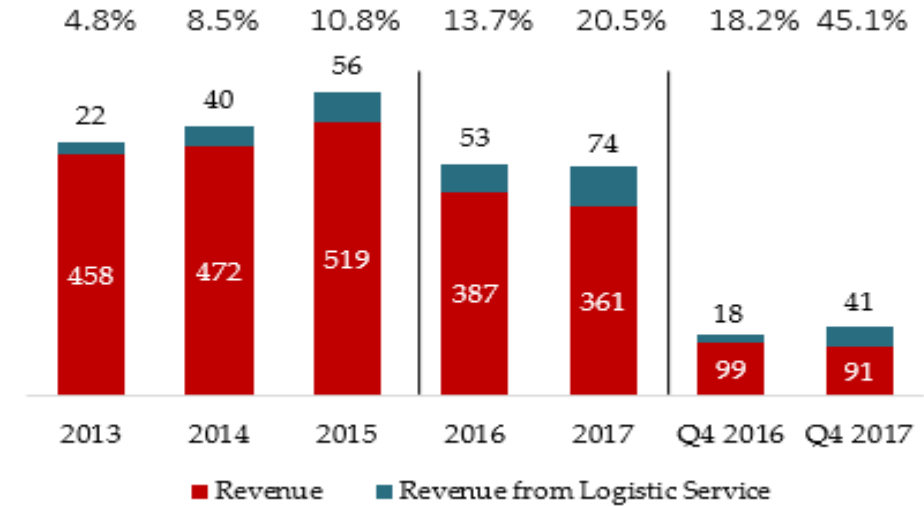
- Medium-term strategic objective to achieve break even :
 - Increasing revenue per passenger by attracting new higher paying customers willing to switch from car and minibus to rail;
 - Adjusting schedules to optimise utilisation.
- GR is increasing its service quality with higher speed and comfort: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

Description of GR's freight forwarders

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

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

As a percentage of total revenue

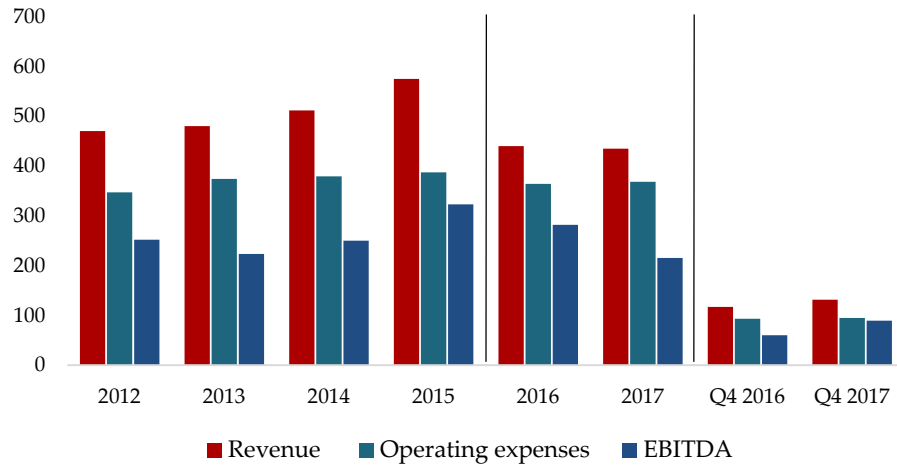


Comment

- Subsidiaries' margin added to GR revenue is increasing since entering in freight forwarding business;
- To reach subsidiaries margin (GEL 74 million) GR's subsidiaries transported about 3.5 million tons in 2017.

Adding logistics elements to the Company

Key performance indicators



GR as a logistic company

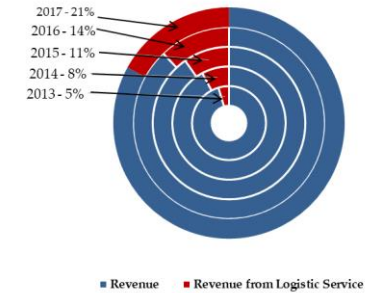
As a logistic company Georgian Railway expects to:

