Fiscal Risks Statement

State-Owned Enterprises, PPP Projects, Pandemic, Climate Change/Natural Disasters

December, 2021

Contents

Summary

Georgia, similarly to the rest of the world, turned out completely vulnerable in front of a pandemic in 2020. This reaffirmed the need/importance of timely identification of fiscal risks, existence of mechanisms minimizing and/or preventing the negative impact of risk realization.

Fiscal risks analysis confirmed that, after macroeconomic risks, state-owned enterprises (SOEs) and public-private partnership projects still remain one of the main sources of fiscal risks for the state.

After one-time improvement of financial indicators in SOEs in 2019, the sector suffered another huge loss in 2020. The **sector lost 300 million GEL in revenue solely due to the pandemic**.

Loss of SOEs amounted to GEL 692 million in 2020 without the Marabda-Kartsakhi Railway, and including it – more than GEL 1 billion.

Exchange rate risk remains a major challenge for SOEs. **Foreign exchange loss amounted to GEL 623 million in 2020,** the same indicator, including the Marabda-Kartsakhi Railway, amounted to GEL 1.2 billion. Such an amount of loss resulting from the depreciation of the exchange rate is all-time high in recent years. In order to reduce fiscal risk, it is necessary to significantly increase the share of the national currency in the debt portfolio of SOEs. However, this represents one of the components aimed for recovery of enterprises.

It is crucially important to use this period for implementing SOEs reform.

As for public-private partnership projects, it was completely limited concluding Power Purchase Agreements (PPA). According to modeled scenarios made by us, in case of incurring economic shock and failure to take precautionary measures for future, the budget will receive an additional GEL 1 billion from PPA projects in the form of realization of contingent liabilities. Fiscal pressure has been substantially reduced due to cancellation of 2 large PPA projects in 2021, however, given the pandemic reality, our risk appetite has also decreased, therefore, we consider it unreasonable to continue accumulation of contingent liabilities at the expense of vacated space even up to no more than previous level.

SOEs News

- Based on the criteria for identification as a public interest entity (PIE) defined by the decree N584 of the Government of Georgia dated November 29, 2019, 48 SOEs have been awarded a status of public interest entity as of now.
- For the purposes of fulfilling of international obligations and ensuring early access to information about financial outcomes of SOEs, Georgian Government Decree N217 dates as of February 11, 2021

sets forth the obligation to submit audited financial and other types of statements by SOEs identified as public interest entities (PIEs), to Service for Accounting, Reporting and Auditing Supervision until July 1 of the year following the reporting period, and to submit unaudited financial and other types of statements until April 1 of the year following the reporting period. Moreover, according to the Law of Georgia on Accounting, Reporting and Auditing, PIEs are required to carry out financial accounting and financial reporting in accordance with International Financial Reporting Standards (IFRS).

- The process of sectorization – the process of assigning them to public corporations and general government sectors - was completed in April 2020. Georgia is the first country among Central Asian and Eastern European countries, that fully carried out sectorization. This has transparently revealed all the enterprises which are of non-commercial nature and are constantly dependent on subsidies and other types of contributions, moreover, enterprises, who are completely commercial or have potential to transform into commercial enterprises, were underlined. In total, 52 enterprises belong to sector of public corporation, and 183 enterprises - the general government sector;
- Work on SOEs reform started in the Ministry of Finance of Georgia in the second quarter of 2020 still continues. Reform is mainly concentrated on implementing corporate governance standards in SOEs based on principles set forth by OECD and other best practices. The Ministry of Finance is supported by partner international organizations in this process. The Ministry of Finance, by the help of active cooperation with international partner organizations, developed a draft strategy for SOEs reform and continues to work on its improvement. The draft strategy is based on the best practices of OECD, IMF, WB and ADB. Moreover, under the decree N156 of the Government of Georgia dated as of April 7, 2021 The State-Owned Enterprises Reform Council was created, which includes representatives of the Georgian Government and the Parliament of Georgia. The Council submits to the government of Georgia SOEs reform strategy for approval and determines the pilot enterprises of the reform.
- Under the Decree of the Government of Georgia N1618 dated as of September 8, 2021 Code of Corporate Governance of SOEs was approved. The Code was developed by the Ministry of Finance of Georgia with the support of international partner organizations and their direct involvement. The Code ensures implementing and adopting corporate governance in accordance with the guidelines of Organization for Economic Co-operation and Development (OECD), which also represents one of the priorities identified by the Georgian government program "For the construction of a European state 2021-2024 ". Furthermore, according to the mentioned decree, enterprises ensure gradual compliance with the principles set out in the Code within the set timeframe.
- In order to introduce the best practices of corporate governance, reforms and changes are being made to JSC Georgian State Electrosystem. The company adopted a new charter in May, 2021 and independent members of the company's supervisory board were selected through open competition and transparent procedures in accordance with the best international standards, which can be considered as successful beginning of the reform. It should be noted that for the purpose of forming the supervisory board of JSC Georgian State Electrosystem order N130 of the Government of Georgia " On Establishment of a Competition Commission for Selecting the candidates for the membership of the supervisory board of JSC Georgian State Electrosystem " was approved in

current year On January 29 , which defined the criteria for membership in the board, qualification requirements and rules for selection of members through open competition.

- Purchasing of financial and non-financial assets, other than placing money on deposits, by JSC "Partnership Fund" is limited. This implies that the Partnership Fund no longer implements new projects and does not increase its debt liabilities. This restriction extends until the reform of the Partnership Fund.
- „Gardabani Thermal Power Plant 2“, built in Gardabani with the investments made with 100% share participation of „Georgian Oil and Gas Corporation“ began operating in March, 2020. Thermal power plant stands out with high efficiency and environmental technology, which was built up to $ 180 million dollar investment. The project is of great strategic importance for the Georgian energy system and for sustainability and overall success of the sector. The thermal power plant started actively generating electricity in July, 2020 and its share in revenues gained from the production and sale of electricity by the corporation during 2020, amounted to more than GEL 100 million. Gardabani Thermal Power Plant 3 Ltd and Georgian Natural Gas Transmission Network Operator Ltd were established with a 100% shareholding of the corporation in 2021 and. Ltd Gardabani Thermal Power Plant 3 will implement construction and subsequent operation of the thermal power plant in Gardabani and Georgian Natural Gas Transmission Network Operator Ltd will implement natural gas pipeline system operation.

Overview of the SOEs Sector (Registry)

The fiscal risk document covers 87% of SOEs (enterprises created with the share participation of the state, municipality) according to turnover, among them 100% of public corporations [1].

The unified register of SOEs includes information provided by state bodies, the Georgian National Statistics Office and other administrative sources, enterprises created with share participation of central and local governments that are classified as significant enterprises for fiscal risks analysis. The following enterprises are considered as such:

- a)All central government's enterprises

[1] A public corporation is an enterprise which sells goods and services at an economically significant price, has the ability to bring profit or other financial benefits to the owner and in addition, is independent in the decision-making process.
Under the decree N96 on "Approval of Sectorization List of SOEs" of the Minister of Finance of Georgia dated as of April 24, 2020, " 52 enterprises were considered as public corporations,

- b)Municipal enterprises in which the state owns more than 25% of shares and annual turnover of which exceeds GEL 200 thousand, or the issued annual salary exceeds GEL 15 thousand.

For the purposes of evaluating enterprises regarding mentioned indicators, financial data obtained from various administrative sources was used. Based on this data, a financial database for the year 2020, was created for these enterprises.

Based on the above criteria, 346 SOEs are presented for fiscal risks analysis, 178 enterprises are owned by the central government and 168 are owned by the local government, moreover, the listed enterprises have 83 subsidiaries in total.

Analysis of the consolidation of financial data is based on data of 346 SOEs, while the data of 83 subsidiaries is presented in the form of additional information.

Table 1. Number of SOEs owned by central and local government

Name	**Quantity**
Total number of state-owned enterprises	**346**
Including:	
Is owned by local government	**168**
Is owned by central government, including	178
Owned by Ministry of Economy and Sustainable Development	130
Is created with the participation of a Partnership Fund	25
Owned by Ministry of Environmental Protection and Agriculture of Georgia	6
Owned by legal entities	5
Owned by Ministry of Defence of Georgia	6
Owned by Ministry of Regional Development and Infrastructure of Georgia	2
Owned by Ministry of Justice	2
Owned by Ministry of Education and Science	1
Investment Fund created by state	1

62 companies from the SOEs owned by municipalities, are owned by Tbilisi and Batumi municipalities and their share amounts to 95 percent of the total turnover of enterprises owned by municipalities.

Table 2. Number of SOEs owned by municipalities according to municipalities

	Number of enterprises	Share of the total number of enterprises owned by the municipal government	Share of the total number of municipal enterprises of the municipal authorities	2020 total income (thousand GEL)	Share of total revenue in the total number of municipal enterprises i	Share of total income of the municipal government enterprises in the total number of municipal enterprises
Total	**346**			**3,253,367**		
including						
Municipalities	**168**	**49%**		**399,006**		**12.3%**
Tbilisi municipality	26	8%	15%	192,153	5.91%	48.16%
Batumi municipality	36	10%	21%	185,625	5.71%	46.52%
Kutaisi municipality	11	3%	7%	825	0.03%	0.21%
Telavi municipality	4	1%	2%	1,760	0.05%	0.44%
Gori municipality	3	1%	2%	33	0.00%	0.01%
Poti municipality	9	3%	5%	3	0.00%	0.00%
Rustavi municipality	8	2%	5%	268	0.01%	0.07%
Sachkhere municipality	6	2%	4%	6,688	0.21%	1.68%
Khobi municipality	3	1%	2%	40	0.00%	0.01%
Akhalkalaki municipality	2	1%	1%	35	0.00%	0.01%
Akhaltsikhe municipality	3	1%	2%	1,802	0.06%	0.45%
Akhmeta municipality	2	1%	1%	387	0.01%	0.10%
Senaki municipality	6	2%	4%	111	0.00%	0.03%
Bolnisi municipality	10	3%	6%	635	0.02%	0.16%
Mtskheta municipality	9	3%	5%	0.8	0.00%	0.00%
Other	30	9%	18%	8,641	0.27%	2.17%

Table 3. Analysis of SOEs according to sectors

Sector	Number of enterprise in total	Including:		Total revenue of enterprise in 2020 (GEL thousand)	Including:		Share of sectoral enterprises in total income	
		Central	Local		Central	Local	Central	Local
Agriculture. Hunting and forestry	8	8	0	24,871	24,871	0	1%	0%
Mining industry	2	2	0	516	516	0	0%	0%
Manufacturing industry	29	19	10	146,164	130,797	15,367	5%	4%
Production and distribution of electricity, gas and water	14	9	5	1,626,123	1,619,435	6,688	57%	2%
Construction	24	16	8	209,841	61,485	148,356	2%	37%
Trade; Repair of automobiles, household goods and personal items	18	14	4	136,218	136,009	209	5%	0%
Hotels and restaurants	11	9	2	50,621	50,594	27	2%	0%
Transport and Communications	22	7	15	844,215	753,236	90,979	26%	23%
Financial activities	9	9	0	742	742	0	0%	0%
Real estate operations, leasing and customer service	54	31	23	40,934	27,509	13,425	1%	3%
Education	1	1	0	0	0	0	0%	0%
Health care and social assistance	84	41	43	20,747	15,871	4,876	1%	1%
Providing utility, social and personal services	70	12	58	152,374	33,295	119,080	1%	30%
Total	346	178	168	3,253,367	2,854,361	399,006		

Based on the data of the register of enterprises created with state share participation, the number of enterprises operating in healthcare and social assistance take leading positions (out of 346 registry of enterprises - 84 enterprises, 43 of which are local).

Enterprises operating in the field of health and social assistance take leading quantitative positions, however, the share of their total revenue does not exceed 1% of total revenue of the enterprises.

Profiles of the Major Enterprises[2]

JSC „Georgian Oil and Gas Corporation“

State share: 100% (fully owned by the JSC “partnership fund”, which is in full state ownership itself)

Type of economic activity: Wholesale trade with natural gas

Chairman of the supervisory board: Vazha Khidasheli

General director: Giorgi Bakhtadze

6 Daughter companies:

- LLC „Gardabani Thermal Station“;
- LLC „Gardabani Thermal Station 2“;
- LLC „Gardabani Thermal Station 3“;
- LLC „Georgia Gas Storage Company“;
- GOGC Trading S.A.
- LLC „Natural Gas Transmission Network Operator of Georgia”.

Main Activity: Natural gas (import of natural gas and subsequent wholesale sale to electricity generation facilities and to population, as well as lease of pipelines transferred to LLC "Georgian Gas Transportation Company");

Electricity generation (relatively new direction - electricity generation is carried out by the thermal power plant located in Gardabani. The generated electricity is continuously supplied to the distribution companies, which in turn supply the generated electricity to the retail customers); Oil (sale of state-owned share of oil extracted by the oil companies in Georgia, as well as managing the financial lease of the oil pipeline leased to BP).

