Partnership Fund JSC

Separate Financial Statements
for the year ended 31 December 2017

Contents

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

Opinion

We have audited the separate financial statements of Partnership Fund JSC (the "Fund"), which comprise the separate statement of financial position as at 31 December 2017, 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 significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Fund as at 31 December 2017, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Matter

The corresponding figures as at and for the year ended 31 December 2016 are unaudited.

Statement of Management Report

Management is responsible for the Management Report. Our opinion on the separate financial statements does not cover 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 during the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and, based on the work we have performed, we conclude that the Management Report:

- is consistent with the separate financial statements and does not contain material misstatement;
- contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, 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.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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 skepticism 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:

Andrew Coxshall

KPMG Georgia LLC
Tbilisi, Georgia
28 March 2019

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Tbilisi, Georgia
28 March 2019

'000 GEL	Note	2017	2016 (unaudited)
Assets			
Property, plant and equipment	7	28,173	126,623
Investment property	8	-	22,163
Investments in subsidiaries	9	2,133,266	2,428,581
Investments in equity accounted investees	10	70,498	57,526
Loans receivable	11	6,581	6,834
Non-current assets		**2,238,518**	**2,641,727**
Loans receivable	11	1,661	28,045
Current tax assets		884	581
Cash and cash equivalents	12	255,159	276,069
Current assets		**257,704**	**304,695**
Total assets		**2,496,222**	**2,946,422**
Equity			
Share capital	13	100,000	100,000
Owner contributions		2,592,067	2,538,989
Accumulated deficit		(575,294)	(114,823)
Total equity		**2,116,773**	**2,524,166**
Liabilities			
Loans and borrowings	14	255,668	362,218
Non-current liabilities		**255,668**	**362,218**
Loans and borrowings	14	120,899	60,038
Other liabilities		2,882	-
Current liabilities		**123,781**	**60,038**
Total liabilities		**379,449**	**422,256**
Total equity and liabilities		**2,496,222**	**2,946,422**

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 9 to 36.

'000 GEL	Note	2017	2016 (unaudited)
Investment income			
Income from dividends	5	27,337	12,700
Share of profit of equity accounted investees (net of income tax)	10	3,995	1,387
Total investment income		**31,332**	**14,087**
Operating expenses			
Wages and other employee benefits		(4,151)	(4,220)
Depreciation and amortisation		(611)	(207)
Impairment loss on investments in subsidiaries	9	(461,414)	(84,003)
Other operating expenses		(2,369)	(9,021)
Other income		-	368
Results from operating activities		**(437,213)**	**(82,996)**
Finance income	6	19,325	15,601
Finance costs	6	(32,282)	(45,649)
Net finance costs		**(12,957)**	**(30,048)**
Loss before income tax		**(450,170)**	**(113,044)**
Income tax (expense)/benefit	20(h)	-	-
Loss and total comprehensive loss for the year		**(450,170)**	**(113,044)**

These separate financial statements were approved by management on 28 March 2019 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Giorgi Tsimakuridze
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 financial statements set out on pages 9 to 36.

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'000 GEL	Share capital	Owner contributions	Accumulated Deficit	Total equity
Balance at 1 January 2016 (unaudited)	100,000	2,376,049	(1,779)	2,474,270
Total comprehensive loss (unaudited)				
Loss for the year (unaudited)	-	-	(113,044)	(113,044)
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13 (b)) (unaudited)	-	162,940	-	162,940
Balance at 31 December 2016 (unaudited)	**100,000**	**2,538,989**	**(114,823)**	**2,524,166**
Balance at 1 January 2017 (unaudited)	100,000	2,538,989	(114,823)	2,524,166
Total comprehensive loss				
Loss for the year	-	-	(450,170)	(450,170)
Transactions with owners, recorded directly in equity				
Distributions of non-cash assets (see note 13(c))	-	-	(10,301)	(10,301)
Owner contributions (see note 13(b))	-	53,078	-	53,078
Balance at 31 December 2017	**100,000**	**2,592,067**	**(575,294)**	**2,116,773**

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 36.

