Partnership Fund JSC

Separate Financial Statements
for the year ended 31 December 2020

Contents

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Independent Auditors' Report

To the Supervisory Board of Patnership 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 2020, 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 2020, 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. In addition, no subsequent assessment of expected credit losses (ECL) related to this loan receivable from Borjomi Likani International JSC was performed as at 31 December 2020 and 31 December 2019. It was impracticable for us to quantify the financial effects of the adjustments to Loans receivable from Borjomi Likani International JSC stated at GEL 57,845 thousand and GEL 38,173 thousand as at 31 December 2020 as at 31 December 2019, respectively, and to net profit for the years ended 31 December 2020 and 31 December 2019, which would have resulted from using fair values at initial recognition of originated credit-impaired financial asset and from subsequent ECL assessment.

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 when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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;
- contains the information that is required by the Law of Georgia on Accounting, Reporting and Auditing.

If, based on the work we have performed, we conclude that there is a material misstatement of this Management Report, we are required to report that fact. As described in *the Basis for Qualified Opinion* section above, the Fund should have measured financial instrument at fair value at initial recognition and subsequently assessed its ECL as at 31 December 2020 and 31 December 2019. We have concluded that the Management Report is materially misstated for the same reason with respect to the amounts or other items in the Management Report affected by the failure to recognise loan at initial recognition at fair value and to subsequently estimate its ECL.

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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Irina Gevorgyan

KPMG Georgia LLC
22 December 2021

’000 GEL	Note	31 December 2020	31 December 2019
Assets			
Property, plant and equipment	7	22,355	22,991
Investment property	8	83,893	59,336
Investments in subsidiaries	9	1,285,522	1,474,393
Investments in equity accounted investees	10	64,182	114,084
Loans receivable	11	81,519	53,057
Non-current assets		**1,537,471**	**1,723,861**
Loans receivable	11	561	253
Other assets		1,180	888
Cash and cash equivalents	12	65,351	11,045
Current assets		**67,092**	**12,186**
Total assets		**1,604,563**	**1,736,047**
Equity	13		
Share capital		100,000	100,000
Owner contributions		2,083,620	2,674,980
Accumulated deficit		(775,173)	(1,211,959)
Total equity		**1,408,447**	**1,563,021**
Liabilities			
Loans and borrowings	14	50,571	40,269
Non-current liabilities		**50,571**	**40,269**
Loans and borrowings	14	144,484	127,014
Other liabilities		1,061	5,743
Current liabilities		**145,545**	**132,757**
Total liabilities		**196,116**	**173,026**
Total equity and liabilities		**1,604,563**	**1,736,047**

The separate statement of financial position is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 47.

’000 GEL	**Note**	**2020**	**2019**
Investment income			
Income from dividends	5	42,482	58,453
Share of loss of equity accounted investees	10	(24,799)	(2,154)
Other investment income	5(a)	6,405	47,366
Total investment income		**24,088**	**103,665**
Operating expenses			
Wages and other employee benefits		(3,660)	(4,761)
Depreciation	7	(665)	(706)
Impairment loss on investments in subsidiaries	9	(7,554)	(22,430)
Impairment loss on investments in equity accounted investees	10	-	(2,546)
Impairment loss on loans receivable	15(c)(ii)	(1,633)	-
Other operating expenses		(1,521)	(4,995)
Other income		745	410
Results from operating activities		**9,800**	**68,637**
Finance income	6	24,583	9,929
Finance costs	6	(28,971)	(33,457)
Net finance costs		**(4,388)**	**(23,528)**
Profit before income tax		**5,412**	**45,109**
Income tax expense		(1,693)	(844)
Profit and total comprehensive income for the year		**3,719**	**44,265**

These separate financial statements were approved by Management on 22 December 2021 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Ioseb Mamukelashvili
Chief Financial Officer

The separate statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 47.

'000 GEL	Note	2020	2019
Investment income			
Income from dividends	5	42,482	58,453
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'000 GEL	**Share capital**	**Owner contributions**	**Accumulated deficit**	**Total equity**
Balance at 1 January 2019	100,000	2,663,531	(1,256,224)	1,507,307
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**
Balance at 1 January 2020	100,000	2,674,980	(1,211,959)	1,563,021
Profit and total comprehensive income for the year	-	-	3,719	3,719
Transactions with owners, recorded directly in equity				
Owner contributions (see note 13(b))	-	30,267	-	30,267
Withdrawal of non-cash assets	-	(621,627)	433,067	(188,560)
Balance at 31 December 2020	**100,000**	**2,083,620**	**(775,173)**	**1,408,447**

The separate statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 47.

