

Partnership Fund JSC

Separate Financial Statements
for the year ended 31 December 2019

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

Qualified 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 2019, 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, except for the effects of the matter described in 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 2019, 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 Qualified Opinion

As described in Note 11 to the separate financial statements, in June 2019, significant modification of terms of loan receivable from Borjomi Likani International JSC (wholly owned subsidiary of the Fund) took place. As a result, the Fund derecognised previously recognized loan receivable and recognized originated credit-impaired financial asset on initial recognition at its nominal value. This accounting treatment is not in accordance with IFRS 9 *Financial Instruments*, as the new financial instrument should be measured at fair value, at initial recognition.

It was impracticable for us to quantify the financial effects of the adjustments to Loans receivable from Borjomi Likani International JSC of GEL 38,173 thousand as at 31 December 2019 and to net profit for the year ended 31 December 2019, which would have resulted from using fair values at initial recognition of originated credit-impaired financial asset on initial recognition.

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 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.

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:

Karen Safaryan

KPMG Georgia LLC
23 October 2020



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Karen Safaryan

KPMG Georgia LLC
23 October 2020

Partnership Fund JSC
Separate Statement of Financial Position as at 31 December 2019

'000 GEL	Note	2019	2018
Assets			
Property, plant and equipment	8	22,991	52,631
Investment property	8(a)	59,336	-
Investments in subsidiaries	9	1,474,393	1,480,097
Investments in equity accounted investees	10	114,084	112,726
Loans receivable	11	53,057	35,254
Non-current assets		1,723,861	1,680,708
Loans receivable	11	253	8,235
Dividend receivable		-	3,234
Current tax assets		888	379
Cash and cash equivalents	12	11,045	93,583
Current assets		12,186	105,431
Total assets		1,736,047	1,786,139
Equity			
Share capital		100,000	100,000
Owner contributions		2,674,980	2,663,531
Accumulated deficit		(1,211,959)	(1,256,224)
Total equity		1,563,021	1,507,307
Liabilities			
Loans and borrowings	14	40,269	34,205
Non-current liabilities		40,269	34,205
Loans and borrowings	14	127,014	239,220
Other liabilities		5,743	5,407
Current liabilities		132,757	244,627
Total liabilities		173,026	278,832
Total equity and liabilities		1,736,047	1,786,139

The Fund initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

'000 GEL	Note	2019	2018
Investment income			
Income from dividends	6	58,453	80,377
Share of loss of equity accounted investees (net of income tax)	10	(2,154)	(500)
Other investment income	6(a)	47,366	7,632
Total investment income		103,665	87,509
Operating expenses			
Wages and other employee benefits		(4,761)	(4,275)
Depreciation and amortization		(706)	(714)
Impairment loss on investments in subsidiaries	9	(22,430)	(722,788)
Impairment loss on investments in equity accounted investees	10	(2,546)	-
Impairment loss on loans receivable	16(c)(ii)	-	(14,415)
Other operating expenses		(4,995)	(2,268)
Other income		410	425
Results from operating activities		68,637	(656,526)
Finance income	7	9,929	10,714
Finance costs	7	(33,457)	(33,871)
Net finance costs		(23,528)	(23,157)
Profit/(loss) before income tax		45,109	(679,683)
Income tax expense		(844)	(1,247)
Profit/(loss) and total comprehensive income/(loss) for the year		44,265	(680,930)

The Fund initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

These separate financial statements were approved by management on 23 October 2020 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Ioseb Mamukelashvili
Chief Financial Officer

Partnership Fund JSC

Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

'000 GEL	Note	2019	2018
Investment income			
Income from dividends	6	58,453	80,377
Share of loss of equity accounted investees (net of income tax)	10	(2,154)	(500)
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These separate financial statements were approved by management on 23 October 2020 and were signed on its behalf by:



 David Saganelidze
 Chief Executive Officer



 Ioseb Mamukelashvili
 Chief Financial Officer

Partnership Fund JSC
Separate Statement of Changes in Equity for the year ended 31 December 2019

'000 GEL	<u>Share capital</u>	<u>Owner contributions</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
Balance at 1 January 2018	100,000	2,592,067	(575,294)	2,116,773
Total comprehensive loss				
Loss and total comprehensive loss for the year	-	-	(680,930)	(680,930)
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13(b))	-	71,464	-	71,464
Balance at 31 December 2018	100,000	2,663,531	(1,256,224)	1,507,307
Balance at 1 January 2019	100,000	2,663,531	(1,256,224)	1,507,307
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	44,265	44,265
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13(b))	-	11,449	-	11,449
Balance at 31 December 2019	100,000	2,674,980	(1,211,959)	1,563,021