'000 GEL	Note	2017	2016 (unaudited)
Cash flows from operating activities			
Loss before income tax		(450,170)	(113,044)
Adjustments for:			
Income from dividends		(27,337)	(12,700)
Depreciation and amortisation		611	207
Net finance costs		12,957	30,048
Share of profit of equity accounted investees (net of income tax)		(3,995)	(1,387)
Impairment loss on investments in subsidiaries		461,414	84,003
		(6,520)	**(12,873)**
Changes in:			
Other liabilities		2,882	(1,275)
Cash flows used in operations before income taxes and interest paid		**(3,638)**	**(14,148)**
Interest paid		(28,886)	(24,529)
Net cash used in operating activities		**(32,524)**	**(38,677)**
Cash flows from investing activities			
Interest received		11,348	13,317
Dividends received		32,218	12,676
Repayment of loans issued		28,383	715
Issue of loans		-	(8,165)
Increase of investments in subsidiaries		(44,290)	(4,413)
Decrease of investments in subsidiaries		2,194	-
Increase of investments in equity accounted investees		(15,994)	(8,382)
Decrease of investments in equity accounted investees		2,111	-
Net cash from investing activities		**15,970**	**5,748**
Cash flows from financing activities			
Proceeds from borrowings		10,883	12,884
Repayment of borrowings		(48,239)	-
Contribution to share capital		38,540	-
Net cash from financing activities		**1,184**	**12,884**
Net decrease in cash and cash equivalents		**(15,370)**	**(20,045)**
Cash and cash equivalents at 1 January		276,069	273,656
Effect of movements in exchange rates on cash and cash equivalents		(5,540)	22,458
Cash and cash equivalents at 31 December	12	**255,159**	**276,069**

The separate statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 36.

1. Reporting entity

(a) Business environment

The Partnership Fund's ("the Fund") operations are 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. 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 Partnership Fund JSC is a joint stock company domiciled in Georgia.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise based on the "Law of Georgia on Partnership Fund JSC". The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board chaired by the Prime Minister of Georgia. 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 of the Government of Georgia dated 30 July and 14 August 2012, under which the 100% 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 to the capital of the Fund.

The Fund's registered office is 15 Queen Tamar Avenue, 0112, 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"). Related party transactions are detailed in note 17.

(c) Fund's portfolio

As at 31 December 2017 and 2016 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2017 Ownership/ voting	2016 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Gardabani 2 TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
GOGC Trading SA	Switzerland	100%	-	Trade of crude oil, petroleum products, petrochemicals and other commodities

Name	Country of incorporation and operation	2017 Ownership/ voting	2016 Ownership/ voting	Principal activities
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
GR Property Management LLC (former Railway Property Management LLC)	Georgia	100%	100%	Property Management and development
GR Logistics and Terminals LLC (former Trans Caucasus Terminals LLC)	Georgia	100%	100%	Container transportation
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	100%	Passenger transportation
Georgia Transit LLC	Georgia	100%	100%	Transportation services
GR Transit LLC (former Georgian Transit LLC)	Georgia	100%	100%	Transportation services
GR Transit Line LLC	Georgia	100%	100%	Transportation services
GR Trans Shipment LLC	Georgia	100%	100%	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	100%	100%	Construction and operation of a hydro-power plant
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
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Borjomi Likani International JSC	Georgia	50%	50%	Construction and operation of a hotel
Panex JSC	Georgia	49%	49%	
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Clinics Development Company LLC and its subsidiaries				
Clinics Development Company LLC	Georgia	100%	-	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	100%	100%	Healthcare services
Universal Medical Center LLC	Georgia	100%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	100%	100%	Healthcare services
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Vanric Agro JSC	Georgia	49%	49%	Export of fruit
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	46.34%	46.34%	Agriculture/farming
Tetri Khidi LLC	Georgia	-	50%	Construction and operation of a hotel
Caucasus Clean Energy I, LLP	United Kingdom	10%	10%	Investment fund
Georgian Industrial and Regional Development Company LLC	Georgia	100%	-	Investment fund, providing investments in regional developments in Georgia
Likani Residence LLC	Georgia	100%	-	Rennovation of Romanov Palace in Likani
Global Brand LLC	Georgia	100%	-	Wine export to USA
Infrastructure Development Partnership Company LLC	Georgia	100%	100%	Providing investments in Anaklia Port Project
Tsinandali Estates LLC	Georgia	45.51%	-	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.10%	-	International investment company represented in Georgia
Lopota LLC	Georgia	37.78%	-	Hotel and spa resort near Lopota lake
Ytong Caucasus LLC	Georgia	28.9%	34.74%	Manufacturing of construction materials
Gino Green City Corporation LLC	Georgia	49%	49%	Real estate development
East West Bridge LLC	Georgia	100%	-	Ownership of investment fund

All 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 International Financial Reporting Standards ("IFRSs").

The separate financial statements have been prepared for the use of management in addition to the consolidated financial statements approved by management on 28 September 2018 and in accordance with the Law of Georgia on Accounting, Reporting and Auditing of Financial Statements issued on 24 June 2016.

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 thousand, 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 14(a) – fair value of loans and borrowings at initial recognition;
- Note 9 – impairment of investments in subsidiaries;
- Note 9 – assessment of control over Georgian State Electrosystem JSC.

