Development Fund of Georgia JSC

Separate Financial Statements
for the year ended 31 December 2023

Contents

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Independent Auditors' Report

To the Supervisory Board of Development Fund of Georgia JSC

Qualified Opinion

We have audited the separate financial statements of Development Fund of Georgia JSC (the "Fund"), which comprise the separate statement of financial position as at 31 December 2023, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the first paragraph of the Basis for Qualified Opinion section and except for the effects on the corresponding figures for the year ended 31 December 2022 of the matter described in the second paragraph of the Basis for Qualified Opinion section of our report, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Fund as at 31 December 2023, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Qualified Opinion

1. As disclosed in Note 13 to the separate financial statements, pursuant to the shareholder's decision dated 6 September 2023, the Fund's subscribed capital was defined as GEL 250,000 thousand and declared as paid-in. Given that the Fund's separate financial statements as at and for the year ended 31 December 2022 reported paid-in subscribed capital of GEL 100,000 thousand, and no additional capital contributions were made during 2023, the Fund has recognized a receivable of GEL 150,000 thousand from the shareholder as at 31 December 2023. The Fund has not applied to the shareholder regarding the discrepancy between declared paid-in subscribed capital and actual contribution to the subscribed capital. We were unable to confirm or verify by alternative means the recoverability of the receivable from the shareholder. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the receivable from the shareholder and the related elements of the separate financial statements as at and for the year ended 31 December 2023.

2. As at 31 December 2021 there were indications that the recoverable amount of investment in subsidiary of Aerostructure Technologies Cyclone JSC might be lower than its carrying amount stated at GEL 93,246 thousand. International Financial Reporting Standard IAS 36 Impairment of Assets requires that, where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made as at 31 December 2021. As at 31 December 2022, management made a formal estimation of the recoverable amount, which resulted in the recognition of impairment loss in the amount of GEL 93,188 thousand. It was impracticable for us to quantify the financial effects of this departure from IFRS Accounting Standards on accumulated deficit as at 1 January 2022, and net loss for the year ended 31 December 2022. Our opinion on the separate financial statements as at and for the year ended 31 December 2022 dated 3 October 2024 was modified accordingly. Our opinion on the current year's separate financial statements is also modified because of the effects of this matter on the comparability of the current year's figures and the corresponding figures.

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

Statement on Management Report

Management is responsible for the Management Report. Our opinion on the separate financial statements does not cover the Management Report. We do not express any form of assurance conclusion on the Management Report.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this Management Report, we are required to report that fact.

As described in the first paragraph of the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of the receivable from the shareholder. Accordingly, we were unable to conclude whether or not the Management Report is materially misstated with respect to this matter.

Also, as described in the second paragraph of Basis for Qualified Opinion section above, as at 31 December 2021 there were indications that the recoverable amount of investment in subsidiary of Aerostructure Technologies Cyclone JSC might be lower that its carrying amount. No such estimate has been made as at 31 December 2021. As at 31 December 2022, management made formal estimation of the recoverable amount, which resulted in the recognition of impairment loss. It was impracticable for us to quantify the financial effects of this departure from IFRS accounting standards on net loss for the year ended 31 December 2022. We have concluded that the Management Report is materially misstated for the same reason with respect to the comparability of the current year's and corresponding amounts or other items in the Management Report affected by this matter.

We have nothing further to report.

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

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Nikoloz Chochua

KPMG Georgia LLC
Tbilisi, Georgia
30 December 2024

’000 GEL	**Note**	**31 December 2023**	**31 December 2022**
Assets			
Property and equipment	7	5,955	5,827
Investment properties	8	44,261	45,108
Investments in subsidiaries	9	22,245	22,007
Investments in equity accounted investees	10	11,016	20,010
Other investments		12,603	10,311
Loans receivable	11	581	3,449
Term deposit		13,555	-
Non-current assets		**110,216**	**106,712**
Loans receivable	11	5,460	7,012
Other assets		2,898	1,642
Receivable from shareholder	13(a)	150,000	
Receivable from former subsidiary	14(a)	56,934	57,770
Dividends receivable		-	2,913
Term deposit		3,200	-
Cash and cash equivalents	12	57,876	29,142
Current assets		**276,368**	**98,479**
Total assets		**386,584**	**205,191**
Equity			
Share capital	13	250,000	100,000
Owner distributions		(55,970)	(55,159)
Retained earnings		138,313	111,460
Total equity		**332,343**	**156,301**
Liabilities			
Payable to former subsidiary	14(b)	-	47,738
Non-current liabilities		**-**	**47,738**
Payable to former subsidiary	14(b)	53,037	-
Other liabilities		1,204	1,152
Current liabilities		**54,241**	**1,152**
Total liabilities		**54,241**	**48,890**
Total equity and liabilities		**386,584**	**205,191**

The separate statement of financial position is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 44.

’000 GEL	Note	2023	2022
Investment income			
Dividend income	5	-	86,356
Share of losses of equity accounted investees	10	(1,300)	(32,884)
Other investment income	5(a)	34,457	40,190
Financial assets at FVTPL – net change in fair value		333	(435)
Total investment income		**33,490**	**93,227**
Operating expenses			
Wages and other employee benefits		(3,781)	(3,897)
Depreciation charge	7,8	(269)	(271)
Impairment loss on investments in subsidiaries		(571)	(99,586)
Impairment loss on loans receivable	15(c)	(6,873)	(13,585)
Impairment loss on equity accounted investees	10	-	(6,260)
Impairment loss on investment property	8	-	(25,438)
Other operating expenses		(1,406)	(1,338)
Other income		980	733
Results from operating activities		**21,570**	**(56,415)**
Finance income	6	9,939	34,295
Finance costs	6	(4,270)	(13,500)
Net finance income		**5,669**	**20,795**
Profit/(loss) before income tax		**27,239**	**(35,620)**
Income tax expense		(386)	(343)
Total comprehensive income/(loss) for the year		**26,853**	**(35,963)**

These separate financial statements were approved by Management on 30 December 2024 and were signed on its behalf by:

Besik Bugianishvili
Chief Executive Officer

Ioseb Mamukelashvili
Chief Financial Officer

The separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 44.

'000 GEL	Note	2023	2022
Investment income			
Dividend income	5	-	86,356
Share of losses of equity accounted investees	10	(1,300)	(32,884)
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’000 GEL	**Subscribed capital**	**Owner distributions**	**Retained earnings**	**Total equity**
Balance at 1 January 2022	100,000	2,076,868	(832,439)	1,344,429
Total comprehensive loss for the year	-	-	(35,963)	(35,963)
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13(b))	-	1,340	-	1,340
Withdrawal of non-cash assets (see note 1(b))	-	(2,133,367)	979,862	(1,153,505)
Balance at 31 December 2022	**100,000**	**(55,159)**	**111,460**	**156,301**
Balance at 1 January 2023	100,000	(55,159)	111,460	156,301
Total comprehensive income for the year	-	-	26,853	26,853
Transactions with owners, recorded directly in equity				
Increase in subscribed capital (see not 13(a))	150,000	-	-	150,000
Withdrawal of non-cash assets	-	(811)	-	(811)
Balance at 31 December 2023	**250,000**	**(55,970)**	**138,313**	**332,343**

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 44.