JSC „Georgian Railway“

[2] As of 07.07.2021

State share: 100% (100% is owned by JSC "Partnership Fund", which, in turn, is fully state-owned).

Type of economic activity: Rail freight transport

Chairman of the supervisory board: Konstantine Guntsadze

Director General: David Peradze

7 Daughter companies:

- LLC „GR property Management";
- LLC „GR Logistics and Terminals";
- JSC „Georgian Railways Construction";
- LLC „Georgia Transit";
- LLC „GRtransit line";
- LLC „GR Trans Shipment";
- LLC „GR Transit".

Main Activity: Freight transportation (including rental of freight cars); Passenger transportation; Infrastructure (maintenance and management of rails, dams, railway alarms, power lines and other equipment, as well as construction of railway lines).

JSC „Georgian State Electrosystem"

State share: 100%

Type of economic activity: transmission of electricity

Rehabilitation Manager/ chairman of the managing board: Ucha Uchaneishvili

2 Daughter companies:

- JSC „Karchal Energy";
- JSC „Georgia's Energy Exchange".

Main Activity: Electricity transmission and dispatching (sole licensee). GSE provides technical management of the system to ensure a stable supply of electricity supply and consumption and without the right to buy or sell electricity, transfers electricity produced or imported in Georgia to distribution power companies, direct customers and/or power systems in neighboring countries. It also constructs international and domestic transmission lines and substations.

LLC „Energotrans“

State share: 100% (100% owned by JSC "Georgian State Electrosystem").

Type of economic activity: Transmission of electricity

Acting director: Jemal Akhalaia

Main Activity: Electricity transmission, including electricity export and transit. LLC "Energotrans" owns: 500 kw transmission lines "Vardzia-Zekari", 400 kw transmission line "Meskheti" and 500/400/220 kw substation Akhaltsikhe.

LLC Energotrans owns the transmission lines, with total length of about 290 km on the territory of Georgia, stretched on the territory of 10 municipalities of Georgia and connects Gardabani 500 and Didi Zestaponi substations to Akhaltsikhe 500/400/220 kV substation from the south (This sub-station is owned by LLC "Energotrans"). In addition to the above, the Akhaltsikhe substation is connected to the Turkish substation "Borchkha" through the 400 kw transmission line "Meskheti". The Akhaltsikhe 500/400/220 converter station is unique in its importance in the Caucasus region, as it was the first to install a DC (HVDC) switch.

JSC „United Energy System SakRusEnergo“

State share: 50% (the other 50% is owned by the Russian Federation , which is represented by JSC „ Federal Unified Energy System Network Company”).

Type of economic activity: Transmission of electricity

Director General: Bachana Suladze

Main Activity: Transmission of electricity using by the company’s own high-voltage power lines located on the territory of Georgia and in the neighboring countries: Russia, Turkey, Azerbaijan, Armenia. Part of the company's power transmission lines are located on the territory of the Russian Federation. The company's power transmission lines are synchronized power supply networks between Georgia and the Russian Federation.

LLC “United Water Supply Company of Georgia”

State share: 100%

Type of economic activity: Water accumulation, procession and distribution

Director: Grigol Mandaria

Main Activity: Water extraction, procession and supply of drinking and technical water to customers in different cities and villages of Georgia; Design, construction, utilization and operation of water supply and sewerage systems.

The company provides water supply and sewerage network services throughout Georgia, for urban settlements, in Tbilisi, Mtskheta; except Rustavi, Gardabani Municipality and the Autonomous Republic of Adjara.

LLC „Enguri HPP“

State share: 100%

Type of economic activity: Electricity generation by hydropower plants

Chairman of the supervisory board: Koba Chumburidze

Chairman of the board of directors: Levan Mebonia

2 daughter companies:

- LLC "Vardnil HPP Cascade";
- LLC Enguri Hydro-Accumulating Power Plant.

Main Activity: Electricity generation and sale. Engurhesi generates 35% of the country's total electricity supply. The company is responsible for the operation of the Enguri hydropower plant, the Vardnil cascade and several small hydropower plants in the Kodori Gorge on the territory of the Autonomous Republic of Abkhazia.

JSC „Electro Energy System Commercial Operator" (ESCO)

State share: 100%

Type of economic activity: Electricity distribution

Director General: Zaza Dvalishvili

1 Daughter company:

- JSC „Georgia's Energy Exchange"

Main Activity: Purchase and sale of balancing electricity and guaranteed capacity (purchases, sales and makes corresponding payments for the guaranteed capacity to the thermal power plants) and imports / exports electricity. The main activities are defined by the Law of Georgia on Electricity and Natural Gas and the "Electricity (Capacity) Market Rules" approved by the Minister of Energy of Georgia №77 of August 30, 2006.

The Company acts as a direct buyer (not as an agent) of balancing electricity and guaranteed capacity transactions. It is obligated to make payments in favor of the balancing power sellers and guaranteed power producer sources, regardless of whether it has received the payment from the buyers for the balancing electricity and guaranteed capacity.

LLC „Georgia Gas Transportation Company"

State share: 100%

Type of economic activity: Transport of gas via pipelines

Director General: Mikheil Shalamberidze

1 Daughter company:

- LLC Inter Glass-Georgia (40%)

Main Activity: The only licensed company with a permanent license (the license was issued in 2009), which provides it the right to transport natural gas. The company operates the major gas pipeline system and related infrastructure on the territory of Georgia, which is owned by JSC Georgian Oil and Gas Corporation and leased to the company (with obligation to operate and maintain).

The main income of the company, which it receives from the use of the main gas pipeline system owned by JSC
Georgian Oil and Gas Corporation, consists of the following activities: natural gas transit (from the Russian Federation to the Republic of Armenia); Transportation of natural gas (throughout Georgia, mainly for distribution companies, industrial enterprises and thermal power plants); Gas sales (to other customers in Georgia; based on individual negotiations between the parties).

LLC Marabda-Kartsakhi Railway

State share: 100%

Type of economic activity Construction of overground and underground railways
Director: Levan Kankava

Main Activity: Marabda-Kartsakhi, a new railway line connecting Baku-Tbilisi-Kars to the border of the Republic of Turkey (Kartsakhi) by passing through the territory of Georgia, is a project that will connect the railway networks of the Republic of Azerbaijan and the Republic of Turkey.

The project is implemented on the basis of an agreement between the Governments of the Republic of Azerbaijan and Georgia. Under the loan agreement, Marabda-Kartsakhi Railway LLC has allocated a credit line of USD 775 million from the Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan to finance the capital and administrative costs of the project.

According to the loan agreement, before the completion of the construction of the Marabda-Kartsakhi railway section, the Georgian and Azerbaijani Railways will establish a "joint venture", which will be transferred to the management of the railway infrastructure (LLC "Marabda-Kartsakhi" The obligation to repay the loan will be transferred to the "joint venture".)

LLC State Construction Company

State Share: 100%

Type of economic activity: Construction of roads and highways

Director: Shalva Shavishvili

Main Activity: Implementation of various types of construction projects, including rehabilitation, modernization, reconstruction and other road construction works of public roads, bridges, tunnels; Production of construction and repair materials, their import-export and sale; Use of special equipment on the balance sheet of the company and transfer it for temporary use.

Agricultural Logistics and Services Company LLC

State Share: 100% (100% shareholder) A (A) IP "Agricultural Project Management Agency"

Type of economic activity: Repair of agricultural tractors, types of ancillary activities in the field of agricultural cultivation

Director General: Shota Joglidze

1 Daughter company:

- LLC Agroservice Center

Main Activity: Servicing agricultural machinery; Providing information/ consultation to agricultural producers and farmers; Introduction of modern technologies in agricultural production; Soil pre-sowing and further works.

LLC. "Agricultural Logistics and Services Company" offers services to landowners living in the regions of Georgia in the field of maintenance and cultivation of agricultural crops: pesticides, variety and high quality seeds, new technologies and new crops. The company is capable to serve land users in agro-terms, in different regions of Georgia, to carry out spring, autumn and winter plowing works in a timely and high-quality manner, as well as sowing, herbicide provision, cultivation, pruning, and timely application of mineral fertilizers.

JSC „Partnership Fund"

State Share: 100%

Type of economic activity: Other financial service activities, excluding insurance and pension funds, not included in other groups

Chairman of the Supervisory Board: Prime Minister of Georgia

Executive Director: David Saganelidze

26 Daughter Companies:

- JSC Georgian Oil and Gas Corporation and its subsidiaries;
- JSC Georgian Railway and its subsidiaries;
- JSC "Nenskra";
- Project LLC;
- Tbilisi Logistics Center LLC and its subsidiaries;
- Black Sea Port LLC;

- Lagodekhi Trade Company LLC;
- JSC "Aerostructure Technologies Cyclone";
- Gray Shopping Center LLC;
- Startup Georgia LLC;
- Imereti Greener LLC;
- Caucasus Clean Energy I Limited Liability Partnership;
- Georgian Industrial and Regional Development Company LLC;
- Likani Residence LLC;
- LLC „Global Brand";
- Infrastructure Development Partnership Company LLC;
- Tsinandali Estates LLC;
- Gazelle Fund LP;
- Itong Caucasus LLC;
- Partnership Fund - Green Development LLC and its subsidiaries;
- East West Bridge LLC;
- JSC "Nenskra Hydro";
- Caucasian SUS Heritage LLC;
- JSC Borjomi-Likani International
- Georgian Natural Products LLC;
- Peace Fund for Better Future NCLE.

Main Activity: State Investment Fund, established on the basis of consolidation of large state-owned enterprises in the field of transport, energy and infrastructure. The main purpose of the fund is to encourage investments in Georgia through co-participation in the initial stage of investment project development (co-investment in capital, subordinated loans, etc.).

The activities are carried out in two directions: asset management (asset portfolio consists of companies of strategic importance: JSC Georgian Railway; JSC Georgian Oil and Gas Corporation) and investment activities (the fund is authorized to invest only in Georgia, its strategy is to attract private investors for commercially profitable projects to support the priority sectors of the Georgian economy, which have significant potential for development (eg, energy, agriculture, manufacturing, real estate and tourism, infrastructure and logistics).

LLC „Georgia Post"

საქართველოს ფოსტა
GEORGIAN POST

State Share: 100%

Type of economic activity: Postal activities with a commitment to universal service

Director general: Levan Chikvaidze

2 daughter companies:

- Georgian post (Greece) I.K.E.;
- Georgian post (Czechia).

Main Activity: Georgian Post LLC successfully cooperates with more than 190 countries around the world and operates more than 80 service centers throughout the country.

Georgian Post LLC provides customers with services included in the field of universal postal and shipping services, In particular, it receives, processes, sends, transports and delivers postal items (written correspondence, parcels, EMS messages, air mail), both inside and outside the country; receives utility bills; provides money transfer services.

LLC „Tbilisi Transport Company“

State Share: 100% (Tbilisi City Hall owns 100% of the shares)

Type of economic activity: Urban and suburban passenger land transport

General Director: Giorgi Sharkov

2 daughter companies:

JSC "Tbilisi Branch of Electrical Engine Repair Factory";
JSC "Repair Service"

Main Activity: Bus, metro and cable car services in Tbilisi, arrangement of parking spaces within the administrative boundaries of Tbilisi Municipality.

The prices of services within the framework of regulated economic activity are set by the decision of Tbilisi Sakrebulo. A certain group of citizens is provided with free travel on regular subway and bus travel within the administrative boundaries of Tbilisi, or a discounted fee with a single payment by plastic card.

The company revenue is mainly generated from the fare paid by the passengers.

The company manages, organizes and supervises arrangement of parking spaces of the municipality, places/draws the road signs, marks parking places at the areas indicated by Tbilisi city; detects violations of parking rules, writes out notices on administrative offenses/ parking penalties; in certain cases, transports the offender vehicle to the secure parking territories.

JSC "Georgian Energy Development Fund"

State Share: 100%

Type of economic activity: Consulting in business and other management matters

Director: Giorgi Chikovani

13 subsidiaries:[3]

- JSC Namakhvani;
- JSC "Geohydro";
- Artana Lopota LLC;
- Kvirila HPP LLC;
- Akhalsopeli HPP LLC;
- JSC "Chalik Georgia Wind";
- Enguri Tourist Center LLC;
- Enguri Hydro-Accumulating Power Plant LLC;
- Georgian Solar Company LLC;
- Borjomi HPP LLC;
- Zestaponi Wind Power Plant LLC;
- Chordula HPP LLC;
- Ruisi Wind Power Plant LLC

Main Activity: Conducting preliminary research work in the field of energy, feasibility study of energy projects and preparation of a report, environmental impact assessment of the project. As a result of the conducted research, a power plant construction project is being written, which is being implemented by the Foundation as follows: Will attract an investor with whom he will establish an enterprise (or will establish himself with a 100% shareholding) and the enterprise implements a power plant projects.

