DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 9 June 2021[1]

GEORGIA

SC GEORGIAN RAILWAY GREEN BOND
(PROJECT KOLKHETI)

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ACM	Asbestos Containing Materials
AESR	Annual Environmental and Social Report
BTK	Baku-Tbilisi-Kars
bps	Basis point
Capex	Capital Expenditures
CF	Cash flow(s)
COGS	Cost of goods sold
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EIA	Environmental Impact Assessment
EM	Emerging Market(s)
EMBI	Emerging Markets Bond Index
EOAP	Equal Opportunities Action Plan
EPG	Economics, Policy & Governance
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
E&S	Environmental and Social
FX	Foreign currency exchange
FY	Financial Year
GDP	Gross Domestic Product
GEL	Georgian Lari
HR	Human Resources
HSE	Health, Safety and Environmental
HY	High Yield
IFRS	International Financial Reporting Standards
IUCN	International Union for Conservation of Nature
LSE	London Stock Exchange
MCap	Market Capitalisation
MoESD	Ministry of Economy and Sustainable Development of Georgia
OHS	Occupational Safety and Health
p.a.	per annum
PCB	Polychlorinated Biphenyl
PPE	Property, Plant and Equipment
PR	Performance Requirement
SBU	Strategic Business Units
SG&A	Selling, General and Administrative Expenses
SOE	State Owned Enterprise
USD	United States Dollar
TBP	Tbilisi Bypass Project
T&C	Terms and Conditions
VAT	Value Added Tax
y/y	year-over-year

CURRENCY CONVERSION

USD / GEL*	2017	2018	2019	2020	1Q 2021
Annual average	2.5086	2.5345	2.8192	3.1000	3.3142

* *Annual average of National Bank of Georgia's official daily exchange rates.*

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of JSC Georgian Railway (the "Company"), a joint stock company incorporated in Georgia, are submitted for consideration by the Board of Directors.

The facility will consist of up to USD 75 million (EUR 61.5 million equivalent) subscription to the Company's proposed Eurobond issuance of up to USD 500 million (EUR 409.2 million equivalent) to be listed on the London Stock Exchange.

The operation will support the Company to return to the capital markets to refinance its existing USD 500 million Eurobond issued in 2012 with the original proceeds used to finance the Company's strategic comprehensive multi-year modernisation programme. It will be the first green Eurobond issuance for the Company, and the second for Georgia. It focuses on the Company's green agenda incorporating it into green sustainable capital markets instrument and aims to broaden the investor base. The operation is 100 per cent GET.

The expected transition impact derives from the contribution to capital market development in Georgia (Resilient) and introduction of equal opportunity policies and practices to improve gender balance across the Company's operations and to increase female workforce share in currently male-dominated occupations, as well as a review and extension of vocational programmes and trainings to increase youth representation, in particular young female, in technical and engineering roles (Inclusive).

Post-signing Technical Cooperation ("TC") including the Digitalisation Feasibility Study to improve the Company's IT efficiencies and digital transformation across different business units is proposed to be funded [REDACTED], while the support for the Company to develop an Equal Opportunities Action Plan and key recruitment tools to attract youth talent, particularly young female students, and to strengthen its gender balance is proposed to be financed [REDACTED] by the SSF.

I am satisfied that the operation is consistent with the Bank's Country Strategy for Georgia, the Bank's Transport Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality and the Agreement Establishing the Bank.

I recommend that the Board approve the proposed bond participation substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