’000 GEL	**Note**	**2023**	**2022**
Cash flows from operating activities			
Loss for the year		26,853	(35,963)
Adjustments for:			
Dividend income	5	-	(86,356)
Share of losses of equity accounted investees (net of income tax)	10	1,300	32,884
Other investment income		(34,457)	(40,190)
Depreciation charge	7, 8	269	271
Income tax expense		386	343
Net finance income	6	(5,669)	(20,795)
Impairment loss on investments in subsidiaries	9	571	99,586
Impairment loss on investments in equity accounted investees	10	-	6,260
Impairment loss on investment property	8	-	25,438
Impairment loss on loans receivable	15(c)	6,873	13,585
Financial assets at FVTPL – net change in fair value		(333)	435
		(4,207)	**(4,502)**
Changes in:			
Other assets		(1,359)	(1,069)
Other liabilities		52	(102)
Other receivable		2,575	-
Cash flows used in operations before income taxes and interest paid		**(2,939)**	**(5,673)**
Interest paid		-	(3,661)
Net cash used in operating activities		**(2,939)**	**(9,334)**
Cash flows from investing activities			
Dividends received		2,828	35,356
Interest received		4,163	4,857
Repayment of loans issued		58	-
Placement of term deposit		(16,755)	-
Increase of investments in subsidiaries		(1,037)	(1,196)
Increase of investments in equity accounted investees	10	(232)	(274)
Increase of other investments		(1,959)	(1,670)
Acquisition of property and equipment		(85)	-
Acquisition of Investment property		(47)	-
Consideration received from sale of investments in equity accounted investees	5(a)	42,383	-
Consideration received from sale of subsidiaries	5(a)	-	48,427
Net cash from investing activities		**29,317**	**85,500**
Cash flows from financing activities			
Repayment of borrowings		-	(92,283)
Proceeds from borrowings		-	21,568
Other fees on loans and borrowings		-	(230)
Net cash used in financing activities		**-**	**(70,945)**
Net increase in cash and cash equivalents		**26,378**	**5,221**
Cash and cash equivalents at 1 January	12	29,142	23,128
Effect of movements in exchange rates on cash and cash equivalents		2,356	793
Cash and cash equivalents at 31 December	12	**57,876**	**29,142**

The separate statement of cash flows is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 44.

1. Reporting entity

(a) Business environment

The Fund's operations are primarily located in Georgia. Consequently, the Fund is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

Despite global factors, economy grew by 7%, inflation rate amounted to 2.5% for 2023 in Georgia. The real GDP growth is mainly driven by the increased export, tourism revenues and acceleration of remittances related to the inflow of migrants/tourists from Russia, Ukraine and Belarus since the start of the conflict in Ukraine. Georgian Lari got jitters as the war in Ukraine broke, but it appreciated against the USD on balance by 9.87% in 2023 (2022: 12.53%). Sources: www.geostat.ge; www.nbg.gov.ge.

The separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Fund. The future business environment may differ from management's assessment.

(b) Organisation and operations

The Development Fund of Georgia JSC is a joint stock company domiciled in Georgia. As a result of reorganization, formerly Partnership Fund JSC changed its name to Development Fund of Georgia JSC since September 2023.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise based on the "Law of Georgia on Development Fund of Georgia JSC". The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board. It was created to support investments in less developed industries of the Georgian economy and to create new employment opportunities in the country.

The Fund's principal activity is to provide equity and debt financing and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees.

The Fund obtained control over the significant subsidiaries following the decrees issued by the Government of Georgia dated 30 July 2012 and 14 August 2012, pursuant to which 100% of ownership interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC and the remaining shares in former associates Georgian Oil and Gas Corporation JSC and Georgian Railway JSC were contributed by the Government of Georgia into the capital of the Fund. However, according to the decision issued on 28 February 2020 by the Government of Georgia, the Government of Georgia reduced the Fund's capital by transferring its ownership interest (100% of shares) in Georgian State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia). Additionally, by decision issued on 29 November 2022, the Government of Georgia further reduced the Fund's capital by transferring its 100% ownership interest in Georgian Oil and Gas Corporation JSC and Georgian Railway JSC to the Government of Georgia.

The Fund's registered office is 6 Vukol Beridze street, 0108, Tbilisi, Georgia and the Fund's registration number is #404404550.

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent", the "Owner"). Related party transactions are detailed in note 17.

(c) Fund's investment portfolio

As at 31 December 2023 and 2022 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2023 Ownership/ voting	2022 Ownership/ voting	Principal activities
Project LLC	Georgia	100%	100%	Manufacture of spare parts for airplanes
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Georgian Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Start-up Georgia LLC	Georgia	100%	100%	Venture capital
Imereti Greenery LLC	Georgia	100%	100%	Agriculture/farming
Caucasus Clean Energy I, LLP	United Kingdom	8%	8%	Investment fund
Georgian Industrial and Regional Development Company LLC	Georgia	100%	100%	Investment fund, providing investments in regional developments in Georgia
Likani Residence LLC	Georgia	100%	100%	Renovation of Romanov Palace in Likani
Global Brand LLC	Georgia	100%	100%	Wine export to USA
Infrastructure Development Partnership Company LLC	Georgia	100%	100%	Providing investments in Anaklia Port Project
Tsinandali Estates LLC	Georgia	-	33.43%	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.11%	29.11%	International investment company represented in Georgia and Armenia
Partnership Fund - Green Development LLC and its subsidiaries				
Partnership Fund - Green Development LLC	Georgia	100%	100%	Real estate development
Gino Green City Corporation LLC	Georgia	49%	49%	Real estate development
East West Bridge LLC and its subsidiaries				
East West Bridge LLC	Georgia	100%	100%	Ownership of investment fund

Name	Country of incorporation and operation	2023 Ownership/ voting	2022 Ownership/ voting	Principal activities
Georgian National Construction Fund Company LLC	Georgia	49%	49%	Dormant
Nenskra Hydro JSC	Georgia	7.4%	7.4%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	49.90%	Hog farm
Nenskra JSC	Georgia	100%	100%	Construction and operation of hydroelectric power plant
Borjomi Likani International JSC	Georgia	100%	100%	Construction and operation of a hotel
Borjomi Likani LLC	Georgia	100%	100%	Development of real estate
New Technology Impex LLC	Georgia	10%	10%	Dormant
Georgian Natural Products LLC	Belarus	100%	100%	Export of wine and agricultural products
Aghobili LLC	Georgia	49%	-	Construction and operation of a hotel
Peace Fund for Better Future NCLE	Georgia	33.33%	33.33%	Investment company

All of the Fund's significant subsidiaries and equity accounted investees are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs".

