JSC Georgian Railway

Company Presentation

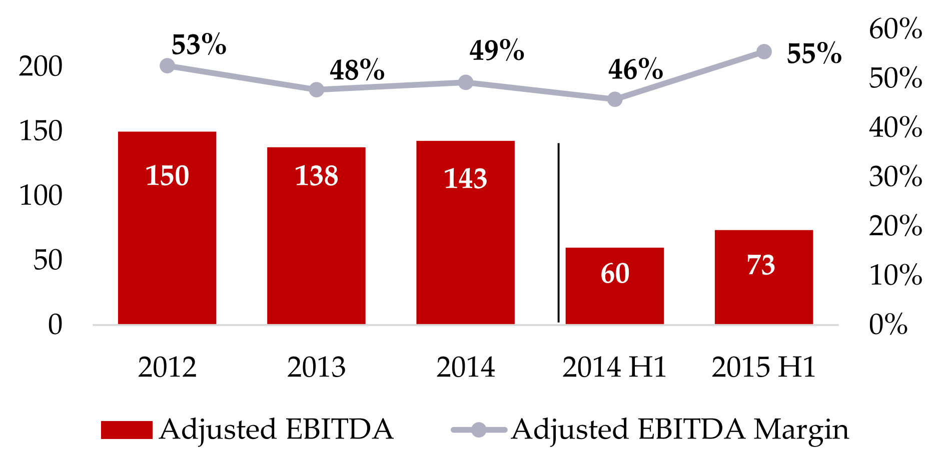
Georgian Railway Today

A Rail Monopoly with Deregulated Tariffs

- Sole railway operator in Georgia
- Integrated railroad company - owns and operates the tracks, terminals, other infrastructure and rolling stocks
- Uniquely positioned to capitalise on increasing trade flows between Europe, the Caspian Region and Central Asia
- Combination of rail monopoly and deregulated freight tariff policy
- Revenue of USD 132.4m and Adjusted EBITDA of USD 73.5m (55.5% margin) in H1 2015
  - H1 2015 Adjusted EBITDA (in USD) increased by 23% compared to H1 2014

Strategic Geographic Location

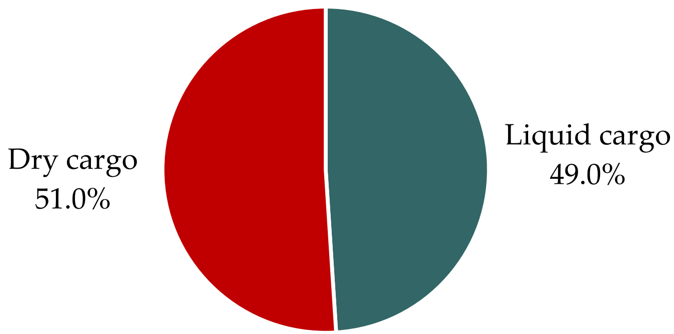
Proven Track Record of Profitable Growth (USDm)



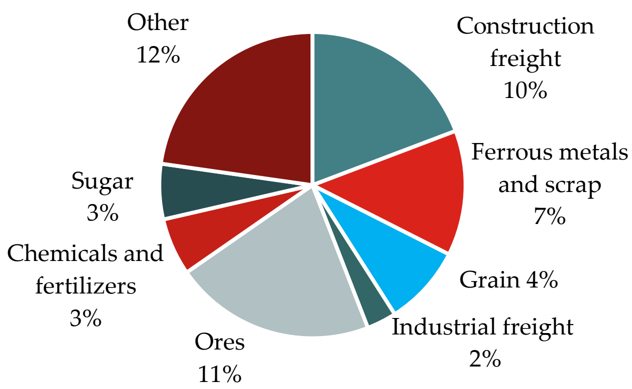
Georgian Railway Today

We Are a Freight Railway

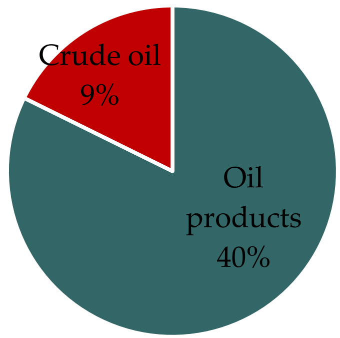
H1 2015 Total cargo: 7.3 mtn



H1 2015 Dry Cargo: 3.7mtn

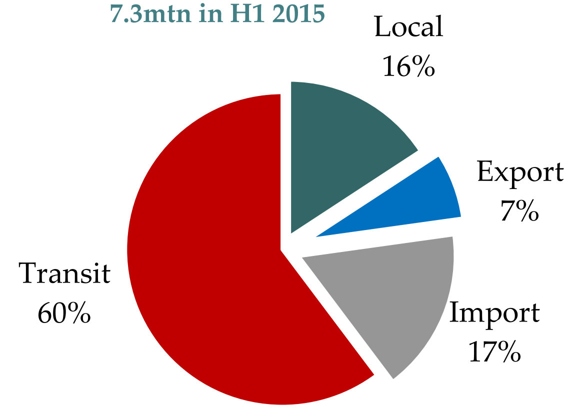


H1 2015 Liquid Cargo: 3.6mtn



We Are a Transit Railway

Volume Transported by Destination
7.3mtn in H1 2015



- GR is mainly a transit railway
- As a consequence, GR transports a large portion of its cargo using third-party rolling stock: in H1 2015, 51.7% of total cargo was transported by GR wagons
- This reduces the need to own rolling stock and limits CAPEX requirement to support future growth

Vertically Integrated Business Model

- ✓ Ownership of rolling stock, including railcars and locomotives
- ✓ Ownership and free access to railway infrastructure
- ✓ Operating flexibility
- ✓ Asset base with limited need for investment
- ✓ High barriers to entry due to full control of rail network
- ✓ Freedom to set prices increases flexibility
- ✓ Providing freight forwarding services - Georgia Transit, Georgia Transit Line, Trans Caucasus terminals
- ✓ Transshipment

GEORGIAN RAILWAY

- Freight Strategic Business Unit (SBU) — 96.9% of H1 2015 revenue
- Passenger Strategic Business Unit (SBU) — 2.1% of H1 2015 revenue
- Infrastructure Strategic Business Unit (SBU)

- Vertical integration provides resilient and flexible business model

Track Ownership / Infrastructure	Locomotive Ownership / Operations	Rolling Stock Ownership / Operations	Repairs & Maintenance	Passenger Transportation	Freight Forwarding
✓	✓	✓	✓	✓	✓

Excellent Partnerships and Aligned Interest of Corridor Participants

Kulevi

- Liquid cargo
- Operated by Vitol, SOCAR
- Estimated current capacity of 10mtn p.a.
- Expandable to 20mtn p.a.