'000 GEL	**Note**	**2020**	**2019**
Cash flows from operating activities			
Profit for the year		3,719	44,265
Adjustments for:			
Income from dividends	5	(42,482)	(58,453)
Share of loss of equity accounted investees (net of income tax)	10	24,799	2,154
Other investment income	5(a)	(6,405)	(47,366)
Depreciation	7	665	706
Income tax expense		1,693	844
Net finance costs	6	4,388	23,528
Other non-cash expenses		-	3,235
Impairment loss on investments in subsidiaries	9	7,554	22,430
Impairment loss on investments in equity accounted investees	10	-	2,546
Impairment loss on loans receivable	15 (c)(ii)	1,633	-
		(4,436)	**(6,111)**
Changes in:			
Other assets		(1,986)	(1,595)
Other liabilities		920	(3,193)
Cash flows used in operations before income taxes and interest paid		**(5,502)**	**(10,899)**
Interest paid		(11,236)	(20,694)
Net cash used in operating activities		**(16,738)**	**(31,593)**
Cash flows from investing activities			
Dividends received		38,952	61,982
Interest received		1,278	3,939
Repayment of loans issued		126	125
Issue of loans		-	(950)
Increase of investments in subsidiaries		(2,640)	(9,401)
Distribution of cash out of subsidiaries		-	21,111
Increase of investments in equity accounted investees		(8,922)	(11,107)
Consideration received from sale of equity accounted investees		40,430	-
Distribution of cash out of equity accounted investees		-	5,048
Net cash from investing activities		**69,224**	**70,747**
Cash flows from financing activities			
Repayment of borrowings		-	(129,156)
Net cash used in financing activities		**-**	**(129,156)**
Net increase/(decrease) in cash and cash equivalents		**52,486**	**(90,002)**
Cash and cash equivalents at 1 January		11,045	93,583
Effect of movements in exchange rates on cash and cash equivalents		1,820	7,464
Cash and cash equivalents at 31 December	12	**65,351**	**11,045**

The separate statement of cash flows is to be read in conjunction with the notes to, and forming part of, the separate financial statements set out on pages 10 to 47.

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 COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

COVID-19 outbreak neither has nor is anticipated to have immediate significant adverse impact on the Fund's financial position.

The management cannot preclude the possibility that extended lockdown periods, and escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Fund in the medium and longer terms. The Fund also considers negative development scenarios and is ready to adapt its operational plans accordingly.

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. However 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 Georgian State Electrosystem JSC and Electricity System Commercial Operator JSC to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

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

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

(c) Fund's portfolio

As at 31 December 2020 and 2019 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Gardabani 2 TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Georgian Gas Storage Company LLC	Georgia	100%	100%	Construction and operation of underground gas storage
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	Georgia	100%	100%	Property Management and development
GR Logistics and 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	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	0%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	0%	100%	Electricity transmission
Karcal Energy JSC	Turkey	0%	100%	Electricity transmission
Georgian Energy Exchange JSC	Georgia	0%	50%	Operation of organized electricity market
Electricity System Commercial Operator JSC	**Georgia**	0%	**100%**	**Sale and purchase of electricity**
Georgian Energy Exchange JSC	Georgia	0%	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

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 Ownership/ voting	Principal activities
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	0%	48.17%	Building materials' industry
Telasi JSC	Georgia	0%	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	0%	100%	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	0%	100%	Healthcare services
Universal Medical Center LLC	Georgia	0%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	0%	100%	Healthcare services
Vanric Agro JSC	Georgia	0%	40.48%	Export of fruits
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
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%	33.43%	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.11%	29.11%	International investment company represented in Georgia and Armenia
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%	8.07%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia
Caucasian SUS Heritage LLC	Georgia	49.90%	49.90%	Hog farm
Nenskra JSC	Georgia	100%	100%	Construction and operation of hydroelectric power plant

Name	Country of incorporation and operation	2020 Ownership/ voting	2019 Ownership/ voting	Principal activities
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%	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 22 December 2021 and in accordance with the Law of Georgia on Accounting, Reporting and Auditing of Financial Statements issued on 24 June 2016.

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Fund's functional currency and the currency in which these separate financial statements are presented. All financial information presented in GEL has been rounded to the nearest 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 Sakrusenergo JSC;
- Note 10 – impairment of investments in equity accounted investees;
- Note 11 – recoverability 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. Income from dividends

'000 GEL	**2020**	**2019**
Georgian Oil and Gas Corporation JSC	42,482	56,471
Electricity System Commercial Operator JSC	-	1,000
Gardabani TPP LLC	-	982
Income from dividends	**42,482**	**58,453**

(a) Other investment income

In September 2020, one of the Fund's equity accounted investee, Panex JSC, fully redeemed its shares (48.17%) from the Fund for USD 2,055 thousand. As a result of the sale the Fund has recognised gain in the amount of GEL 5,568 thousand.

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 LLC. As a result of the sale the Fund has recognised gain in the amount of GEL 837 thousand.

During 2019, 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.