The Fund initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

Partnership Fund JSC
Separate Statement of Cash Flows for the year ended 31 December 2019

'000 GEL	Note	2019	2018
Cash flows from operating activities			
Profit/(loss) for the year		44,265	(680,930)
<i>Adjustments for:</i>			
Income from dividends		(58,453)	(80,377)
Share of loss of equity accounted investees (net of income tax)		2,154	500
Other investment income		(47,366)	(7,632)
Depreciation and amortisation		706	714
Income tax expense		844	1,247
Net finance costs		23,528	23,157
Other non-cash expenses		3,235	-
Impairment loss on investments in subsidiaries		22,430	722,788
Impairment loss on investments in equity accounted investees		2,546	-
Impairment loss on loans receivable		-	14,415
		(6,111)	(6,118)
<i>Changes in:</i>			
Other liabilities		(4,788)	1,278
Cash flows used in operations before income taxes and interest paid		(10,899)	(4,840)
Interest paid		(20,694)	(30,502)
Net cash used in operating activities		(31,593)	(35,342)
Cash flows from investing activities			
Dividends received		61,982	77,142
Acquisition of property, plant and equipment		-	(22,414)
Interest received		3,939	2,476
Repayment of loans issued		125	3,172
Issue of loans		(950)	(48,990)
Increase of investments in subsidiaries		(9,401)	(15,276)
Distribution of cash out of subsidiaries		21,111	-
Increase of investments in equity accounted investees		(11,107)	(31,501)
Distribution of cash out of equity accounted investees		5,048	16,083
Net cash from (used in) from investing activities		70,747	(19,308)
Cash flows from financing activities			
Repayment of borrowings		(129,156)	(113,878)
Contribution to share capital		-	1,904
Net cash used in financing activities		(129,156)	(111,974)
Net decrease in cash and cash equivalents		(90,002)	(166,624)
Cash and cash equivalents at 1 January		93,583	255,159
Effect of movements in exchange rates on cash and cash equivalents		7,464	5,048
Cash and cash equivalents at 31 December	12	11,045	93,583

The Fund initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

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1. Reporting entity

(a) Business environment

The Partnership Fund's ("the Fund") operations are mainly 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 separate 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 2012 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 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", "Owner"). Related party transactions are detailed in note 17.

(c) Fund's portfolio

As at 31 December 2019 and 2018 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2019	2018	Principal activities
		Ownership/ voting	Ownership/ voting	
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)
Georgian Gas Storage Company LLC	Georgia	100%	100%	Construction and operation of underground gas storage

Name	Country of incorporation and operation	2019	2018	Principal activities
		Ownership/ voting	Ownership/ voting	
GOGC Trading SA	Switzerland	100%	100%	Trade of crude oil, petroleum products, petrochemicals and other commodities
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 and terminal services
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
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
Karcali Energy JSC	Turkey	100%	100%	Electricity transmission
Georgian Energy Exchange JSC	Georgia	50%	-	Operation of organized electricity market
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Georgian Energy Exchange JSC	Georgia	50%	-	Operation of organized electricity market
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
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
Panex JSC	Georgia	48.17%	48.17%	Building materials` industry
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%	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
Vanric Agro JSC	Georgia	40.48%	40.48%	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	37.65%	37.65%	Agriculture/farming

Name	Country of incorporation and operation	2019 Ownership/ voting	2018 Ownership/ voting	Principal activities
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%	45.51%	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.10%	29.10%	International investment company represented in Georgia and Armenia
Ytong Caucasus LLC	Georgia	28.9%	28.9%	Manufacturing of construction materials
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	Georgia	100%	100%	Ownership of investment fund
Nenskra Hydro JSC	Georgia	8.07%	6.99%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	49.90%	Hog farm
Borjomi Likani International JSC	Georgia	100%	100%	Construction and operation of a hotel
Georgian Natural Products LLC	Belarus	100%	100%	Export of wine and agricultural products
Peace Fund for Better Future NCLE	Georgia	33.33%	-	Investment company

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 in addition to the consolidated financial statements approved by management on 23 October 2020 and in accordance with the Law of Georgia on Accounting, Reporting and Auditing of Financial Statements issued on 24 June 2016.