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

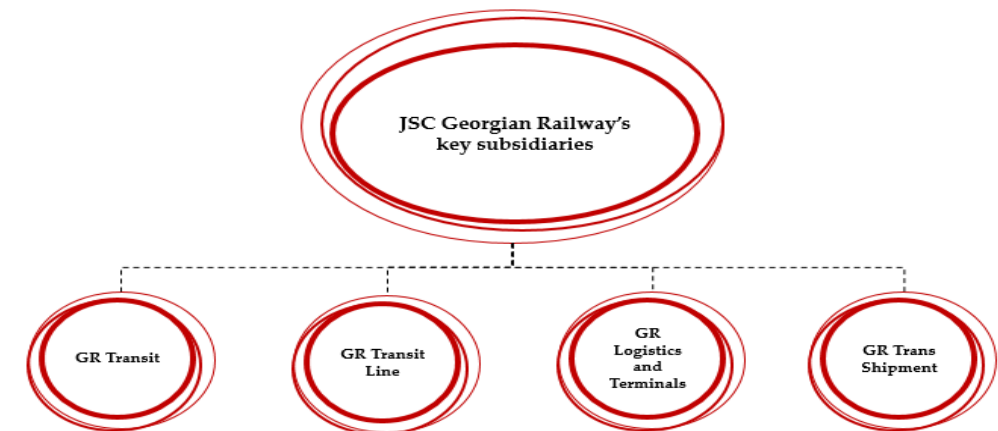
Comments

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

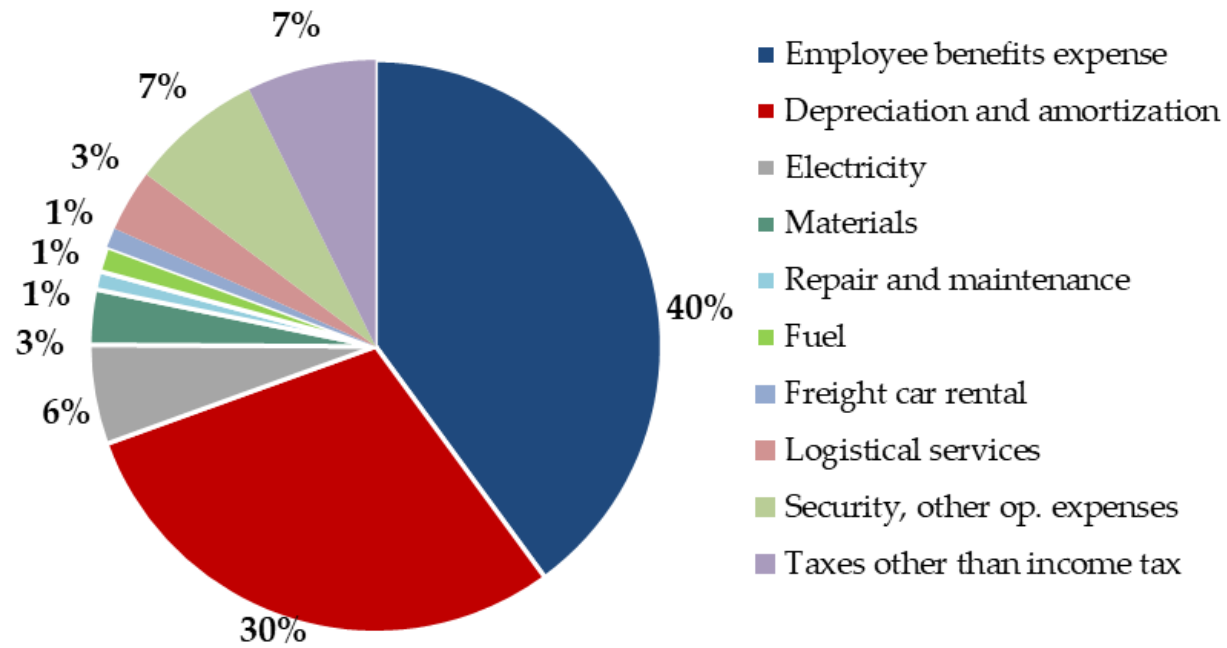
Share of revenue from logistic service in total revenue