GEORGIA - PROJECT KOLKHETI - DTM 52549	
Transaction / Board Decision	Board approval[2] is sought for participation in the Eurobond issuance by JSC Georgian Railway (the "Company" or "GR"), a state owned railway operator in Georgia, for the amount of up to USD 75 million (EUR 61.5 million equivalent)[REDACTED] The Eurobond in the amount of USD 500 million (EUR 409.2 million equivalent) will be USD-denominated, with 5 or 7 year maturity and issued on the London Stock Exchange. The use of proceeds will be primarily applied to the refinancing of the Company's existing bond issued in 2012 and to finance remaining capital expenditures necessary to complete the ongoing Railway Modernisation Project in the amount up to USD 50 million (to be determined by the Company in the final prospectus). The Bank's financing will be directed solely towards the refinancing of the existing bond and will not be used to finance any capital expenditures.
Client	GR is Georgia's national state-owned railway company, providing freight and passenger transportation services and managing railway infrastructure. The sole shareholder of the Company is JSC Partnership Fund, a national investment fund formed in 2011 and 100 per cent owned by the Government of Georgia and overseen by the Enterprise Management Agency of the Ministry of Economy and Sustainable Development. [REDACTED] GR is rated by two credit rating agencies: BB-, negative outlook by Fitch (Nov 2020) and B+, negative outlook by Standard & Poor's (June 2020).
Main Elements of the Proposal	<u>Transition impact:</u> *Primary Quality – Resilient:* GR has not tapped international capital markets since 2012. [REDACTED][T]he Bank will support the Company's Eurobond issuance and play a significant role in mitigating the refinancing / rollover risk of the existing bond. The issuance will contribute to capital market development through supporting expansion of the market and introducing an innovative instrument such as a green bond. In addition, the Bank will support GR's digital transition across the Company's operations. *Secondary Quality – Inclusive:* the Bank will support the Company's efforts in establishing key recruitment tools and targeted activities to attract youth talent, particularly young females into engineering and technical positions and to promote higher standards of gender equality across the Company's operations. <u>Additionality</u>: the Bank's participation in the transaction will be important for successful bond issuance and aims to mitigate the refinancing risk of the existing bond. [REDACTED] The Company sought the Bank's support and participation in this issuance of an instrument that is only the second green bond in Georgia and the first issued by the state owned enterprise. <u>Sound banking:</u> The risk/return profile has been considered acceptable.
Key Risks	*Macroeconomic*: The Company's strategy focuses on the diversification of products [REDACTED] and geographies to mitigate the risk. *Repayment / Refinancing risk:* The risk is partly mitigated by relatively long Eurobond tenor of 5 or 7 years which provides sufficient time for the Company to accumulate cash for the partial repayment of the Eurobond at maturity, as well as to improve the financial performance of the Company. *FX risk:* The Company is expected to be able to manage the FX risk effectively. Most of the Company's revenues are linked to foreign currencies and freight tariffs are set in foreign currencies, creating natural hedge against the Eurobond.
Strategic Fit Summary	The Project is consistent with the Bank's Country Strategy for Georgia, the Bank's Transport Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality and the Agreement Establishing the Bank.

2 Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	The Bank will participate in GR's senior unsecured USD denominated green Eurobond issuance [REDACTED], to be listed on the London Stock Exchange. The Bank's subscription will be in the amount up to USD 75 million (EUR 61.5 million equivalent) [REDACTED] of the total Eurobond issuance of USD 500 million (EUR 409.2 million equivalent) (the "Eurobond" or the "Project").
Existing Exposure	None.
Maturity / Exit / Repayment	The tenor will be 5 or 7 years [REDACTED]
Use of Proceeds	The proceeds of the Eurobond issuance will be used primarily to: (i) refinance GR's existing USD 500 million Eurobond [REDACTED]; and (ii) finance new capital expenditures required to complete ongoing modernisation project [REDACTED]. The Bank's financing will be directed solely towards the Eurobond refinancing and will not be used on any capital expenditures to be documented in the Framework Agreement to be signed with the Company.
Investment Plan	[REDACTED].
Financing Plan	[REDACTED]
Key Parties Involved	**Issuer**: JSC Georgian Railway
Conditions to subscription / disbursement	Customary for Eurobond transactions, including signing of a Framework Agreement.
Key Covenants	[REDACTED]
Security / Guarantees	Senior unsecured.
Other material agreements	Framework Agreement to be signed between the Bank and the Company, including ESAP.
Associated Donor Funded TC and co-investment grants/concessional finance	**Technical Cooperation (TC)** *Post signing:* **TC 1: Digitalisation Feasibility Study.** The assignment will include (i) a digitalisation feasibility study on how digitalisation could benefit the Company in terms of internal efficiencies and improvements across GR's different business units; (ii) supporting the Company in implementing recommendations from the feasibility study; and (iii) providing support to the Ministry of Economy and Sustainable Development of Georgia and/or the Company with the implementation of recommendations. [REDACTED] **TC 2: Gender Improvement Plan**. The assignment will include (i) a review of the HR policies and practices of the Company to identify specific actions as may be appropriate to improve the gender balance and develop a Gender Action Plan; (ii) support to the Company in introducing these actions in its policies and practices; (iii) update of the training programme to reflect relevant core skills for employability in the sector; and (iv) support the Company to increase the awareness and attractiveness of the training programme for youth, with a focus on attracting more female students. [REDACTED]

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Bank has been approached by [REDACTED] Georgian Railway, the country's national provider of rail freight and passenger services, with a request to support the Company with the refinancing of the existing Eurobond maturing in July 2022.