2. Basis of accounting

Statement of compliance

These separate financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). The Fund prepares consolidated IFRS financial statements as at and for the year ended 2023. The consolidated financial statements will be publicly available on the web page: www.reportal.ge.

The users should familiarise themselves with these separate financial statements together with the consolidated financial statements as at and for the year ended 31 December 2023 to obtain full information on the financial position, results of the operations and changes in the financial position of the Fund and its subsidiaries in general. Those consolidated financial statements are obtainable at the following address: 6 V. Beridze Street, Tbilisi, Georgia

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

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

– Note 15(c) – measurement of ECL allowance for loans receivable.
  Note 9 and Note 10 – existence of indicators for impairment accrual/impairment reversal for equity accounted investees and investments in subsidiaries.

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

– Note 15 (c) – measurement of ECL allowance for loans receivable.
– Note 9 and Note 10 – existence of indicators for impairment accrual/impairment reversal for equity accounted investees and investments in subsidiaries;

Measurement of fair values

A number of the Fund's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

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

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

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

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

Further information about the fair value measurement of financial assets and liabilities is included in note 15(a) – fair values of financial assets and liabilities.

5. Dividend income

’000 GEL	2023	2022
Georgian Oil and Gas Corporation JSC	-	48,148
Georgian Railway JSC	-	26,356
Gardabani TPP LLC	-	11,852
Income from dividends	**-**	**86,356**

On 25 August 2022, Georgian Oil and Gas Corporation JSC declared dividends to the Fund in the amount of GEL 48,148 thousand. On 16 December 2022, pursuant to the decree of Government of Georgia, dividend receivable was converted into capital of Georgian Oil and Gas Corporation JSC.

During 2022 Gardabani TPP LLC declared dividends to the Fund in the amount of GEL 11,852 thousand, out of which GEL 9,000 thousand was paid in cash. Remaining dividend receivable was paid in 2023 by Gardabani TPP LLC.

During 2022 Georgian Railway JSC declared and paid dividends to the Fund in the amount of GEL 26,356 thousand.

No dividends were declared and received in 2023.

(a) Other investment income

Based on Government of Georgia decision dated 29 November 2022 and 7 December 2022, Georgian Oil and Gas Corporation JSC (GOGC JSC) was instructed to acquire the remaining 49.092% of Gardabani TPP LLC from the Fund . The purchase price of the Fund’s share in Gardabani TPP was determined based on valuation report of Gardabani TPP LLC, which represented the fair value of shares. The acquisition of the 49.092% share, value at EUR 43,259 thousand, was structured as follows: EUR 17,000 thousand, representing 19.292% of the share was paid in cash by the GOGC JSC. Loan given by GOGC JSC to the Fund amounting to EUR 7,123 thousand was offset against the price for 8.084% of the shares. Remaining amount EUR 19,136 thousand should have been paid by GOGC JSC when Gardabani TPP would have been sold by GOGC JSC. Gardabani TPP LLC was not sold during 2023 year, therefore the GOGC JSC has to return 21.716% of shares in Gardabani TPP LLC to the Fund (see Note 14 (a)).

Under the Partnership Agreement ("PA") dated 2 September 2016 between Tsinandali Savane LLC and Fund, specific call and put option rights were granted regarding the non-controlling interest in Tsinandali Estates LLC. The exercise price for both options was defined in the PA as Fund 's investment in Tsinandali Estates LLC’s capital, plus accumulated interest, as agreed by the parties. On 5 October 2021, an amendment to the PA deferred the put option’s start date by two years to 31 July 2025.

On 19 May 2023, under the terms of the Partnership Agreement, Tsinandali Savane LLC acquired the remaining non-controlling interest in Tsinandali Estates LLC. Fund, which held a 33.43% stake in Tsinandali Estates LLC, received consideration amounting to GEL 42,383. The carrying amount of the investment at the disposal date was GEL 7,926 thousand. The transaction resulted in a gain on disposal of GEL 34,457 thousand, recognized in the statement of profit or loss.

6. Finance income and finance costs

'000 GEL	**2023**	**2022**
Recognised in profit or loss		
Interest income under the effective interest method	7,604	7,417
Net foreign exchange gain	2,335	26,878
Finance income	**9,939**	**34,295**
Interest expense under the effective interest method	(3,098)	(12,116)
Modification loss on financial liability	(642)	(1,384)
Loss on fair value change of financial instruments	(530)	-
Finance costs	**(4,270)**	**(13,500)**
Net finance income recognised in profit or loss	**5,669**	**20,795**

7. Property and equipment

'000 GEL	**Lands and Buildings**	**Other**	**Total**
Cost or deemed cost			
Balance at 1 January 2022	6,478	1,883	8,361
Additions	-	466	466
Disposals	-	(507)	(507)
Balance at 31 December 2022	**6,478**	**1,842**	**8,320**
Balance at 1 January 2023	6,478	1,842	8,320
Additions	-	314	314
Balance at 31 December 2023	**6,478**	**2,156**	**8,634**
Depreciation and impairment losses			
Balance at 1 January 2022	(542)	(1,771)	(2,313)
Disposal	-	28	28
Depreciation for the year	(166)	(42)	(208)
Balance at 31 December 2022	**(708)**	**(1,785)**	**(2,493)**
Balance at 1 January 2023	(708)	(1,785)	(2,493)
Depreciation for the year	(129)	(57)	(186)
Balance at 31 December 2023	**(837)**	**(1,842)**	**(2,679)**
Carrying amounts			
At 1 January 2022	**5,936**	**112**	**6,048**
At 31 December 2022	**5,770**	**57**	**5,827**
At 31 December 2023	**5,641**	**314**	**5,955**

8. Investment properties

'000 GEL	**2023**	**2022**
Balance at 1 January	45,108	93,251
Additions	94	864
Depreciation for the year	(83)	(63)
Impairment	-	(25,438)
Disposals	(858)	(23,506)
Balance at 31 December	**44,261**	**45,108**

As at 31 December 2023 and 2022, investment property is represented by lands, building and properties under construction, which held for undetermined future use.

(a) Fair value of investment property

As at 31 December 2022 management estimated the fair values of investment properties. The fair value of investment property was determined by external, independent property valuers, having appropriate professional qualifications and recent experience in the location and category of the property being valued. Management recognized impairment loss of GEL 25,438 thousand for the investment properties for which carrying amount as at 31 December 2022 exceeded respective fair values.

As at 31 December 2023 and 2022 the fair value measurement for investment properties of GEL 62,635 thousand and GEL 63,638 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The following table shows the valuation techniques used in measuring the fair value of the land, as well as the significant unobservable inputs used:

Property	**Valuation technique**
Land and Building located in Georgia.	Fair value was determined based on announced asking prices of similar properties in the similar location and physical condition. The significant unobservable inputs related to the differences in the characteristics of the lands and buildings, such as size, location, access to the property and discount achieved through negotiation, for which the management applied 0%-35% adjustments to observed asking prices.