Poti

- Liquid and dry cargo
- 80% owned by Maersk
- Free Economic Zone near Poti
- Estimated current capacity of 600 thousand TEU

Batumi

- Liquid and dry cargo
- Owned by KazMunayGas
- Estimated current capacity of approx. 15mtn p.a.
- Expandable to 28mtn p.a.

Rail Ferries

- Rail ferry connection to Bulgaria, Russia, Ukraine and Turkey
- Rail ferries connecting Azerbaijan ports with Central Asia

Ports Supporting Infrastructure | **Connecting Railways**

Turkey

- Active connection after Baku-Tbilisi-Kars Project
- Expected completion in 2016

Russia

- Inactive link through Abkhazian part of Georgian Railway

Azerbaijan

- **Largest GR rail connection**, originating or receiving well over half of GR tonnage

Armenia

- Operated under concession to Russian Railways as South Caucasus Railways (SCR)
- Currently only other active GR rail connection

Silk Road Project Extension Connecting to Viking Project

First railway freight transportation from China in the direction of Georgia was carried out in February 2015. The freight was loaded in China on January 29, 2015 and unloaded – on February 6, 2015 in Georgia.

Supported by Deep Sea Port construction in Georgia.

In 2015 Georgia became a founding member of the Asian Infrastructure Investment Bank (AIIB)

A single tariff across the Trans-Caspian transport route
transit time of 11 days

Eurasian corridor

Ongoing and completed projects

- Development of terminal infrastructure in Horgos (border of China and Kazakhstan);
- Construction of the railway Baku-Tbilisi-Kars (2016);
- Construction of a new deep-water port on the Black Sea (2017);
- Four new ferries on the Black Sea (Batumi-Constanta-Burgas);
- Construction of the terminal in Vale;
- Construction of the port in Alat - Azerbaijan;
- Creation of tariff policy association on the basis of the committee between the railways of Georgia, Azerbaijan and Kazakhstan (2013);
- Modernization of Azerbaijan railway - infrastructure and rolling stock;
- 10 new ferries and tankers in the Caspian Sea;
- Modernization of Turkmenbashi port;
- Construction of two new railway lines in Kazakhstan, shortening route to Europe by 1,200 km (East Kazakhstan - Aktau port);
- Modernization of Aktau port (operator DB World).

Competition: Increasing attractiveness of oil products

Pipelines

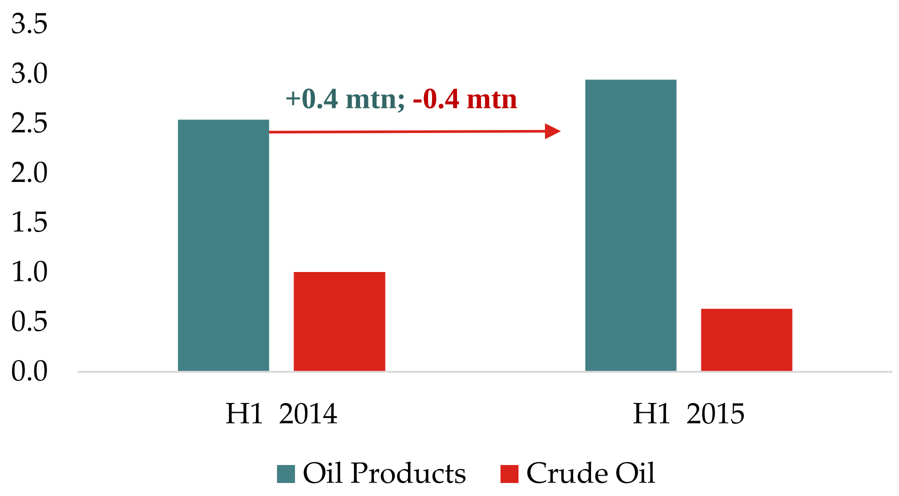
- High competition in crude oil transportation
- No pipelines for oil products transportation
- Caspian region increasing oil products production due to low crude prices
- Four main competing pipelines
  - Baku-Novorossiysk, Baku-Supsa, CPC and BTC
- Need to diversify end markets and transportation routes
- Not all regional producers have equal access to pipelines

Russian Rail Routes

- North route heading to Baltic Sea
  - Attractive mainly for transport to the Baltics and Northern Europe
- South route going to Novorossiysk
  - Disrupted in winter due to weather and traffic stops

Stable Position in Liquid Cargo

Liquid cargo transportation in mtn



Comments

- Oil products transportation hit historic maximum in 2014;
- Management expects increasing trend to continue.

Main Ongoing/Expected Developments

- **Kazakhstan export**
  - Paraxinol
  - Benzol
  - Composite
- **Batumi Port investment to accept AfraMax vessels:**
  - Mazut
  - VGO
  - LPG - Kazakhstan and Russian
- **Azerbaijan**
  - Refineries upgrade
  - Methanol export
- **Turkmenistan export**
  - 1.5m tons of oil products
  - Cargo from Makhachkala
- **Armenia import**
  - Customs union with Russia

Dry Cargo – New Developments

Main Ongoing/Expected Developments	
Metals	• Copper switching to Georgian direction from Baltic ports
Grain and Agricultural Products	• Fertilizers from Uzbekistan • Grain from Kazakhstan to Turkey • Cotton • Raw Sugar transportation to Turkmenistan and Kazakhstan through Georgia
Containerisation and other	• New volumes of Sulphur and Carbamide from Turkmenistan • Frozen meet transportation – central Asia consumption • Aluminium production tied to world prices, Azerbaijan to resume production if prices hit 2200 USD • Shah Deniz pipeline expansion • Baku-Tbilisi-Kars Project

Pictures of Cotton and Containers

New terminals in Georgia Supporting Dry Cargo Growth

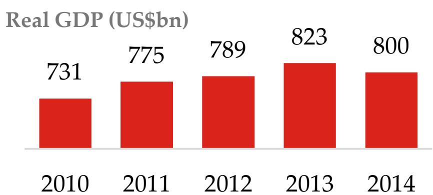
With significant volumes of transit cargoes from Turkey to Central Asia, Azerbaijan and Armenia, Georgian railway opened domestic terminal in
Batumi.

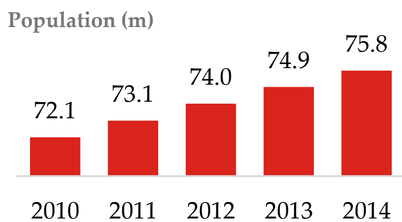
Launched terminal development project in **Valais** (close to the border with Turkey). By this project Georgian Railway creates an extra conditions for the growth of transportation in the region. First flow of coal will be received in terminal in Autumn.