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 9– impairment of 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. Income from dividends

'000 GEL	**2017**	**2016 (unaudited)**
Georgian Oil and Gas Corporation JSC	27,313	12,676
Electricity System Commercial Operator JSC	24	24
Income from dividends	**27,337**	**12,700**

6. Finance income and finance costs

'000 GEL	**2017**	**2016 (unaudited)**
Recognised in profit or loss		
Interest income on:		
- bank deposits and current accounts	11,018	12,299
- loans receivable	3,949	3,302
Net foreign exchange gain	4,358	-
Finance income	**19,325**	**15,601**
Interest expense on loans and borrowings	(32,282)	(30,446)
Net foreign exchange loss	-	(15,203)
Finance costs	**(32,282)**	**(45,649)**
Net finance costs recognised in profit or loss	**(12,957)**	**(30,048)**

7. Property, plant and equipment

'000 GEL	Lands	Buildings	Other	Total
Cost or deemed cost				
Balance at 1 January 2016 (unaudited)	393	-	1,208	1,601
Additions	114,753	17,795	30,392	162,940
Disposals	(6,919)	-	(30,077)	(36,996)
Balance at 31 December 2016 (unaudited)	**108,227**	**17,795**	**1,523**	**127,545**
Balance at 1 January 2017 (unaudited)	108,227	17,795	1,523	127,545
Additions	13,689	-	535	14,224
Disposals	(111,650)	-	(370)	(112,020)
Balance at 31 December 2017	**10,266**	**17,795**	**1,688**	**29,749**
Depreciation and impairment losses				
Balance at 1 January 2016 (unaudited)	-	-	(719)	(719)
Depreciation for the year	-	(5)	(198)	(203)
Balance at 31 December 2016	**-**	**(5)**	**(917)**	**(922)**
Balance at 1 January 2017 (unaudited)	-	(5)	(917)	(922)
Depreciation for the year	-	(354)	(300)	(654)
Balance at 31 December 2017	**-**	**(359)**	**(1,217)**	**(1,576)**
Carrying amounts				
At 31 December 2016 (unaudited)	**108,227**	**17,790**	**606**	**126,623**
At 31 December 2017	**10,266**	**17,436**	**471**	**28,173**

(a) Capital contributions:

The Government of Georgia transfers certain property, plant and equipment to the Fund as a capital contribution. In 2017 and 2016 the capital contributions comprise the fair value of the assets of GEL 14,204 thousand and GEL 162,940 thousand respectively (see note 13 (b)).

(b) Disposals:

Disposals in 2017 comprises contribution of property, plant and equipment by the Fund to the share capital of its subsidiaries of GEL 112,020 thousand (2016: GEL 36,996 thousand).

8. Investment property

As at 31 December 2016 the Fund owned investment property of GEL 22,163 thousand comprising the following assets: land of GEL 10,301 thousand which has been removed from the investment of Black Sea Port LLC in 2015 and land and accompanying building, where the Children's Hospital of Infectious Diseases LLC is located, of GEL 11,862 thousand. In 2017 land of GEL 10,301 was transferred to the ownership of the Government of Georgia free of charge (see note 13 (c)) and land and accompanying building of GEL 11,862 thousand was invested in Clinics Development Company LLC.

9. Investments in subsidiaries

Investments in subsidiaries as at 31 December 2017 and 31 December 2016 is presented as follows:

Subsidiary	Ownership 2017	Ownership 2016	Business activity	Balance as at 31.12.2016 (unaudited)	Contribution	Withdrawal	Impairment	Balance as at 31.12.2017
JSC Georgian Railway	100%	100%	Transportation	1,560,380	267	(119)	(315,680)	1,244,848
JSC Georgian Oil and Gas Corporation	100%	100%	Trading of oil and gas, pipe rentals	535,516	7,823	-	-	543,339
LTD Gardabani TPP	100%	100%	Operation of Thermal Power Plant	85,617	-	-	-	85,617
JSC Georgian State Electrosystem	100%	100%	Operation of thermal Power Plant	103,846	39,068	-	(142,914)	-
JSC Electricity System Commercial Operator	100%	100%	Transportation of electricity	4,461	-	-	-	4,461
Nenskra JSC	100%	100%	Operation of Hydro power plant	25,600	256	(2,113)	-	23,743
Tbilisi Logistics Center LLC	100%	100%	Food services	-	81	(81)	-	-
Black Sea Port LLC	100%	100%	Construction and operation of port	-	-	-	-	-
Lagodekhi Trading Company LLC	100%	100%	Trading	278	-	-	-	278
Rukhi Trading Center LLC	100%	100%	Construction and leasing out of a shopping mall	-	-	-	-	-
Aerostructure Technologies Cyclone JSC	66%	66%	Manufacture of spare parts for airplanes	93,246	-	-	-	93,246
Start-up Georgia LLC	100%	100%	Venture capital	-	2,820	-	(2,820)	-
Georgian Industrial and Regional Development Company LLC	100%	0%	Investment fund, providing investments in regional developments in Georgia	-	484	-	-	484
Likani Resihdence LLC	100%	0%	Rennovation of Romanov Palace in Likani	-	543	-	-	543
Global Brand LLC	100%	0%	Wine export to USA	-	1,545	-	-	1,545
Clinics Development Company LLC	100%	0%	Management of healthcare provider subsidiaries	-	135,162	-	-	135,162
Tbilisi Children's Infection Clinical Hospital LLC	0%	100%	Healthcare services	1,220	-	(1,220)	-	-
Universal Medical Center LLC	0%	100%	Healthcare services	14,463	-	(14,463)	-	-
Nikoloz Kipshidze Central University Clinic LLC	0%	100%	Healthcare services	3,954	-	(3,954)	-	-
Total				**2,428,581**	**188,049**	**(21,950)**	**(461,414)**	**2,133,266**