No indicators of additional impairment or reversal of previously recognized impairment loss were identified as at 31 December 2023.

9. Investments in subsidiaries

Investments in subsidiaries as at 31 December 2023 and 2022 are presented as follows:

'000 GEL Subsidiary	Ownership 2022	Ownership 2023	Business activity	Balance as at 31 December 2022	Contribution	Withdrawal /sale	Impairment	Balance as at 31 December 2023
Partnership Fund Green Development LLC	100%	100%	Real estate development	20,177	208	-	-	20,385
Tbilisi Logistics Center LLC	100%	100%	Food services	-	353	-	(353)	-
Lagodekhi Trading Company LLC	100%	100%	Construction and leasing out of a shopping mall	-	8	-	(8)	-
Aerostructure Technologies Cyclone JSC	66%	66%	Manufacture of spare parts for airplanes	59	-	-	-	59
Start-up Georgia LLC	100%	100%	Venture capital investing	-	15	-	(15)	-
Likani Residence LLC	100%	100%	Renovation of Romanov Palace in Likani	1,003	224	-	(194)	1,033
Georgian Natural Products LLC	100%	100%	Export of wine and agriculture products	768	-	-	-	768
Borjomi Likani International JSC	100%	100%	Operation of a hotel	-	-	-	-	-
Total				**22,007**	**808**	**-**	**(570)**	**22,245**

Investments in subsidiaries presented in Note 1 not disclosed above are dormant or fully impaired entities that do not carry out active business operations and do not generate any revenue.

(a) Significant subsidiaries

Aerostructure Technologies Cyclone JSC - in March 2015 a new subsidiary, Aerostructure Technologies Cyclone JSC, was established in Georgia by the Fund, Project LLC (under 100% ownership of the Fund) and Elbit Systems - Cyclone Ltd, with 33.33%, 33.33%, and 33.34% interest, respectively. The parties agreed to incorporate the subsidiary with authorized share capital of USD 60,000 thousand.

In accordance with the shareholders agreement, unanimous agreement is required for certain decisions. Management has concluded that the Fund has control over the subsidiary because the Fund is exposed to (has rights to) variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The conclusion is based on the percentage of the ownership interest and the significance of decisions defined in the shareholders' agreement of the subsidiary for which majority of votes is required. The subsidiary was established for the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

As at 31 December 2022, the management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is a need to perform an impairment test because of the significant changes in market trends during 2022. The management performed impairment test at 31 December 2022. As a result of impairment testing carried out by the management, an impairment loss of GEL 93,188 thousand has been recognized by the Fund for the investment in Aerostructure Technologies Cyclone JSC, due to the significant decline in the volumes sold.

As at 31 December 2022 the following main key assumptions were used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for 10 years and a terminal growth rate thereafter.
- Volumes are projected based on the budgeted quantities during 2023. Sales volumes from 2024 to 2026 align with the business plan's revenue projections. From 2027 onwards, revenue forecasts are in line with the dynamics of Global Commercial Fleet Growth, considering the forecasted inflation rate dynamics.
- Capital expenditures for both maintenance and expansion were forecasted based on the business plan for the period of 2023-2028. In the forecast period of 2029-2033 capital expenditures for maintenance were projected as the percentage of revenue based on the average ratio of 2023-2028. In the terminal period, capital expenditures were assumed at the level of RCN/NUL adjusted to cumulative CPI US inflation.
- A pre-tax discount rate of 15.27% is applied in determining the recoverable amount of the investment. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates the long-term inflation forecast for USD, which is 2.12%.

The key assumptions to which the impairment indicator analysis is most sensitive include:

- Discount rate – An decrease of 1% point in the discount rate used would have resulted in an approximate enterprise value of GEL 4,656 thousand. The analysis assumes that all other variables remain constant.
- Volume growth – A increase of 5% in the sale volumes projection used would resulted in an approximate enterprise value of GEL 6,988 thousand. The analysis assumes that all other variables remain constant.
- Terminal growth – A increase of 1% point in the terminal growth rate would resulted in an approximate enterprise value of GEL 1,651 thousand. The analysis assumes that all other variables remain constant.

As of 31 December 2023, management concluded that there were no indications of additional impairment or the reversal of previously recognized impairment losses.

(b) Less significant subsidiaries

During 2019, the Fund withdrew assets of GEL 46,346 thousand from its investment in subsidiary – Borjomi Likani International JSC. Management concluded that the latter transaction was an impairment indicator and performed impairment test of investments in the named subsidiary as at 31 December 2019. As a result of the impairment test, impairment loss of GEL 13,273 thousand was recognized in the separate statement of profit or loss and other comprehensive income and the carrying amount of investment in Borjomi Likani International JSC was reduced to nil as at 31 December 2019. As at 31 December 2023 and 2022, the management performed review of indicators of reversal of impairment. As a result, no indicators were identified that would lead to reversal of previously recognized impairment losses.

At 31 December 2017 and 2016 the management identified indicators that the investments in the following subsidiaries: Tbilisi Logistics Center LLC, Black Sea Port LLC, Rukhi Trading Center LLC and Start-up Georgia LLC may be impaired due to negative EBITDA and a significant decline in budgeted net cash flows. The recoverable amounts of the investment in the aforementioned subsidiaries were determined to be nil. As a result, an impairment loss of GEL 7,213 thousand was recognized during prior years to reduce the carrying amount of the investments down to nil.

In 2023, an additional impairment loss of GEL 368 thousand (2022: GEL 754 thousand) was recognized in relation to the contributions made by the Fund in the named subsidiaries during the year.

As at 31 December 2023, no indicators of reversal of previously recognized impairment loss of investments in the abovementioned subsidiaries were identified.

In 2018, the Government of Georgia contributed 116 vacant land plots to the Fund's equity. The land plots (freehold) were located nearby Tbilisi Sea and Olympic Village in Tbilisi. Total area of the properties was 2,693,344 m2. At initial recognition, management recognized the land plots at GEL 63,695 thousand, which was calculated based on normative prices per sq.m as defined by Tbilisi City Municipality, which management believes approximate fair value of the lands as of the date of the capital contribution. Subsequently, the aforementioned lands were contributed to the equity of LLC Partnership Fund of Georgia Green Development.

During 2020, the management decided to return 67 land plots to the Government of Georgia with a total area of 1,437,424 m2. Carrying amount of the transferred lands amounted to GEL 44,100 thousand. Consequently, investment in LLC Development Fund of Georgia Green Development and the owner contribution reserve of the Fund was reduced by the above-mentioned amount.