Further Upside From the Baku-Tbilisi-Kars ("B-T-K") Railway Corridor

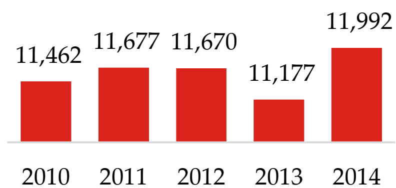
Geographic Location and Network

Turkey has a Positive Dynamic





Turkey - Railway Transportation Volumes (million tonnes km)



Turkey - Imports & Exports (US$bn)

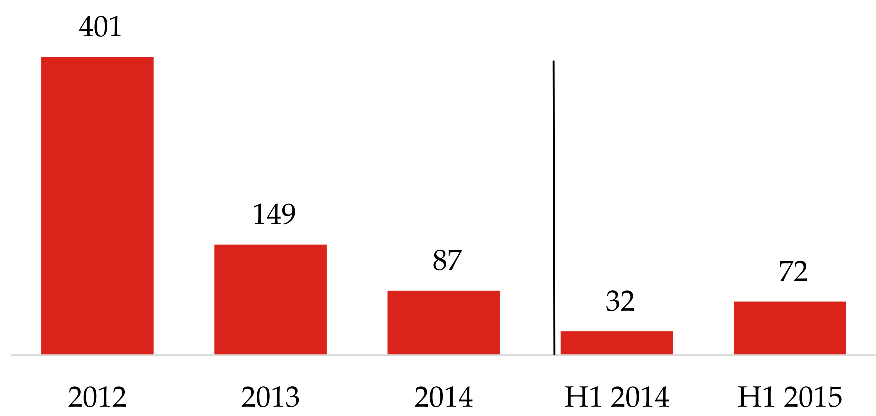
Key Comments

- USD 775m new corridor from the Caspian Sea to Europe via Turkey expected to be completed by the end of 2016
  - Fully funded by the government – no cash outflow from Georgian Railway for the construction
- Will transport both goods and passengers between Central Asia and Europe
  - Expected to increases cargo transportation capacity by 5mtn 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

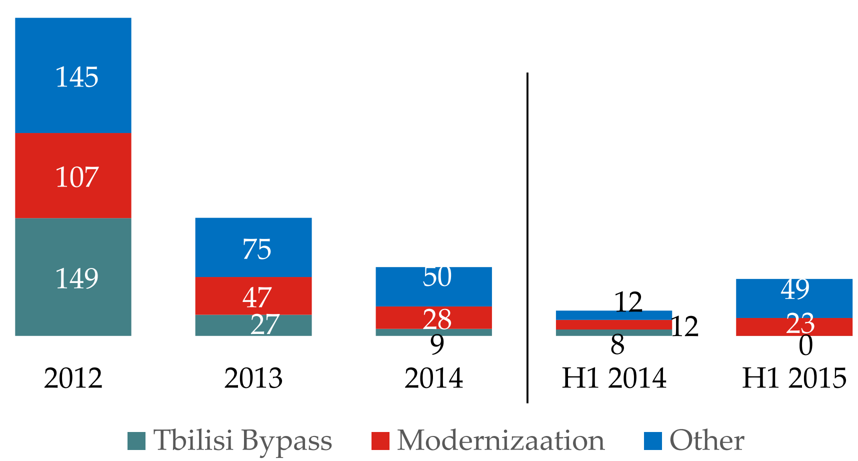
Source: http://www.turkstat.gov.tr/
http://data.worldbank.org/

CAPEX investment

Cash Flow used in acquisition of PPE (GEL m)



Cash Flow used Projects (GEL m)

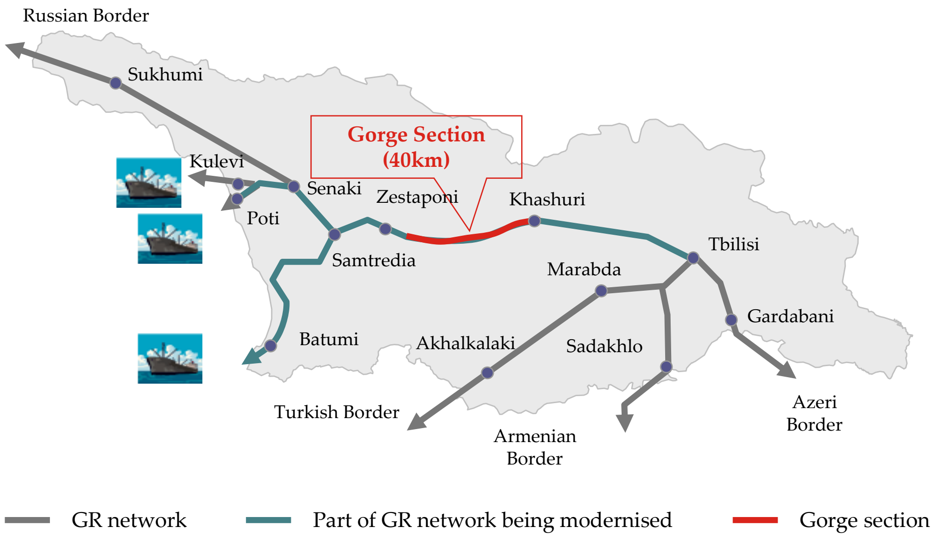


Capital Expenditure Programme

- GR's main investments are to support growth, through investments in rolling stock, made only when supported by expected increase in transportation volumes
- It is important to note, however, that as mainly a transit railway, GR transports a large portion of its cargo using third-party rolling stock, minimising CAPEX requirements
  - In H1 2015, 51.7% of total cargo was transported by GR wagons
- In addition, GR has a flexible model when it comes to new rolling stock needs
- Modernisation Project is discretionary capex programmes to increase further efficiencies underway.

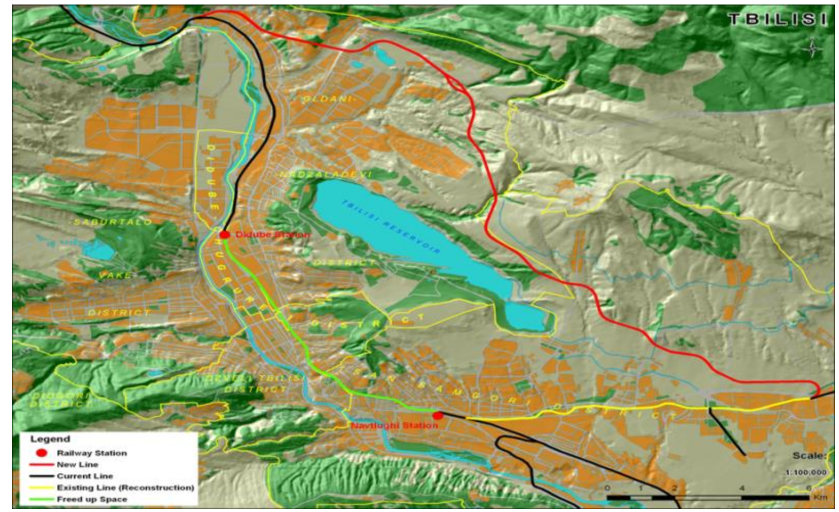
Two Discretionary Major Projects

Modernization



- Expected to be completed by 2019;
- Designed to increase transportation capacity of infrastructure from 27 mln tons to a potential 100 mln p.a.;
- Supports future corridor developments: Anaklia Deep Sea port, Poti Port expansion etc.;
- Reduced operational expenses;
- Improved operational safety;
- Increased train speeds.