This is the first set of the Fund's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 5. Changes to significant accounting policies are described in note 5.

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)(ii) – impairment of loans receivable;
- Note 9 – impairment of investments in subsidiaries;
- Note 9 – assessment of control over Georgian State Electrosystem JSC;
- Note 9 – assessment of control over Sakrusenergo JSC;
- Note 11 – modification of loan receivable from Borjomi Likani International 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.
- Note 15(c) – measurement of ECL allowance for financial assets.

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. Changes in significant accounting policies

IFRS 16

The Fund initially applied IFRS 16 Leases from 1 January 2019.

The Fund applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Fund has not recognized either additional right-of-use assets or additional lease liabilities. Consequently, there was no impact on the separate financial statements of the Fund on transition date.

For the details of accounting policies under IFRS 16 and IAS 17, see Note 19(p).

A number of new interpretations and amendments to the existing standards are effective from 1 January 2019 but they do not have a material effect on the Fund's separate financial statements.

6. Income from dividends

'000 GEL	2019	2018
Georgian Oil and Gas Corporation JSC	56,471	77,142
Electricity System Commercial Operator JSC	1,000	3,235
Gardabani TPP LLC	982	-
Income from dividends	58,453	80,377

(a) Other investment income

The most significant part of other investment income is attributed to asset distribution out of wholly owned investment in subsidiary Borjomi Likani International JSC. Namely, during 2019, the Fund withdrew cash of GEL 20,091 thousand and land plots with fair value of GEL 26,255 thousand from Borjomi Likani International JSC

7. Finance income and finance costs

'000 GEL	2019	2018
Recognised in profit or loss		
Interest income under the effective interest method	8,546	10,714
Modification gain on financial assets (note 11)	1,383	-
Finance income	9,929	10,714
Interest expense on loans and borrowings	(19,535)	(31,753)
Net foreign exchange loss	(13,922)	(2,118)
Finance costs	(33,457)	(33,871)
Net finance costs recognised in profit or loss	(23,528)	(23,157)

8. Property, plant and equipment

'000 GEL	Lands	Buildings	Other	Total
Cost or deemed cost				
Balance at 1 January 2018	10,266	17,795	1,688	29,749
Additions	24,342	6,377	2,412	33,131
Disposals	(5,636)	-	(2,323)	(7,959)
Balance at 31 December 2018	28,972	24,172	1,777	54,921
Balance at 1 January 2019	28,972	24,172	1,777	54,921
Additions	34,594	-	2,371	36,965
Transfer to investment property	(59,336)	-	-	(59,336)
Disposals	(4,230)	-	(2,333)	(6,563)
Balance at 31 December 2019	-	24,172	1,815	25,987
Depreciation and impairment losses				
Balance at 1 January 2018	-	(359)	(1,217)	(1,576)
Depreciation for the year	-	(453)	(261)	(714)
Balance at 31 December 2018	-	(812)	(1,478)	(2,290)
Balance at 1 January 2019	-	(812)	(1,478)	(2,290)
Depreciation for the year	-	(504)	(202)	(706)
Balance at 31 December 2019	-	(1,316)	(1,680)	(2,996)
Carrying amounts				
At 1 January 2018	10,266	17,436	471	28,173
At 31 December 2018	28,972	23,360	299	52,631
At 31 December 2019	-	22,856	135	22,991

(a) Additions:

Additions in 2019 comprise capital contributions and fair value of land plots transferred to the Fund amounted to GEL 26,255 thousand obtained as a result of investment withdrawal from wholly owned subsidiary Borjomi Likani International JSC (see note 9 (b)). At initial recognition those lands met property, plant and equipment criteria.

On 31 December 2019 Fund's lands met investment property recognition criteria and the Fund fully reclassified carrying amount of these lands from property, plant and equipment to investment property, amounting GEL 59,336 thousand. The main items under these investment property represent land plots in Kobuleti (GEL 18,711 thousand), obtained as a result of business acquisition of Borjomi Likani International JSC in 2018 by the Fund and land plots in Borjomi (GEL 26,255 thousand), withdrawn from investment in wholly owned subsidiary Borjomi Likani International JSC during 2019 (note 6(a)).

The mentioned land plots met investment property recognition criteria under IAS 40 due to undetermined future use by the Fund as at 31 December 2019.

Management estimates that carrying values of investment property are reasonable approximation of their fair values.