10. Investments in equity accounted investees

'000 GEL	**2023**	**2022**
Balance at 1 January	**20,010**	**58,880**
Capital contributions	232	274
Fund's share of losses of equity accounted investees (net of income tax) recognized in profit or loss	(1,300)	(32,884)
Impairment loss	-	(6,260)
Disposal of equity accounted investee	(7,926)	-
Balance at 31 December	**11,016**	**20,010**

None of the Fund’s equity accounted investees are publicly listed entities and consequently do not have published price quotations.

‘000 GEL **Associate**	**Ownership 2023**	**Ownership 2022**	**Business activity**	**Balance as at 31 December 2022**	**Contributions**	**(Loss)/Profit attributable to the Fund**	**Disposal**	**Balance as at 31 December 2023**
Nenskra Hydro JSC	7.38%	7.54%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	-	-	-	-	-
Tsinandali Estates LLC	0%	33.43%	Hotel and spa resort in village Tsinandali	8,191	-	(265)	(7,926)	-
Gazzele Fund LP	29.11%	29.11%	International investment company represented in Georgia	11,096	232	(981)	-	10,347
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	723	-	(54)	-	669
				20,010	**232**	**(1,300)**	**(7,926)**	**11,016**

Investments in equity accounted investees presented in Note 1 not disclosed above are dormant entities that do not carry out business operations and do not generate revenue.

Despite the fact that the Fund held less than 20 percent of the voting power in Nenskra Hydro JSC (the Entity), the management of the Fund concluded that due to meaningful representation on the governing body of the Entity (the Supervisory Board of the Entity is composed of 6 members, out of which four members are nominated by K-water and two members by the Fund) the Fund has the power to participate in the Entity’s financial and operating policy decisions and thus has the ability to exercise significant influence over the Entity as at 31 December 2023 and 2022.

(a) Impairment of investment in Nenskra Hydro JSC

At each reporting date, the Fund assesses whether there is any indication that the recoverable amount of the investment in Nenskra Hydro JSC has declined below the carrying amount or previously recognized impairment loss is subject to reversal.

On 12 December 2022, the Government of Georgia officially requested from the Nenskra Hydro JSC to decrease energy rate by circa 13% compared to the energy rate that was the highest one that the Fund assumed for the base scenario, as set forth in the Implementation Agreement executed on 31 August 2015, as amended and restated in 2017. Decrease in the energy rate significantly deteriorated profitability of the Project and the management concluded that latter was an impairment indicator. As at 31 December 2023, impairment testing was carried out by the Fund. Recoverable amount of the CGU was based on its value in use amounting to negative GEL 60,845 thousand (equivalent to USD 22,500 thousand), determined by independent valuer by discounting future cash flows to be generated by the HPP. Fair value less costs of disposal of the CGU was determined to approximate nil, considering the fact that as at 31 December 2022 it is not expected that existing assets, representing mainly Project-specific expenditures capitalized to CIP, are capable of generating future economic benefits, either individually or in combination with other non-current assets. The events and circumstances resulting in recognition of impairment are mostly attributable to the reduction in the energy rate and postponing of the first period of generation, as stipulated by Side Agreement terms negotiated during 2022.

The following key assumptions were used in the estimation of the recoverable amount as at 31 December 2022:

- After-tax cash flows were projected over the forecast period of 54 years and assumes that the HPP will start operations in July, 2028;
- Electricity generation forecasts were based on the results of the technical reports prepared by the Nenskra Hydro JSC's technical advisor, which indicated the total monthly generation and total monthly losses;
- Projected starting energy tariff was set to equal the new energy rate which was under negotiation with GoG as of 31 December 2023 (and was subsequently formally agreed through a Side Agreement later in May, 2023). Impairment model assumes escalation rate of 3% per annum over 15 years starting from the first full generation period;
- An after-tax discount rate of 8.88% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of companies operating in similar industries and is denominated in USD;
- CAPEX represents expansionary CAPEX for the years 2023-2028 and maintenance CAPEX is expensed for the entire projection period, with major CAPEX capitalized in 2053. In addition, additional major CAPEX was considered in the terminal period as an adjustment to the terminal value; and
- The terminal growth rate was assessed at 2%.

The key assumptions, to which the impairment analysis is most sensitive to, include:

- Discount rate - a decrease of 1.2% in the discount rate would have resulted in the recoverable amount to be equal to the carrying amount of the CGU. The analysis assumes that all other variables remain constant.
- Tariff rate - an increase in the revised energy rate by 22% would have resulted in recoverable amount to be equal to the carrying amount of the CGU. The analysis assumes that all other variables remain constant.

At 31 December 2023, the Management analyzed impairment reversal indicators (external and internal) and concluded that there is no indication of reversal of previously recognized impairment.

11. Loans receivable

’000 GEL	**31 December 2023**	**31 December 2022**
Non-current assets		
Loan receivable from a third party	581	3,449
Total non-current	**581**	**3,449**
Current assets		
Short term portion of the loan receivable from a third party	1,757	166
Short term portion of the loan receivable from the subsidiary	3,703	6,846
Total current	**5,460**	**7,012**
	6,041	**10,461**

The Fund’s exposure to credit and currency risks and impairment losses related to loans receivable are disclosed in note 15(c).

12. Cash and cash equivalents

’000 GEL	**31 December 2023**	**31 December 2022**
Bank balances	22,869	21,082
Call deposits	35,007	8,060
Total cash and cash equivalents	**57,876**	**29,142**

The Fund’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 15(e).

13. Equity

(a) Share capital

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

Following the decree of the Government of Georgia on 8 May 2012 the share capital of the Fund was determined as 100,000,000 ordinary shares with a par value of GEL 1.

Pursuant to the shareholder’s decision dated 6 September 2023, the Fund’s subscribed capital was defined as GEL 250,000 thousand and declared as paid-in. Given that the Fund’s separate financial statements as at and for the year ended 31 December 2022 reported paid-in subscribed capital of GEL 100,000 thousand, and no additional capital contributions were made during 2023, the Fund has recognized a receivable of GEL 150,000 thousand from the shareholder as at 31 December 2023.

(b) Owner contributions

During 2022, the Government of Georgia contributed land plots of GEL 1,340 thousand in the form of an increase in the Fund’s equity as ‘Owner contributions’. Carrying amount of the contributed properties was determined to be equal to its fair value.

During 2022, pursuant to the decision of the Government of Georgia, owner contribution of the Fund was reduced by the amount of GEL 2,109,861 thousand by transferring ownership of Georgian Railway JSC (100% shares) and Georgian Oil and Gas Corporation JSC (100% of shares) to the Government of Georgia. In addition, during 2022, management decided to return some lands and properties to the Government of Georgia. Carrying amount of the transferred lands amounted to GEL 23,506 thousand. Consequently, ‘Owner contributions’ were reduced by the above-mentioned amount (see Note 8).

During 2023, management decided to return some lands and properties to the Government of Georgia. Carrying amount of the transferred lands and properties amounted to GEL 811 thousand. Consequently, 'Owner contributions' were reduced by the above-mentioned amount (see Note 8).