6. Finance income and finance costs

'000 GEL	2020	2019
Recognised in profit or loss		
Interest income under the effective interest method	18,004	8,546
Modification gain on financial assets	6,579	1,383
Finance income	**24,583**	**9,929**
Interest expense on loans and borrowings	(13,486)	(19,535)
Modification loss on financial liability (see note 14(a))	(1,009)	-
Net foreign exchange loss	(14,476)	(13,922)
Finance costs	**(28,971)**	**(33,457)**
Net finance costs recognised in profit or loss	**(4,388)**	**(23,528)**

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 its assets. The winner of the public auction was a local company FCO LLC. At the time of the above-mentioned transaction the Fund had a fully provisioned loan receivable from Vanric Agro LLC which was assigned to FCO LLC. Due to change in the counterparty, the Fund reassessed the fair value of the loan and a loan modification gain in the amount of GEL 6,579 thousand was recognized in finance income.

7. Property, plant and equipment

'000 GEL	Lands	Buildings	Other	Total
Cost or deemed cost				
Balance at 1 January 2019	4,230	24,172	1,777	30,179
Additions	-	-	2,371	2,371
Disposals	(4,230)	-	(2,333)	(6,563)
Balance at 31 December 2019	-	**24,172**	**1,815**	**25,987**
Balance at 1 January 2020	-	24,172	1,815	25,987
Additions	1,529	7	3,112	4,648
Disposals	(1,529)	-	(3,090)	(4,619)
Balance at 31 December 2020	**-**	**24,179**	**1,837**	**26,016**
Depreciation and impairment losses				
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)**
Balance at 1 January 2020	-	(1,316)	(1,680)	(2,996)
Depreciation for the year	-	(614)	(51)	(665)
Balance at 31 December 2020	**-**	**(1,930)**	**(1,731)**	**(3,661)**
Carrying amounts				
At 1 January 2019	**4,230**	**23,360**	**299**	**27,889**
At 31 December 2019	**-**	**22,856**	**135**	**22,991**
At 31 December 2020	**-**	**22,249**	**106**	**22,355**

Disposals:

Disposals in 2020 comprise contribution of property, plant and equipment by the Fund to the share capital of its subsidiaries of GEL 4,602 thousand (2019: GEL 6,562 thousand).

8. Investment property

'000 GEL	**2020**	**2019**
Balance at 1 January	59,336	24,742
Additions	24,557	34,594
Balance at 31 December	**83,893**	**59,336**

Additions in 2020 comprise of capital contributions of land plots and building with fair value amounted to GEL 24,557 thousand (2019: GEL 34,594 thousand).

In 2020 the main item under these investment properties represent building and its land located in Tbilisi (GEL 18,472 thousand), obtained from the Government of Georgia as capital contribution and in 2019 the main items represented land plots in Kobuleti (GEL 18,711 thousand), obtained as a result of busines 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 5(a)).

The mentioned land plots and building met investment property recognition criteria under IAS 40 Investment Property due to undetermined future use by the Fund as at contribution date.

Management estimates that carrying values of investment property are reasonable approximation of their fair values. The fair value is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation method.

9. Investments in subsidiaries

Investments in subsidiaries as at 31 December 2020 and 31 December 2019 are presented as follows:

Subsidiary	Ownership 2020	Ownership 2019	Business activity	'000 GEL Balance as at 31 December 2019	'000 GEL Contribution	'000 GEL Withdrawal	'000 GEL Impairment	'000 GEL balance as at 31 December 2020
Georgian Railway JSC	100%	100%	Railroad transportation	523,365	586	-	-	523,951
Georgian Oil and Gas Corporation JSC	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines	549,407	3,134	-	-	552,541
Gardabani TPP LLC	49%	100%	Operation of Thermal Power Plant	85,617	-	-	-	85,617
Georgian State Electrosystem JSC	0%	100%	Electricity dispatching and transmission	-	907	-	(907)	-
Electricity System Commercial Operator JSC	0%	100%	Sale and purchase of electricity	4,461	-	(4,461)	-	-
Partnership Fund Green Development LLC	100%	100%	Real estate development	63,754	156	(44,100)	-	19,810
Tbilisi Logistics Center LLC	100%	100%	Food services	-	338	-	(338)	-
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	-	729	-	(729)	-
Georgian Industrial and Regional Development Company LLC	100%	100%	Investment fund, providing investments in regional developments in Georgia	2,642	247	-	-	2,889
Likani Residence LLC	100%	100%	Renovation of Romanov Palace in Likani	2,199	411	-	-	2,610
Global Brand LLC	100%	100%	Wine export to USA	7,300	-	-	(5,580)	1,720
Clinics Development Company LLC	0%	100%	Management of healthcare provider subsidiaries	139,908	116	(140,024)	-	-
Georgian Natural Products LLC	100%	100%	Export of wine and agriculture products	2,216	644	-	-	2,860
Borjomi Likani International JSC	100%	100%	Operation of a hotel	-	-	-	-	-
Total				**1,474,393**	**7,268**	**(188,585)**	**(7,554)**	**1,285,522**

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).

In 2019, in response to the changes on the market, the management reassessed its estimates and conducted a new impairment analysis. As a result additional impairment loss of GEL 5,905 thousand has been recognized by the Fund for the investment in Georgian Railway JSC.