(a) Significant Subsidiaries

Georgian Railway JSC was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The principal activity of Georgian Railway JSC is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

At 31 December 2017 the management identified an indicator that the investment in Georgian Railway JSC may be impaired following the impairment of the significant assets of the subsidiary, related to the Tbilisi Bypass Project. The investment was determined to be equal to the values comprising 100% of Georgian Railway JSC's equity balance as stated in the IFRS consolidated financial statements of Georgian Railway JSC for the year ended 31 December 2017. The equity balance of Georgian Railway JSC's amounted to GEL 1,244,848 thousand as at 31 December 2017. As a result, the Fund recognized an impairment loss of GEL 315,680 thousand in 2017.

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State's share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. In October 2013 a new subsidiary, Gardabani TPP LLC, was created by Georgian Oil and Gas Corporation JSC and Partnership Fund JSC with 51% and 49% interest, respectively. The charter capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2017 amounted to GEL 175,185 thousand. The subsidiary was created for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the "Black Sea Transmission Network Project" (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under a rehabilitation process managed by a Rehabilitation Manager in accordance with a Rehabilitation Plan (see note 19). In assessing control over Georgian State Electrosystem JSC, management has considered, among other things, its ability to terminate the rehabilitation process and remove the rehabilitation manager by way of repayment of the debt.

As at 31 December 2017 the investment balances in Georgian State Electrosystem LLC is impaired in full. The investment was determined to be equal to the values comprising 100% of Georgian State Electrosystem LLC's equity balance as stated in the IFRS consolidated financial statements of Georgian State Electrosystem LLC for the years ended 31 December 2017 and 2016. The equity balance of Georgian State Electrosystem LLC became negative in the year ended 31 December 2017 resulting in the investment in the subsidiary becoming nil. As at 31 December 2017, the main impairment indicator identified by Georgian State Electrosystem LLC management was the impairment of the property and equipment of its major subsidiary EnergoTrans LLC.

Electricity System Commercial Operator JSC was established in Georgia on 1 September 2006 with the primary objective to sell/purchase balancing electricity and guaranteed capacity, import and export electricity and facilitate electricity sale-purchase in Georgia.

(b) Other Subsidiaries

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 the 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 shareholders agreement of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the purpose to engage in the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

At 31 December 2017 management identified an indicator that the investment in Aerostructure Technologies Cyclone JSC may be impaired, due to the fact that the company has not started operations, the project is still in the development phase and does not generate revenue. The recoverable amount of the investment in the subsidiary was based on its value in use, determined by discounting estimated future cash flows to be generated from the aforementioned investment. The recoverable amount of the investment in the subsidiary was determined to be higher than its carrying amount and no impairment loss was recognized as at 31 December 2017.

The following main key assumptions are used in the estimation of the recoverable amount of the investment in Aerostructure Technologies Cyclone JSC:

- Cash flows are projected based on actual operating results and cash flows according to the business plan for a period up to 2023, with the further calculation of the terminal value. Aerostructure Technologies Cyclone JSC is in the process of establishing a manufacturing facility and obtaining all necessary know-how and required certification and approvals. The production and sale of the produced aero-structure products is planned to commence in 2019. Management has determined that it is justified to use cash flow projections for a period of 6 years since the management believes that the 5 year period after Aerostructure Technologies Cyclone JSC starts production and sales will allow cash flows to stabilize. The projections are prepared in real terms;
- An after-tax real discount rate of 12.79% is applied in determining the recoverable amount of the investment in Aerostructure Technologies Cyclone JSC. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. A long-term growth rate following the period covered by the business plan of 6 years has been determined by the management as nil.
- Budgeted earnings before interest tax, depreciation and amortization (“EBITDA”) was estimated based on the actual results of the existing operations, increasing as a result of expected revenue generation started from 2019.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Increase of after-tax real discount rate by 1 percentage point would not have resulted in any impairment, however such a change would have reduced the recoverable amount by GEL 11,400 thousand.