14. Receivables and payable from/to former subsidiary

(a) Receivables from former subsidiary

'000 GEL	31 December 2023	31 December 2022
Receivable from former subsidiary	56,934	57,770
	56,934	**57,770**

Based on Government of Georgia decision dated 29 November 2022 and 7 December 2022, Georgian Oil and Gas Corporation JSC (GOGC JSC) was instructed to acquire the remaining 49.092% of Gardabani TPP LLC from the Fund. The purchase price of the Fund's share in Gardabani TPP was determined based on valuation report of Gardabani TPP LLC, which represented the fair value of shares. The acquisition of the 49.092% share, value at EUR 43,259 thousand, was structured as follows: EUR 17,000 thousand, representing 19.292% of the share was paid in cash by the GOGC JSC. Loan given by GOGC JSC to the Fund amounting to EUR 7,123 thousand was offset against the price for 8.084% of the shares. Remaining EUR 19,136 thousand, included in other receivable, is to be paid by GOGC JSC upon the sale of Gardabani TPP by GOGC JSC. Difference between carrying amount of the Fund's investment in Gardabani TPP and consideration was recognized as other investment income in 2022 in the amount of GEL 40,190 thousand.

In case GOGC JSC did not sell 100% of shares in Gardabani TPP LLC during 2023, 21.716% shares of Gardabani TPP LLC have to be returned to Development Fund of Georgia JSC. The GOGC JSC failed to sell its share of Gardabani TPP in 2023, but share transfer of Gardabani TPP was not finalized as at 31 December 2023 (Note 14 (b)).

Management estimates that as at 31 December 2023 other receivable of GEL 56,934 thousand approximates fair value of 21.716% shares of Gardabani TPP LLC. The Company derived at the fair value of the investment in Gardabani TPP LLC by discounting future cash flows expected from the operations of the thermal power plant owned by Gardabani TPP LLC, by discount rate of 15.07% (in GEL) and adjusting the total business value by minority and liquidity discounts of 22.1% to derive at the value of 21.716% investment.

The valuation is included in Level 3 measurement. Increase in discount rate by 1% would decrease the fair value of 21.716% of investment by GEL 2,908 thousand.

(b) Payable to former subsidiary

'000 GEL	31 December 2023	31 December 2022
Payable to former subsidiary	53,037	47,738
	53,037	**47,738**

On 29 November 2022, terms of loan due to the Georgian Railway JSC were amended as follows: currency was changed from USD to EUR, interest accrual was suspended and the parties agreed that the loan will be recovered in 2023 through cash that equals to carrying amount of the loan at modification date, on the basis that by 31 December 2023 the Fund is able to sell its indirect 100% shareholding of Gardabani TPP (Option 1). In case The Fund fails to sell Gardabani TPP in 2023, it will be obliged to transfer 21.716% of Gardabani TPP to the Georgian Railway JSC no later than one month from 31 December 2023 (Option 2).

The above was assessed as a substantial modification to the contractual terms of the loan during 2022. As a result, on 29 November 2022, the Fund derecognized related party loan of GEL 49,152 thousand and recognized a payable to Georgian Railway JSC of GEL 46,723 thousand. The difference between the balance of derecognised loan and recognized payable of GEL 2,429 thousand was recognised directly in equity.

On initial recognition in 2022, payable to Georgian Railway JSC was measured at lower of present value of other Payable of GEL 46,723 thousand and fair value of 21.716% shares of Gardabani TPP of GEL 53,187 thousand.

On 18 January 2023 the Company entered into a conditional agreement with Georgian Railway JSC, under which the purchase price for 21.716% of Gardabani TPP shares was established as EUR 19,135,693. Additionally, parties agreed that in case Option 2 of original agreement is materialized, purchase price of Gardabani TPP shares will be settled as follows:

- Payable to Georgian Railway JSC will be settled via delivery of 21.716% shares of Gardabani TPP to the same counterparty.
- A payment of EUR 1,492,887 will be received from Georgian Railway JSC within 5 days after the transfer of 21.716% of Gardabani TPP shares to Georgian Railway JSC.

The GOGC JSC failed to sell its share of Gardabani TPP in 2023, hence, pursuant to conditional agreement with Georgian Railway JSC, the Company recognised payable to Georgian Railway JSC at its fair value. Share transfer of Gardabani TPP was not finalised as at 31 December 2023 (see Note 21).

The Fund estimated the fair value of the investment in Gardabani TPP by discounting future cash flows expected from the operations of the thermal power plant, owned by Gardabani TPP, by discount rate of 15.07% (31 December 2022: 16.55%) (in GEL), and adjusting the total business value by minority and liquidity discounts of 22.1% (31 December 2022: 22.1%) to derive the value of 21.716% investment. The valuation is included in Level 3 measurement. The movement in the financial asset at FVTPL represents GEL 530 thousand in 2023 and is included in the finance costs. The valuation is relatively sensitive to discount rate; 2% increase in discount rate would resulted in decrease of fair value of GEL 5.6 million.

15. Fair values and risk management

(a) Fair values of financial assets and liabilities

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

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

Management believes that the fair values of the Fund's financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

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

- credit risk (see note 15 (c));
- liquidity risk (see note 15 (d));
- market risk (see note 15 (e)).

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

Risk management framework

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

The Supervisory Board of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Supervisory Board oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

(c) Credit risk

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

(i) Exposure to credit risk

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

	Note	**Carrying amount**	
'000 GEL		**31 December 2023**	**31 December 2022**
Loans receivable	11	6,041	10,461
Receivable from shareholder	13(a)	150,000	-
Term Deposit		16,755	-
Receivable from former subsidiary	14(a)	56,934	57,770
Cash and cash equivalents	12	57,876	29,142
		287,606	**97,373**

Impairment losses on financial assets recognised in profit or loss were as follows.

'000 GEL	**31 December 2023**	**31 December 2022**
Impairment loss on loans receivable	(6,873)	(13,585)

(ii) Loans receivable

As at 31 December 2023 and 2022, the Fund has loans receivable from related parties and third parties.

Management believes that the Fund is exposed to significant credit risk relating to the loans receivable as at 31 December 2023 and 2022. The following table provides information about the exposure to credit risk and expected credit losses (ECL) for loans receivables as at 31 December 2023 and 2022:

	31 December 2023			
'000 GEL	**12-month ECL**	**Lifetime ECL-not credit impaired**	**Lifetime ECL -credit-impaired**	**Total**
Customer credit risk grade				
Medium risk	-	4,661	-	4,661
High risk	-	-	75,655	75,655
Total gross carrying amount	-	4,661	75,655	80,316
Loss allowance	-	(2,313)	(71,962)	(74,275)
Carrying amount	**-**	**2,348**	**3,693**	**6,041**

	31 December 2022			
'000 GEL	**12-month ECL**	**Lifetime ECL-not credit impaired**	**Lifetime ECL -credit-impaired**	**Total**
Customer credit risk grade				
Low risk	4,656	-	-	4,656
Medium risk	-	18,024	-	18,024
High risk	-	-	55,183	55,183
Total gross carrying amount	4,656	18,024	55,183	77,863
Loss allowance	(1,042)	(11,177)	(55,183)	(67,402)
Carrying amount	**3,614**	**6,847**	**-**	**10,461**

Management has assessed impairment of loans based on individual characteristics of each legal entity. Each company has its own PD based on its financial performance and the future expectations of payments to be made.