Capital contributions:

The Government of Georgia transfers certain property, plant and equipment to the Fund as a capital contribution. In 2019 and 2018 the capital contributions comprise the fair value of the assets of GEL 10,687 thousand and GEL 5,895 thousand, respectively.

(b) Disposals:

Disposals in 2019 comprise contribution of property, plant and equipment by the Fund to the share capital of its subsidiaries of GEL 6,562 thousand (2018: GEL 5,895 thousand).

9. Investments in subsidiaries

Investments in subsidiaries as at 31 December 2019 and 31 December 2018 are presented as follows:

Subsidiary	Ownership 2019	Ownership 2018	Business activity	'000 GEL Balance as at 31.12.2018	'000 GEL Contribution	'000 GEL Impairment	'000 GEL Balance as at 31.12.2019
JSC Georgian Railway	100%	100%	Railroad transportation	529,216	54	(5,905)	523,365
JSC Georgian Oil and Gas Corporation	100%	100%	Trading of oil and gas, pipe rentals	545,018	4,389	-	549,407
LTD Gardabani TPP	100%	100%	Operation of Thermal Power Plant	85,617	-	-	85,617
JSC Georgian State Electrosystem	100%	100%	Electricity dispatching and transmission	-	2,388	(2,388)	-
JSC Electricity System Commercial Operator	100%	100%	Transportation of electricity	4,461	-	-	4,461
LLC Partnership Fund Green Development	100%	100%	Real estate development	63,695	59	-	63,754
Tbilisi Logistics Center LLC	100%	100%	Food services	-	415	(415)	-
Black Sea Port LLC	100%	100%	Construction and operation of port	-	-	-	-
Lagodekhi Trading Company LLC	100%	100%	Construction and leasing out of a shopping mall	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	-	449	(449)	-
Georgian Industrial and Regional Development Company LLC	100%	100%	Investment fund, providing investments in regional developments in Georgia	1,447	1,195	-	2,642
Likani Residence LLC	100%	100%	Renovation of Romanov Palace in Likani	1,315	884	-	2,199
Global Brand LLC	100%	100%	Wine export to USA	4,000	3,300	-	7,300
Clinics Development Company LLC	100%	100%	Management of healthcare provider subsidiaries	138,388	1,520	-	139,908
Georgian Natural Products LLC	100%	100%	Export of wine and agriculture products	143	2,073	-	2,216
JSC Borjomi Likani International	100%	100%	Operation of a hotel	13,273	-	(13,273)	-
Total				1,480,097	16,726	(22,430)	1,474,393

Investments in subsidiaries presented in note 1 not disclosed above are dormant entities that do not carry out any kind of business activities and do not generate any form of revenue.

(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.

In 2018, as a result of impairment testing carried out by the management, an impairment loss of GEL 718,127 thousand has been recognized by the Fund for the investment in Georgian Railway JSC, due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 2,747 million metric-ton per kilometer of cargo in 2018) and revenue in freight transportation (from GEL 350,749 thousand in 2012 to GEL 241,572 thousand in 2018).

As at 31 December 2019 a new impairment test has been conducted, as a result of which no indicators have been identified for reversal of previously recognized impairment losses. The balance of 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 2019. As the equity balance of Georgian Railway JSC's amounted to GEL 523,365 thousand as at 31 December 2019, the Fund recognized an additional impairment loss of GEL 5,905 thousand in 2019.

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 share capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2019 amounted to GEL 175,185 thousand (2018: 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 Electrosystem 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. 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 2019 the investment balance in Georgian State Electrosystem LLC is fully impaired. 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 year ended 31 December 2019. 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 2019, 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. In 2019 the Energotrans LLC's net operating cash inflows were lower than projected, which was mainly driven by the shortfall from budgeted cash flows from the transit of electricity. In 2019 an impairment loss of GEL 2,388 thousand was recognized in relation to the contributions made by the Fund in the subsidiary during the year.

In February 2020, the Government of Georgia reduced the Fund's equity by transferring the ownership (100% of shares) of Georgia State Electrosystem JSC to the Government of Georgia (note 21).

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.

In February 2020, the Government of Georgia reduced the Fund's equity by transferring the ownership (100% of shares) of Electricity System Commercial Operator JSC to the Government of Georgia (note 21).