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 their 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 4,266 thousand was recognized in 2016 to bring the cost of the investments down to nil. In 2017 an impairment loss of GEL 2,820 thousand was recognized in relation with the contributions made by Fund in Start-up Georgia LLC during the year.

In 2017 the Fund contributed 100% shares of the following subsidiaries: Tbilisi Children's Infection Clinical Hospital LLC, Universal Medical Center LLC and Nikoloz Kipshidze Central University Clinic LLC of GEL 19,637 into the share capital of the newly established subsidiary, Clinics Development Company LLC. Assets of the above mentioned clinics were valued by an independent valuator in 2015, according to which the fair values were determined to be higher than their carrying values. In 2018 another valuation of the aforementioned assets were made by the same independent valuator, according to which the fair values were determined to be higher than the fair values determined by the previous valuation. Consequently, there were no impairment indicators identified for the investments in Clinics Development Company LLC as at 31 December 2017.

Of the contributions into Investments in subsidiaries of GEL 188,049 thousand, GEL 112,020 thousand was contributed in the form of Property, plant and equipment (note 7 (b)), GEL 11,862 thousand in the form of Investment property (Note 8), GEL 19,637 thousand in the form of share capital in subsidiaries (note 9 (b) and GEL 44,290 thousand in cash.

Of the withdrawals from Investments in subsidiaries of GEL 21,950 thousand, GEL 19,637 thousand was withdrawn from the share capital in subsidiaries and GEL 2,194 thousand was withdrawn in cash.

10. Investments in equity accounted investees

’000 GEL	**2017**	**2016 (unaudited)**
Balance at the beginning of the period	57,526	47,757
Contributions to associate	15,994	8,382
Company’s share of profit/(loss) of equity accounted investees (net of income tax) recognized in profit or loss	3,995	1,387
Dividends received	(4,906)	-
Decrease of the investment in associates/jointly controlled entity	(2,111)	-
Balance at 31 December	**70,498**	**57,526**

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

(a) Joint venture

Borjomi Likani International JSC is the only material joint arrangement in which the Fund participates. It was established in 2011 by the Fund and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015.

The Fund has rights to the net assets of Borjomi Likani International JSC. Accordingly, the Fund has classified its interest in Borjomi Likani International JSC as a joint venture.

The following table summarises the financial information of Borjomi Likani International JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Fund's interest in Borjomi Likani International JSC.

'000 GEL	**2017**	**2016 (unaudited)**
Percentage ownership interest	**50%**	**50%**
Non-current assets	59,763	61,850
Current assets (including cash and cash equivalents – 2017: GEL 5,506 thousand, 2016: GEL 4,576 thousand)	7,183	7,734
Non-current liabilities	(26,415)	(33,170)
Current liabilities	(19,659)	(11,310)
Net assets (100%)	20,872	25,104
Fund's share of net assets (50%)	**10,436**	**12,552**
Revenue	12,099	9,964
Loss and total comprehensive loss (100%)	(4,500)	(12,373)
Fund's share of loss and total comprehensive loss	**(2,250)**	**(6,187)**

(b) Associates

At 31 December 2017 the Fund has interest in nine associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Lopota LLC, Ytong Caucasus LLC and Gino Green City Corporation LLC (2016: Telasi JSC, Vanric Agro LLC, Imerety Greenery LLC, Ytong Caucasus LLC, Gino Green City Corporation LLC and Panex JSC). Telasi is a significant associate of the Fund.

24.53% of the shares of Telasi JSC were transferred to the Fund as a capital contribution by the Government of Georgia on 30 July 2012. The investment in associate was recognised at the Fund's share of net assets of Telasi JSC as at the transfer date of GEL 27,548 thousand. Telasi JSC is involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi.

The following table summarises the financial information of Telasi JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Fund's interest in Telasi JSC.