Tbilisi Bypass



Suspended

Aim - Transfer of certain of GR's infrastructure from the centre of Tbilisi to the northern part of the city;

The company has two options proposed to the Tbilisi City Hall. Waiting for their decision.

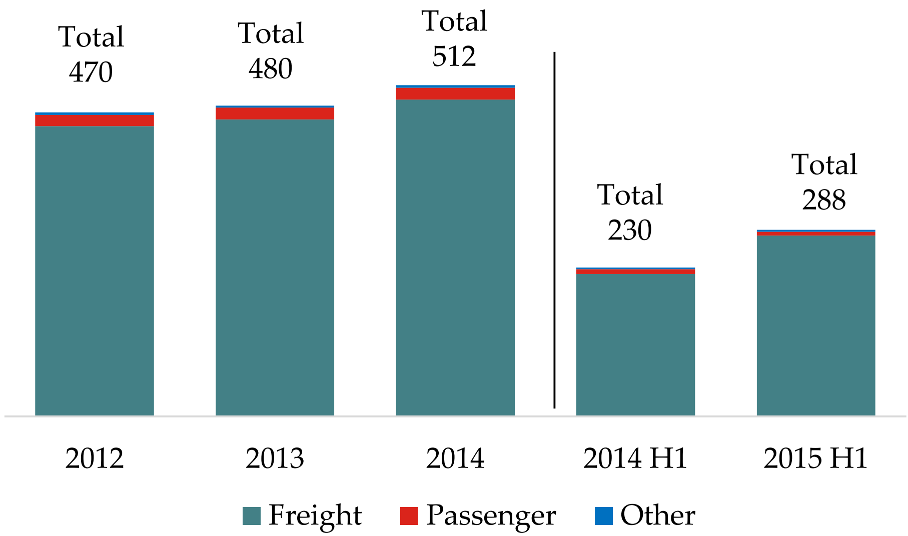
Both Projects are discretionary programmes and are not required to support short to midterm growth

Company’s management improvements

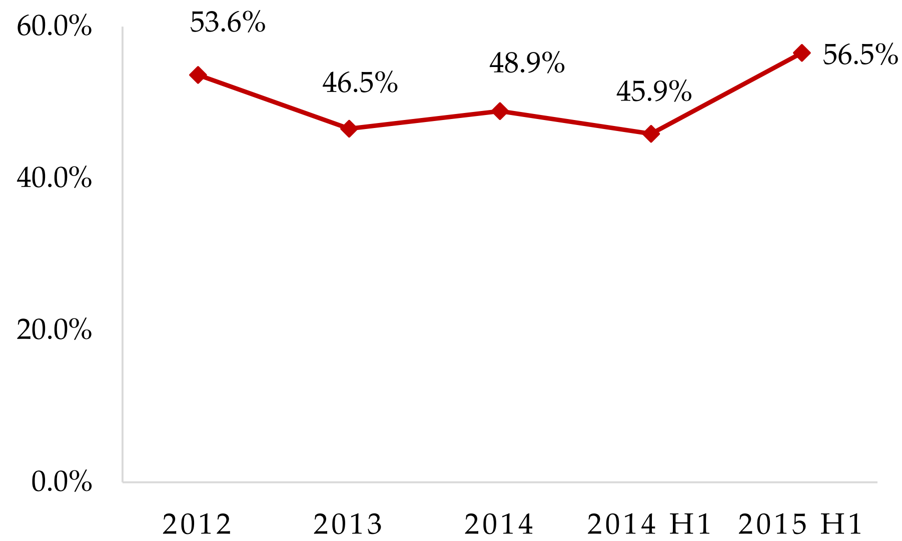
- In 2015 appropriated the certificate of quality of management ISO 9001:2008
- SAP license acquired in Q1 2015
- SAP implementation is planned by January 2017
- New bonus scheme was adopted to increase employee efficiency

Track Record of Strong and Resilient Revenue Generation

Revenue Breakdown (GEL m)