(b) Less significant subsidiaries

During 2019, the Fund withdrew assets amounted GEL 46,346 thousand (please see note 6(a)) from its investment in subsidiary – Borjomi Likani International JSC. Management concluded that the later transaction was impairment indicator and performed impairment test of investments in the named subsidiary as at 31 December 2019 according to IAS 36 Impairment of non-financial assets requirements. As a result of impairment test performed impairment loss amounted GEL 13,273 thousand was recognized in statement of profit-or-loss and balance of investment in Borjomi Likani International JSC became nil as at 31 December 2019.

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 2019 management identified an indicator that the investment in Aerostructure Technologies Cyclone JSC may be impaired, due to the fact that the company's operations during 2019 resulted in a loss in the amount of GEL 27,653 thousand. 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 2019.

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 2024, with the further calculation of the terminal value. Management has determined that it is justified to use cash flow projections for a period of 5 years since the management believes that the 5-year period after Aerostructure Technologies Cyclone JSC started production and sales will allow cash flows to stabilize. The projections are prepared in real terms;
- An after-tax real discount rate of 12.40% 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 5 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 9,484 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 2019 an impairment loss of GEL 844 thousand (2018: GEL 1,036 thousand) was recognized in relation with the contributions made by the Fund in the named subsidiaries during the year.

There was no indicator of reversal of previously recognized impairment loss of investments in the abovementioned subsidiaries identified as at 31 December 2019.

Out of the contributions into Investments in subsidiaries of GEL 16,726 thousand, GEL 6,562 thousand was contributed in the form of property, plant and equipment (note 8 (c)), GEL 9,401 thousand in cash and the rest were other non-cash contributions.

(c) 50% ownership obtained in Sakrusenergo JSC

During year 2019, Government of Georgia temporarily transferred its 50% shares in Sakrusenergo JSC to the Fund. Management estimates that the Fund has neither obtained control nor significant influence over Sakrusenergo JSC in the abovementioned transaction and assesses it as transitory common control transaction. Subsequently in 2020, the shares were transferred back to the Government.

10. Investments in equity accounted investees

'000 GEL	2019	2018
Balance at 1 January	112,726	70,498
Contributions to associate	11,106	65,938
Fund's share of loss of equity accounted investees (net of income tax) recognized in profit or loss	(2,154)	(500)
Decrease of the investment in associates/jointly controlled entity	(5,048)	(23,210)
Impairment loss	(2,546)	-
Balance at 31 December	114,084	112,726

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

Associate	Ownership 2019	Ownership 2018	Business activity	'000 GEL Balance as at 31.12.2018	'000 GEL Contributi on	'000 GEL Profit (loss) attributable to the Fund	'000 GEL Withdrawal	'000 GEL Impairment	'000 GEL Balance as at 31.12.2019
Telasi JSC	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	44,326	-	3,504	-	-	47,830
Nenskra Hydro JSC	8.07%	6.99%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	29,992	8,250	(640)	-	-	37,602
Tsinandali Estates LLC	33.43%	45.51%	Hotel and spa resort in village Tsinandali	20,877	151	(4,461)	-	-	16,567
Panex JSC	48.17%	48.17%	Building materials` industry	4,323	-	1,313	(5,048)	-	588
Vanric Agro LLC	40.48%	40.48%	Export of fruit	3,265	-	(719)	-	(2,546)	-
Imereti Greenery LLC	37.65%	37.65%	Agriculture/farming	824	-	(824)	-	-	-
Gazzele Fund LP	29.11%	29.11%	International investment company represented in Georgia	5,000	2,185	172	-	-	7,357
Caucasus Clean Energy I, LLP	8%	8%	Investment fund	3,567	520	(363)	-	-	3,724
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	552	-	(136)	-	-	416
				112,726	11,106	(2,154)	(5,048)	(2,546)	114,084

Investments in equity accounted investees presented in note 1 not disclosed above are dormant entities that do not carry out any kind of business activities and do not generate any form of 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 had the power to participate in the Entity's financial and operating policy decisions and thus had the ability to exercise significant influence over the Entity as at 31 December 2019.

The decrease of investment in associates during year 2019 of GEL 5,048 thousand represents the first payment by ICES LLC to purchase the shares of JSC Panex. This transaction was finalized in 2020, when ICES LLC became the sole shareholder of JSC Panex.