The primary objective of the Bank's involvement in the Eurobond issuance is to support the Company in mitigating the refinancing risk [REDACTED]. The Company has successfully tapped international capital markets in 2010 and 2012 without sovereign support. Accordingly, successful bond placement is essential to preserve the progress achieved by the Company to date.

The Company will tap international debt markets for the first time since 2012, when the existing 10-year USD 500 million Eurobond was issued to finance the Company's strategic infrastructure projects, including a large scale project to modernise the Company's infrastructure and increase the capacity of its main rail line (the "Railway Modernisation Project"). The key objectives of the Railway Modernisation Project, which is a central element of the Company's sustainable development strategy, include optimising traffic, rolling stock and infrastructure; expanding the throughput capacity; reducing operational expenses; improving safety and increasing train speeds; and achieving significant environmental benefits. The Railway Modernisation Project is substantially completed with final completion expected by 2023.

The issuance will be Georgia's only non-sovereign Eurobond of benchmark size and hence eligible for inclusion in the benchmark EMBI[3] Global index. This would increase Georgia's visibility with the international institutional investor community. The investor's base is also expected to be broadened through the green classification of the Eurobond, which will become only the second green bond issued from Georgia and the first issued by a Georgian state owned enterprise ("SOE").

[REDACTED][T]he Bank's role as a significant investor will be important to the successful capital market transaction in Georgia and will contribute to the development of the capital market, including through the issuance of an innovative green bond instrument in line with the Company's Green Bond Framework.

The Bank's involvement also [REDACTED] aligns with the Bank's 2021-2025 Strategic Capital Framework, focusing on the Bank's strategic priorities in the areas of digitisation and gender equality.

[REDACTED]. As part of the Project, the Bank would support the Company with the TC aiming to accelerate digital transition and to support competitiveness and efficiency across the Company's business operations through the adoption of digital technologies. [REDACTED]

The Project also aims to strengthen the gender balance in the Company's workforce by supporting the Company's HR with the review and improvements of the HR policies and practices and development of a gender-responsive HR strategy. As part of the

3 JPMorgan Emerging Market Bond Index (EMBI)

Project, the Bank will support the Company, *inter alia*, to establish key recruitment tools and implement training programme to attract youth, particularly young women, into technical positions through its Railway Transportation College.

The Project is consistent with the Bank's Strategy for Georgia, which calls *"... to support transport, energy and logistics infrastructure that can strengthen Georgia's strategic position as a transit link between Europe and Turkey on one side, and Central Asia and China on the other..."* and *"to promote and support solutions to the development of Georgia's transport infrastructure in order to further strengthen regional economic links"*.

The operation is also consistent with the Bank's Transport Sector Strategy, which calls to "*encourage SOEs to finance investments on a non-sovereign, commercial basis to reduce reliance on state budgets*" and *"to support capital market development, including "green bonds"*.

The operation is also aligned with the Bank's Strategy for the Promotion of Gender Equality, by promoting higher standards of gender equality across the Company's operations. Finally, it is also aligned with the Bank's Green Economy Transition Approach 2021-2025 which calls for *"the Bank to contribute to the development of green capital markets, including through the support of green bond issuances".*

This Project also contributes to a host of UN Sustainable Development Goals (SDGs), namely: SDG 4. Quality Education; SDG 5. Gender Equality; SDG 8. Decent Work and Economic Growth; SDG 9. Industry, Innovation and Infrastructure; and SDG 10. Reduced Inequalities.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	*At least 60% of the issuance is expected to be placed with private non-IFI investors.*	The investor base is expected to comprise pre-dominantly of private non-IFI international investors. The share of IFIs participation is expected to be not more than 30 per cent.
1.2	*The issuance will be publicly offered and listed on an international exchange and will have at least one credit rating from "Big Three" international credit rating agencies (S&P, Moody's and Fitch).*	The Eurobond will be publicly offered and listed on the London Stock Exchange. It will have credit ratings from two of "Big Three" credit rating agencies (S&P and Fitch).
1.3	*The transaction contributes significantly to capital market development by introducing a new instrument.*	GR's upcoming issuance is expected to become the second green bond in Georgia and the first green bond issued by Georgia's state-owned enterprise. The Company's Green Bond Framework is confirmed by a second party opinion.
1.4	*The technology to improve cost efficiency used is one of the first three cases for the country, but no specific cost reductions can be committed/verified.*	The Company's existing IT infrastructure [REDACTED] requires improvements. The Bank will support GR with digitalisation assessment to explore how the Company can benefit in terms of internal efficiencies and improvements across its core business units, and with implementation of recommendations via the development of the Digitalisation Framework focusing on enhancement of profitability through introduction of technologies, computerisation and improved systems. In addition, the Bank will also engage in wider sectoral reform aimed at the digitalisation of the transport corridors in the Caucasus. The Bank will also support the Company through post-signing technical support at the Company level and implementation of recommendations [REDACTED]