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

An ECL rate is calculated for each counterparty based on delinquency status, external credit rating, current conditions of the counterparties and the Fund's view of economic conditions over the expected lives of the loans receivables and ways of its repayments.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD);

ECL for exposure in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

Inputs, assumptions and techniques used for estimating impairment

Medium risk – the counterparty has restructured contractual cash flow obligation to meet in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the borrower to fulfil its contractual cash flow obligations. Loan receivables with medium risk are considered to be in stage 2. PD for loans receivable with medium customer credit risk grade was determined as 74.66% (2022: 72.8%) by an individual approach by an expert on a rating system based on a scoring questionnaire and represents lifetime PD.

High risk – the counterparties with a weak capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely further decrease the ability of the counterparties to fulfil their contractual cash flow obligations. Loans with high risk include include loan issued to Borjomi Likani International denominated in foreign currency of GEL 51,566 thousand, which is a POCI financial asset with a carrying amount of nil and loan issued to Aerostructure Technologies Cyclone JSC denominated in foreign currency of GEL 20,529 thousand, which defaulted during 2023. PD for loans receivable from Aerostructure Technologies Cyclone JSC was determined as 100%.

Derived LGDs to the different exposures for the years 31 December 2023 varies from 67% to 100%.

Sensitivity analysis

Increase in PD for stage 2 loans receivables by 10% assuming that all other variables remain constant, could affect the expected credit loss for 2023 by approximately GEL 231 thousand.

Impairment losses

’000 GEL	**31 December 2023**	**31 December 2022**
Gross carrying amount	80,316	77,863
Loss allowance	(74,275)	(67,402)
	6,041	**10,461**

Movements in the allowance for impairment in respect of loan receivables

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

’000 GEL	**2023**	**2022**
Balance at 1 January	67,402	53,817
Increase during the year	6,873	13,585
Balance at 31 December	**74,275**	**67,402**

(iii) Cash and cash equivalents and Term Deposits

The Fund usually holds funds with banks with good credit ratings. As at 31 December 2023, approximately 17% (31 December 2022: 71%) of the bank balances are held with the largest Georgian banks with short-term default ratings from B to B+, rated by Fitch Ratings. None of the balances are overdue or impaired.

Impairment on cash and cash equivalents and term deposit balances has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Fund considers that its cash and cash equivalents and term deposits have low credit risk based on the external credit ratings of the counterparties.

No impairment allowance was recognised during 2023 and 2022 by the Fund.

The Fund does not expect any counterparty to fail to meet its obligations.

(iv) Receivable from former subsidiary

As at 31 December 2023, the Fund has receivable from JSC Georgian Oil and Gas Corporation. Management believes that the Fund is not exposed to a significant amount of credit risk relating to the receivable. There are no indications the JSC Georgian Oil and Gas Corporation will fail to meets its obligations when it falls due; furthermore, the Fund has option to receive investment in Gardabani TPP.

(v) Receivable from shareholder

As at 31 December 2023, the Fund has receivable from shareholder in the amount of GEL 150,000 thousand. Management believes that the Fund is not exposed to a significant amount of credit risk relating to the receivable.

(d) Liquidity risk

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

To manage the liquidity requirements, the Fund makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities. Typically, the Fund ensures, that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk

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

31 December 2023		**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**
Non-derivative financial liabilities					
Payable to former subsidiary	53,037	53,037	53,037	-	-
Other liabilities	1,204	1,204	1,204	-	-
	54,241	**54,241**	**54,241**	**-**	**-**

31 December 2022		**Contractual cash flows**			
'000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**
Non-derivative financial liabilities					
Payable to former subsidiary	47,738	50,889	-	-	50,889
Other liabilities	1,152	1,152	1,152	-	-
	48,890	**52,041**	**1,152**	**-**	**50,889**

(e) Market risk

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

The Fund does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Fund is exposed to currency risk on issued loans, cash and cash equivalents and borrowings that are denominated in a currency other than GEL. The currency in which these transactions primarily are denominated is U.S. Dollar (USD) and Euro (EUR).

Exposure to currency risk

The Fund's exposure to foreign currency risk was as follows:

'000 GEL	**USD-denominated 2023**	**USD-denominated 2022**	**EUR – denominated 2023**	**EUR – denominated 2022**
Cash and cash equivalents	30,209	349	547	547
Term deposit	13,555	-	-	-
Loans receivable	6,041	10,461	-	-
Other receivable	-	-	56,934	55,194
Other payables	-	-	(53,037)	(47,738)
Net exposure	**49,805**	**10,810**	**4,444**	**8,003**

The following significant exchange rates have been applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2023	**2022**	**2023**	**2022**
USD 1	2.6279	2.9156	2.6894	2.7020
EUR 1	2.8416	3.0792	2.9753	2.8844

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against USD and EUR at 31 December 2023 and 31 December 2022 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 GEL	**Profit or loss**
31 December 2023	
USD (10%)	4,981
EUR (10%)	444
31 December 2022	
USD (10%)	1,081
EUR (10%)	800

A strengthening of the GEL against the above currencies at 31 December 2023 and 31 December 2022 would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

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

Exposure to interest rate risk

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

'000 GEL	**Carrying amount**	
	2023	**2022**
Fixed rate instruments		
Financial assets	54,100	32,755
	54,100	**32,755**
Variable rate instruments		
Financial assets	3,923	6,846
	3,923	**6,846**

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
'000 GEL	**100 bp increase**	**100 bp decrease**
2023		
Variable rate instruments	39	(39)
Cash flow sensitivity	**39**	**(39)**
2022		
Variable rate instruments	68	(68)
Cash flow sensitivity	**68**	**(68)**

(f) Capital management

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may adjust the amount of investments made in subsidiaries and equity-accounted investees, dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Supervisory Board's policy is to maintain a strong capital base so as to maintain Parent, creditor and market confidence and to sustain future development of the business.

The Fund's debt to capital ratio at the end of the reporting period was as follows:

'000 GEL	**2023**	**2022**
Total liabilities	54,241	48,890
Less: cash and cash equivalents	(57,876)	(29,142)
Net debt	**(3,635)**	**19,748**
Total equity	**332,343**	**156,301**
Debt to capital ratio at 31 December	**(0.01)**	**0.13**

The Fund is a wholly state-owned enterprise and its operations are mostly funded by equity financing.