(a) Associates

At 31 December 2019 the Fund has interest in nine associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinandali Estates LLC, Gazelle Fund LP, Caucasian SUS Heritage LLC, Nenskra Hydro JSC and Caucasus Clean Energy I, LLP (2018: Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Ytong Caucasus LLC, Caucasian SUS Heritage LLC, Gino Green City Corporation LLC, Nenskra Hydro JSC and Caucasus Clean Energy I, LLP).

Telasi JSC 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	2019	2018
Percentage ownership interest	24.53%	24.53%
Non-current assets	291,423	265,407
Current assets	71,548	75,279
Non-current liabilities	(26,435)	(41,121)
Current liabilities	(141,613)	(118,928)
Net assets (100%)	194,923	180,637
Fund's share of net assets (24.53%)	47,815	44,310
Revenue	453,084	461,969
Profit and total comprehensive income (100%)	14,286	27,254
Fund's share of profit and total comprehensive income	3,504	6,686

11. Loans receivable

'000 GEL	2019	2018
Non-current assets		
Loan receivable from the state controlled entity	51,270	34,013
Loan receivable from third party	1,787	1,241
Total non-current	53,057	35,254
Current assets		
Short term part of the loan receivable from the state controlled entity	122	7,977
Short term part of the loan receivable from the third party	131	258
Total current	253	8,235
	53,310	43,489

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

In June 2019, substantial modification of terms of loan receivable from Borjomi Likani International JSC took place. The loan became subordinated to loans borrowed by Borjomi Likani International JSC from local financial institutions, maturity of the loan was prolonged till 2034 year and contractual interest rate increased from annual 14% to daily 0.04%. As a result, the Fund derecognized old instrument for loan receivable and recognised new (Purchased or originated financial assets that are credit-impaired on initial recognition - POCI) instrument for loan receivable at its nominal value, resulting in modification gain of GEL 1,383 thousand (note 7).

12. Cash and cash equivalents

'000 GEL	2019	2018
Bank balances	11,045	93,583
Cash and cash equivalents in the separate statement of financial position and the separate statement of cash flows	11,045	93,583

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 2019, the Government of Georgia contributed land plots of GEL 8,339 thousand, gas pipelines of GEL 1,854 thousand, movable property of GEL 494 thousand and undertook liability of GEL 762 thousand for capital contributions to be made in 2020 (2018: the Government of Georgia contributed land plots of GEL 69,301 thousand (out of which land plots of GEL 63,695 thousand was initially classified as Investment Property at Fund's separate statement of financial position, and later was invested in LLC Partnership Fund Green Development), cash of GEL 1,900 thousand and movable property of GEL 263 thousand) in the form of an increase in the Fund's equity as 'Owner contributions'.

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	2019	2018
Non-current liabilities		
Unsecured loans from subsidiaries	40,269	34,205
	40,269	34,205
Current liabilities		
Unsecured loans from financial institutions	127,014	239,220
	127,014	239,220

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2019		31 December 2018	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured loans							
Unsecured loan from Credit Suisse	USD	Libor+5.95%	On demand	127,014	127,014	239,220	239,220
Unsecured loans from subsidiaries:							
Georgian Railway JSC	USD	9.75%	2021	24,235	24,235	20,566	20,566
Georgian Oil and Gas Corporation JSC	USD	9.50%	2021	16,034	16,034	13,639	13,639
Total interest-bearing liabilities				167,283	167,283	273,425	273,425

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.

As at 31 December 2019 and 31 December 2018 a financial covenant related to Debt Service Coverage Ratio on the Credit Suisse loan above was breached. As a result, the lender can request repayment on demand and the Fund has classified the loan as short-term borrowings. However, for the date of the approval of the separate financial statements by the management, Credit Suisse has not requested repayment of the abovementioned amount. The Fund used the option to extend the principal repayment till September 2021 year and the new addendum of agreement with Credit Suisse no longer includes financial covenants clause (note 21).

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	Loans and borrowings
	2019	2018
Balance at 1 January	273,425	376,567
Repayment of borrowings	(129,156)	(113,878)
Total changes from financing cash flows	(149,850)	(144,380)
Interest expense	19,535	31,753
Interest paid	(20,694)	(30,502)
The effect of changes in foreign exchange rates	24,173	9,485
	43,708	41,238
Balance at 31 December	167,283	273,425

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 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'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	
		2019	2018
'000 GEL			
Loans receivable	11	53,310	43,489
Cash and cash equivalents	12	11,045	93,583
Dividends receivable		-	3,234
		64,355	140,306

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

'000 GEL	2019	2018
Impairment loss on loans receivable	-	(14,415)

(ii) Loans receivable

As at 31 December 2019 and 31 December 2018 the Fund has issued loans to the related parties. The loans are secured.