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	*The Project will introduce equal opportunity policies and practices. This will increase the company's female workforce share* [REDACTED] *and strengthen women's ability to take up opportunities in the workplace. A special focus will be on currently male-dominated occupations or levels, where the share of women will increase* [REDACTED]	GR is one of the largest employers in Georgia, with over 12,000 employees. Currently, women represent 17 per cent of the total workforce. [REDACTED]. The Bank will provide post-signing technical support to GR, assisting the Company in the review of HR policies and practices and identification of specific actions to improve the gender balance. With this support, the Company will develop an Equal Opportunities Action Plan to address any barriers related to women's recruitment, retention and promotion within its workforce, with a particular focus on technical as well as management roles.
2.2	*The Project will introduce a new, replicable and nationally accredited training programme improving skills for*	[REDACTED] The Company operates its own Railway Transportation College, offering vocational programmes across various technical positions. [REDACTED] With the EBRD's support, the Company will review, update and

	[REDACTED] people from the inclusion target group in partnership with (local) vocational schools or universities.	extend the programme to cover key skills for employability and additional job profiles, precisely on engineering and technical positions, and establish it as a key recruitment tool for the Company. The programme will increase awareness of wider job opportunities with the Company and targeted activities to attract female students. EBRD will also support the Company in reviewing and updating its training programmes to better reflect key skills needed in the sector as well as training for additional job profiles.. [REDACTED]

Delivery Risks: Risks to transition impact are mainly related to generally challenging macroeconomic and capital market environment in Georgia, which may delay or prevent the issuance of the Eurobond. The Bank's participation partly mitigates the risk.

1.3 ADDITIONALITY

Identified triggers	Description
A significant share (at least 30 per cent) of the Project is **for refinancing purposes**.	The Bank will participate in the capital market transaction, with the Eurobond proceeds primarily used to refinance the existing Eurobonds issued in 2012.

Additionality sources	Evidence of additionality sources
Financing Structure **Capital market:** EBRD financing is expected to effectively **'close the funding gap'** and allows carrying out a **successful book-building process**. **Crisis response:** EBRD financing **effectively bridges a financing gap** due to adverse market conditions. **Public sector:** EBRD investment is needed **to close the funding gap**. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	[REDACTED] The Bank's participation will be essential in contributing to the successful bond issuance and thus helping the Company in securing the financing for the upcoming maturity of the existing bond[REDACTED]
Risk mitigation EBRD's involvement in a **debt capital market transaction** provides comfort to other investors and further widens market participation.	Given relatively large size of the issuance for the Company [REDACTED] the Bank's participation in the transaction with significant subscription amount at this time of crisis should provide comfort to other investors and is expected to widen market participation.
Standard-setting: helping the Client to achieve higher standards Client seeks EBRD expertise on **higher inclusion, gender standards and/or equal opportunities action plans**.	The Company seeks EBRD expertise to incorporate higher gender standards and an Equal Opportunities Action Plan (EOAP). A TC will support the Company in the review and improvement of its HR policies and practices in order to develop a gender-responsive HR strategy and a comprehensive EOAP to support the role of women in technical and management positions in the railway sector. The TC will also support the Company in attracting female students to its Railway Transportation College.
Innovative financing structures and/ or instruments EBRD offers an **innovative green finance instrument** that integrates aspects such as climate and environmental, social and governance (ESG) standards	GR's return to the capital market will be through the green bond instrument (with the Company's Green Bond Framework confirmed by a reputable second party opinion provider) confirming the Company's