There were no changes in the Fund's approach to capital management during the year.

The Fund is not subject to externally imposed capital requirements.

16. Contingencies

(a) Insurance

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

(b) Litigations

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

(c) Taxation contingencies

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

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

17. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2023 and 2022 the Fund is wholly owned and ultimately controlled by the Government of Georgia.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in wages and other employee benefits.

'000 GEL	**2023**	**2022**
Salaries and bonuses	**950**	**770**

(c) Transactions with Government related entities

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

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant.

(i) Loans

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2023	**2022**	**2023**	**2022**
Loans receivable:				
Subsidiaries and state-controlled entities	-	-	3,923	6,846

				31 December 2023		**31 December 2022**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Loans receivable to subsidiaries							
Borjomi Likani International JSC	USD	0.04% daily	2034	51,566	-	51,566	-
Aerostructure Technologies Cyclone JSC	USD	10.75%+ 6 months LIBOR	2023	20,539	3,703	18,024	6,846
				72,105	**3,703**	**69,590**	**6,846**

During 2023, interest income of GEL 2,724 thousand (2022: GEL 2,120 thousand) and impairment loss in the amount of GEL 5,439 thousand (2022: 9,825 thousand) was recognised in profit or loss in respect of related party loans.

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2023	**2022**	**2023**	**2022**
Loans and borrowings from subsidiaries				
Subsidiaries	-	21,568	-	-

During 2022, interest expense GEL 4,640 thousand was recognised in profit or loss in respect of related party loans.

(ii) Receivables and payables from/to former subsidiaries

'000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2023	**2022**	**2023**	**2022**
Receivable from former subsidiary:				
State-controlled entities	-	-	56,934	57,770
Payable to former subsidiary:				
State-controlled entities	-	-	53,037	47,738

During 2023, interest expense of GEL 3,097 thousand and loss from revaluation of GEL 530 thousand was recognized in profit or loss on the payable to former subsidiary (Note 14 (b)).

For the transactions with shareholder please refer to Note 13.

18. Basis of measurement

The separate financial statements are prepared on the historical cost basis.

19. Material accounting policies

(a) The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

In addition, the Fund adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 2023. The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendment did not result in any changes to the accounting policies disclosed in Note 19.

(b) Investment in subsidiaries

Subsidiaries are entities controlled by the Fund. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in subsidiaries are accounted at cost in the separate financial statements from the date that control effectively commences until the date that control effectively ceases.

Investments in subsidiaries are accounted at cost less impairment losses.

(c) Investments in associates and joint ventures (equity-accounted investees)

The Fund's interests in equity-accounted investees comprise interest in associates and joint ventures.

Associates are those entities in which the Fund has significant influence, but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Fund holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Fund has joint control, whereby the Fund has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost or at the Fund's share of the carrying value of the net assets of the investee recognised in the equity accounted investee's financial statements at the date of the acquisition if the acquisition is from an entity under common control. The cost of the investment includes transaction costs.

The separate financial statements include the Fund's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Fund, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Fund's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Fund has an obligation or has made payments on behalf of the investee.

(i) Joint operations

A joint operation is an arrangement carried on by each venture using its own assets in pursuit of the joint operations. The separate financial statements include the assets that the Fund controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Fund incurs and its share of the income that it earns from the joint operation.

(d) Dividend income

Dividend income is recognized when the Fund's right to receive the amount is established.

(e) Expenses

Expenses are recognized on an accrual basis in the accounting period in which the related services are provided.

(f) Finance income and costs

The Fund's finance income and finance costs include:

- interest income on bank deposits and loans receivable;
- interest expense on financial liabilities;
- The gain or loss recognized on modification of contractual terms of financial instruments;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

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

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

(g) Foreign currency transactions

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

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

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

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

(h) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Fund has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(i) Income tax

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

(i) Current tax

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

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

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

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

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

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

(j) Property and equipment

(i) Recognition and measurement

Items of Property and equipment are measured at cost less accumulated depreciation and impairment losses. Property and equipment contributed by the shareholder are initially measured at fair value. The cost of Property and equipment at the date of adopting IFRS, 1 January 2015, was determined by reference to its fair value at that date ("deemed cost").

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

If significant parts of an item of Property and equipment have different useful lives, they are accounted for as separate items (major components) of Property and equipment.

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

(ii) Subsequent costs

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

(iii) Depreciation

Items of Property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of Property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Fund will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of Property and equipment for the current and comparative periods are as follows:

- Buildings 15 - 50 years;
- Other 2 - 10 years.

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

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

(i) Recognition and measurement

Investment property is measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

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

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of investment property, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

(l) Financial instruments

(i) Recognition and initial measurement

Loan receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

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

(ii) Classification and subsequent measurement

Financial assets

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

Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Loans receivable and cash and cash are classified as measured at amortised cost.

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

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Fund performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Fund assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Fund analogizes to the guidance on the derecognition of financial liabilities.

The Fund concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Fund derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Fund applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Fund recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms. The Fund treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

The Fund performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Fund concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

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

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

Financial liabilities

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

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

(v) Offsetting

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

(m) Equity

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

Non-cash owner contributions, except for contributions of interests in associates and subsidiaries constituting a business, are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

Non-cash distributions are recognized at the carrying amount of the assets distributed if those distributions are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

(n) Impairment

(i) Non-derivative financial assets

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

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

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
– the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganization; or
– the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the separate statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Fund individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Fund expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Fund's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Fund's non-financial assets, other than inventories and tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The Fund's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Dividends

Dividends on ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.

(p) Leases

At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Fund did not have significant lease agreements where it acts as a lessee or lessor as at 31 December 2023 and 2022

20. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these separate financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Fund's separate financial statements.

– *Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants (Amendments to IAS 1);*
– *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);*
– *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);*
– *Lack of Exchangeability (Amendments to IAS 21);*

21. Subsequent events

On 29 February 2024 Georgian Industrial and Regional Development Company LLC filed for liquidation and it is still ongoing process.

On 1 February 2024, Gardabani TPP shares (21.716%) were transferred to the Georgian Railway JSC as settlement of receivable from former subsidiary (see also Note 14).

In July 2024, the Fund and Borjomi Likani International JSC executed an amendment to the loan agreement. As part of the amendment the Fund received an advance repayment of USD 1,111 thousand and contributed principal amount of USD 17,692 thousand to the capital of the Borjomi Likani International JSC.

Additionally, the amendment reduced interest rate of the loan to 9.19% and revised its maturity terms as follows:

– The outstanding loan issued to Borjomi Likani International JSC will be repaid within five years after the repayment of the loan from the commercial bank.

In 2024, the Fund invested USD 3,500 thousand in an equity-accounted investee.

In 2024, the Fund issued a loan of USD 5,000 thousand with an interest rate of 8.69% plus 6-month SOFR and maturity period of 84 months.