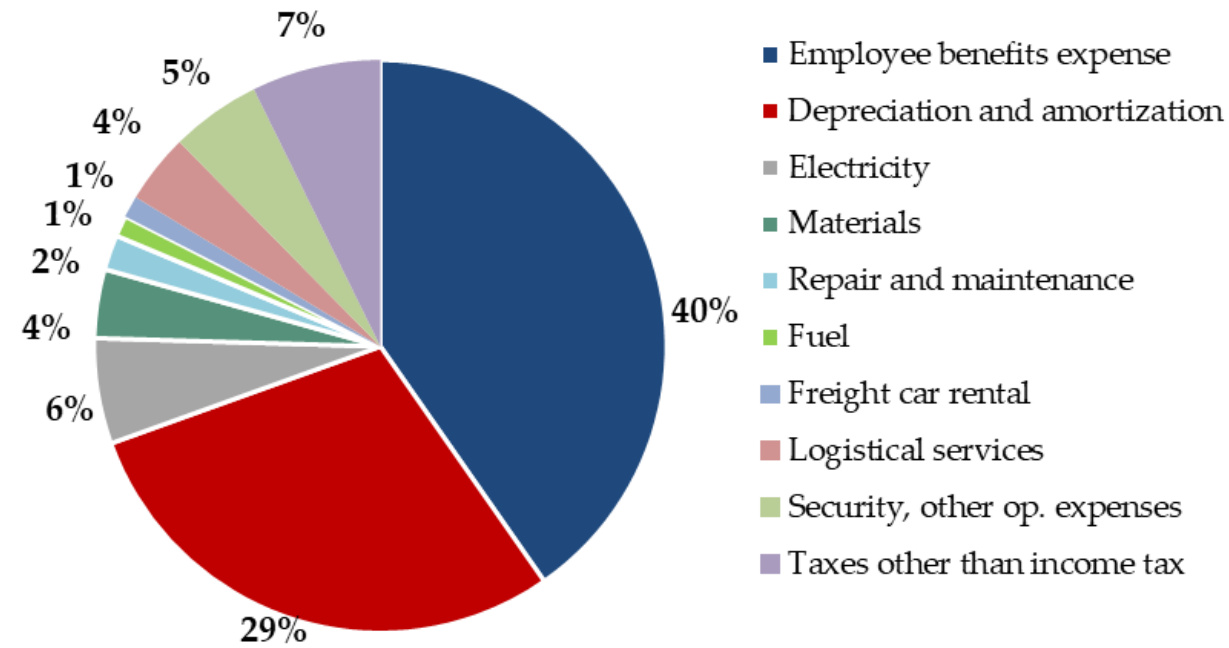
GR's freight forwarders



Cost Structure 2017*



Cost Structure 2016



* Cost structure 2017 excludes impairment loss on property, plant & equipment.

Operating Expenses

Operating expenses

For the year ended 31 December

In GEL '000

	2017	2016	% Change	Abs. change
Employee benefits expense	148,302	146,626	1.10%	1,676
Depreciation and amortization	109,703	106,267	3.20%	3,435
Impairment loss on property, plant and equipment	382,616	0	N/A	382,616
Electricity	20,868	21,687	-3.80%	-819
Materials	11,565	14,121	-18.10%	-2,556
Repair and maintenance	3,820	7,175	-46.80%	-3,355
Fuel	5,237	4,306	21.60%	931
Freight car rental	4,095	4,407	-7.10%	-312
Logistical services	12,996	14,270	-8.90%	-1,274
Security, other op. expenses	27,734	18,517	49.80%	9,218
Taxes other than income tax	27,043	26,474	2.20%	569
Total	753,980	363,850	107.20%	390,128

Significant Changes

- **Employee benefits expense:**
 - N of employees – 12,695;
 - Increased insurance expenses (by GEL 1.0m).
- **Freight car rental:**
 - Fall in freight volumes;
 - Reduced usage of Azerbaijani tank cars by GR.
- **Depreciation and amortization expense:**
 - Revision of useful lives for certain infrastructure assets;
 - Increase of PP&E as a result of the Group's investments in infrastructure.
- **Logistical service:**
 - Reduced expenses of GR's subsidiary that mainly serves crude oil and oil products transported by the Company.
- **Taxes other than income tax:**
 - The increase in property tax by 0.3 percent, was largely driven by the implementation of the Modernization Project, but it was offset by tax reduction on property and land because of impairment loss incurred in 2017.
 - Property tax will be reduced after the Modernization Project is put into operation, as railway-related assets are free from property tax, and assets under the project are taxed by property tax while under construction.
- **Electricity:**
 - Decreased turnover, which was partly offset by increased average electricity tariffs.
- **Materials, repair and maintenance expenses:**
 - Decrease in materials, repair and maintenance expenses by fewer repair works as a result of downturn in cargo volumes.
- **Fuel:**
 - Increase in fuel prices.