and/or climate and ESG risk considerations into the financing structure.	sustainability strategy and its focus on the green priorities. This will be the second green bond coming from Georgia and the first one coming from Georgia's SOE, with a clear demonstration effect in it.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Eurobond demand risk	Medium / High	[REDACTED][T]here may be insufficient demand in the market for the bond issuance. The risk is mitigated by positive feedback received from the arrangers and anticipated participation of EBRD as a significant investor. In April 2021, Georgia also successfully tapped international capital markets issuing a 5 year bond to refinance its existing indebtedness.
Macroeconomic risk	High / High	Adverse [REDACTED] developments in the CIS countries and in Georgia may negatively impact the Company's performance, which is mostly driven by import/export and transit freight volumes. To mitigate the risk, GR's strategy focuses on the diversification of product mix [REDACTED] and geographies [REDACTED].
COVID-19 risk	Medium / Medium	In 2020, the Company has shown resilience to the impact of the COVID-19 pandemic. Overall, there has been no major disruption to the Company's business activity [REDACTED].
Debt service and repayment risk	Medium / Medium	[REDACTED] The risk is mitigated by relatively long Eurobond tenor of [5-7] years which gives sufficient time for the Company to accumulate cash for the partial repayment of the Eurobond at maturity, as well as to improve the financial performance, including leverage levels. [REDACTED]
FX risk	High / Medium	FX risk is mitigated by the fact that most of the Company's revenues are linked to foreign currencies [REDACTED] and freight tariffs are set in foreign currencies, whilst a significant part of the Company's operating expenses are denominated in GEL. Revenues from foreign currency will create a natural hedge against Eurobond, due to its denomination in USD.

2. MEASURING / MONITORING SUCCESS

Overall objectives of the Project	*Monitoring benchmarks*	*Implementation timing*
- Successful issuance of the Eurobond - Good financial and operational performance	- Eurobond to be fully subscribed - Financial performance in line with projections	[REDACTED]

TI indicator, primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
1.1	Maturity of the New Issuance or Average Tenor of the Portfolio	The Eurobond will have a maturity of at least 5 years, 60 months	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Hedge able capital market instrument pricing benchmark utilised	The issuance will be a green Eurobond confirmed by a second party opinion	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

1.3	Issuance listed on a national or/and international exchange	The Eurobond will be listed on the London Stock Exchange.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Share of non-IFI/non-DFI institutional investors in capital market instrument at the issuance	Share of the non-IFI/non-DFI investors is expected to amount to at least 60 per cent.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.5	New or updated digital government technology or product introduced	Digitisation Framework for GR developed and approved by the Company.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator, secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
2.1	Practices of the client on equal opportunities improved	The Client will adopt Equal Opportunities Action Plan.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Tailored training programme developed and implemented	Review and extend the programme to cover key skills for employability and additional job profiles, precisely on engineering and technical positions, and establish it as a key recruitment tool for the Company.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Number of youth earning an accredited certification and enhancing their skills as a result of training	The Company will offer training opportunities through Railway Transportation College. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Share of female employees in total number of employees	Increase share of female employees in total workforce [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

JSC Georgian Railway is Georgia's national railway company, which provides: (i) freight services, transhipping a variety of cargo, originating principally in the east from the Caspian Sea and Central Asia to the Black Sea; (ii) passenger transportation services; and (iii) freight handling. The Company also manages and maintains the railway infrastructure. GR has high strategic importance to the Georgian economy and is one of the largest single contributors to the country's GDP with the GR revenues representing about 1.1 per cent of Georgia's GDP in 2020.

The Company has three Strategic Business Units ("SBUs"): (i) Freight; (ii) Passenger; and (iii) Infrastructure. The Infrastructure SBU provides services only to the Freight SBU and the Passenger SBU and does not conduct business with third-party customers, while Freight SBU and Passenger SBU function as separate profit centres. Revenues from freight transportation are GR's main source of income, providing ca. 65 per cent of total revenues in 2020, and ca. 98 per cent when associated services are considered (e.g., freight handling, logistics/forwarding, freight car rentals).

In 2020, Georgian Railway transported 11.1 million tonnes of freight (increase of 1.9 per cent y/y) and carried about 0.9 million passengers (decrease of 68 per cent y/y due to COVID-19 related restrictions). The Company 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, as well as the land adjoining the tracks. The total network length is 1,445 km, almost fully electrified, and is connected to Azerbaijani, Armenian and Turkish railways. Locally within Georgia, the network connects 51 passenger and 95 freight stations and has access to three ports at the Georgian port cities of Batumi, Kulevi and Poti, all of which are on the Black Sea. As of 31 December 2020, the Company owns around 5,000 active freight railcars and 40 active passenger wagons. The Company's infrastructure assets also comprise 40 railroad tunnels and 1,320 railroad bridges.

3.2 FINANCIAL HIGHLIGHTS

[REDACTED]

4. MARKET CONTEXT

Tariffs: GR is the only railway operator in Georgia. Railway tariffs are not regulated and the Company sets its tariffs independently for all services, including both freight and passenger transportation. The Company's freight transportation tariffs are generally set in USD. Therefore, about 80 per cent of the Company's total revenues are generated in USD, about 5 per cent in CHF and about 15 per cent in GEL. GR is also free to set / amend tariff currency on the basis of the market needs and conditions. The Company can change its tariffs with one month's prior notice to its customers.