'000 GEL	**2017**	**2016 (unaudited)**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	236,631	205,385
Current assets	82,253	83,656
Non-current liabilities	(42,748)	(22,124)
Current liabilities	(122,690)	(115,658)
Net assets (100%)	153,446	151,259
Fund's share of net assets (24.53%)	**37,640**	**37,104**
Revenue	420,338	395,872
Profit and total comprehensive income (100%)	22,187	38,720
Fund's share of profit and total comprehensive income	**5,442**	**9,498**

11. Loans receivable

’000 GEL	2017	2016 (unaudited)
Non-current assets		
Loan receivable from the state controlled entity	6,081	6,209
Loan receivable from third party	500	625
Total non-current	**6,581**	**6,834**
Current assets		
Short term part of the loan receivable from the state controlled entity	1,661	1,486
Short term part of the loan receivable from the third party	-	26,559
Total current	**1,661**	**28,045**
	8,242	**34,879**

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

12. Cash and cash equivalents

000 GEL	2017	2016 (unaudited)
Bank balances	255,159	276,069
Cash and cash equivalents in the statement of financial position and the statement of cash flows	**255,159**	**276,069**

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

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.

(b) Owner contributions

During 2017, the Government of Georgia contributed gas pipelines of GEL 7,421 thousand, land plots of GEL 313 thousand and inventories of GEL 334 thousand (2016: the Government of Georgia contributed gas pipelines of GEL 174 thousand, land plots of GEL 4,611 thousand, plant and equipment of GEL 363 thousand and intangible assets of GEL 1,044 thousand) in the form of an increase in share capital. The Government also made a contribution to the Fund’s share capital of land plots of GEL 6,470 thousand and contributions in the form of cash of GEL 38,540 thousand (2016: GEL 156,748 thousand land plots, transmission lines and other fixed assets).

(c) Distributions to the shareholder

In 2017 the Fund transferred land plots located in Anaklia, Zugdidi of GEL 10,301 thousand to a state controlled entity, National Agency of State Property.

14. Loans and borrowings

This note provides information about the contractual terms of the Fund's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Fund's exposure to interest rate, foreign currency and liquidity risks, see note 15.

'000 GEL	2017	2016 (unaudited)
Non-current liabilities		
Unsecured loans from financial institutions	225,521	345,407
Unsecured loans from subsidiaries	30,147	16,811
	255,668	**362,218**
Current liabilities		
Current portion of unsecured loans from financial institutions	120,899	60,038
	120,899	**60,038**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016 (unaudited)	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans							
Unsecured loan from Credit Suisse	USD	Libor+5.95%	2020	346,420	346,420	405,445	405,445
Unsecured loans from subsidiaries:							
Georgian Railway JSC	USD	9.75%	2021	18,109	18,109	16,811	16,811
Georgian Oil and Gas Corporation JSC	USD	9.50%	2021	12,038	12,038	-	-
Total interest-bearing liabilities				**376,567**	**376,567**	**422,256**	**422,256**

During 2015, the Fund acquired a loan from an international bank, Credit Suisse, of USD 150,000 thousand, equivalent to GEL 360,705 thousand. The purpose of the loan was to refinance existing loan exposures.

In relation to the loan received from Credit Suisse, according to the facility agreement, the Fund should maintain a Debt Service Coverage Ratio greater than 1.2 and a Leverage ratio of Total Net Debt to Dividends less than 3.5. According to the agreement the proceeds of any permitted financial indebtedness advanced by a material subsidiary to the Fund and satisfying the subordination conditions can be included in Dividends for ratio calculations.

On 25 May 2016 the Fund entered into a loan agreement with its subsidiary Georgian Railway JSC, pursuant to which Georgian Railway JSC made available a loan of up to USD 6,000 thousand. On 22 August 2017 the Fund acquired a new loan from its subsidiary Georgian Oil and Gas Corporation JSC of USD 4,500 thousand. The purpose of both loans obtained from subsidiaries was for the Fund to be in compliance with the financial covenants embedded in the facility agreement with Credit Suisse.

Management believes that as at 31 December 2017 and 2016 the Fund is in compliance with the aforementioned covenants.

Management estimates that the carrying values of the unsecured loan from the financial institution and the unsecured loans from the Fund's subsidiaries are a reasonable approximation of their fair values.

(b) Reconciliation of movements of assets and liabilities to cash flows arising from financing activities

'000 GEL	**Loans and borrowings**
Balance at 1 January 2017 (unauidited)	**422,256**
Proceeds from borrowings	10,883
Repayment of borrowings	(48,239)
Total changes from financing cash flows	**(37,356)**
The effect of changes in foreign exchange rates	(11,729)
Interest expense	32,282
Interest paid	(28,886)
Balance at 31 December 2017	**376,567**

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.