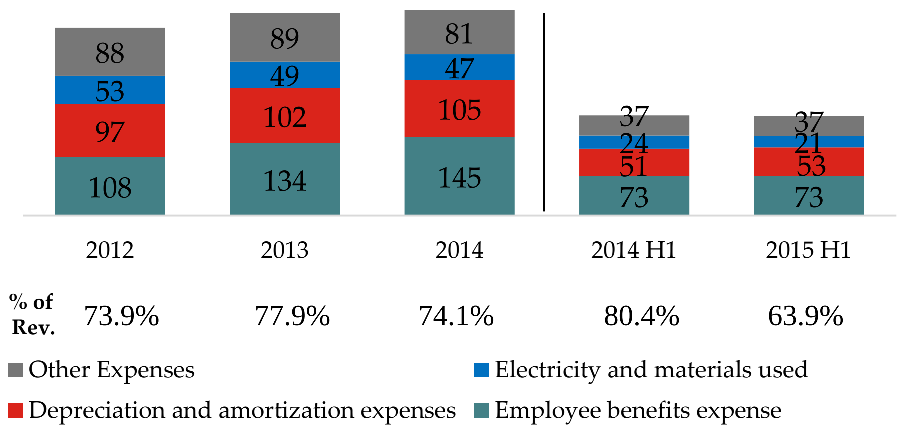
EBITDA Margin



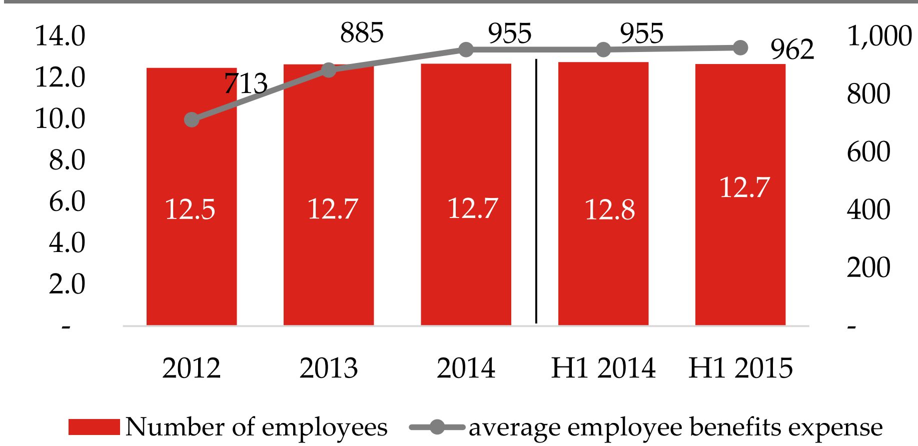
- EBITDA improved by GEL 57.6mln or 54.6% in H1 2015 compared to H1 2014. Increase is mainly due to depreciation of Georgian lari.
- EBITDA margin improved to 56.5% compared to 45.9%.
- Management expects EBITDA margin 2015 to remain above 50%.
- Further margin uplift potential:
  - Increase in revenue coupled with mostly fixed cost base
  - Focus on controlling cost base
  - Objective to achieve Break even for Passenger SBU

Operating costs

Operating Costs Breakdown (GEL m)



Number of Employees ('000) and Average Salary (GEL)

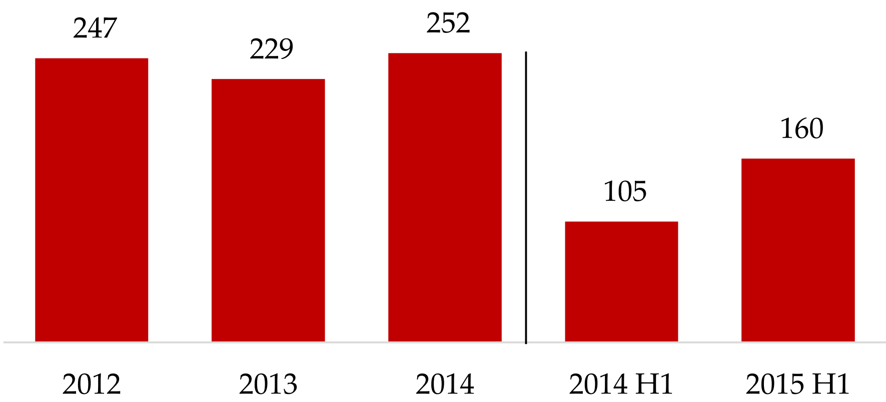


Key Comments

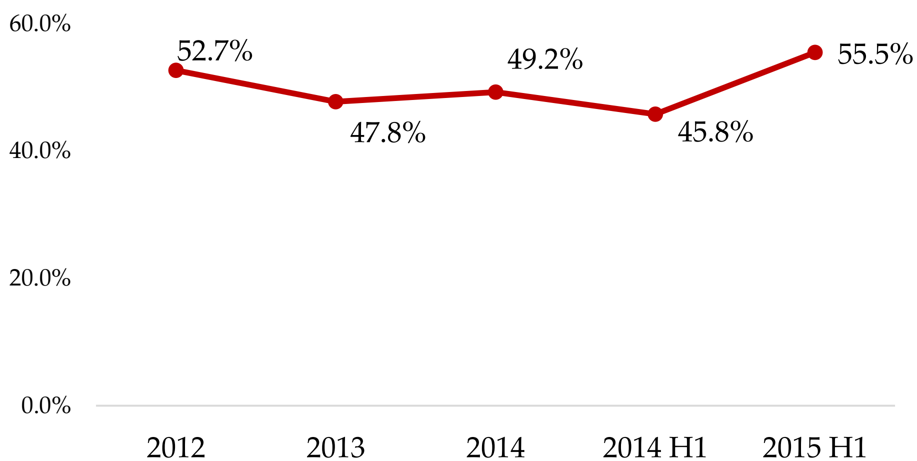
- Strong **operating leverage** gives opportunity to increase margin further by increasing volumes
- **H1 2015:** operating costs decreased by 0.4% despite the strong growth in revenue
- **Payroll:** employee benefits expense increased by 0.5% in H1 2015 compared to H1 2014.
- **Materials and repair and maintenance:** decreased by 18% in H1 2015 compared to H1 2014 mainly due to decreased transportation by Georgian Railway's own fleet and lower utilization rate
- **Depreciation:** increased by 3% in H1 2015 compared to H1 2014 as a result of increase in assets with new CAPEX

Leading margins in the industry

Adjusted EBITDA (GEL m)