Freight services: Freight transportation is the main revenue source, accounting for ca. 65 per cent share in 2020. Freight transportation is split into three categories - liquid and dry cargo and container transportation. In the past, liquid cargo has always been a major freight category considering Georgia's favourable location between Asia and Europe. Due to increased competition from pipelines, crude oil volumes transported by the GR have seen a sharp decline since 2012. In 2020, liquid cargo accounted for 27.5 per cent of freight transportation volumes, with dry cargo contributing to 62.2 per cent and the remaining coming from containers transportation. Dry cargo is generally more diversified, with the largest dry cargo category, ores, accounting for 17.1 per cent of total cargo in 2020.

GR's freight transportation operations face competition from alternative transportation providers. To reduce the risk from competition, GR's strategy envisages diversification of the markets in which it operates, as well as the kinds of goods it transports. To reduce operational risks and increase its throughput capacity, in 2010 the Company launched the Railway Modernisation Project. The project [REDACTED] will increase the throughput capacity of the main transportation line [REDACTED]. Also, in order to reduce its dependence on CIS countries and seize new opportunities, the Company is focusing on attracting customers from new markets. After completing the Baku-Tbilisi-Kars (BTK) project and with the subsequent new route from China to Europe, through Georgia and Turkey, GR aims to capitalise on increased trade volumes. About 15 per cent of China's total trade in 2020 was with the European Union. China is also one of Turkey's biggest trading partners, with about 9 per cent of Turkish imports being from China in 2020. [REDACTED]

Passenger services: Passenger transportation is a minor segment of the Company's operations and only accounted for about 6 per cent and 2 per cent of the Company's total revenue in 2019 and 2020, respectively. Passenger services are loss-making, where losses are covered by profits from freight transportation. Similar to the situation for freight transportation tariffs, the Company is not subject to government regulations in setting fares for passenger transportation. Following the EU regulation 1370/2007, which is effective from 2018, an agreement was signed between GR and the Government of Georgia in 2020, requiring the Government to subsidise the passenger transportation services. [REDACTED]

Competition from alternative transport methods: GR's freight transportation faces competition from alternative transportation providers and alternative railway routes, while its passenger transportation competes with other forms of transport, such as buses, mini-buses, automobiles and airplanes. The transportation sector accounts for nearly 23 per cent of energy-based carbon dioxide (CO_2) emissions according to the International Energy Agency (IEA) of which road, maritime and air transport are the leading contributors. Therefore, achieving the ambitious goals of the Paris Agreement will require a transport modal shift, particularly from road and air transport to rail. An IEA report states boosting investment in railways could significantly reduce carbon dioxide emissions from transport. The IEA analysis further concluded that if all services currently performed by railways were carried by road vehicles, then the world's transport-related oil consumption would be 15 per cent higher and transport-related greenhouse gas (GHG) emissions would increase by 1.2 gigatonnes (Gt) CO_2-equivalent on a well-to-wheel basis.

The implementation of the Railway Modernisation Project has enhanced GR's capacity and its competitiveness against alternative railway routes through improved transportation speed, safety and service quality. [REDACTED]In Georgia, which is a relatively small country, short distance transportation by road is usually cheaper, especially for containerised cargo, while on top of this, door-to-door transportation is an inherent advantage of road transportation. [REDACTED] GR can position itself to benefit from the following factors: (i) railway transportation is considered significantly safer and more environmentally friendly than road transportation; (ii) rail containerisation will ease the pressure on the roads, especially on the segments, where capacity is relatively low; and (iii) in cases of bulk transportation, railway is generally considered cheaper than road. GR has started working extensively on its strategy to develop so-called "containerisation infrastructure" in recent years to compete against road transport, which will help the Company to attract new customers and expand the range of transported cargo.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2019). The environmental and social due diligence (ESDD) was carried out by an independent consultant; it included the review of an information package supplied by the Company and site visits of railway sections. The environmental and social (E&S) risks and impacts associated with the Bank's participation in the Eurobond issuance for refinancing modernisation works (no Capex) are site-specific, readily identified and will be managed by the implementation of an Environmental and Social Action Plan (ESAP), which will be agreed with the Company before Board and reflected in the Framework Agreement.