[3] As of 2020

Fundings Received by SOEs

Table 4. Funds allocated to state-owned enterprises from the state budget and dividends received (million GEL)

Name	**2019**	**2020**	**2021, 8 months**
Capital transfer			
Loan			
Subsidy	-82.87	-88.50	-110.16
Dividend		68.70	
Net cash flow	**-82.87**	**-19.8**	**-110.16**

Table 5. Subsidies from state budget in 2019-2021 (thousand GEL)

Name of enterprise	**2019**	**2020**	**2021, 8 months**
Georgian Post Ltd		2,188	1,000
Georgian Amelioration Ltd	17,659	18,500	13,675
Acad. N. Kipshidze Central University Clinic of Tbilisi Medical University Ltd		786	
LEPL Mediators Association of Georgia		200	
Akura Jsc.		16,000	28,000
Adam Beridze's Soil and Food Diagnostic Center Anaseuli Ltd		12	134
United Airports of Georgia Ltd	5,864	1,350	1,727
Solid Waste Management Company of Georgia Ltd	12,000	13,800	10,500
Universal Healthcare Center Jsc		2,150	
Black Sea Arena Ltd	9,500	3,518	3,268
United Water Supply Company Georgia Ltd.	27,550	30,000	15,000
V. Sanikidze War Veterans Clinical Hospital Ltd	558		516

Georgian Teleradiocenter Ltd			973
Mountain Resorts Development Company Ltd	300		6,800
Tolia 2020 Ltd			28
Perspective Ltd			40
Harvest Management Company Ltd			28,500
State Construction Company Ltd	9,200		
Regional Healthcare Center Ltd	230		
Total	**82,868**	**88,504**	**110,160**

Companies Georgian Amelioration Ltd., JSC Akura, Georgian Solid Waste Management Company Ltd. United Airports of Georgia Ltd, Black Sea Arena Georgia Ltd, The United Water Supply Company of Georgia Ltd are depended on the regular financial aid from the state budget. Amounts received from the budget in the form of subsidies are directed to cover the cost of implementing infrastructure projects, as well as operational costs.

Enterprises created with the share participation of local governments, which operate in the field of healthcare services, construction and other sectors, are in constant need of support from the local budget in order to carry out its activities. GEL 109 million and GEL 165 million were allocated by the municipalities, respectively in 2020-2021. Among them, 73-76% of the total volume falls on the enterprises of Tbilisi Municipality.

Table 6. Subsidies from Tbilisi budget in 2019-2021 (thousand GEL)

Name of enterprise	**2019**	**2020**	**2021, 8 months**
Tbilisi Cardiology Hospital Ltd			5
Tbilisi Transport Company Ltd	5,605	40,106	64,283
Aqua-center Tonus Ltd		94	164
Tbilservice Group Ltd	53,771	32,480	49,860
Ecoservice Group Ltd	694	6,500	11,500
Total	60,070	79,179	125,813

Table 7. On-lending Amounts for SOEs (million) (as of December 31, 2020)

Company	Currency	Agreed amount	Disbursed amount	Repaid principal	Repaid interest accrued	Debt balance	Debt balance in GEL
	EUR	387.5	103.0	44.7	14.5	49.4	198.6

JSC Georgian State Electrosystem	SDR	31.0	31.0	0.0	1.5	31.0	146.2
	USD	95.2	86.0	31.6	25.0	49.9	163.3
Engurhesi Ltd	EUR	79.0	58.1	1.3	1.8	56.8	228.6
	GEL	37.0	37.0	1.9	4.4	35.1	35.1
Energotrans Ltd	EUR	218.5	218.5	51.9	23.0	166.6	670.3
Sakaeronavigatsia Ltd	EUR	4.7	4.7	2.1	0.5	2.6	10.3
United Water Supply Company Georgia Ltd.	EUR	186.6	78.2	14.6	4.9	63.6	255.8
	SDR	161.8	136.1	22.3	0.0	113.8	536.9
	USD	245.0	133.1	0.0	0.0	133.1	436.0
Solid Waste Management Company of Georgia Ltd	EUR	55.4	4.6	3.5	1.2	1.1	4.6
Total							**2,685.8**

Dividends Paid by SOEs

According to the decree N174 of government of Georgia dated as of April 12, 2011 on " identifying composition and rules of operation of commission reviewing and making decisions regarding proposals about distribution and usage of net profit of enterprises established with share participation of state" commission reviewing and making decisions regarding proposals about distribution and usage of net profit of enterprises established with share participation of state created with the Ministry of Finance of Georgia, reviews the issue of distribution of net profit of enterprises established with share participation of state. Proposals regarding the mentioned are sent to the Ministry of Finance of Georgia in advance by relevant agency, in agreement with the enterprise operating under its management. And the review of the submitted proposals is carried out at the meeting of the above-mentioned commission. Commission based on the submitted reasoned proposal, makes decision whether to direct the dividend fully/partially to the budget or leaving it to company for development.

Moreover, part of the SOEs are managed by the Partnership Fund and uses independently dividends received from them for investment and loan services.

3 sessions of the commission reviewing and making decisions regarding proposals about distribution and usage of net profit of enterprises established with share participation of state were held in 2020-21.

Proposal on leaving the profit (GEL 1,307.8 thousand) received by JSC "Infectious Pathology, AIDS and Scientific-Practical Center for Clinical Immunology in 2017-2018, at the disposal of the enterprise for the purposes of reinvestment , submitted by National Agency of State Property was reviewed at the meeting held on August 21, 2020.

The commission took into consideration that resolution N1341 of Government of Georgia dated of July 23, 2020 on allocating financial resources in the form of capital transfer to JSC Scientific-Infectious Diseases, AIDS and Clinical Immunology Practical Center, for the purposes of ensuring purchasing or constructing profiled immovable property for carrying out medical activities without restrictions and safely, and it was considered as proper, to leave at the disposal of the enterprise GEl 300 thousand from the net profit of the company in 2017-2018, for the purposes of reinvestment, development of necessary technical capabilities for treatment at the current stage. While the remaining part of the net profit of the enterprise in 2017-2018 will be discussed by commission additionally.

The proposal submitted by the Ministry of Economy and Sustainable Development on distribution of profit of JSC Georgian State Electrosystem in 2018-2019 (profit of the company in 2018-2019 amounted to GEL 77 175 thousand, GEL 30 432 thousand from which was net profit in 2018, and – GEL 46 743 thousand in 2019) was reviewed at the meeting held on October 29, 2020. According to the decision of commission, GEL 8 175 thousand from the net profit of 2018 and 2019 was left at disposal of the enterprise, for reinvestment, and Gel 69 000 thousand was directed to state budget (GEL 58 650.0 thousand – in the form of dividend, and 10 350.0 thousand in the form of profit tax).

Loans between SOEs

Lending between SOEs and taking joint loans for financing project by them created a possibility to transfer the risk to the government.

Such practices of loans is not common in Georgia and this type of money lending did not take place between SOEs in 2020.

Non-Financial Transfers

In addition to financial transfers, transfers of assets take place between the Government of Georgia and SOEs, including transferring gas, land, installations, inventory and other fixed assets. Such transfers are mainly carried out for the purpose of giving title to SOEs in assets and ensuring that they can carry out projects and functions assigned to them fully and better. This does not incur fiscal risks.
There are no significant non-financial transfers in 2020 according to the information provided by enterprises.

Methodology on the Introduction of Best Practices for the Identification, Analysis and Financing Mechanisms of Quasi-Fiscal Activities

What is a quasi-fiscal activity

Quasi-fiscal activity, which is performed by an SOE vividly, under the instructions of the government or discreetly is when a payment made for the supply of such goods/services is less than a market price or existing practice. To generalize it further, any activity that a profit-making/commercial enterprise would not perform is quasi-fiscal. Such activities are mainly aimed at the social and political aims and goals.

Examples of quasi-fiscal activities are the supply of water to the population for lower than a market price or par value, as well as an irrelevantly high number of employees and/or irrelevant payroll at an SOE.

If and when the State does not compensate such types of enterprises from the State Budget, SOEs assume the burden related to quasi-fiscal activities, which worsens their financial results.

It is essential for the government to design a policy for the effective management of risks stemming from quasi-fiscal assets, which will ease the burden related to quasi-fiscal assets not compensated to SOEs or minimize them to nil. Also, future rise of such burdens should be avoided by SOEs. At the same time, it is essential to be done only in cases if any other kind of inefficiency is abolished at the level of an SOE and funds practically allocated for the funding of quasi-fiscal assets is returned to the State Budget in the following reporting year in the form of a dividend paid by the SOE.

Forms of Quasi-Fiscal Activities

Non-Commercial Services (NCSO): setting a less-than-commercial tariff. For instance, artificially low tariff- setting for utility services, such as power energy, water supply;

Non-Core Functions: obligations assigned by the government, e.g. obligation to incur capital expenditures, which are not related to the core business of the company;

Subsidized Procurement: payment of higher-than-market price, e.g. procurement of agriculture produce at higher-than-market prices from local farmers to incentivize such farmers;

Abuse of Monopoly Position: accepting the commercially unfair price from consumers (more than justified in commercial terms), use of additional income for cross-subsidising the other activities of the enterprise (practice of funding one activity from profits earned in other activities);

Super-Dividends: payment of more dividends by an enterprise than possible with profits earned in a reporting period. Such payments are made mainly through the sale of enterprise assets (one-off transactions) or from other accumulated reserves.

Price Adjustment for Short-Term Higher Income Generation Purposes: setting higher prices for goods and services to make sure that SOE profits and dividends increase in a short-run, even when it will reduce the share of an enterprise at the market and its profits in a medium term.

Quasi-fiscal activity may be **vivid** (defined in a company statutes, regulations issued by the government/ministry/public institution) and **discreet** (company carries out a quasi-fiscal activity without assigning this function under a regulation). Example of a discreet quasi-fiscal activity is a more-than- required number of employees at an SOE for social and/or political purposes).

Discreet quasi-fiscal activity should be prohibited. It is impermissible to carry out non-commercial services by an SOE, except those cases, when they are vivid and their value is fully compensated from the State Budget.

Commercial Service Obligations (CSO) of SOEs are such services that are fully compensated by consumers of such SOEs,

Each commercial function of the SOEs should be reflected in the Corporate Governance Statement of the company or other similar documents, which represent the strategic goals, targeted financial and non- financial ratios and other KPIs, risk limits, etc. defined by shareholders to the Supervisory Council.

Commercial functions of a corporation should be published in an Annual Report of an SOE. Published information should include the following: (1) description of each commercial function, (2) revenues/profit earned from each of them; and (3) description and report on how its cost will be compensated by consumers.

Resumes of commercial functions should also be published in an Analysis of Fiscal Analysis Risks, which will assess the risks of transforming these functions into quasi-fiscal activities.

Non-Commercial Service Obligations (NCSOs)

SOE should reflect all the non-commercial services as a transfer from a respective budget in its full amount, including the relevant rate of return. The amount should be incorporated in the expenditures of the State Budget, in line with the legislation of Georgia.

All non-commercial services should be reflected in the Statements of Corporate Governance Statements (SCI) of companies with respective measurements.

Compliance of non-commercial activities with the SCI should be published in the Overall SOE Report on an annual basis. Report should at least include the following:

- Description of each non-commercial service;
- Actual cost incurred on it against the budgeted cost;
- Comparison of non-financial results with planned results.

Information on non-commercial services should also be published in a Document of Fiscal Risks.

As a related information, let us note that in line with Articles 203=206 of the Association Agreement concluded by Georgia on the one hand with EU and European Atomic Energy Association and their member states on the other hand, parties understand the importance of free and unrestricted competition for their trade relations and acknowledge that state actions that damage competitive neutrality (e.g. subsidies) harm the entire market, thus reducing the benefits of trade liberalisation.

Existing Practices

Ministry of Finance of Georgia started identifying, analyzing and publishing quasi-fiscal activities from 2017. According to the recent experience, explicit quasi-fiscal activities are carried out in 6 enterprise. However, implicit quasi-fiscal activities should be of a much larger volume.
An example of implicit quasi-fiscal is over-employment.

Impact of Quasi-Fiscal Activities on Financial Outcomes of the SOEs

Engurhesi Ltd	**2019**		**2020**	
	Without quasi-fiscal activity	Quasi-fiscal activity	Without quasi-fiscal activity	Quasi-fiscal activity
Total income	43.9		27.1	
Operating income	42.9		26.9	
Non-operating income	1.0		0.2	
Total expenses	48.8	31.6	89.0	29.6
Operating expenses	40.5	31.6	43.6	29.6
Non-operating expenses	8.4		45.4	
Unearned profit				
Profit before tax	-4.9	-31.6	-61.8	-29.6
Profit tax				
Net profit	-4.9	-31.6	-61.8	-29.6

- The company's electricity tariff compared to other companies operating in the Georgian market, is significantly low. Moreover, according to the order N77 of Minister of Energy of Georgia on - "Rules of the Electricity Market", the company cannot receive remuneration for the electricity supplied on the territory of Abkhazia.
- The share of electricity supplied on the territory of Abkhazia by 2020 exceeded 70% of the total output. Financial data of Engurhesi Ltd presented in the table without quasi-fiscal activities and separately impact of quasi-fiscal activity on major indicators of profit and loss statement.
- The table shows that Engurhes lost about GEL 30 million revenue due to supplying electricity free of charge to the population of occupied Abkhazia.