Adjusted EBITDA Margin

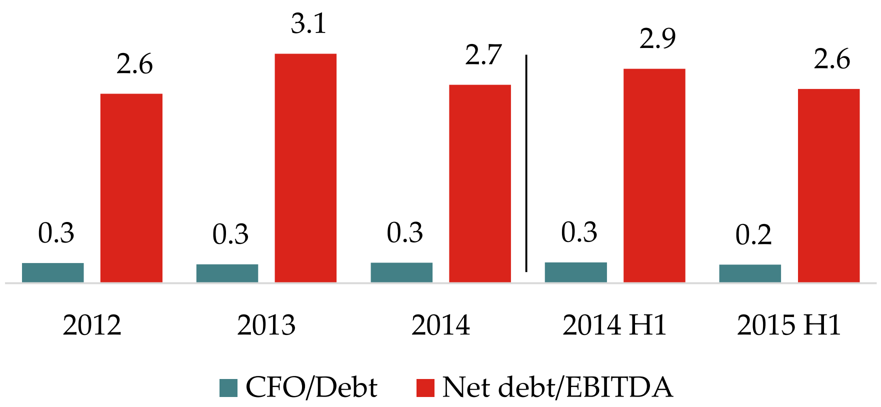


Key Comments

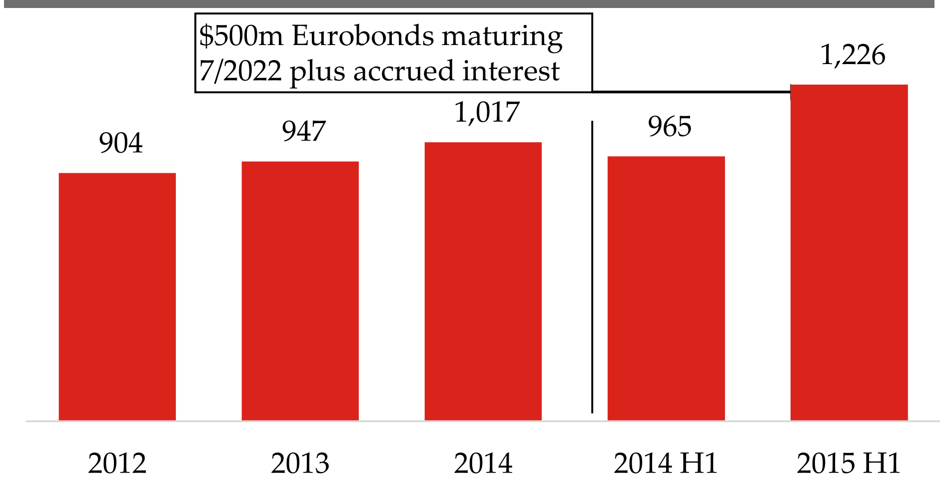
- Adjusted EBITDA improvement in H1 2015 was mainly due to the increased revenue, while operating expenses remained nearly the same;
- Management expects EBITDA margin to remain above 50% in 2015.
- **Further margin uplift potential**:
  - Lever operational efficiencies
  - Focus on controlling cost base
  - Labour efficiency through staff level optimisation
  - CAPEX to reduce future repair and maintenance costs
  - Objective to achieve Break even for Passenger SBU

Balance Sheet Overview: Leverage and Debt Position

Debt Ratios



Debt amount (GEL in thousands)



Current Net Debt Position

(GEL in thousands)	Maturity	30-June-15, Amount
Cash and Bank Deposits		
Cash and Cash Equivalents		370.4
Available credit lines		43.2
Debt		
Total Indebtedness	July 2022	1 226.4
Net Debt		**812.7**

Appendix

A Clearly Defined Strategy Aimed at Increasing Future Profitability

Increase Product and Regional Diversification to Consistently Achieve Profitability Levels Above Industry Average

1 Continue to Grow our Freight Service Business while Increasing Geographic Diversification

- Capture increasing transport of oil and oil products
- Increase dry cargo activities and containerisation of the Caucasus Corridor

2 Focus on Core Business Activities

- Three business units: Freight, Passenger and Infrastructure

3 Maintain Competitiveness of the Caucasus Corridor

- Flexible tariff policy
- Measured approach to pricing enhances predictability for customers

4 Maintain Lean and Efficient Cost Structure to Continue Increasing Profitability

- Lever operational efficiencies to consistently improve profitability
- Increase labour efficiency and quality

5 Develop and Modernise the Infrastructure

- Efficient capacity expansion to match freight and passenger growth
- Extend life-cycle of infrastructure and diminish maintenance costs
- Completion of Modernisation project to drive further improvement in efficiency

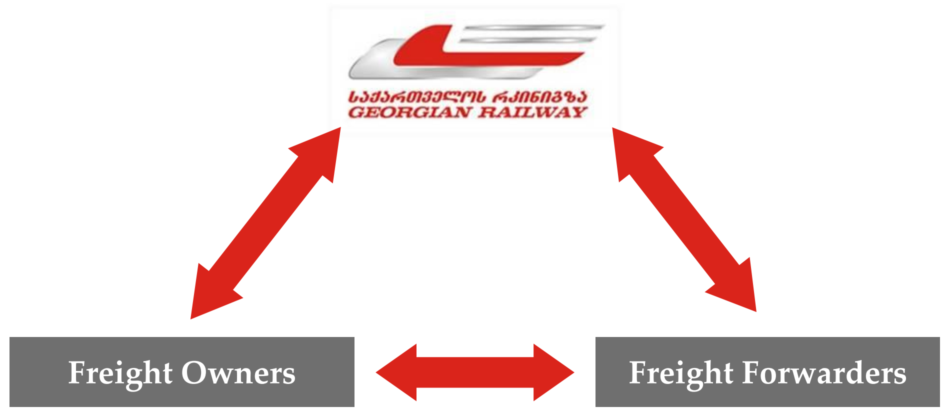
საქართველოს რკინიგზა
GEORGIAN RAILWAY

High Quality Customer Portfolio with Limited Credit Risk

Long-Term Relationship with Freight Owners

- Freight forwarders administer freight transportation on behalf of the freight owners
  - Freight forwarders have a diversified customer base of freight owners
  - GR's well-established relationships with freight forwarders foster long-term relationships between GR and cargo owners
- Many freight owners are large blue chip companies
- Flexibility of deregulated tariff regime allows adoption of optimal pricing policy to attract and retain key customers

Limited Credit Risk



- GR does not enter into long-term contracts with customers it serves through freight forwarders
  - Ability to maintain flexible pricing policy and pursue opportunities
- Customers required to pay transportation and station services in advance
  - Services conditional upon full prepayment
  - Eliminates risk of customer default or delay of payment on these services
  - Payments for demurrage do not need to be paid in advance

Favourable Regulatory Framework and Strong Government Support

Deregulated Freight Tariff Policy

- GR can set tariffs independently
  - Changes with 1 month notice period to customers
- Deregulated tariffs allow GR to adopt a flexible pricing model which can swiftly respond to changing market conditions
- Almost all tariffs stated in USD
  - GR can freely change the tariff currency with one month notice (e.g. switch from CHF to USD in February 2012)
- From May 2014 discounts on transportation of some cargo categories from and to Azerbaijan have been reduced
- GR and other corridor participants (Kazakhstan, Azerbaijan, ports and other) work on simplified through rate benefitting the corridor.

Strong Government Support

Government Philosophy

- Interests of GR and Georgia are aligned
- Strategic significance of Railway Corridor
- Pure business-oriented entity with no cross subsidisation of rest of economy
- Active and ongoing backing but no intervention in day-to-day operations

Examples of gov. support

- Government contributed GEL 38.8 mln in form of land in 2010-2013 (3.2 mln sq.m)
- Law on exemption from property tax because of Bypass CIP

Relationships with Key Government Agencies

Government Meetings
Economic committee

JSC Partnership Fund (Supervised by Government officials)
Holds GR shares

Robust Governance Standards

Commitment to Robust Governance Standards

Supervisory Board

7 members in total

2 independent non-executive directors

Chaired by independent directors

Audit Committee

Remuneration Committee

Nomination Committee

Medium-term objectives

- Half of Supervisory Board to be comprised of independent directors
- All committee members to be independent

Independent Non-Executive Directors

Clifford S. Isaak

- From 2005 to 2009, Managing Director then Managing Partner, Caucasus Region at PricewaterhouseCoopers
  - Responsible for Armenia, Azerbaijan and Georgia and oversight of new office opening in Ashgabat, Turkmenistan
- Since 2009, runs his own consulting and advisory business in Tbilisi
- Graduated from Red River College (Canada) with a degree in Business Administration and received a Certified General Accounting Designation in Canada