As at 31 December 2020, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is an indication of impairment because of the significant market turmoil during 2020 driven by the outbreak of COVID-19 and considering that impairment test conducted at 31 December 2019 was sensitive to changes in key assumptions. The Management conducted a new impairment test at 31 December 2020. As a result, neither additional impairment, nor reversal of previously recognized impairment losses were recognized.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for five years and a terminal growth rate thereafter. A long-term growth rate for the terminal period is determined as approximate long-term economy growth forecast for Georgia and the region affecting the Company’s operations.
- Volumes are projected based on the budgeted quantities during 2021, adjusted for the Georgian GDP growth rate of 4.5% and 4.1% during the first two projected years and 4.6% increase during the remaining projected period. No volume growth is projected from 2026. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2021, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.1% and 1.8% during the first two projected years and 1.9% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditures and payments for the finalization of the Main Line Modernization project. Projected cash outflows include USD 50 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2022 and 2023;
- A pre-tax discount rate of 11.49% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

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

- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 188,803 thousand;
- Volume growth – A decrease of 5% in the transported volumes projection used would have resulted in impairment loss of approximately GEL 152,256 thousand;
- Terminal growth – A decrease of 1% point in the terminal growth rate used would have resulted in impairment loss of approximately GEL 135,230 thousand.

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 2020 amounted to GEL 175,185 thousand (2019: 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.

In August 2016 a new subsidiary Gardabani TPP 2 LLC, with charter capital of GEL 10,000 thousand, was founded in which Georgian Oil and Gas Corporation JSC holds 100% interest. As at 31 December 2020, the charter capital of Gardabani TPP 2 LLC amounted GEL 266,909 thousand. (2019: GEL 266,909 thousand).

The Major construction works of Thermal Power Plant were finalized on 12 February 2020 and taking over certificate was signed by Gardabani II and counterparty responsible for the construction of TPP on 28 February 2020. On 25 March 2020, Gardabani TPP 2 LLC obtained license on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on electricity market in Georgia.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the "Black Sea Transmission Network Project" (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under a rehabilitation process managed by a Rehabilitation Manager in accordance with a rehabilitation plan. 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 was 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 2020 and 2019 an impairment loss of GEL 907 thousand and GEL 2,388 thousand respectively was recognized in relation to the contributions made by the Fund in the subsidiary.

In February 2020, the Government of Georgia transferred the ownership (100% of shares) of Georgian State Electrosystem JSC to the Government of Georgia, resulting in a reduction of the Owner contribution reserve of the Fund by GEL 433,059 thousand and an equal reduction of the accumulated deficit of the Fund due to the investment in Georgian State Electrosystem JSC being fully impaired before the transfer.

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. Consequently the Owner contribution reserve of the Fund was reduced by GEL 4,461 thousand.

(b) Less significant subsidiaries

During 2019, the Fund withdrew assets amounted GEL 46,346 thousand (please see Note 5(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 the separate statement of profit or loss and other comprehensive income and balance of investment in Borjomi Likani International JSC became nil as at 31 December 2019. As at 31 December 2020 the management has carried out impairment/reversal indicator analysis, as a result of which no indicators have been identified for reversal of previously recognized impairment losses.

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 2020 management identified an indicator that the investment in Aerostructure Technologies Cyclone JSC may be impaired, due to the fact that the company's result from operating activities during 2020 resulted in a loss in the amount of GEL 2,781 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 2020.

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 the business plan for a period up to 2027, with the further calculation of the terminal value. Management has determined that it is justified to use cash flow projections for a period of 7 years since the management believes that the 7-year period will allow cash flows to stabilize. The projections are prepared in nominal terms;
- A pre-tax nominal discount rate of 11.69% 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 7 years has been determined by the management as 2%;
- Cash flows are projected to increase sharply from 2024. Increase is supported by the decision of the second shareholder to move its passenger plane manufacturing to Aerostructure Technologies Cyclone JSC and full post COVID-19 recovery from 2024.

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

- Increase of discount rate by 1 percentage point would have resulted in impairment of GEL 13,106 thousand;

- Removal of additional cash flows from passenger plane manufacturing business from 2024 would have resulted in impairment of GEL 44,985 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 and GEL 1,036 thousand in 2018 to bring the cost of the investments down to nil.

In 2020 an impairment loss of GEL 1,067 thousand (2019: GEL 844 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 2020.

At 31 December 2020 the management identified indicators that the investment in the Global Brand LLC may be impaired. Due to the company not generating revenues, the balance of the investment was determined to be equal to the fair value of Global Brand LLC's net assets. As the balance of net assets was lower than carrying amount of the investment, impairment loss of GEL 5,580 thousand was recognized.

In June 2020, liquidation procedures began for Clinics Development Company LLC ('CDC LLC'), after which Fund's 100% ownership in the investment were 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 6 February 2020 by the Government of Georgia. Consequently the Owner contribution reserve of the Fund was reduced by GEL 140,006 thousand. The sole purpose of CDC LLC was to manage the subsidiary hospitals and the related real estate.