Georgian Railway	**2019**		**2020**	
	Without quasi-fiscal activity	Quasi-fiscal activity	Without quasi-fiscal activity	Quasi-fiscal activity
Total income	534.4	34.8	552.1	12.8
Operating income	521.7	31.1	539.5	11.2
Non-operating income	12.8	3.7	12.5	1.6
Total expenses	-508.9	-65.4	-666.0	-63.0
Operating expenses	-361.8	-53.7	-359.1	-47.1
Non-operating expenses	-147.0	-11.7	-306.9	-15.9
Unearned profit				
Profit before tax	25.6	-30.6	-114.0	-50.2

Profit tax	-0.5	0.0	-0.5	
Net profit	25.1	-30.6	-114.5	-50.2

- JSC Georgian Railway annually subsidizes passenger transportation at the expense of revenue received from cargo turnover, which the company annually costs about GEL 40 million. The table below shows the company's financial indicators with and without quasi-fiscal activities. Like the Enguri HPP, in the absence of the quasi- fiscal activity, Georgian Railway would close 2020 with a profit.

JSC Georgian Oil and Gas Corporation	**2019**		**2020**	
	Company financial outcomes	Quasi-fiscal activity	Company financial outcomes	Quasi-fiscal activity
Total income	914.0		1024.1	
Operating income	873.7		997.2	
Non-operating income	40.3		26.9	
Total expenses	795.6		1020.9	
Operating expenses	730.4		863.1	
Non-operating expenses	65.2		157.8	
Unearned profit		55.0		198.9
Profit before tax	118.4	55.0	3.2	198.9
Profit tax				
Net profit	118.4	55.0	3.2	198.9

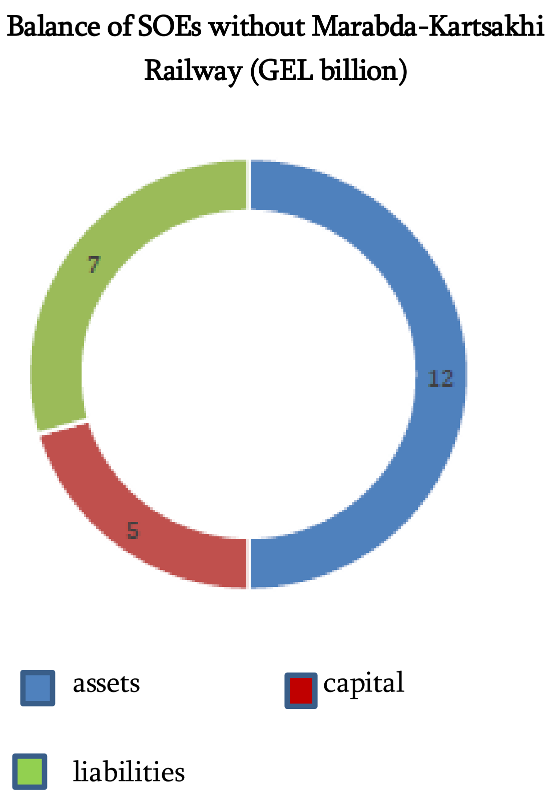
- JSC Georgian Oil and Gas Corporation has been subsidizing the tariff of gas customers for household sector since 2013, which reduces potential profits to be obtained by the company. Profit to be obtained represents the difference between selling at a commercial tariff opportunity and actually earned income.
- The table shows the financial data of JSC Georgian Oil and Gas Corporation in case of sale at commercial tariff and separately, unearned profit due to quasi-fiscal activity, which exceeds GEL 199 million by 2020. This is the result of reducing average selling price of social tariff by USD 40.51 per thousand cubic meters in order to support the population considering the pandemic. The Social tariff was reduced by USD 25.4 per thousand cubic meters in 2019.
- As a result of subsidizing tariff of gas customers for household sector by 2021, it is expected to receive GEL 302.2 million less income.

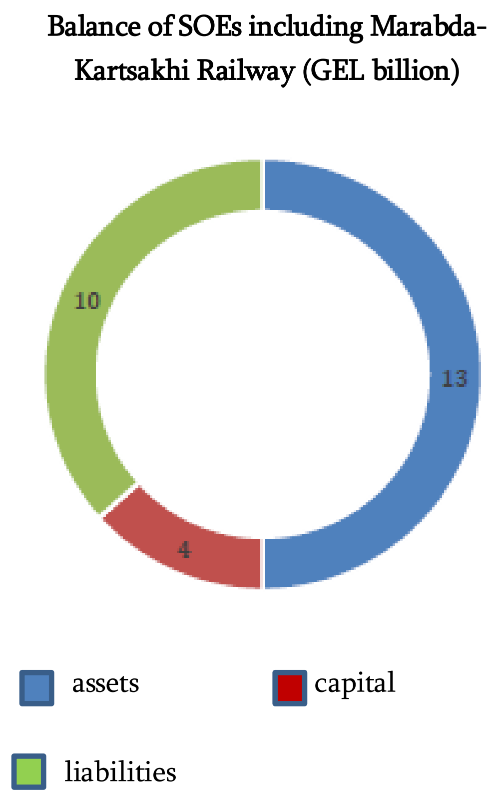
Overview of Financial Outcomes of the SOEs

142 enterprises submitted financial statements in 2020. The number of covered enterprises in the document has increased compared to previous years, mainly at the expense of increasing coverage of enterprises owned by local self-governments.

Sector (GEL million)	Operating income	loss arising from exchange rate depreciation	Net profit
Transportation-logistic	-90	-192	-279
Utility	-32	-11	-215
Agriculture	-171	-1	-74
Energy	192	-376	-47
Air flights	-30	-6	-29
Other	3	29	-16
Total	**-128**	**-557**	**-660**

- SOEs have suffered loss on GEL 692 million in 2020, excluding Marabda-Kartsakhi Railway, and including the latter, the loss exceeded to GEL 1 billion;
- As for the operational loss, revenues to be obtained by SOEs were reduced about by GEL 300 million due to pandemic, which caused operational loss in each sector, except for energy sector;
- The loss of SOEs in 2020 is caused mainly due to foreign exchange losses. In order to reduce currency risks of SOEs, gradual larization of their loans is necessary.





Below are given total financial outcomes of SOEs including Marabda-Kartsakhi Railway and without it[4].

Balance Sheet

In GEL Million

Aggregated (including Marabda-Kartsakhi Railway)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	10,292	11,890	12,045	12,031	11,951	12,575	13,394
Current assets	1,945	2,499	2,670	2,903	2,623	2,464	2,465
Non-current assets	8,346	9,391	9,374	9,128	9,328	10,112	10,930
Total Equity	5,686	5,589	4,972	4,826	4,302	4,322	3,570
Owner's Equity	3,190	3,707	4,103	5,045	5,418	5,216	6,721
Capital Injections	0	2,376	2,647	2,700	2,772	2,765	2,148
Retained Earnings	0	34	91	52	70	45	188

[4] Marabda-Kartsakhi railway activity does not include generating profit, moreover, the company is not included in the state-owned or general government sector. Therefore, we consider it relevant to discuss total financial results of state-owned enterprises without including Marabda-Kartsakhi railway. In addition, we include both versions for transparency.

Accumulated deficit	0	0	-1,464	-2,988	-3,828	-4,174	-6,166
Other Equity	2,496	-528	-406	16	-130	471	679
Liabilities	4,605	6,301	7,073	7,206	7,650	8,253	9,824
Current liabilities	648	808	1,066	1,271	1,691	1,047	2,203
Non-current liabilities	3,958	5,493	6,007	5,935	5,958	7,207	7,621
Total equity and liabilities	10,292	11,890	12,045	12,031	11,951	12,575	13,394

Income Statement

In GEL Million

Aggregated (including Marabda-Kartsakhi Railway)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	1,900	2,316	2,555	2,954	2,958	3,242	3,801
Operating Revenue	1,802	2,196	2,339	2,605	2,636	2,943	3,064
Non-operating Revenue	97	120	216	349	322	299	737
Total expenses	1,983	3,104	3,089	3,683	3,771	3,477	4,940
Operating expenses	1,739	2,085	2,358	3,154	3,264	2,828	3,292
Depreciation/amortization	177	182	291	314	317	278	354
Non-operating expenses	244	1,019	731	529	507	650	1,648
Incl. interest cost	82	138	221	208	171	171	431
Incl. foreign exchange loss	0	423	465	227	272	436	1,171
Other remaining non-operating expenses	162	459	45	95	64	43	50
Profit before tax	-83	-788	-533	-729	-813	-235	-1,138
Profit tax	17	-1	1	3	3	2	2
Net profit	-100	-786	-535	-732	-816	-237	-1,075

Financial Ratios

Aggregated (including Marabda-Kartsakhi Railway)	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	9%	22%	10%	16%	0%	10%	12%
Change of expenses	15%	57%	0%	19%	2%	-8%	21%
Operating margin	4%	5%	-1%	-21%	-24%	4%	-7%
ROA	-1%	-7%	-4%	-6%	-7%	-2%	-8%
ROE	-2%	-14%	-11%	-15%	-19%	-5%	-30%
Cost recovery	104%	134%	121%	125%	127%	107%	115%
Liquidity							
Current ratio	300%	309%	250%	229%	155%	235%	112%
Solvency							
Debt to equity	81%	113%	142%	149%	178%	191%	275%
Interest coverage	-123%	-571%	-242%	-353%	-478%	-139%	-250%

Balance Sheet

In GEL Million

Aggregated (Excluding Marabda Kartsakhi Railway)	2014	2015	2016	2017	2018	2019	2020
Assets	9,282	10,721	10,759	10,638	10,490	11,040	11,715
Current assets	1,601	2,190	2,410	2,622	2,365	2,216	2,220
Non-current assets	7,681	8,531	8,350	8,016	8,125	8,824	9,495
Total Equity	5,768	6,003	5,588	5,391	4,966	5,169	4,799
Owner's Equity	3,137	3,654	4,050	4,991	5,361	5,159	6,663
Capital Injections	0	2,376	2,618	2,671	2,742	2,765	2,148
Retained Earnings	0	34	91	52	70	45	188
Accumulated deficit	0	0	-765	-2,339	-3,077	-3,241	-4,850
Other Equity	2,631	-61	-406	16	-130	441	650
Liabilities	3,514	4,717	5,171	5,247	5,524	5,871	6,916
Current liabilities	639	785	1,056	1,257	1,673	1,023	2,175
Non-current liabilities	2,875	3,932	4,115	3,990	3,851	4,848	4,741

Total equity and liabilities	9,282	10,721	10,759	10,638	10,490	11,040	11,715

Income Statement

In GEL Million

Aggregated (Excluding Marabda Kartsakhi Railway)	2014	2015	2016	2017	2018	2019	2020
Total Revenue	1,891	2,316	2,513	2,776	2,824	3,170	3,599
Operating Revenue	1,802	2,196	2,339	2,605	2,636	2,943	3,064
Non-operating Revenue	88	120	173	171	188	227	535
Total expenses	1,886	2,771	2,841	3,518	3,534	3,223	4,355
Operating expenses	1,726	2,069	2,340	3,134	3,244	2,806	3,270
Depreciation/amortization	177	182	289	313	315	277	352
Non-operating expenses	160	702	500	384	290	417	1,085
Incl. interest cost	77	131	213	200	160	162	415
Incl. foreign exchange loss	0	423	243	90	70	212	623
Other remaining non-operating expenses	83	148	45	95	60	43	50
Profit before tax	5	-455	-328	-742	-710	-53	-756
Profit tax	17	-1	5	3	3	2	2
Net profit	-12	-454	-333	-746	-713	-55	-692

Financial Ratios

Aggregated (Excluding Marabda Kartsakhi Railway)	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	8%	22%	8%	10%	2%	12%	9%
Change of expenses	13%	47%	3%	24%	0%	-9%	14%
Operating margin	4%	6%	0%	-20%	-23%	5%	-7%
ROA	0%	-4%	-3%	-7%	-7%	0%	-6%

ROE	0%	-8%	-6%	-14%	-14%	-1%	-14%
Cost recovery	118%	121%	115%	80%	77%	115%	110%
Liquidity							
Current ratio	251%	279%	228%	209%	141%	216%	102%
Solvency							
Debt to equity	61%	79%	93%	97%	111%	114%	144%
Interest coverage	-16%	-346%	-156%	-373%	-446%	-34%	-167%