Levan Surguladze

- From 2002 to 2007, Director of Risk Control at UBS Investment Bank, New York
- Since 2007 he has been the Managing Director of CFS Finance
- In 2009 he was appointed as a member of the board of the Financial Supervision Agency of Georgia until its liquidation in December 2009
- B.S. and M.S. in physics from Moscow State University, Ph.D. in physics from the National Academy of Sciences (Moscow) and M.B.A. from the University of Alabama

Streamlined Business Model with 3 Focused SBUs

Overview

Freight SBU

- Conducts all the Group's freight operations:
  - Freight Traffic
    - Freight Transportation
    - Freight Handling
  - Freight Car Rental
- Estimated average utilisation rate of 79% for railcars in 2014
- 5,596 employees at the end of 2014

Passenger SBU

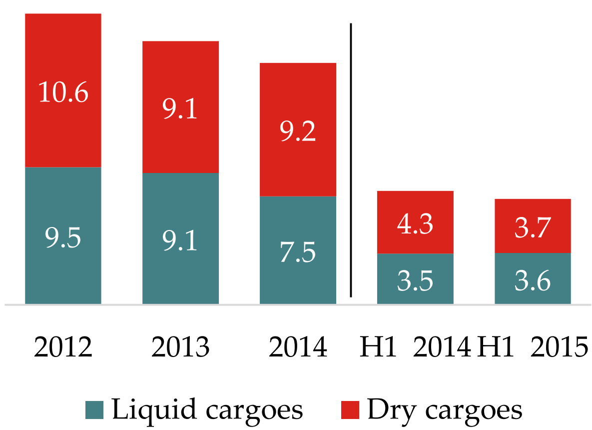
- Conducts all the Group's passenger operations
  - Transportation of passengers within Georgia
  - Routine maintenance repairs
- 1,451 employees at the end of 2014

Infrastructure SBU

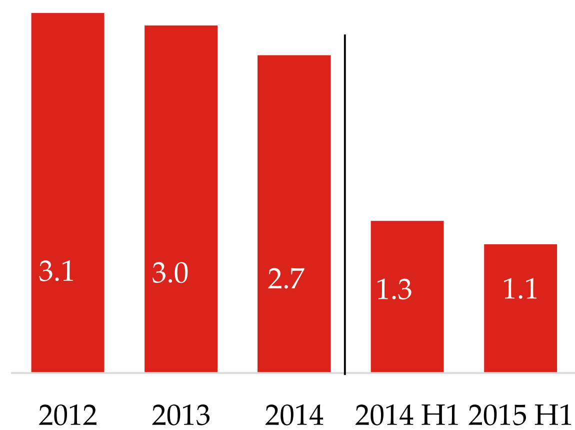
- Operates, maintains and manages the Company's infrastructure assets
- Cost centre serving freight and passenger activities
  - No service to external customers
- Implementation of Modernisation Project
- 4,903 employees at the end of 2014

KPIs

Volume (mtn)



Passengers (m)

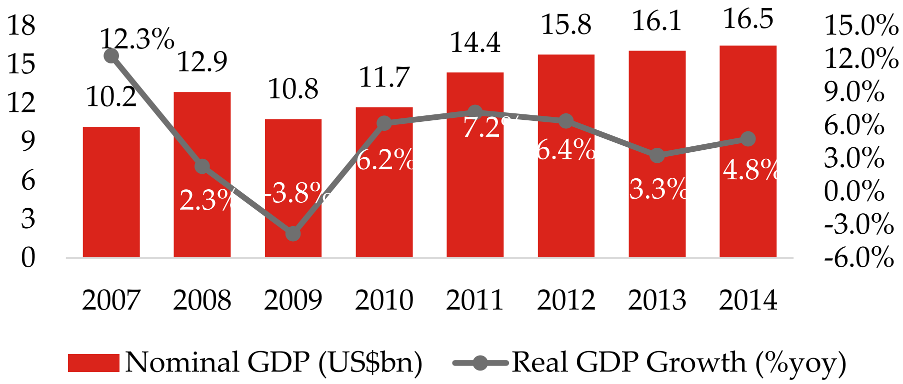


Asset Overview (as of Q3-2011)

Network Length	1,443km
% Electrification	94%
Mainline Length	827km
% Electrification	100%
Double-Track Line Length	293km
Number of Stations	114
Tunnels	55
Bridges (Mainline)	1,369
Track Gauge	1,520mm

Georgia's Macroeconomic Overview

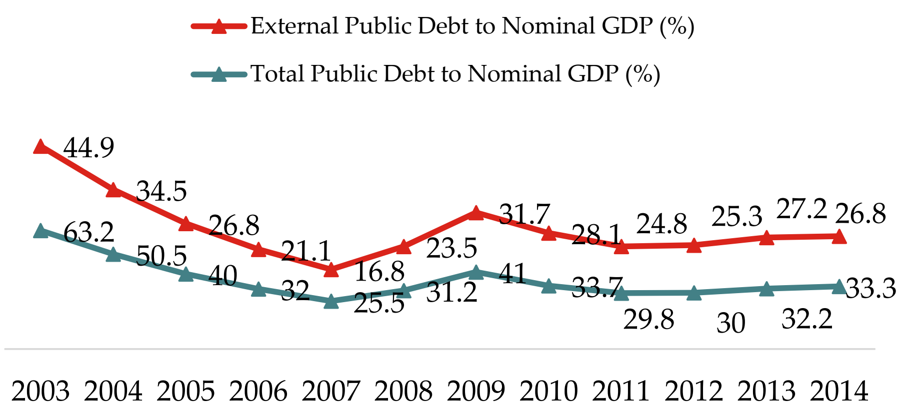
Good GDP Growth Prospects (%)



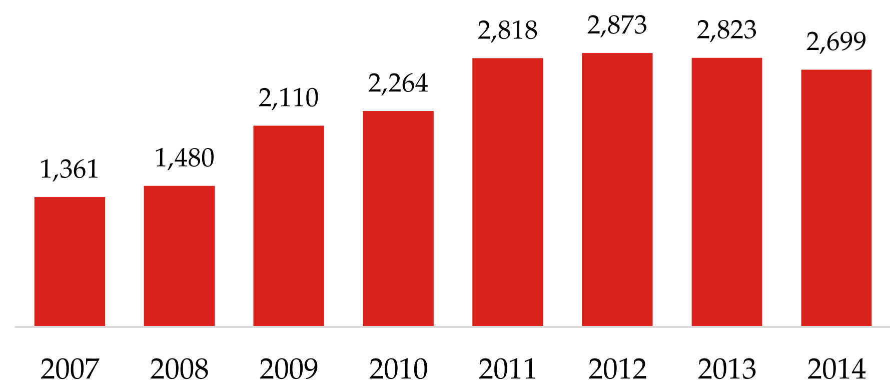
Key Stats

	2010	2011	2012	2013	2014
Population ('000)	4,436	4,469	4,498	4,484	4,490
Real GDP Growth (%)	6.3	7.2	6.2	3.2	4.8
Net FDI (US$ m)	815	1117	912	942	1758
Inflation (CPI)	7.1%	8.7%	-0.9%	-0.5%	3.1%
GEL/US$ (daily average)	0.6	0.6	0.6	0.6	0.6

Low Debt Levels Provide Buffer



Significant Accumulation of International Currency Reserves (US$m)



Source: MOF.