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

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

(c) 50% ownership obtained in Sakrusenergo JSC

During year 2019, the 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	**2020**	**2019**
Balance at 1 January	114,084	112,726
Contributions to associate	8,922	11,107
Fund's share of loss of equity accounted investees (net of income tax) recognized in profit or loss	(24,797)	(2,155)
Decrease of the investment in associates/jointly controlled entity	(40,431)	(5,048)
Impairment loss	-	(2,546)
Gain from the sale of shares	6,404	-
Balance at 31 December	**64,182**	**114,084**

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

Associate	Ownership 2020	Ownership 2019	Business activity	'000 GEL Balance as at 31 December 2019	'000 GEL Contributions	'000 GEL Loss attributable to the Fund	'000 GEL Consideration received	'000 GEL Gain from the sale of shares	'000 GEL Balance as at 31 December 2020
Telasi JSC	0.0%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi	47,830	-	(15,210)	(33,662)	1,042	-
Nenskra Hydro JSC	8.07%	8.07%	Development, construction and operation of hydroelectric power plant in Svaneti, Georgia	37,602	-	(2,896)	-	-	34,706
Tsinandali Estates LLC	33.43%	33.43%	Hotel and spa resort in village Tsinandali	16,567	-	(5,185)	-	-	11,382
Panex JSC	0%	48.17%	Building materials` industry	588	-	819	(6,769)	5,362	-
Vanric Agro LLC	0%	40.48%	Export of fruits	-	-	-	-	-	-
Imereti Greenery LLC	37.65%	37.65%	Agriculture/farming	-	-	-	-	-	-
Gazzele Fund LP	29.11%	29.11%	International investment company represented in Georgia	7,357	5,605	(2,243)	-	-	10,719
Caucasus Clean Energy I, LLP	8%	8%	Investment fund	3,724	3,317	-	-	-	7,041
Caucasian SUS Heritage LLC	49.9%	49.9%	Hog farm	416	-	(82)	-	-	334
				114,084	**8,922**	**(24,799)**	**(40,431)**	**6,405**	**64,182**

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 has the power to participate in the Entity's financial and operating policy decisions and thus has the ability to exercise significant influence over the Entity as at 31 December 2020 and 31 December 2019.

The decrease of investment in associates during year 2020 of GEL 34,025 thousand represents sale of Panex JSC and Telasi JSC (see note 5(a)).

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 its assets. The winner of the public auction was a local company FCO LLC. At the moment of the auction investment in Vanric Agro JSC was fully impaired.

(a) Impairment of investment in Nenskra Hydro JSC

Management was expecting to commission the Nenskra Hydro project in 2020. However, due to the termination of the Engineering, Procurement and Construction Contract (the "EPC Contract") in 2018 and outbreak of COVID-19 pandemic in 2020, the Project completion was postponed to 2025 and is expected to be further postponed to 2027.

Upon termination of the EPC Contract, the management of Nenskra Hydro JSC announced a tender for procurement of the remaining construction works within the framework of the Project. The tender process for selection of the new EPC contractor started in November 2018 in compliance with the public procurement guidelines of the International Financial Institutions, potential lenders (the "Lenders Group").

The management was expecting to finalize and execute the new EPC Contract in May 2020 and construction works were planned to commence in June 2020. In addition, as financing from international financial institutions is dependent on the execution of the new EPC Contract, Financial Close was also expected to be achieved subsequent to the execution of the new EPC contract in 2020. However, negotiations with the Preferred Bidder and the Lenders Group were interrupted due to the following:

The outbreak of COVID-19 in early 2020 and its rapid spread has caused substantial impact and changes to the business environment worldwide, including Georgia. That, in turn has also negatively affected the Nenskra Hydro JSC, in terms of delay of execution of the new EPC Contract and also leading to the postponement of Financial Close.

Pending litigation case with Georgian Construction Consortium LLC ("GCC") has also contributed to the abovementioned delays. On 9 December 2020, Tbilisi City Court (the "Court") issued an injunction order (the "Order") as an interim measure against the Nenskra Hydro JSC. Pursuant to the Order, all movable property of Nenskra Hydro JSC was seized, including restrictions on the usage of Tunnel Boring Machines ("TBMs"), representing one of the crucial assets for the construction of the Project. Besides, the Order restricted Nenskra Hydro JSC from: (a) entering into any contract with any third party relating to serpentine road construction works; and (b) withdrawing guarantees provided by GCC in line with the Urgent Work Contract requirements.

Besides, per the initial timelines stated in the Implementation Agreement, the Financial Close and issuance of FNTP (Full Notice To Proceed, as defined under the Implementation Agreement) to EPC Contractor in order to proceed with the main construction works, were scheduled to occur no later than 30 months after the agreement execution date (31 August 2015), that is February 2018. However, the above milestone dates have not been achieved yet.