The Railway Modernisation Project, which consists of the rehabilitation and construction of 60 km of railways including a few tunnels and bridges, is covered by five Environmental Impact Assessment (EIA) packages and relevant permits (obtained between 2011 and 2020). As of April 2021, progress on the Modernisation Project stood at 96 per cent, with all major earthworks, tunnel construction and pile driving for bridges completed and track laying ongoing.

The results of the ESDD (which is under finalisation) indicated that GR operates in line with the Georgian requirements; they will nevertheless be required to align their corporate E&S management systems with the Bank's Performance Requirements (PRs). GR has a management structure in place to ensure compliance with national regulations. They have an integrated management system which is well developed for Health, Safety and Environmental (HSE) issues, but needs to be reinforced on social and labour issues; the ESAP requires GR to recruit a Social expert. Whilst a comprehensive Construction HSE Management Plan is in place and generally aligned with the PRs, due diligence found that construction contractors performance on HSE and labour issues requires improvement and address allegations of unsafe work practices and labour related grievances. ESDD revealed that the Company's labour-related policies and practices are not applied to contractors and there is a lack of formal oversight of contractor labour and health and safety practices. GR has contracted a supervisor to perform technical and engineering oversight of the construction works, including HSE supervision. An Environmental Monitoring Programme is in place but its implementation needs to be reinforced, as required in the ESAP.

Various human resources policy documents are in place, however these need to be formalised in an official Human Resources Policy and improved communication to GR and contractors' workers on relevant information regarding hours of work and rest, and overtime arrangements. Similarly, while a worker grievance mechanism is in place, this mechanism is not sufficiently formalised or documented. The Company employs over 12,000 people and nearly 60 per cent of the Company's workers are unionised. Whilst wage rates that are comparable to those in other industrial sectors in the country, a strike in 2019 led to an agreement to set a minimum wage for all workers. The Company's internal procedures prohibit discrimination, however, only 17 per cent of the Company's employees are women. The Company is also lacking formal policies to manage Gender Based Violence and Harassment. The ESAP includes requirements to formalise a Human Resources Policy and a worker grievance mechanism, develop a Sexual Harassment Policy and implement a strategy and targets to increase the rate of female employment. Worker accommodations were found not to meet EBRD's standards or good international practice and do require improvement and monitoring. The ESAP includes measures to cascade human resources policies to non-employee workers and to implement effective oversight of contractor labour practices, starting with an independent audit of contractor labour practices (to be covenanted) and development of a corrective action plan.

Several environmental issues were identified during ESDD, all connected with hazardous materials and hazardous waste handling: Polychlorinated biphenyl (PCB)-containing equipment and oil, asbestos-containing materials (ACM) use, asbestos waste, waste sleepers with creosote and soils contaminated with oils (around and under railways). Respective corrective measures have been included in the ESAP, such as development of a Hazardous Waste Management Plan, update of PCB and ACM inventories, and reinforced water quality monitoring. No new asbestos materials are used in the reconstruction and new construction projects by GR.

There is an occupational safety and health (OHS) department with adequate resources and staff, who developed an OHS management system commensurate with the scale of GR's activities. Nevertheless, while several plans are in place to manage potential community health and safety impacts, ESDD revealed a low level of awareness of these plans amongst the workforce and uneven application at construction sites. The ESAP includes formalisation and implementation of a Community Health and Safety Management Plan and effective oversight of its implementation.

The majority of the land acquisition for the Railway Modernisation Project has been completed following company procedures for land acquisition and the requirements of Georgian law, with compensation paid at market rates. Expropriated private land included 86 agricultural plots and 28 houses. ESDD included interviews with affected people who confirmed the sufficiency of compensation rates to build or purchase alternate housing, however there are a number of ongoing court cases related to the compensation offers. ESDD also revealed deficiencies in the resettlement process linked to the identification of vulnerable people as well as a lack of livelihoods restoration activities and monitoring. The ESAP includes the requirement for a third party gap assessment of the resettlement process and the development and implementation of a corrective action plan. A covenant will require the corrective action plan to be agreed by GR and the Bank.

One of the tunnels of the Railway Modernisation Project is located 500m underneath the Borjomi-Kharagauli Emerald site (categorised IUCN Category II). The ESDD confirmed there were no works above ground within the Emerald site. An impact assessment prepared by GR in 2019 concluded that the impact on the protected site was expected to be negligible; this has nevertheless not been verified by field monitoring. The ESAP therefore requires GR to conduct biodiversity monitoring in this area, and to develop a Biodiversity Action Plan, if necessary.