Governmental sector (central+municipal)							
							In GEL million
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	1,497	4,622	4,280	4,270	4,061	4,200	4,760
Current assets	326	693	676	709	683	566	686
Non-current assets	1,171	3,930	3,604	3,561	3,377	3,634	4,074
Total Equity	1,163	3,764	3,198	3,066	2,794	2,753	2,892
Owner's Equity	1,206	1,529	1,909	2,316	3,040	3,144	3,742
Capital Injections	0	2,376	2,539	2,592	2,664	2,675	0
Retained Earnings	0	0	9	-48	-33	-38	1
Accumulated deficit	0	-2	-557	-1,932	-3,002	-3,453	-3,658
Other Equity	-43	-140	-702	137	126	424	2,807
Liabilities	334	858	1,082	1,204	1,267	1,448	1,868
Current liabilities	78	124	202	265	453	442	525
Incl.current loans	0	0	0	0	246	150	170
Non-current liabilities	257	734	880	939	814	1,005	1,343
Incl. non-current loans	0	0	0	0	38	43	67
Total capital and liabilities	1,497	4,622	4,280	4,270	4,061	4,200	4,760

Public Corporations **sector (central+municipal)**							
							In GEL million
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	2,710	3,108	3,336	3,133	3,413	3,535	4,035
Current assets	362	429	446	588	803	731	690

Non-current assets	2,348	2,679	2,890	2,545	2,610	2,805	3,345
Total Equity	1,604	1,716	1,760	1,456	1,599	1,645	1,868
Owner's Equity	1,799	2,098	1,924	2,365	2,533	2,555	2,963
Capital Injections	0	0	16	16	16	28	2
Retained Earnings	0	0	73	102	134	90	187
Accumulated deficit	0	0	-687	-1,135	-1,109	-1,177	-1,438
Other Equity	-195	-382	435	108	26	150	154
Liabilities	1,106	1,391	1,576	1,677	1,814	1,890	2,167
Current liabilities	281	358	435	669	803	327	506
Incl.current loans	0	0	0	0	557	1,095	45
Non-current liabilities	825	1,033	1,140	1,008	1,010	727	1,661
Incl. non-current loans	0	0	0	0	465	444	1,362
Total capital and liabilities	2,710	3,108	3,336	3,133	3,413	3,535	4,035

General Government sector (central)							
							In GEL million
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	1,487	4,612	4,271	4,203	3,944	4,077	3,190
Current assets	324	690	674	704	656	545	612
Non-current assets	1,163	3,922	3,597	3,499	3,288	3,531	2,578
Total Equity	1,153	3,754	3,189	3,002	2,681	2,633	1,039
Owner's Equity	1,184	1,507	1,887	2,207	2,888	2,980	1,777
Capital Injections	0	2,376	2,539	2,592	2,664	2,675	2
Retained Earnings	0	0	9	-48	-41	-46	189
Accumulated deficit	0	-2	-557	-1,907	-2,951	-3,389	-1,068
Other Equity	-32	-127	-688	157	122	414	139
Liabilities	334	858	1,082	1,201	1,263	1,443	2,151
Current liabilities	78	124	202	263	449	438	490
Incl.current loans	0	0	0	0	246	150	45
Non-current liabilities	257	734	880	939	814	1,005	1,661
Incl. non-current loans	0	0	0	0	38	43	1,362
Total capital and liabilities	1,487	4,612	4,271	4,203	3,944	4,077	3,190

General Government sector (municipal)							
In GEL million							
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	11	10	8	67	116	124	101
Current assets	2	2	2	6	27	21	21
Non-current assets	9	7	6	61	89	103	80
Total Equity	11	10	8	64	113	119	87
Owner's Equity	22	22	22	110	152	164	117
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	8	8	5
Accumulated deficit	0	0	0	-25	-51	-63	-45
Other Equity	-12	-13	-14	-21	4	10	11
Liabilities	0	0	0	3	4	4	14
Current liabilities	0	0	0	3	4	4	12
Incl.current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	0	0	1
Incl. non-current loans	0	0	0	0	0	0	0
Total capital and liabilities	11	10	8	67	116	124	101

Public Corporations sector municipal							
In GEL million							
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	559	650	697	493	650	634	845
Current assets	44	51	67	92	246	106	78
Non-current assets	516	599	630	401	404	528	767
Total Equity	557	648	658	454	605	563	829
Owner's Equity	419	526	539	525	718	751	1,186
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	3	3	3	-2
Accumulated deficit	0	0	0	-86	-142	-214	-371
Other Equity	137	122	119	12	27	23	15
Liabilities	3	2	39	40	45	71	17
Current liabilities	3	2	39	15	22	40	17
Incl.current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	25	23	31	0

Incl. non-current loans	0	0	0	0	0	0	0
Total capital and liabilities	559	650	697	493	650	634	845

Public Corporations sector central							
							In GEL million
Balance Sheet	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	2,151	2,458	2,639	2,640	2,763	2,901	3,190
Current assets	318	378	379	496	557	625	612
Non-current assets	1,832	2,080	2,260	2,144	2,206	2,277	2,578
Total Equity	1,048	1,068	1,102	1,002	994	1,083	1,039
Owner's Equity	1,380	1,572	1,385	1,840	1,815	1,804	1,777
Capital Injections	0	0	16	16	16	28	2
Retained Earnings	0	0	73	100	131	87	189
Accumulated deficit	0	0	-687	-1,049	-967	-963	-1,068
Other Equity	-332	-504	316	96	-1	127	139
Liabilities	1,103	1,389	1,537	1,638	1,769	1,819	2,151
Current liabilities	278	356	397	654	782	287	490
Incl.current loans	0	0	0	0	557	1,095	45
Non-current liabilities	825	1,033	1,140	984	988	696	1,661
Incl. non-current loans	0	0	0	0	465	444	1,362
Total capital and liabilities	2,151	2,458	2,639	2,640	2,763	2,901	3,190

General Government sector (central+municipal)							
							In GEL million
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	318	465	559	813	937	1,037	1,095
operating Revenue	289	426	508	751	874	897	923
Non-operating Revenue	29	39	51	62	63	140	172
Total expenses	385	592	798	1,399	1,744	1,356	1,327
Operating expenses	385	488	712	1,324	1,682	1,033	1,082
Depreciation/amortization	0	0	45	48	55	61	61
Non-operating costs	0	104	86	75	62	323	245
Incl. interest cost	0	51	67	73	44	75	222
Incl. foreign exchange loss	2	0	16	0	4	16	39
Other non-operating expenses	-2	53	3	2	12	231	9
Profit before tax	-67	-127	-239	-587	-807	-318	-232

Profit tax	0	0	1	0	2	1	2
Net profit	-67	-127	-240	-587	-808	-319	-233

Public Corporations sector (central+municipal)							
							In GEL million
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	671	746	763	840	949	934	2,542
operating Revenue	615	710	729	791	885	876	2,171
Non-operating Revenue	56	36	34	49	64	58	371
Total expenses	674	912	775	1,214	855	945	2,957
Operating expenses	633	748	655	1,075	809	850	2,139
Depreciation/amortization	0	0	77	111	106	106	280
Non-operating costs	40	164	119	140	46	95	818
Incl. interest cost	23	24	24	26	25	24	206
Incl. foreign exchange loss	0	0	84	98	8	62	574
Other non-operating expenses	17	140	12	17	13	10	35
Profit before tax	-3	-166	-12	-374	94	-11	-415
Profit tax	2	7	20	0	0	0	1
Net profit	-4	-172	-32	-375	94	-12	-425

General Government sector (central)							
							In GEL million
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	308	455	548	790	893	984	1,036
operating Revenue	286	423	505	742	843	860	877
Non-operating Revenue	22	32	43	48	50	124	159
Total expenses	373	580	787	1,369	1,687	1,291	1,265
Operating expenses	373	476	701	1,294	1,627	968	1,020
Depreciation/amortization	0	0	44	41	47	52	53
Non-operating costs	0	104	86	75	60	323	245
Incl. interest cost	0	51	67	73	44	75	222
Incl. foreign exchange loss	2	0	16	0	4	16	39
Other non-operating expenses	-2	53	3	2	12	231	9
Profit before tax	-65	-125	-239	-579	-794	-307	-229
Profit tax	0	0	1	0	2	1	2
Net profit	-65	-126	-239	-579	-796	-308	-230

General Government sector (municipal)							
In GEL million							
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	10	10	11	22	44	54	59
operating Revenue	3	4	3	9	31	38	46
Non-operating Revenue	6	7	8	13	13	16	13
Total expenses	12	12	11	30	56	65	62
Operating expenses	12	12	11	30	54	65	62
Depreciation/amortization	0	0	1	7	7	9	8
Non-operating costs	0	0	0	0	2	0	0
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	0	0	0	0	0	0	0
Profit before tax	-2	-1	0	-8	-13	-11	-3
Profit tax	0	0	0	0	0	0	0
Net profit	-2	-1	0	-8	-12	-11	-3

Public Corporations sector (central)							
In GEL million							
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	542	608	618	676	754	727	2,427
operating Revenue	492	580	595	636	717	692	2,064
Non-operating Revenue	50	28	23	41	37	35	363
Total expenses	526	758	620	983	619	664	2,676
Operating expenses	487	594	501	844	573	572	1,873
Depreciation/amortization	0	0	73	90	84	83	225
Non-operating costs	39	163	119	139	46	92	803
Incl. interest cost	23	24	23	25	25	24	206
Incl. foreign exchange loss	0	0	84	98	8	62	574
Other non-operating expenses	16	140	12	17	13	7	20
Profit before tax	16	-150	-2	-307	135	62	-249
Profit tax	1	7	20	0	0	0	1
Net profit	14	-156	-21	-307	135	61	-259

Public Corporations sector (municipal)							
							In GEL million
Profit-loss statement	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	129	138	145	164	195	207	115
operating Revenue	123	130	134	155	168	184	107
Non-operating Revenue	6	8	10	9	27	23	8
Total expenses	148	154	155	231	236	281	281
Operating expenses	147	153	154	231	235	278	266
Depreciation/amortization	0	0	4	21	22	23	55
Non-operating costs	1	0	1	0	0	3	15
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	1	0	0	0	0	3	15
Profit before tax	-19	-16	-10	-67	-41	-74	-166
Profit tax	0	0	0	0	0	0	0
Net profit	-19	-16	-10	-68	-41	-74	-166

Risk Rating of SOEs

	Name of entity	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
1	JSC Georgian Oil and Gas Corporation	Low	Medium	Medium	Low	Low	High[5]	High
2	JSC Georgian Railway	Medium	Medium	Medium	Very high	Very high	High	High
3	JSC Georgian State Electrosystem	Very high	Very high	Very high	Very high	Very high	Very high	Medium
4	Energotrans Ltd	Very high	Very high	Very high	Very high	Very high	Very high	
5	United Water Supply Company Georgia Ltd.	Medium	Very high	Very high	Very high	Very high	Very high	High

[5] Based on the financial ratios for 2019, JSC Georgian Oil and Gas Corporation is of low risk, although it has been granted high risk status due to large volume of quasi-fiscal risks. In particular, the financial burden has increased sharply recently, which is connected to maintaining natural gas consumer tariffs in the household sector by the corporation.

6	Engurhesi Ltd	Medium	Medium	Very high	Medium	Medium	Medium	Very high
7	JSC Electricity system Commercial operator	Medium	Very high	Medium	Medium	Medium	Very high[6]	Very high
8	Georgian Gas transportation company Ltd.	Very high	Very high	Medium	Medium	Low	Low	Low
9	Marabda-Kartsakhi Railway Ltd	Very high	Very high	Very high	Very high	Very high	Very high	Very high
10	State Construction Company Ltd	Very high	Medium	Very high	Medium	Medium	Low	Medium
11	JSC Partnership Fund	Medium	Medium	Medium	Very high	Very high	Medium	Medium
12	Georgian Post Ltd	High	Medium	Medium	High	High	Medium	Low
13	JSC UES SAKRUSENERGO	Medium	Medium	Medium	Medium	Low	Low	Low
14	JSC Georgian Energy Development Fund	Medium	Very high	Low	Medium	Medium	Low	Low
15	Tbilisi Transport Company Ltd	Medium	Medium	High	Very high	Very high	Medium	Medium

Impact of Covid 19 on Enterprises

Covid-19 pandemic had a negative impact on most part of SOEs in 2020. In total, SOEs, as a result of the pandemic, received about GEL 300 million less income in 2020. Although businesses have managed to cut some costs, the pandemic increased risk of the need to make capital injections to finance fixed costs.

The table below shows the actual revenues of large SOEs for 2018-2020 and evaluations of what impact Covid-19 has had on their income is presented.