Detailed Historical Financial Statements (1/4)

Income Statement					
In thousand GEL	**2012**	**2013**	**2014**	**H1 2014**	**H1 2015**
Revenue	469,819	479,846	511,570	229,761	288,340
Other income	31,953	15,452	12,353	9,436	6,212
Payroll expenses/Employee benefits expense	(108,467)	(133,509)	(145,174)	(72,826)	(73,188)
Depreciation and amortization expenses	(97,082)	(101,927)	(105,258)	(51,041)	(52,596)
Raw materials and consumables used	(52,973)	(49,166)	(47,239)	(24,208)	(21,461)
Other expenses	(88,446)	(89,319)	(81,480)	(36,760)	(36,926)
Results from operating activities	**154,804**	**121,377**	**144,772**	**54,362**	**110,381**
Finance income	19,106	12,334	11,666	4,910	8,492
Finance costs	(59,310)	(57,521)	(111,269)	(22,285)	(202,799)
Net finance costs	**(40,204)**	**(45,187)**	**(99,603)**	**(17,375)**	**(194,307)**
Profit before income tax	**114,600**	**76,190**	**45,169**	**36,987**	**(83,926)**
Income tax expense	(17,383)	(10,960)	(5,883)	(2,758)	19,888
Profit and total comprehensive income for the year	**97,217**	**65,230**	**39,286**	**34,229**	**(64,038)**

EBITDA Reconciliation (2/4)

EBITDA Reconciliation					
(in GEL m)	**2012**	**2013**	**2014**	**H1 2014**	**H1 2015**
Results from operating activities	154.8	121.4	144.8	54.4	110.4
+Depreciation and amortization expense	97.1	101.9	105.3	51.0	52.6
EBITDA	**251.9**	**223.3**	**250.0**	**105.4**	**163.0**
-Write-of of PPE	5.9	0.3	0.0	0.0	0.0
-Write-of of CIP	8.9	5.7	3.9	0.0	-2.7
-Inventory write-downs due to obsolescence	0.0	0.0	0.0	0.0	0.0
-Guarantee provisions	0.0	0.0	0.0	0.0	0.0
-Gain on sale of subsidiaries and associates	0.0	0.0	0.0	0.0	0.0
-Other income: other	-19.3	-0.1	-2.0	-0.2	-0.3
-Other provisions	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	**247.4**	**229.2**	**251.9**	**105.2**	**160.0**
EBITDA Margin (%)	53.6%	46.5%	48.9%	45.9%	56.5%
Adjusted EBITDA Margin (%)	52.7%	47.8%	49.2%	45.8%	55.5%

Detailed Historical Financial Statements (3/4)

Balance Sheet

(in GEL m)	2012	2013	2014	H1 2014	H1 2015
Non-current Assets					
Property, plant and equipment	2,197.2	2,347.2	2,378.2	2,380.5	2,417.3
Deferred tax Assets	1.6	1.6	1.6	1.6	21.0
Investment property	0.0	0.0	0.0	0.0	0.0
Other non-current assets	280.9	180.9	170.2	171.3	174.0
Total Non-current Assets	2,479.7	2,529.7	2,550.0	2,553.4	2,612.3
Current Assets					
Inventories	35.6	43.1	34.0	30.8	30.9
Current tax assets	0.0	11.7	10.9	10.6	12.1
Trade and other receivables	39.3	52.4	53.9	59.3	65.9
Prepayments and other current assets	61.6	39.4	18.5	24.5	25.2
Cash and cash equivalents	115.1	209.0	301.0	247.3	370.4
Bank deposits	100.3	0.0	0.0	0.0	0.0
Total Current Assets	351.9	355.6	418.4	372.4	504.5
Total Assets	2,831.5	2,885.2	2,968.4	2,925.8	3,116.8
Equity					
Charter capital	1,049.8	1,050.1	1,052.2	1,050.7	1,052.3
Non-cash owner contribution reserve	31.7	31.7	34.2	34.2	34.1
Retained earnings	449.4	487.4	476.3	501.6	386.8
Total Equity	1,530.8	1,569.1	1,562.8	1,586.5	1,473.1
Non-current Liabilities					
Loans and borrowings	870.9	913.2	929.4	930.7	1,121.4
Advances received from the Government	231.6	231.6	229.4	231.6	229.4
Trade and other payables	0.1	0.1	0.1	0.1	0.1
Deferred tax liability	57.3	58.4	60.0	58.4	57.9
Total Non-current Liabilities	1,159.9	1,203.3	1,218.8	1,220.7	1,408.8
Current liabilities					
Loans and borrowings	33.4	33.7	87.3	34.0	105.0
Trade payables and advances received	81.6	56.2	78.5	57.2	80.7
Liabilities to the owners	13.0	11.9	8.5	11.9	7.7
Provisions	4.1	6.2	6.4	6.5	6.4
Other taxes payable	0.0	0.0	0.0	0.0	0.0
Dividends payable	0.0	0.0	0.0	0.0	25.2
Other current liabilities	7.2	4.8	6.1	9.0	9.8
Current tax liabilities	1.5	0.0	0.0	0.0	0.0
Total current Liabilities	140.9	112.8	186.8	118.6	234.9
Total Liabilities	1,300.7	1,316.1	1,405.6	1,339.3	1,643.6
Total Equity and Liabilities	2,831.5	2,885.2	2,968.4	2,925.8	3,116.8

Detailed Historical Financial Statements (4/4)

Cash Flow Statement					
(in GEL m)	**2012**	**2013**	**2014**	**H1 2014**	**H1 2015**
Net cash generated by operating activities	239.6	218.8	280.1	119.4	141.5
Net cash used in investing activities	(407.7)	(36.4)	(75.3)	(27.4)	(63.4)
Net cash from financing activities	218.8	(94.8)	(123.2)	(56.2)	(39.4)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**50.7**	**87.6**	**81.7**	**35.8**	**38.7**
Cash and cash equivalents at the beginning of period	61.6	115.1	209.0	209.0	301.0
Effects of exchange rate changes on the balance of cash held in foreign currencies	2.9	6.3	10.3	2.5	30.8
Cash and cash equivalents at the end of the period	**115.1**	**209.0**	**301.0**	**247.3**	**370.4**