The Railway Modernisation Project is not anticipated to have any material impacts on cultural heritage, however the ESAP includes development of a chance finds procedure. While ESDD found that the level of stakeholder engagement was appropriate for the nature and scale of the Project, there is a need for a formal Stakeholder Engagement Plan and community grievance mechanism. Development of these is included in the ESAP.

The Bank will monitor the environmental and social performance of the Company and the implementation of the ESAP, through a review of Annual Environmental and Social Reports (AESR), as well communications with the Company and site visits, as necessary.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholder, senior management and other relevant parties. It has been concluded that this Project does not pose an unacceptable integrity risk to the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project. The Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Shareholding Structure
ANNEX 3	Historical Financial Statements

ANNEX 1 – TRANSITION IMPACT SCORING CHART

Score for primary transition quality

Quality: Resilient

Component: Financial stability

Quality average score: 66

ATQ adjustment

Country: Georgia

ATQ adjustment: Overall: -1.5%

Adjusted Quality score: 65

Score for secondary transition quality

Quality: Inclusive

Component: Youth

Quality average score: 65

ATQ adjustment

Country: Georgia

ATQ adjustment: Youth: 1.5%

Adjusted Quality score: 66

Weighted TI score*

Base TI score (ATQ-adjusted): 65

Adjustment for Country Strategies

Adjustment: 2.0% – Strategic project alignment

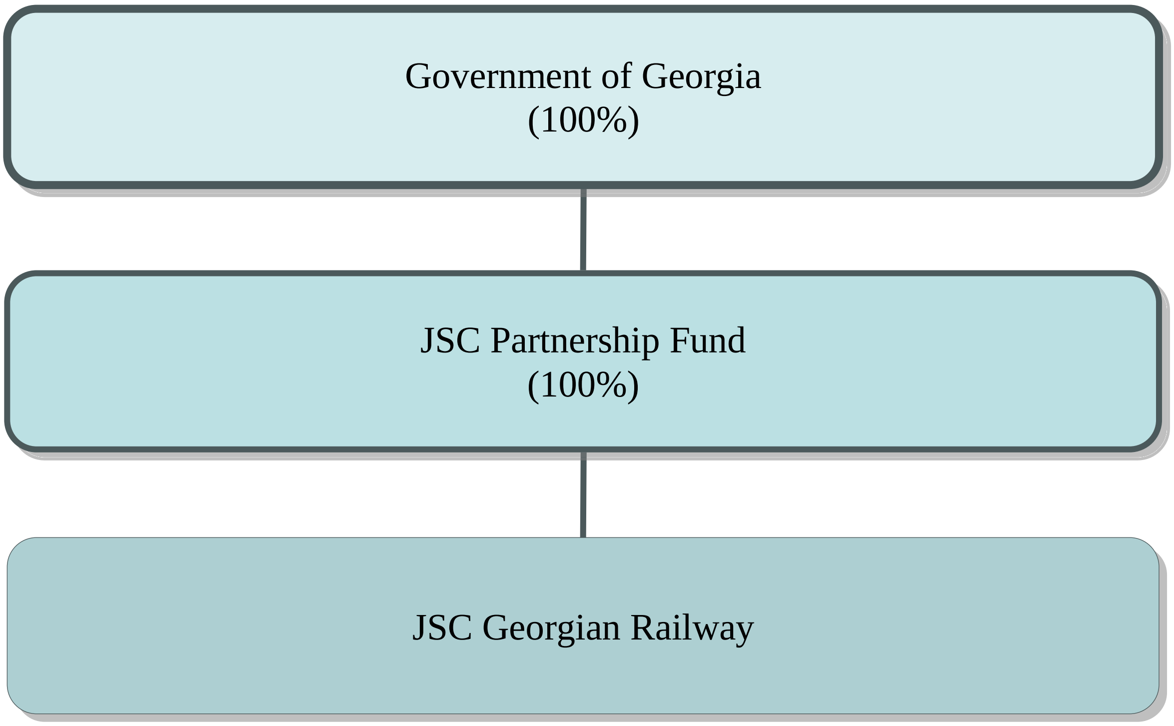
CS **Adjusted score:** 67

Final TI score

Final TI score: 67

***The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

ANNEX 2 – SHAREHOLDING STRUCTURE



JSC Georgian Railways, incorporated in Georgia, is owned 100-per cent by the Government of Georgia through the wholly state-owned JSC Partnership Fund. [REDACTED]

ANNEX 3 – FINANCIAL ANALYSIS SUMMARY

[REDACTED]