Revenues of SOEs and Impact of Covid-19 on them

[6] Based on the financial ratios for 2019, JSC Electricity System Commercial Operator (ESCO) is of medium risk, although it has been granted very high risk status as ESCO has undertaken to make guaranteed purchase (PPA) of electricity generated from newly built power plants, regardless of whether it will receive a payment from consumers, which is a risk for the company. Similarly for 2020.

Total Revenue, GEL million

		2018 actual	**2019 actual**	**2020 actual**	**2020 expected before pandemic**	**Loss(-), surplus (+) caused due to pandemic**
1	JSC Georgian Oil and Gas Corporation	643	874	997	1,040	-42
2	JSC Georgian Railway	425	491	489	530	-40
3	Tbilisi Transport Company Ltd	138	150	82	165	-70
4	United Water Supply Company Georgia Ltd.	43	47	44	54	-10
5	JSC State Electricity system of Georgia	227	235	182	235	-50
6	Engurhesi Ltd.	75	60	39	48	0
7	Georgian Gas transportation company Ltd.	104	117	117	115	0
8	Sakaeronavigatsia Ltd	81	74	49	106	-50
9	United Airports of Georgia	64	68	35	81	-45
10	Georgian Post Ltd	100	83	74	83	-9
11	JSC Electricity system Commercial operator	522	567	655	560	25

The negative impact of the pandemic on **JSC Georgian Oil and Gas Corporation** on the corporation's revenues mainly resulted from the reduction of the average gas price. During the pandemic, at the request of the government, an agreement was concluded between the Georgian Oil and Gas Corporation and its major client (SOCAR), according to which SOCAR did not increase the gas tariff for the population in exchange for a USD 15 discount for every 1,000 cubic meters of gas by the company. Therefore, the average selling price per cubic meter of gas has decreased by about 13.0% and the company has received about 42 million GEL less revenue due to this in 2020. However, it should be noted that the loss caused by the pandemic was fully compensated by the revenues received from electricity generated by Gardabani 2 Ltd. Moreover, in 2020, the number of employees of the corporation and its subsidiaries increased by 174, which was mainly caused by commencement of operation of Gardabani 2 Ltd thermal power plant.

JSC Georgian Railway was severely damaged by passenger traffic restrictions in March-June and November-December in 2020. Especially, during the severe lockdown, in the second quarter of 2020, the yearly number of passengers carried fell by about 20.0%. Moreover, freights were also made difficult globally. In total, due the pandemic, the company suffered a loss of approximately GEL 40 million in operating income, from which GEL 20 million was lost on passenger transportation and GEL 20 million was reduced on shipments.

Restrictions on the movement of vehicles due to pandemic in the second and fourth quarters of 2020 affected the **Tbilisi Transport Company Ltd**. revenues as well. Prior to the pandemic, the company had planned revenue growth of about 10% in 2020 compared to 2019. However, due to the influence of the pandemic, the company's revenues decreased by about 70 million GEL in 2020. Furthermore, it is noteworthy that the company has made some savings by reducing fuel (costs were reduced by about 15%) and electricity costs (about GEL 200 thousand). During the pandemic, the company was able to retain employees.

United Water Supply Company of Georgia Ltd., whose revenues are generated from commercial and individual subscribers, in 2020 suffered a loss of about GEL 10 million compared to the plan. This was due to restrictions imposed during the pandemic period, when commercial facilities were closed for some period of time. Revenues from individual users also decreased. In addition, the company received a GEL 30 million subsidy from the state during the pandemic to repay its loan obligations. It should be noted that Covid Pandemic has not had a negative impact on employment. Moreover, in 2020, compared to 2019, the number of employees in the company increased by 3.3% to 2,800 people.

Under the influence of the Covid-19 pandemic, the Georgian economy decreased by 6.2% in 2020. The slowdown in business activities has affected electricity consumption, which decreased by 4.9% in 2020 compared to the same period in 2019. Consequently, the pandemic had a negative impact on the revenues of **JSC Georgian State Electrosystem**. The company's electricity transmission fell 10.0% annual to 9.6 TWh. In addition, the company had to reduce the tariff by 23.4%, to 1,013 tetri, which was due to the fact that the investment activities of the company were delayed during the pandemic (in the pre-pandemic period, the calculation of tariff was linked to investment plans). In total, due to electricity transmission and tariff reductions, the company's revenues were reduced by approximately GEL 50 million in 2020. In addition, the number of employees was expected to increase by 20 before the start of the pandemic, however, this was delayed probably due to the pandemic and, conversely, the completion of one of the projects reduced the number of employees by 28 persons. Moreover, salaries paid in GEL increased by 2.4% annually in 2020.

The Covid-19 pandemic had no major impact on the revenues of **Engurhesi Ltd**. Electricity consumption in the country was reduced in 2020, although this did not affect the balance of the Enguri hydropower plant as water inflows were very small during this period.

Covid-19 Pandemic has not had a negative impact on the revenues of the **Georgian Gas Transportation Company Ltd**. The company transports natural gas throughout Georgia and transits natural gas from the Russian Federation to Armenia. In 2020, the pandemic did not affect natural gas consumption. However, as the company has some foreign exchange revenues, and the GEL exchange rate, which depreciated more than projected in 2020, had a positive impact on company revenues. Moreover, the company increased the number of employees by 33 (+ 4.0%) annually during the pandemic.

Due to the Covid-19 pandemic, **Sakaeronavigatsia Ltd** reduced the number of flights in Georgian airspace by 53% in 2020, by 51% on the route and by 72% at the terminal. Considering this, the company's revenues from air navigation services on transit flights were decreased by 14.7%, while the annual decrease in revenues from take-off/landing services was 63.0%. In total, in our estimation, Sakaeronavigatsia Ltd suffered a loss of approximately GEL 50 million in operating income in 2020 due to the impact of the pandemic. In addition, during the pandemic, the company had shortage of cash, forcing management to borrow EUR 10 million from the European Bank for Reconstruction and Development (EBRD) in agreement with the company's partner and supervisory board. Sakaeronavigatsia provides loan services with its own funds. It is noteworthy that during the pandemic, the company was able to retain employees.

The Covid-19 pandemic also had a negative impact on the revenues of the **United Airports of Georgia.** Due to the pandemic, passenger flights began to decrease gradually from February 2020, and from March 21, completely stopped, and in 2020 at airports, passenger traffic decreased by 84.0% compared to 2019. Due to such a solid decline in passenger traffic, aviation revenues fell by 79.5% compared to the plan at the beginning of the year, while non-aviation revenues fell by 42.5%. In total, the company lost about USD 45 million in revenue in 2020 due to the pandemic. Moreover, before the pandemic, due to the expansion of the Kutaisi terminal, it was planned to increase the annual staff by 134 (+ 32.6%) in 2020, however, due to the pandemic, the company did not hire new staff to minimize costs.

Georgian Post Ltd, the number of both domestic and international remittances (including so-called transit mail), a large part of which was sent from China, decreased in 2020 due to the pandemic. Demand for freight within the country has also decreased. Consequently, there was a decrease in revenue in each category. For example, in 2020, revenues in postal services fell by 11.3%, revenues in shipping and terminal services fell by 11.9%, while declines in retail trade fell by 8.6%. Therefore, due to the Covid-19 pandemic, the company's revenues decreased by approximately GEL 12.1 million in 2020. However, if we take into account the fact that about 30% of the company's revenue is in foreign currency and the lari has depreciated significantly against both, the US dollar and the Euro, then some revenue loss has been compensated by exchange rate fluctuations and in total, in 2020 the company's loss in total revenue is equal to about GEL 9 million.

The Covid-19 Pandemic did not have a negative impact on the revenues of **JSC Electric Commercial System Operator (ESCO**) due to the company's activities. Esco buys and sells electricity in the market (including buying and selling balancing electricity and guaranteed capacity) that will be actually generated and consumed at the same time. Based on factual data, in 2020 ESCO revenues increased by 15.5% compared to the 2019 level. This increase, on the one hand, is offset by the depreciation of the lari on dollar revenues (a positive effect of approximately GEL 25 million due to the pandemic), and on the other hand, the rest of the revenue growth is offset by the Shuakhevi HPP (launched in February 2020, generating 258 GWh) and additional revenue received under the Power Purchase Agreement (PPA).

Financial Outcomes of SOEs

JSC Partnership Fund

According to the consolidated statements of the JSC Partnership Fund, the company ended the reporting year 2020 with a loss of GEL -196 million, which is 125% less than the previous year. The fund's income is increasing compared to previous years, however, this does not mean that the trend will continue.

- In 2020, the fund's income from dividend distribution was GEL 42.5 million. The fund's dividend income should be minimal by 2021, as the Oil and Gas Corporation's net profit for 2020 was around GEL 3 million, which is the main source of funding for the fund;
- The total salary expenditure of the Fund in 2020 decreased by about 23% compared to 2019, however, the number of employees did not change;
- A decision was made in September 2021 to refinance the remaining loan to Credit Suisse because the fund did not have sufficient funds to repay the loan. The fund was able to raise EUR 32 million over a 2-year period without a government guarantee. However, there is an indirect guarantee for any SOE that the state will not allow the enterprise to default. Given that fund funding from dividends has been declining since 2021, the fiscal risk from the company has increased.
- According to the individual statements of the JSC Partnership Fund, the company ended 2020 with a profit. However, net profit for 2020 decreased by 91% and amounted to GEL 4 million.

Balance Sheet

In GEL Million

JSC Partnership Fund (con solidated)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Assets	6,281	6,867	6,337	5,815	6,037	4,601
Current assets	1,400	1,662	1,503	1,178	1,093	916
Non-current assets	4,880	5,205	4,834	4,637	4,943	3,685
Total equity	2,557	2,731	2,292	1,771	1,939	1,426
Owner's Equity	100	100	100	100	100	100
Capital Injections	2,376	2,601	2,654	2,726	2,749	2,146
Retained Earnings	34	0	0	0	0	0
Accumulated deficit	0	-18	-505	-1,084	-930	-833

Other Equity	46	48	42	29	20	13
Liabilities	3,724	4,135	4,045	4,044	4,098	3,175
Current liabilities	449	743	991	1,378	698	1,315
Incl. current loans	0	0	0	0	290	1,080
Non-current liabilities	3,275	3,392	3,054	2,665	3,400	1,860
Incl.non-current loans	0	0	0	0	3,205	1,759
Total equity and liabilities	**6,281**	**6,867**	**6,337**	**5,815**	**6,037**	**4,601**

Income Statement

In GEL Million

JSC Partnership Fund (consolidated)	2015	2016	2017	2018	2019	2020
Total Revenue	**1,494**	**1,644**	**1,819**	**1,831**	**1,371**	**1,575**
Operating Revenue	1,437	1,566	1,742	1,760	1,332	1,528
Non-operating Revenue	57	78	77	71	39	48
Total expenses	**1,699**	**1,630**	**2,298**	**2,414**	**1,447**	**1,843**
Operating expenses	1,113	1,212	2,036	2,200	1,222	1,315
Depreciation/amortization	182	204	210	205	137	148
Non-operating expenses	586	418	262	214	226	529
Incl. interest cost	119	163	154	142	81	193
Incl. foreign exchange loss	423	227	74	66	144	330
Other non-operating expenses	44	28	35	6	0	6
Profit before tax	**-204**	**15**	**-479**	**-583**	**-76**	**-268**
Profit tax	-10	-10	3	3	2	2
Net profit	**-195**	**24**	**-482**	**-585**	**87**	**-196**

Financial Ratios

JSC Partnership Fund (consolidated)	2015	2016	2017	2018	2019	2020
Profitability						
Change of revenues	29%	10%	11%	1%	-25%	15%
Change of expenses	66%	-4%	41%	5%	-40%	27%

Operating margin	23%	23%	-17%	-25%	8%	14%
ROA	-3%	0%	-8%	-10%	1%	-4%
ROE	-8%	1%	-21%	-33%	5%	-14%
Cost recovery	134%	136%	89%	83%	112%	120%
Liquidity						
Current ratio	312%	224%	152%	85%	157%	70%
Solvency						
Debt to equity	146%	151%	176%	228%	211%	223%
Interest coverage	- 163%	15%	- 314%	- 412%	47%	-102%

Balance Sheet

In GEL Million

JSC Partnership Fund (individual)	2015	2016	2017	2018	2019	2020
Assets	2,839	2,946	2,496	1,786	1,736	1,605
Current assets	288	305	258	105	12	67
Non-current assets	2,551	2,642	2,239	1,681	1,724	1,537
Total Equity	2,474	2,524	2,117	1,507	1,563	1,408
Owner's Equity	100	100	100	100	100	100
Capital Injections	2,376	2,539	2,592	2,664	2,675	2,084
Retained Earnings	0	0	0	0	0	0
Accumulated deficit	-2	-115	-575	-1,256	-1,212	-775
Other Equity	0	0	0	0	0	0
Liabilities	365	422	379	279	173	196
Current liabilities	6	60	124	245	133	146
Incl. current loans	0	0	0	239	127	144
Non-current liabilities	359	362	256	34	40	51
Incl.non-current loans	0	0	0	34	40	51
Total equity and liabilities	**2,839**	**2,946**	**2,496**	**1,786**	**1,736**	**1,605**