Management believes that the Fund is exposed to a significant amount of credit risk relating to the related party loans as at 31 December 2019. Consequently, management assessed expected credit loss from loans receivable at GEL 14,415 thousand as at 31 December 2019. The most significant part of the named financial instrument (gross carrying value amounted to GEL 51,566 thousand) was classified as credit-impaired 'Stage 3' financial instruments.

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.

Impairment losses

'000 GEL	2019	2018
Gross carrying amount	67,725	57,904
Loss allowance	(14,415)	(14,415)
	53,310	43,489

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	2019	2018
Balance at 1 January	14,415	-
Increase during the year	-	14,415
Balance at 31 December	14,415	14,415

(iii) Cash and cash equivalents

The Fund usually holds funds with banks with good credit ratings. As at 31 December 2019, approximately 99% (31 December 2018: 99%) of the bank balances are held with the largest Georgian banks with short-term default rating of B, rated by Fitch Ratings. None of the balances are overdue or impaired.

Impairment on cash and cash equivalents 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 have low credit risk based on the external credit ratings of the counterparties.

No impairment allowance was recognised during 2019 and 2018 by the Fund.

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

(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.

In addition, as at 31 December 2019 management assessed key triggers for the net current liability position of GEL 120,571 thousand (31 December 2018: net current liability of GEL 139,196 thousand) of the Fund as follows:

- The net current liability position at year-end 2019 and 2018 was due to a breach of loan covenant at the year end, which resulted in all loan balance due to Credit Suisse to be reclassified as a current as at 31 December 2019 and 31 December 2018 (note 14);

Based on above analysis and considering the expected dividend income from subsidiaries (mainly from JSC Georgian Oil and Gas Corporation (GOGC) – IFRS retained earnings balance of GOGC was GEL 531,422 thousand as at 31 December 2019) management concluded that the Fund will not encounter difficulties in meeting its obligations associated with its financial liabilities for the foreseeable future.

Additionally, in September of 2020, the Fund used its contractual option to extend the principal repayment of the loan obtained from Credit Suisse till September 2021 (note 21).

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 2019

	Contractual cash flows					
	Carrying amount	Total	0-6 mths	6-12 mths	1-5 yrs	Over 5 yrs
'000 GEL						
Non-derivative financial liabilities						
Unsecured loan from financial institution	127,014	127,014	127,014	-	-	-
Unsecured loan from subsidiaries	40,269	45,984	-	-	45,984	-
Other liabilities	5,743	5,743	5,743	-	-	-
	173,026	178,741	132,757	-	45,984	-

31 December 2018

	Contractual cash flows					
	Carrying amount	Total	0-6 mths	6-12 mths	1-5 yrs	Over 5 yrs
'000 GEL						
Non-derivative financial liabilities						
Unsecured loan from financial institutions	239,220	239,220	239,220	-	-	-
Unsecured loan from subsidiaries	34,205	42,919	-	-	42,919	-
Other liabilities	5,407	5,407	5,407	-	-	-
	278,832	287,546	244,627	-	42,919	-

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 2019	USD –denominated 2018
Cash and cash equivalents	9,088	82,744
Loans receivable	53,054	43,489
Loans and borrowings	(167,283)	(273,425)
Net exposure	(105,141)	(147,192)

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

in GEL	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD 1	2.8192	2.5345	2.8677	2.6766

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 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 2019	
USD (10% weakening)	(10,514)
31 December 2018	
USD (10% weakening)	(14,719)

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'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	
	2019	2018
Fixed rate instruments		
Financial assets	51,863	126,985
Financial liabilities	(40,269)	(34,205)
	11,594	92,780
Variable rate instruments		
Financial assets	12,492	10,087
Financial liabilities	(127,014)	(239,220)
	(114,522)	(229,133)

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 fair value through other comprehensive income. 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 by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	100 bp increase	100 bp decrease
'000 GEL		
2019		
Variable rate instruments	(1,145)	1,145
Cash flow sensitivity	(1,145)	1,145
2018		
Variable rate instruments	(2,291)	2,291
Cash flow sensitivity	(2,291)	2,291

(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	2019	2018
Total liabilities	173,026	278,832
Less: cash and cash equivalents	(11,045)	(93,583)
Net debt	161,981	185,249
Total equity	1,563,021	1,507,307
Debt to capital ratio at 31 December	0.10	0.12