Furthermore, as the Nenskra Hydro JSC is on the construction stage and has not yet commenced generation of revenue, it has reported a net loss of GEL 35,884 thousand (2019: a net loss of GEL 7,931 thousand) and operating cash outflows of GEL 4,250 thousand (2019: operating cash outflows of GEL 21,014 thousand) for the year ended 31 December 2020.

Management has estimated the degree of uncertainties related to the foregoing events and conditions and, considering the effects of mitigating actions taken by the GoG, the Nenskra Hydro JSC and the Parent company ("K-water") as disclosed below, continues to have a reasonable expectation that it will be able to execute the EPC Contract with the Preferred Bidder, proceed with planned construction works and have access to adequate financial and other resources to secure cash flows resulting in value in use of the investment being higher than its carrying amount:

- During the first half of 2021, the Government of Georgia started to gradually lift major restrictions imposed due to COVID-19 pandemic. Distribution of vaccines that demonstrate an ability to provide a high degree of immunity from COVID-19 provides positive overlook on future prospects of economy and business environment both in Georgia and around the world. Consequently, the management has renewed active negotiations with the Preferred Bidder. The Preferred Bidder is a joint venture of internationally acclaimed companies with extensive experience in hydropower plant construction industry and strong financial background. As of the date of issuance of these financial statements, management is confident that the respective new EPC Contract will be executed, and the major construction works will commence no later than early 2022. Meanwhile, Nenskra Hydro JSC is actively negotiating with its Lenders Group, i.e. international financial institutions, the terms and conditions of the financing. Considering that the financing from international financial institutions is dependent on the execution of the EPC Contract with the Preferred Bidder, Financial Close is also expected to be followed immediately after signing of the new EPC contract;

- On 16 March 2021 the Court issued a new Injunction Order, according to which the following measures enforced by the previous Order dated 9 December 2020: (a) seizure over movable property of the Nenskra Hydro JSC, including restriction over the usage of Tunnel Boring Machines; and (b) restriction over entering into a contract with any third party relating to the serpentine road construction works, have been lifted. Management is confident that the Company will not face any barriers in putting its property to intended use, i.e. construction of the HPP;
- On 28 January 2019, the Company and the Ministry of Economy and Sustainable Development entered into Memorandum of Cooperation (the “MoC”) on the basis of which, among others, the parties confirmed that the timeline and other key terms of the Implementation Agreement may be revised and amended in accordance with the newly updated Project timeline, including the new construction schedule of the Project as per the new EPC contract; No amendment to the Implementation Agreement has been executed as of the date of issuance of these financial statements. However, the Nenskra Hydro JSC is in the final phase of negotiations with the GoG to update terms, including revision of project timelines (extension of the deadlines for Financial Close and FNTP, along with the revised construction schedule). Given the strategic importance of the Project in ensuring energy security and independence of Georgia, the management is confident that GoG will accept the extension of timelines proposed by the Company and will execute revised and restated Implementation Agreement no later than early 2022.
- The majority shareholder the K-water has indicated its intention to continue to provide the Nenskra Hydro JSC with such financial and other support as are needed to enable it to continue in operational existence and, to enable it to realize its assets and discharge its liabilities in the normal course of business.

Consequently, management has concluded that no impairment should be recognized as at 31 December 2020.

11. Loans receivable

’000 GEL	**31 December 2020**	**31 December 2019**
Non-current assets		
Loan receivable from the subsidiary and state-controlled entity	73,271	51,270
Loan receivable from third party	8,248	1,787
Total non-current	**81,519**	**53,057**
Current assets		
Short term part of the loan receivable from the state-controlled entity	-	122
Short term part of the loan receivable from the third party	561	131
Total current	**561**	**253**
	82,080	**53,310**

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 and contractual interest rate increased from annual 7% to daily 0.04%. As a result, the Fund derecognized the old instrument for the loan receivable and recognised a 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.

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

12. Cash and cash equivalents

'000 GEL	**31 December 2020**	**31 December 2019**
Bank balances	65,351	11,045
Cash and cash equivalents in the separate statement of financial position and the separate statement of cash flows	**65,351**	**11,045**

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 2020, the Government of Georgia contributed land plots of GEL 9,797 thousand, building of GEL 16,419 thousand, gas pipelines of GEL 1,604 thousand, power line of GEL 902 thousand, movable property of GEL 464 thousand and other contributions of GEL 1,081 thousand (2019 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) in the form of an increase in the Fund's equity as 'Owner contributions'. Carrying amount of the contributed properties was determined to be equal to its fair value.
During 2020 by the decision of the Government of Georgia owner contribution of the Fund was reduced by the amount of GEL 577,526 thousand by transferring ownership of Georgia State Electrosystem JSC (100% of shares), Electricity System Commercial Operator JSC (100% of shares) and Clinics Development Company LLC ('CDC LLC') to the Government of Georgia (Ministry of Economy and Sustainable Development of Georgia).

In addition, during 2020 management decided to return 67 land plots to the Government of Georgia with total area of 1,437,424 m2. Carrying amount of the transferred lands of GEL 44,100 thousand. Consequently, 'Owner contributions' were reduced by the above-mentioned amount (see Note 9(b)).