Income Statement

In GEL Million

JSC Partnership Fund (individual)	2015	2016	2017	2018	2019	2020
Total Revenue	**59**	**30**	**51**	**99**	**100**	**74**
Operating Revenue	45	14	31	88	90	50
Non-operating Revenue	14	16	19	11	10	25
Total Expenses	**57**	**143**	**501**	**778**	**55**	**69**
Operating expenses	7	97	469	744	21	40
Depreciation/amortization	0	0	1	1	1	1
Non-operating expenses	50	46	32	34	33	29
Incl. interest cost	50	30	32	32	20	13
Incl. foreign exchange loss	0	15	0	2	14	14
Other non-operating expenses	0	0	0	0	0	1
Profit before tax	**2**	**-113**	**-450**	**-680**	**45**	**5**
Profit tax	0	0	0	1	1	2
Net profit	**2**	**-113**	**-450**	**-681**	**44**	**4**

Financial Ratios

JSC Partnership Fund (individual)	2015	2016	2017	2018	2019	2020
Profitability						
Change of revenues	-	-49%	69%	95%	1%	-26%
Change of expenses	-	150%	250%	55%	-93%	26%
Operating margin	84%	-574%	-1395%	-747%	76%	20%
ROA	0%	-4%	-18%	-38%	3%	0%
ROE	0%	-4%	-21%	-45%	3%	0%
Cost recovery	842%	31%	11%	13%	472%	186%
Liquidity						
Current ratio	5108%	508%	208%	43%	9%	46%
Solvency						
Debt to equity	15%	17%	18%	18%	11%	14%
Interest coverage	3%	-371%	-1394%	-2144%	227%	28%

Year	2015	2016	2017	2018	2019	2020
Profitability						
Return on Assets	Medium Risk	High risk	High risk	High risk	Medium Risk	Medium Risk
Return on equity	Medium Risk	High risk	High risk	High risk	Medium Risk	Medium Risk
Cost recovery	Very low risk	Very high risk	Very high risk	Very high risk	Very low risk	Very low risk
Liquidity						
Current ratio	Very low risk	Very low risk	Very low risk	Very high risk	Very high risk	Very high risk
Solvency						
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very high risk	Very high risk	Very high risk	Very high risk	Very low risk	Very high risk
Overall risk rating	Low risk	Mediu m Risk	Mediu m Risk	High risk	Low risk	Medium Risk

1.1. JSC Georgian Railway

- According to the audited reports of the company, at the end of 2020, the loss of the company amounted to GEL 165 million. In previous years, the company's loss was mainly due to the depreciation of assets, in 2020 the assets did not depreciate.
- The increase in the company's loss in 2020 was mainly caused by the substantial increase in non-operating expenses compared to 2019, namely, the loss on the exchange rate difference increased by about GEL 107 million to GEL 192 million.

Consultations on compensation through a transparent mechanism for non-commercial railway routes based on international best practices are at an early stage, which is appreciated, however, this should not increase the space for other inefficiencies for which corporatization of the enterprise is a prerequisite.

Balance Sheet

in GEL million

JSC Georgian Railway	2014	2016	2016	2017	2018	2019	2020
Assets	2,968	3,094	3,226	2,862	2,264	2,314	2,348
Current assets	418	461	419	352	319	330	389
Non-current assets	2,550	2,632	2,807	2,510	1,945	1,983	1,959
Total Equity	1,563	1,471	1,599	1,245	529	523	359
Owner's Equity	1,052	1,053	1,053	1,053	1,054	1,053	1,054
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	448	93	0	0	0
Accumulated deficit	0	0	0	0	-625	-630	-795
Other Equity	511	419	98	98	100	100	100
Liabilities	1,406	1,623	1,626	1,617	1,735	1,790	1,988
Current liabilities	187	164	191	196	352	243	185
Incl. current loans	87	45	57	59	134	65	74
Non-current liabilities	1,219	1,459	1,435	1,421	1,383	1,547	1,803
Incl.non-current loans	929	1,193	1,362	1,374	1,337	1,501	1,703
Total equity and liabilities	**2,968**	**3,094**	**3,226**	**2,862**	**2,264**	**2,314**	**2,348**

Income Statement

In GEL Million

JSC Georgian Railway	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**536**	**626**	**563**	**517**	**459**	**519**	**528**
Operating Revenue	512	575	539	474	444	504	502
Non-operating Revenue	24	52	24	43	15	15	27
Total Expenses	**490**	**703**	**537**	**870**	**1,174**	**524**	**693**
Operating expenses	379	387	364	766	1,089	396	373
Depreciation/amortization	0	0	33	110	114	81	76

Non-operating expenses	111	315	173	104	85	128	320
Incl. interest cost	45	59	53	53	47	43	128
Incl. foreign exchange loss	0	0	0	0	38	85	192
Other non-operating expenses	66	256	120	51	0	0	0
Profit before tax	**45**	**-76**	**26**	**-353**	**-715**	**-5**	**-164**
Profit tax	6	-11	-39	1	1	1	1
Net profit	**39**	**-65**	**65**	**-354**	**-717**	**-6**	**-165**

Financial Ratios

JSC Georgian Railway	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	17%	-10%	-8%	-11%	13%	2%
Change of expenses	-	43%	-24%	62%	35%	-55%	32%
Operating margin	26%	33%	33%	-62%	-145%	21%	26%
ROA	1%	-2%	2%	-12%	-32%	0%	-7%
ROE	3%	-4%	4%	-28%	-135%	-1%	-46%
Cost recovery	141%	162%	155%	67%	42%	131%	142%
Liquidity							
Current ratio	224%	282%	219%	179%	91%	136%	210%
Solvency							
Debt to equity	90%	110%	102%	130%	328%	342%	553%
Interest coverage	88%	-110%	123%	-663%	-1513%	-13%	-129%

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							

Return on Assets	Medium risk	High risk	Medium risk	High risk	High risk	High risk	High risk
Return on equity	Medium risk	High risk	Medium risk	High risk	High risk	High risk	High risk
Cost recovery	Low risk	Very low risk	Very low risk	Very high risk	Very High risk	Low risk	Low risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Low risk	Very High risk	Medium risk	Very low risk
Solvency							
Debt to equity	Low risk	Medium risk	Medium risk	Medium risk	Very high risk	Very high risk	Very High risk
Interest coverage	Very high risk	Very high risk	Medium risk	Very high risk	Very high risk	Very high risk	Very High risk
Overall risk rating	Medium risk	Medium risk	Low risk	High risk	Very high risk	High risk	High risk

1.2. JSC Georgian Oil and Gas Corporation

- The operating revenueof the company for 2020 has increased by about 14% compared to 2019, which is mainly due to the start of active operation of Gardabani Thermal Power Plant 2, whose revenue has exceeded GEL 100 million.
- The company has suffered an unprecedented large foreign exchange loss over the last 7 years, amounting to GEL 103 million.
- We assigned a high risk category to the company due to substantially worthfinancial results in 2020;
- The growing level of quasi-fiscal activity is a major threat to the company's financial performance. It would be fair to compensate for such activities from the state budget if the company in turn became a direct dividend payer in the state budget;
- Due to Covid-19, the company additionally increased the level of quasi-fiscal activities in purpose the "social gas" to be supplied, which in this case was compensated by the revenues of Gardabani 2.

Eurobonds

The company completed redemption of bonds with a value USD 250 000 000 placed on the London Stock Exchange in 2012 and issuance of new bonds with a face value of USD 250,000,000 in 2016 . The maturity of Eurobonds issued in 2016 was set for April 2021 and its repayment was originally planned through the issuance of new Eurobonds. According to the company, the uncertainty created in the international financial markets as a result of the pandemic in 2020, the issuance of new Eurobonds made it impossible to refinance existing bonds (until the situation in the financial markets stabilized, these types of transactions were almost not implemented), except ofa few exceptions with unfavorable/deteriorating conditions, as investors were demanding additional benefits due to increased risks). Accordingly, in order to ensure the repayment of Eurobonds on time, the company started working on alternative refinancing instruments in April 2020. One of such alternatives was considered to be borrowing money from international financial institutions/banks. As a result of negotiations with international financial institutions, a loan agreement was signed with the European Bank for Reconstruction and Development (EBRD) in September 2020 (with substantially improved terms compared to Eurobonds issued in 2016), which will allow the company to significantly reduce its loan service costs. According to the company's audited financial statements for 2020, the company entered into a loan agreement with the EBRD in September 2020 for a 10-year loan of EUR 217 million (GEL 873 million at 31/12/2020). The loan from EBRD was utilized by the company in April 2021, as a result the liabilities defined by Eurobonds issued in 2016 were fully repaid.

Balance Sheet

in GEL million

JSC Georgian Oil and Gas Corporation	2014	2016	2016	2017	2018	2019	2020
Assets	1,231	1,404	1,581	1,660	1,693	1,882	1,844
Current assets	306	446	712	709	552	490	442
Non-current assets	925	958	869	951	1,141	1,392	1,403
Total Equity	676	715	712	913	988	1,052	907
Owner's Equity	573	611	617	625	627	643	646
Capital Injections	0	0	72	72	72	60	60
Retained Earnings	0	0	265	429	481	541	403

Accumulated deficit	0	0	0	0	0	0	0
Other Equity	103	104	-242	-213	-191	-192	-201
Liabilities	555	689	870	747	705	830	937
Current liabilities	84	88	219	110	47	121	937
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	471	601	651	637	658	710	0
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**1,231**	**1,404**	**1,581**	**1,660**	**1,693**	**1,882**	**1,844**

Income Statement

In GEL Million

JSC Georgian Oil and Gas Corporation	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**372**	**529**	**696**	**750**	**687**	**914**	**1,024**
Operating Revenue	358	495	635	680	643	874	997
Non-operating Revenue	14	33	61	71	44	40	27
Total Expenses	**279**	**488**	**599**	**528**	**531**	**796**	**1,021**
Operating expenses	268	401	485	474	467	730	863
Depreciation/amortization	0	0	40	37	38	41	59
Non-operating expenses	11	87	113	54	65	65	158
Incl. interest cost	0	22	48	49	43	28	51
Incl. foreign exchange loss	0	0	50	5	22	38	103
Other non-operating expenses	10	65	15	0	0	0	0
Profit before tax	**93**	**41**	**97**	**222**	**156**	**118**	**3**
Profit tax	10	4	19	2	0	0	0
Net profit	**84**	**36**	**78**	**220**	**157**	**120**	**3**

Financial Ratios

JSC Georgian Oil and Gas Corporation	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	42%	32%	8%	-8%	33%	12%
Change of expenses	-	75%	23%	-12%	1%	50%	28%
Operating margin	25%	19%	24%	30%	27%	16%	13%
ROA	7%	3%	5%	13%	9%	6%	0%
ROE	12%	5%	11%	24%	16%	11%	0%
Cost recovery	139%	132%	143%	158%	147%	125%	119%
Liquidity							
Current ratio	365%	507%	325%	645%	1186%	406%	47%
Solvency							
Debt to equity	82%	96%	122%	82%	71%	79%	103%
Interest coverage	67869%	166%	162%	453%	369%	436%	6%

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Return on equity	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Cost recovery	Low risk	Low risk	Low risk	Very low risk	Low risk	Low risk	Medium risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very high risk
Solvency							
Debt to equity	Low risk	Low risk	Medium risk	Low risk	Low risk	Low risk	Medium risk

Interest coverage	Very low risk	Low risk	Low risk	Very low risk	Very low risk	Very low risk	Very high risk
Overall risk rating	Low risk	Low risk	Low risk	Low risk	Low risk	Low risk [7]	High risk

JSC Georgian State Electrosystem

- GSE withdrew from the rehabilitation regime 3 years ahead of schedule in January 2021, The support of the Ministry of Finance played a crucial role in this process;
- The company's equityremains negative. Therefore, access to financial resources by the GSE without borrowing from the state budget also remains limited;
- The appointment of an independent supervisory board at GSE created a good precondition for the successful implementation of the corporatization process;
- The only way to quickly improve a company's financial performance is to convert some of the loan into equity and gradually larization of existing loans in order to maintain its performance. Such a decision would be justified if there were certain guarantees that the company would not require loans and / or other support from the Ministry of Finance for the next 10 years and, conversely, become a dividend payer, implement and maintain corporate governance. Finally, converting a loan into equity should really createa financial asset for the State, and not be subsidized..
- In case of conversion loan into equity , fiscal space in the range of 0.3-0.6% should be released in 3-4 years. This should be accompanied by other indirect positive effects: the development of the capital market, the introduction of the corporatization model in other SOEs, the implementation of large infrastructure projects with the freed fiscal space, etc.
- According to preliminary data for 2020, the company's loss amounted to GEL 36 million. According to the company, revenue from the transferred business will decline by 2020 due to restrictions imposed under the COVID-19 pandemic. Limited business activity naturally led to a significant reduction in electricity consumption, resulting in the reduction in transmission volume by 10%. Considering that the company could not achieve the investment plan reflected in the rate calculation for 2018-2020, the tariff for 2020 was reduced by 23%. Thus, the reduction in rates and volume led to a decrease in revenue from the company's transfer activities in 2020.