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

The Fund has determined fair values using valuation techniques. The valuation technique used is the discounted cash flow model, based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(b) Financial risk management

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

- credit risk (see 15 (c));
- liquidity risk (see 15 (d));
- market risk (see 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' risk management policies and procedures and review 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		**2017**	**2016 (unaudited)**
Loans receivable	11	8,242	34,879
Cash and cash equivalents	12	255,159	276,069
		263,401	**310,948**

(ii) Loans receivable

As at 31 December 2016 the Fund had issued a loan to the third party amounting to GEL 26,559 which as at 31 December 2017 was fully recieved. The Fund believes that no impairment allowance is necessary in respect of loans receivable.

(iii) Cash and cash equivalents

The Fund held cash and cash equivalents with banks which are rated B or higher based on rating agency Fitch ratings. None of the balances are impaired or past due.

(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. The Fund's liquidity management also involves monitoring the covenants embedded in the facility agreement.

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.

31 December 2017		Contractual cash flows				
'000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loan from financial institution	346,420	393,592	-	140,403	253,189	-
Unsecured loan from subsidiaries	30,147	41,574	-	-	41,574	-
	376,567	**435,166**	**-**	**140,403**	**294,763**	**-**

31 December 2016 (unaudited)		**Contractual cash flows**				
'000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loan from financial institutions	405,445	481,279	-	82,355	398,924	-
Unsecured loan from subsidiaries	16,811	25,568	-	-	25,568	-
	422,256	**506,847**	**-**	**82,355**	**424,492**	**-**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(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).

Exposure to currency risk

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

'000 GEL	**USD-denominated 2017**	**USD -denominated 2016 (unaudited)**
Cash and cash equivalents	183,569	206,737
Loans receivable	8,242	34,879
Loans and borrowings	(376,567)	(422,256)
Net exposure	**(184,756)**	**(180,640)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD 1	2.5086	2.3667	2.5922	2.6468

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss net of taxes by the amounts shown below. There would be no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

’000 GEL	Profit or loss
31 December 2017	
USD (10% weakening)	(18,476)
31 December 2016 (unaudited)	
USD (10% weakening)	(18,064)

A strengthening of the GEL against the above currencies at 31 December 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’ 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	
	2017	2016 (unaudited)
Fixed rate instruments		
Financial assets	263,401	310,948
Financial liabilities	(30,147)	(16,811)
	233,254	**294,137**
Variable rate instruments		
Financial liabilities	(346,420)	(405,445)
	(346,420)	**(405,445)**

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	Profit or loss	
’000 GEL	100 bp increase	100 bp decrease
2017		
Variable rate instruments	(3,464)	3,464
Cash flow sensitivity (net)	**(3,464)**	**3,464**
2016 (unaudited)		
Variable rate instruments	(4,054)	4,054
Cash flow sensitivity (net)	**(4,054)**	**4,054**

(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.

The 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	2017	2016 (Unaudited)
Total liabilities	379,449	422,256
Less: cash and cash equivalents	(255,159)	(276,069)
Net debt	**124,290**	**146,187**
Total equity	**2,116,773**	**2,524,166**
Debt to capital ratio at 31 December	**0.06**	**0.06**

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 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 2017 and 2016 the Fund is wholly owned 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	2017	2016 (unaudited)
Salaries and bonuses	676	773

(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. Transactions with the shareholder are disclosed in note 13.

(i) Loans

'000 GEL	Transaction value		Outstanding balance as at 31 December	
	2017	2016 (unaudited)	2017	2016 (unaudited)
Loans receivable:				
State controlled entity	-	-	7,742	7,695

During 2017, interest income of GEL 534 thousand (2016: GEL 495 thousand) was recognised in profit and loss in respect of related party loans.

'000 GEL	Transaction value 2017	Transaction value 2016 (unaudited)	Outstanding balance 2017	Outstanding balance 2016 (unaudited)
Loans received:				
Subsidiaries	10,883	12,883	30,147	16,811

During 2017, interest expense of GEL 2,018 thousand (2016: GEL 930 thousand) was recognised in profit and loss in respect of related party loans.

18. Subsequent events

In June 2018 the Fund acquired a 100% ownership in KMG Service Georgia LLC, which was in a joint venture with the Fund and was a co-owner of Borjomi-Likani International JSC, an entity, which operates a hotel in Likani, Georgia. Total consideration of the transaction amounted to USD 25,442 thousand. It comprised the price of the shareholding in KMG Service Georgia LLC of USD 10,300 thousand and repayment of Borjomi-Likani International JSC's loan against KMG Group, amounting to USD 15,142 thousand. Upon completion of the deal, the Fund became the 100% owner of Borjomi-Likani International JSC.

In October 2018 one of the Fund's associates, Lopota LLC, redeemed its shares from the Fund for USD 5,902 thousand.

19. Basis of measurement

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

20. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, and have been applied consistently by the Fund.

(a) 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.

(b) 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 venturer 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.