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 2019 and 2018 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	2019	2018
Salaries and bonuses	<u>815</u>	<u>719</u>

(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	
	2019	2018	2019	2018
Loans given:				
State controlled entity	-	47,917	50,665	41,990

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2019		31 December 2018	
				Face value	Carrying amount	Face value	Carrying amount
Loans given to subsidiaries							
Borjomi Likani International JSC	USD	0.04% daily	2034	38,173	38,173	31,903	31,903
Aerostructure Technologies		10.75%+					
Cyclone JSC	USD	6 months LIBOR	2023	12,492	12,492	10,087	10,087
				50,665	50,665	41,990	41,990

During 2019, interest income of GEL 5,183 thousand (2018: GEL 2,337 thousand) was recognised in profit and loss in respect of related party loans.

'000 GEL	Transaction value		Outstanding balance as at 31 December	
	2019	2018	2019	2018
Loans received:				
Subsidiaries	-	-	40,269	34,205

During 2019, interest expense of GEL 3,622 thousand (2018: GEL 3,076 thousand) was recognised in profit and loss in respect of related party loans.

18. Basis of measurement

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

19. Significant accounting policies

- (a) The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, except for the adoption of IFRS 16 from 1 January 2019.
- (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) Income from dividends

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;
- modification gain/loss on financial assets;
- 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 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.

(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 Company 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, 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.

(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 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.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

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

The Fund has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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. To assess whether a contract conveys the right to control the use of an identified asset, the Fund uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Fund determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

20. 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 2019 and have not been applied in preparing these separate financial statements. The Fund plans to adopt these pronouncements when they become effective.

The following amended standards and interpretations are not expected to have a significant impact on the Fund's separate financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *IFRS 17 Insurance Contracts.*
- *Classification of liabilities as current or non-current (Amendments to IAS 1).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRS 14 Regulatory Deferral Accounts.*

21. Subsequent events

During 2020 the Fund received dividends of GEL 38,952 thousand from its one of the significant subsidiaries - Georgian Oil and Gas Corporation JSC.

In September of 2020, the Fund used its contractual option to extend the principal repayment of the loan obtained from Credit Suisse till September 2021. The principal repayment was originally due in September 2020. The loan interest increased to Libor + 6.5% per annum. Payables by the Fund to Credit Suisse for loan extension amounted USD 1,491 thousand.

Changes in Fund's portfolio

According to the decision issued on 28 February 2020 by the Government of Georgia, the Government of Georgia reduced the Fund's equity by transferring the ownership (100% of shares) of Georgia State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

50% shares in Sakrusenergo JSC, obtained by the Fund under transitory common control transaction in 2019, was fully returned back to the Government of Georgia in February 2020.

In June 2020, liquidation procedures began for Clinics Development Company LLC ('CDC LLC'), after which Fund's 100% ownership in the investment will be fully cancelled. Clinics Development Company LLC's subsidiaries, along with the land and buildings on which they operate, were fully transferred to the Government of Georgia according to the decision issued on 06 February 2020 by the Government of Georgia. The sole purpose of CDC LLC was to manage the subsidiary hospitals and the related real estate.

In July 2020, public auction was held as part of the bankruptcy proceedings of the Fund's equity accounted investee, Vanric Agro JSC (40.48% shareholding of the Fund) to sell Vanric Agro JSC's assets. The winner of the public auction was a local company Efko LLC, which entered into a loan agreement with the Fund following the factoring agreement formed in 2019. The principal amount of the loan is USD 2.5 million, which represents loan receivable for the Fund.

In September 2020, the Fund held public auction to fully sell its share of interest (24.53%) in Telasi JSC. The winner of public auction was a local company Best Energy Group LLC, which acquired JSC Telasi's shares for approximately USD 10,500 thousand.

In September 2020, one of the Fund's equity accounted investees, Panex JSC, fully redeemed its shares (48.17%) from the Fund for USD 2,055 thousand.

Outbreak of COVID-19

On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.).

The outbreak of COVID-19 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia, which resulted in announcement of the State of Emergency, on the basis of Decree of the President of Georgia dated 21 March 2020. As per the Decree the State of Emergency lasted until 21 April 2020; which was further prolonged till 22 May 2020.

The restrictions imposed by Government of Georgia do not apply to any of the Fund's operations.