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	**31 December 2020**	**31 December 2019**
Non-current liabilities		
Unsecured loans from subsidiaries	50,571	40,269
	50,571	**40,269**
Current liabilities		
Unsecured loans from financial institutions	144,484	127,014
	144,484	**127,014**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2020		31 December 2019	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans							
Unsecured loan from Credit Suisse	USD	Libor+6.5%	2021	145,281	144,484	127,014	127,014
Unsecured loans from subsidiaries:							
Georgian Railway JSC	USD	9.75%	2022	30,464	30,464	24,235	24,235
Georgian Oil and Gas Corporation JSC	USD	9.50%	2022	20,107	20,107	16,034	16,034
Total interest-bearing liabilities				**195,852**	**195,055**	**167,283**	**167,283**

During 2015, the Fund acquired a loan from an international bank, Credit Suisse, of USD 150,000 thousand, equivalent to GEL 360,705 thousand. Per initial contractual terms loan was repayable in September 2020. The purpose of the loan was to refinance existing loan exposures.

In September 2020, the terms were amended as follows: fixed part of the interest rate was increased from 5.95% to 6.5%, principal repayment was extended till September 2021 and financial covenants were removed from the agreement. This did not result in substantial modification of the contractual terms and loss on modification in the amount of GEL 1,009 thousand was recognised in the separate statement of profit or loss and other comprehensive income under the finance costs (note 6). The termination fee in the amount of GEL 630 thousand was included in the amount of the modified loan.

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

'000 GEL	**Loans and borrowings 2020**	**Loans and borrowings 2019**
Balance at 1 January	**167,283**	**273,425**
Repayment of borrowings	-	(129,156)
Net cash flow from financing activities	**-**	**(129,156)**
The effect of changes in foreign exchange rates	**24,513**	**24,173**
Interest expense	13,486	19,535
Interest paid	(11,236)	(20,694)
Modification loss	1,009	-
Total liability-related other changes	**3,259**	**(1,159)**
Balance at 31 December	**195,055**	**167,283**

15. Fair values and risk management

(a) Fair values of financial assets and liabilities

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

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

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

(b) Financial risk management

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

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

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

Risk management framework

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

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

(c) Credit risk

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

(i) Exposure to credit risk

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

	Note	Carrying amount	
'000 GEL		**31 December 2020**	**31 December 2019**
Loans receivable	11	82,080	53,310
Cash and cash equivalents	12	65,351	11,045
		147,431	**64,355**

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

'000 GEL	**31 December 2020**	**31 December 2019**
Impairment loss on loans receivable	(1,633)	-

(ii) Loans receivable

As at 31 December 2020 and 31 December 2019 the Fund has loans receivable from related parties and third parties.

Management believes that the Fund is exposed to a significant amount of credit risk relating to the loans receivable as at 31 December 2020. Consequently, management assessed expected credit loss from loans receivable at GEL 16,048 thousand as at 31 December 2020.

'000 GEL	**12-month ECL**	**Lifetime ECL-not credit impaired**	**Lifetime ECL -credit-impaired**	**Total**
Customer credit risk grade				
Low risk	9,708	-	-	9,708
Medium risk	-	17,182	-	17,182
High risk	-	-	71,238	71,238
Total Gross carrying amount	9,708	17,182	71,238	98,128
Loss allowance	-	(2,655)	(13,393)	(16,048)
Carrying amount	**9,708**	**14,527**	**57,845**	**82,080**

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.

Credit-impaired loans include the POCI loan of FCO LLC of GEL 6,579 thousand which was recognised at its fair value net of ECL (see Note 6) and loan of Borjomi Likani International JSC of GEL 57,845 thousand recognised at its nominal amount.

Impairment losses

'000 GEL	**31 December 2020**	**31 December 2019**
Gross carrying amount	98,128	67,725
Loss allowance	(16,048)	(14,415)
	82,080	**53,310**

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	**2020**	**2019**
Balance at 1 January	14,415	14,415
Increase during the year	1,633	-
Balance at 31 December	**16,048**	**14,415**

(iii) Cash and cash equivalents

The Fund usually holds funds with banks with good credit ratings. As at 31 December 2020, approximately 95% (31 December 2019: 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 2020 and 2019 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.

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 2020 management assessed key triggers for the net current liability position of GEL 78,453 thousand (31 December 2019: net current liability of GEL 120,571 thousand). The net current liability position at year-end 2020 was effectively caused by the loans and borrowings from Credit Suisse, maturing in September 2021. In September 2021, the Fund has obtained new loan facility from an international institution. The loan facility was utilized for full repayment of loan from Credit Suisse (see 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. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2020		**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loans from financial institutions	144,484	152,729	-	152,729	-	-
Unsecured loan from subsidiaries	50,571	57,707	-	-	57,707	-
Other liabilities	1,061	1,061	1,061	-	-	-
	196,116	**211,497**	**1,061**	**152,729**	**57,707**	**-**

31 December 2019		**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Unsecured loans from financial institutions*	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**	**-**

* As at 31 December 2019 financial covenant related to Debt Service Coverage Ratio on the Credit Suisse loan above was breached. As a result, the lender could have requested repayment on demand and the Fund has classified the loan as short-term borrowings. In September 2020, the terms were amended, and financial covenants were removed from the terms of the agreement.