Balance Sheet

Non-current assets

As at 31 December

In GEL '000

	2017	2016	% Change	Abs. change
Property, plant and equipment	2,368,380	2,623,594	-9.7%	-255,214
Other non-current assets	123,562	147,565	-16.3%	-24,003
Loan receivable	18,113	35,717	-49.3%	-17,604
Total non-current assets	2,510,055	2,806,876	-10.6%	-296,821

Current assets

	2017	2016	% Change	Abs. change
Inventories	32,807	29,752	10.3%	3,055
Loan receivable	0	3,974	-100.0%	-3,974
Tax assets	2,360	7,129	-66.9%	-4,769
Trade and other receivables	73,614	99,649	-26.1%	-26,035
Prepayments and other current assets	383	350	9.5%	33
Cash and cash equivalents	243,018	277,953	-12.6%	-34,934
Total current assets	352,182	418,807	-15.9%	-66,625
Total assets	2,862,237	3,225,683	-11.3%	-363,446

Significant Changes

- **PPE**
 - Mainly decreased due to the impairment of Tbilisi Bypass project.
- **Loan receivable (Non-current assets)**
 - Mainly decreased due to provision which was made against the loan of USD 8.5 million, issued in 2016 to the owner of liquid cargo terminals on the Black Sea.
- **Loan receivable (Current assets)**
 - Loan receivables as at the end of 2016 represent the current portion of the loans issued in 2016 and provided to liquid cargo terminals on the Black Sea, against which the provision was made in 2017.
- **Trade and other receivables**
 - Provision made against the VAT receivable from the Government, created as a result of the land plots transfer transaction;
 - Decreased receivables by (GEL 14.8 million) from Azerbaijan Railways.
- **Cash and cash equivalents**
 - Cash outflows on investing activities;
 - Higher interest payments due to withdrawal of additional amount of loan to purchase passenger trains;
 - Repayment of current portion of the loan acquired for new passenger trains.

Balance Sheet (continued)

Equity

As at 31 December

	2017	2016	% Change	In GEL '000 Abs. change
Share capital	1,053,271	1,053,004	0.0%	267
Non-cash owner contribution reserve	98,192	98,312	-0.1%	-120
Retained earnings	93,385	447,960	-79.2%	-354,575
Total equity	1,244,848	1,599,276	-22.2%	-354,428

Non-current liabilities

	2017	2016	% Change	Abs. change
Loans and borrowings	1,374,363	1,361,602	0.9%	12,761
Advances received from the Government	46,594	73,809	-36.9%	-27,215
Total non-current liabilities	1,420,957	1,435,411	-1.0%	-14,454

Current liabilities

	2017	2016	% Change	Abs. change
Loans and borrowings	58,809	57,172	2.9%	1,637
Trade and other payables	112,221	109,638	2.4%	2,583
Liabilities to the Government	7,592	8,399	-9.6%	-807
Provisions	7,953	8,547	-6.9%	-594
Other current liabilities	9,857	7,240	36.1%	2,617
Total current liabilities	196,432	190,996	2.8%	5,436
Total liabilities	1,617,389	1,626,407	-0.6%	-9,018
Total equity and liabilities	2,862,237	3,225,683	-11.27%	-363,446

Significant Changes

- **Equity**
 - Decrease was mainly due to the impairment cost incurred by impairment of Tbilisi Bypass Project.
- **Loans and borrowings (LT)**
 - In 2016, the Group raised funds through export credit to finance the acquisition of four new passenger trains, two of which were delivered in 2016, other two in 2017 and are currently in operation. The total credit facility was USD 43.7 million. GEL 42.8 million at the end of 2016 and GEL 80.3 million at the end of 2017 was classified as non-current loans and borrowings. The remainder, GEL 1,294,069 million of non-current loans and borrowings at 31 December 2017, represents Eurobonds maturing in 2022.
- **Loans and borrowings (ST)**
 - Current portion of long-term borrowing, which was raised for financing new passenger trains (GEL 11.7 million);
 - Withdrawal of additional amount of loan in 2017, which was partly offset by appreciation of GEL against USD as at balance sheet dates by 2.1 percent, which caused revaluation of debt, as the Group's debts are denominated in USD.
- **Trade and other payables**
 - Increase in payables for the Modernization Project
 - Partly offset by reduction in payables for new passenger trains acquired.

Economic
Overview

GR Today

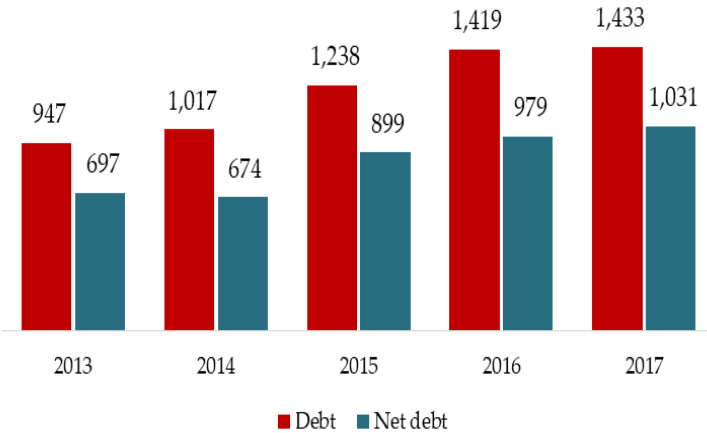


Financial
Results

Liquidity
Position

Liquidity Position

Debt (in GEL million) as for 31 December 2017



(in GEL million)