(c) Income from dividends

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

(d) Expenses

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

(e) Finance income and costs

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on financial liabilities measured at amortised cost and foreign currency losses.

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(f) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in GEL 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.

(g) 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.

(h) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are 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 has 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 from 1 January 2023.

The new system of corporate income taxation does not imply exemption from the corporate income tax, rather the taxation is shifted from the moment of profit earning to the moment of its distribution. The Tax Code of Georgia defines distributed earnings to shareholders as dividends, however some other transactions (e.g. non-arm's length cross-border transactions with related parties and transactions with tax exempt persons) are also considered as distributed earning. In addition, the taxable base also includes expenses or other payments not related to the entity's economic activities, free of charge supply of good and services and representative expenses exceeding tax deductible limits.

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 in relation to which the dividends are paid.

(ii) Deferred tax

Due to the nature of the new taxation system as described above, the entities registered in Georgia do not have any differences between the tax and accounting base of assets and liabilities and hence, no deferred tax arise.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Property, plant and equipment contributed by the shareholder are initially measured at fair value. The cost of property, plant 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.

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

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

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the 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, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

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, plant 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, plant 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.

(j) Financial instruments

The Fund classifies non-derivative financial assets in the following categories: loans and receivables and cash and cash equivalents.

The Fund classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Fund initially recognises loans and receivables issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Loans and receivables - measurement

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprises the following classes of financial assets: cash and cash equivalents as presented in note 12 and loans receivable as presented in note 11.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

(iii) Non-derivative financial liabilities - measurement

The Fund classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings as presented in note 14 and other liabilities.

(k) 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_.

(l) Impairment

(i) Non-derivative financial assets

A financial asset, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise,
- indications that a debtor will enter bankruptcy, or
- economic conditions that correlate with defaults;

Financial assets measured at amortised cost

The Fund considers evidence of impairment for these assets at both a specific asset and a collective level. All individually significant loans and receivables are assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Fund uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Fund considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is calculated as the difference between its carrying amount after application of the equity method of accounting and its recoverable amount.

The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Fund estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

An impairment loss is recognized in profit or loss, and reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

The carrying amounts of the Fund's non-financial assets, other than inventories and deferred 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.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The 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.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to the carrying amounts of the assets in the CGU (group of CGUs) 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.

(m) Dividends

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

(n) Leases

Leases in terms of which the Fund assumes substantially all the risks and rewards of ownership of leased assets are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Fund's statement of financial position.

21. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these separate financial statements. Of these pronouncements, potentially the following will have an impact on the Fund's operations. The Fund plans to adopt these pronouncements when they become effective.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

(i) Revenue

Under IFRS 15, the total consideration in the sale of service or goods contracts will be allocated to all contractual obligations based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the prices at which the entity sells the service or goods in separate transactions.

The Fund does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition and the effect of the transition to IFRS 15 would have no material effect on the Fund's separate financial statements.

The Fund's main source of revenue *Income from dividends* does not fall within the scope of IFRS 15. Therefore it is not expected that the adoption of IFRS 15 will have a material impact on revenue recognition.

(ii) Transition

The Fund plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized in equity at 1 January 2018. As a result, the Fund will not apply the requirements of IFRS 15 to the comparative period presented. If any adjustment occurs it will be presented in full within the separate financial statements to be prepared for the year ended 31 December 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Fund is required to adopt IFRS 9 Financial Instruments with Customers from 1 January 2018.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its preliminary assessment, the Fund does not believe that the new classification requirements will have a material impact on its accounting for its financial assets.

(ii) Impairment - Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and without a significant financing component; the entity may choose to apply this policy also for trade receivables and with a significant financing component.

Based on the preliminary assessment the Fund believes that application of IFRS 9's impairment requirements at 1 January 2018 will not result in a material increase over the impairment recognized under IAS 39.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Fund has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Fund's preliminary assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular credit risk and expected credit losses. The Fund's preliminary assessment included an analysis to identify data gaps against current processes and the Fund plans to implement the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

The Fund will use the modified retrospective approach to transition and will not present restated comparative information for prior periods. Adjustments to the carrying amounts of financial assets arising from the adoption of IFRS 9 will be recognized in retained earnings and reserves as at 1 January 2018.

(c) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases—Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Fund is assessing the potential impact on its financial statements resulting from the application of IFRS 16. The actual impact of applying IFRS 16 on the separate financial statements in the period of initial application will depend on future economic conditions, including the Fund's borrowing rate at 1 January 2019, the composition of the Fund's lease portfolio at that date, the Fund's latest assessment of whether it will exercise any lease renewal options and the extent to which the Fund chooses to use practical expedients and recognition exemptions.