(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 2020**	**USD –denominated 2019**
Cash and cash equivalents	39,866	9,088
Loans receivable	82,080	53,054
Loans and borrowings	(195,055)	(167,283)
Net exposure	**(73,109)**	**(105,141)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2020	**2019**	**2020**	**2019**
USD 1	3.1097	2.8192	3.2766	2.8677

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against USD at 31 December 2020 and 31 December 2019 would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

'000 GEL	**Profit or loss**
31 December 2020	
USD (10% weakening)	(7,311)
31 December 2019	
USD (10% weakening)	(10,514)

A strengthening of the GEL against the above currencies at 31 December 2020 and 31 December 2019 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**	
	2020	**2019**
Fixed rate instruments		
Financial assets	131,271	51,863
Financial liabilities	(50,571)	(40,269)
	80,700	**11,594**
Variable rate instruments		
Financial assets	14,527	12,492
Financial liabilities	(144,484)	(127,014)
	(129,957)	**(114,522)**

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed-rate financial instruments FVTPL or FVOCI. 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	
’000 GEL	**100 bp increase**	**100 bp decrease**
2020		
Variable rate instruments	(1,300)	1,300
Cash flow sensitivity	**(1,300)**	**1,300**
2019		
Variable rate instruments	(1,145)	1,145
Cash flow sensitivity	**(1,145)**	**1,145**

(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	**2020**	**2019**
Total liabilities	196,116	173,026
Less: cash and cash equivalents	(65,351)	(11,045)
Net debt	**130,765**	**161,981**
Total equity	**1,408,447**	**1,563,021**
Debt to capital ratio at 31 December	**0.09**	**0.10**

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 2020 and 2019 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	**2020**	**2019**
Salaries and bonuses	**771**	**815**

(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**	
	2020	**2019**	**2020**	**2019**
Loans given:				
Subsidiaries and state-controlled entities	-	-	72,372	50,665

’000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2020 Face value	31 December 2020 Carrying amount	31 December 2019 Face value	31 December 2019 Carrying amount
Loans given to subsidiaries							
Borjomi Likani International JSC	USD	0.04% daily	2034	57,845	57,845	38,173	38,173
Aerostructure Technologies Cyclone JSC	USD	10.75%+ 6 months LIBOR	2023	14,527	14,527	12,492	12,492
				72,372	**72,372**	**50,665**	**50,665**

During 2020, interest income of GEL 16,059 thousand (2019: GEL 5,183 thousand) and impairment loss in the amount of GEL 1,633 thousand (2019: GEL 0) was recognised in profit or loss in respect of related party loans.

’000 GEL	Transaction value 2020	Transaction value 2019	Outstanding balance as at 31 December 2020	Outstanding balance as at 31 December 2019
Loans received:				
Subsidiaries	-	-	50,571	40,269

During 2020, interest expense of GEL 4,560 thousand (2019: GEL 3,622 thousand) was recognised in profit or 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.

A number of new or amended standards and interpretations are effective from 1 January 2020 but they do not have a material effect on the Fund’s separate financial statements.

(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;
- The gain or loss recognized on modification of contractual terms of financial instruments;
- impairment loss on other financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities.

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

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

(g) Foreign currency transactions

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

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

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

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

(h) Short-term employee benefits

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

(i) Income tax

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

(i) Current tax

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

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

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

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

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

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The 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.

if significant 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.

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

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

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

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

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

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

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

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

Measurement of ECLs

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

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

Credit-impaired financial assets

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

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

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

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

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

Write-off

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

(ii) Non-financial assets

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

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

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

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

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

(o) Dividends

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

(p) Leases

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

The Fund did not have significant lease agreements where it acts as a lessee or leasor as at 31 December 2020 and 2019

20. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these separate financial statements.

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

- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3);*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*

21. Subsequent events

In September 2021, the Fund has obtained new loan facility from international institution in the amount of EUR 32,000 thousand with interest rate of 4%+EURIBOR and maturity date of 17 September 2023. The loan facility was utilized for full repayment of loan from Credit Suisse.

In June 2021, the Fund signed amendment of the agreement to extend repayment of the loan obtained from Georgian Railway JSC till May 2023. The principal repayment was originally due in March 2022. In addition, on 21 September 2021 the Fund and Georgian Railway JSC entered into a second amendment to the aforementioned agreement. Per second amendment loan amount was increased by USD 7,000 thousand, maturity extended till 31 December 2026 and interest rate was reduced from 9.75% to 6.5%. Additional facility will be disbursed in instalments as per the written request from JSC PF after January 2022.