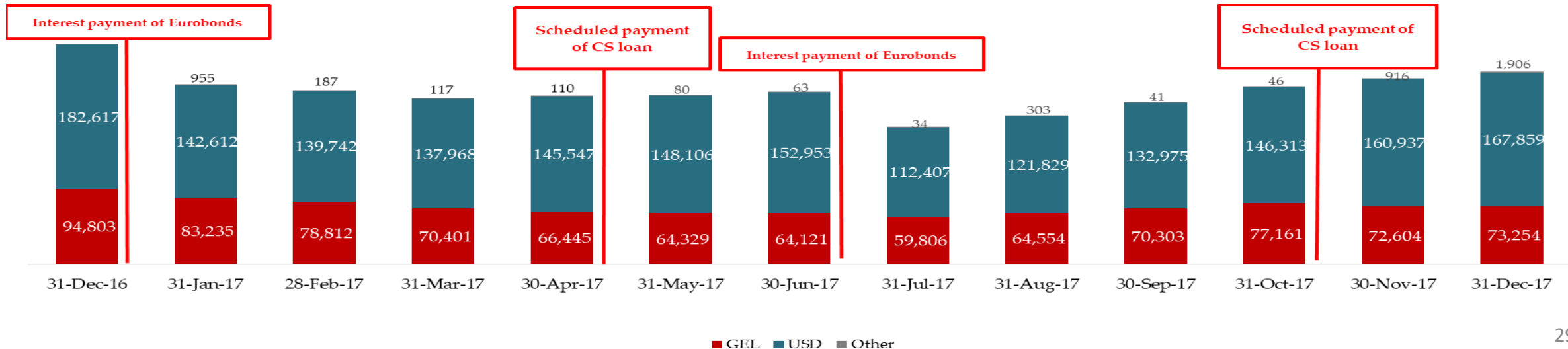
31-December-17
Amount

Cash and Bank Deposits	
Cash and Cash Equivalents	243.0
Available credit lines	158.8
Debt	
Total Indebtedness	1,433.2
Net Debt	1,031.3

Current Net Debt Position

- GR's debt balances include Eurobonds issued in 2012 and additional borrowing from Credit Suisse drawn in 2016 and 2017;
- Gross debt as at 31 December 2017 has increased by 1% compared to 31 December 2016, driven by the withdrawal additional amount of loan in 2017 for financing in passenger trains, which was partly offset by appreciation of GEL against USD by 2%;
- Cash balances and undrawn credit facilities offset Gross debt;

Cash and cash equivalents In GEL '000



Liquidity Position

Cash Position as at 31 December 2017

<i>in GEL '000</i>	31-Dec-17
GEL	73,254
USD	167,859
CHF	1,891
EUR	8
GBP	6
RUB	1
Total	243,018

Undrawn Credit Lines as at 31 December 2017

<i>in '000</i>	GEL	USD	GEL eqv.	Open.	Matur.
JSC Bank of Georgia	32,000		32,000	16-Jul-10	16-Jul-19
JSC VTB Bank Georgia		10,000	25,922	16-Jul-10	1-Dec-19
JSC TBC Bank		30,000	77,766	29-Jun-16	30-Jun-19
JSC Bank Cartu	5,000		5,000	30-Jun-16	30-Jun-19
Partnership Fund		7,000	18,145	29-Dec-17	28-Jun-19
Total	37,000	47,000	158,833		

Liquidity & Solvency Ratios

Liquidity

<u>Current Ratio</u>	1.79
<u>Quick Ratio</u>	1.61
<u>Cash Ratio</u>	1.24

Solvency

<u>Net Debt to EBITDA</u>	4.87
<u>Debt to Equity</u>	1.15
<u>Debt to Assets</u>	0.50

Net Debt to EBITDA – Sensitivity Analysis

2018	EBITDA '000					
		150,000	200,000	250,000	300,000	350,000
GEL / USD	2.40	6.45	4.58	3.46	2.71	2.17
	2.50	6.81	4.85	3.67	2.89	2.33
	2.60	7.18	5.12	3.89	3.07	2.48
	2.70	7.54	5.39	4.11	3.25	2.64
	2.80	7.90	5.66	4.32	3.43	2.79