[7] In the summary of financial outcomes of SOEs, the company has been granted high-risk status for 2019, while the same indicator is stated here as low-risk. According to the analysis of financial ratios, the company, at first glance, did not contain any substantial risks in 2019, however, since we had a n information on quasi-fiscal activities, we placed it in the high risk category in 2019, which was, unfortunately, justified by the deteriorating figures in 2020.

Balance Sheet

in GEL million

JSC Georgian State Electrosystem	2014	2016	2016	2017	2018	2019	2020
Assets	**1,078**	**1,144**	**1,272**	**1,100**	**1,130**	**1,172**	**1,387**
Current assets	70	58	65	79	117	148	119
Non-current assets	1,009	1,086	1,207	1,022	1,013	1,024	1,267
Total Equity	260	153	104	-177	-127	-82	-81
Owner's Equity	528	574	600	639	643	645	663
Capital Injections	0	0	0	0	0	12	0
Retained Earnings	0	0	0	0	0	0	-36
Accumulated deficit	0	0	-508	-828	-781	-751	-698
Other Equity	-268	-421	12	12	12	12	-10
Liabilities	819	991	1,168	1,278	1,257	1,254	1,468
Current liabilities	132	136	211	512	633	161	313
Incl. current loans	0	0	0	0	556	1,094	173
Non-current liabilities	687	856	957	766	624	257	1,155
Incl.non-current loans	0	0	0	0	481	243	1,050
Total equity and liabilities	**1,078**	**1,144**	**1,272**	**1,100**	**1,130**	**1,172**	**1,387**

Income Statement

In GEL Million

JSC Georgian State Electrosystem	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**125**	**117**	**133**	**150**	**245**	**257**	**380**
Operating Revenue	92	114	130	147	237	243	197
Non-operating Revenue	32	3	3	3	8	15	184
Total Expenses	**121**	**232**	**205**	**470**	**198**	**227**	**416**

Operating expenses	94	96	108	362	171	146	145
Depreciation/amortization	0	0	52	56	47	45	47
Non-operating expenses	27	137	97	109	27	81	271
Incl. interest cost	21	21	20	21	21	21	23
Incl. foreign exchange loss	0	0	71	81	6	55	230
Other non-operating expenses	6	115	6	6	0	5	18
Profit before tax	4	-115	-72	-320	47	30	-36
Profit tax	0	-1	8	0	0	0	0
Net profit	4	-113	-80	-320	47	30	-36

Financial Ratios

JSC Georgian State Electrosystem	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	-6%	13%	13%	63%	5%	48%
Change of expenses	-	92%	-12%	130%	-58%	15%	84%
Operating margin	-2%	17%	17%	-145%	28%	40%	26%
ROA	0%	-10%	-6%	-29%	4%	3%	-3%
ROE	1%	-74%	-77%	181%	-37%	-37%	44%
Cost recovery	133%	123%	123%	42%	143%	177%	261%
Liquidity							
Current ratio	53%	43%	31%	15%	18%	92%	38%
Solvency							
Debt to equity	315%	648%	1125%	-720%	-989%	-1524%	-1806%
Interest coverage	17%	-534%	-400%	-1505%	223%	146%	-157%

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	Medium risk	High risk	High risk	High risk	Medium risk	Medium risk	High risk

Return on equity	Medium risk	High risk	High risk	Medium risk	High risk	High risk	Medium risk
Cost recovery	Low risk	Medium risk	Medium risk	Very high risk	Low risk	Very low risk	Very low risk
Liquidity							
Current ratio	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Solvency							
Debt to equity	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Interest coverage	Very high risk	Very high risk	Very high risk	Very high risk	Very low risk	Medium risk	Very high risk
Overall risk rating	High risk	High risk	High risk	High risk	Medium risk	Medium risk	High risk

JSC Electricity System Commercial Operator

- JSC Electricity System Commercial Operator (ESCO) has a natural monopoly on the supply of balancing electricity.
- ESCO is the party of the Power Purchase Agreements (PPAs), so the company is the main relating source of contingent liabilities from SOEs. The risks arising from PPA contracts are assessed below.

Balance Sheet

in GEL million

JSC Electricity system Commercial operator	2014	2016	2016	2017	2018	2019	2020
Assets	**36**	**57**	**63**	**52**	**87**	**76**	**98**
Current assets	36	57	63	52	86	74	97
Non-current assets	1	1	0	0	1	2	1
Total Equity	**7**	**5**	**7**	**17**	**14**	**13**	**17**

Owner's Equity	0	0	0	0	0	0	0
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	7	17	13	13	17
Accumulated deficit	0	0	0	0	0	0	0
Other Equity	7	5	0	0	0	0	0
Liabilities	**30**	**52**	**56**	**36**	**73**	**63**	**81**
Current liabilities	30	52	56	36	73	63	81
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	0	0	0
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**36**	**57**	**63**	**52**	**87**	**76**	**98**

Income Statement

In GEL Million

JSC Electricity system Commercial operator	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**166**	**231**	**328**	**508**	**524**	**572**	**655**
Operating Revenue	165	230	327	506	522	571	649
Non-operating Revenue	1	1	1	2	2	1	6
Total Expenses	**165**	**232**	**326**	**498**	**524**	**571**	**651**
Operating expenses	164	232	326	498	524	571	648
Depreciation/amortization	0	0	0	0	0	1	1
Non-operating expenses	2	0	0	0	0	0	3
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	2	0	0	0	0	0	1
Other non-operating expenses	0	0	0	0	0	0	2
Profit before tax	**1**	**-2**	**2**	**10**	**0**	**1**	**4**
Profit tax	0	0	0	0	0	0	0
Net profit	**1**	**-2**	**2**	**10**	**0**	**1**	**4**

Financial Ratios

JSC Electricity system Commercial operator	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	39%	42%	55%	3%	9%	15%
Change of expenses	-	41%	40%	53%	5%	9%	14%
Operating margin	1%	-1%	0%	2%	0%	0%	0%
ROA	3%	-3%	3%	19%	0%	1%	4%
ROE	18%	-35%	26%	60%	1%	4%	23%
Cost recovery	102%	99%	101%	102%	100%	100%	101%
Liquidity							
Current ratio	121%	108%	112%	147%	118%	118%	120%
Solvency							
Debt to equity	430%	1029%	816%	210%	531%	469%	466%
Interest coverage	-	-	-	-	-	291%	-

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Return on equity	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Cost recovery	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Liquidity							
Current ratio	high risk	High risk	High risk	Medium risk	High risk	High risk	high risk

Solvency							
Debt to equity	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Interest coverage	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Medium risk	High risk	Medium risk	Medium risk	Mediu m risk	Mediu m risk	Mediu m risk

United Water Supply Company Georgia Ltd.

- The company has been showing transaction losses in recent years, which should be as result of unannounced quasi-fiscal activities.
- According to the company, in 2020 2891 people were employed. The company serves 338 thousand households and up to 24 thousand non-household customers.
- Improving depreciated infrastructure, reducing water losses, refining metering systems and rate policies remain the challenges for the company. With regard to the latter, it is advisable to revise the rate only when inefficiencies and potential undeclared quasi-fiscal activities are eliminated at the level of operating expenses.
- In 2020, GEL 30 million of the company's total revenue is a subsidy received from the state budget, which, according to audited reports, was used to repay loan obligations to international organizations. These funds are on-lending from the Ministry of Finance.
- The non-profit nature of the utility sector is somewhat justified by its content, however, it is necessary to compensate non-profit components through a transparent procedure. As a result, the level of subsidies may remain unchanged, however, a commercial rate will be set, the subsidy will be received by the consumer and not by the company.
- For the first time in the last 7 years, the company's equityhas become negative, which is alarming.

Balance Sheet

in GEL million

United Water Supply Company Georgia Ltd.	2014	2016	2016	2017	2018	2019	2020
Assets	**553**	**636**	**545**	**712**	**853**	**1,080**	**1,192**
Current assets	38	38	44	93	76	81	32
Non-current assets	515	598	501	619	777	999	1,161
Total Equity	**297**	**256**	**7**	**15**	**16**	**22**	**-110**
Owner's Equity	204	218	255	288	381	383	383
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-401	-464	-504	-590	-796
Other Equity	93	38	153	191	139	229	303
Liabilities	**257**	**380**	**538**	**697**	**837**	**1,058**	**1,303**
Current liabilities	9	13	24	40	75	125	143
Incl. current loans			6	4	34	64	86
Non-current liabilities	247	367	514	657	762	933	1,159
Incl.non-current loans	247	367	514	657	762	933	1,159
Total equity and liabilities	**553**	**636**	**545**	**712**	**853**	**1,080**	**1,192**

Income Statement

In GEL Million

United Water Supply Company Georgia Ltd.	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**33**	**31**	**34**	**42**	**41**	**46**	**72**
Operating Revenue	33	31	33	39	39	42	69
Non-operating Revenue	0	0	1	3	3	5	3
Total Expenses	**61**	**109**	**99**	**105**	**82**	**131**	**278**
Operating expenses	66	58	64	66	71	77	80
Depreciation/amortization	0	0	15	16	16	17	19
Non-operating expenses	-4	51	36	39	11	54	198
Incl. interest cost	0	0	35	39	9	53	17
Incl. foreign exchange loss	0	0	0	0	2	2	181

Other non-operating expenses	-4	51	0	0	0	0	0
Profit before tax	**-28**	**-78**	**-65**	**-63**	**-40**	**-85**	**-205**
Profit tax	0	0	0	0	0	0	0
Net profit	-28	-78	-65	-63	-40	-85	-205

Financial Ratios

United Water Supply Company Georgia Ltd.	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	-6%	9%	24%	-1%	12%	56%
Change of expenses	-	79%	-9%	6%	-23%	61%	112%
Operating margin	-97%	-88%	-95%	-69%	-83%	-84%	-16%
ROA	-5%	-12%	-12%	-9%	-5%	-8%	-17%
ROE	-9%	-31%	-984%	-434%	-250%	-380%	186%
Cost recovery	51%	53%	53%	64%	59%	60%	90%
Liquidity							
Current ratio	410 %	295%	186%	231%	102%	65%	22%
Solvency							
Debt to equity	86%	148%	8085%	4762%	5181%	4741%	-1181%
Interest coverage	-	-	-185%	-161%	-425%	-162%	-107%

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	High risk	High risk	High risk	High risk	High risk	High risk	High risk
Return on equity	High risk	High risk	High risk	High risk	High risk	High risk	Mediu m risk
Cost recovery	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	High risk
Liquidity							

Current ratio	Very low risk	Very low risk	Low risk	Very low risk	high risk	Very high risk	Very high risk
Solvency							
Debt to equity	Very low riks	Medium risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Interest coverage	Very low risk	Very low risk	Very high risk	Very high risk	Very high risk	Very high risk	Very High risk
Overall risk rating	Mediu m risk	Medium risk	High risk	High risk	Very high risk	Very high risk	Very High risk

JSC UES Sakrusenergo

Balance Sheet

in GEL million

JSC UES Sakrusenergo	**2014**	**2016**	**2016**	**2017**	**2018**	**2019**	**2020**
Assets	**93**	**95**	**93**	**93**	**107**	**122**	**134**
Current assets	11	13	15	13	28	43	56
Non-current assets	83	82	78	80	79	79	78
Total Equity	91	93	91	92	107	121	132
Owner's Equity	232	232	230	230	230	230	230
Capital Injections	0	0	2	2	2	2	2
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-141	-141	-125	-111	-100
Other Equity	-141	-139	0	0	0	0	0
Liabilities	2	2	3	2	0	1	1
Current liabilities	2	2	3	2	0	0	1
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	0	1	1

Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**93**	**95**	**93**	**93**	**107**	**122**	**134**

Income Statement

In GEL Million

JSC UES Sakrusenergo	2014	2015	20 16	2017	2018	2019	2020
Total Revenue	**15**	**17**	**18**	**21**	**36**	**36**	**32**
Operating Revenue	15	17	17	19	35	33	29
Non-operating Revenue	0	0	1	1	1	3	3
Total Expenses	**15**	**14**	**17**	**17**	**21**	**22**	**21**
Operating expenses	14	14	17	17	20	22	21
Depreciation/amortiz ation	0	0	3	4	4	4	4
Non-operating expenses	0	0	0	0	1	0	0
Incl. interest cost	0	0	0	0	1	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	0	0	0	0	0	0	0
Profit before tax	**1**	**3**	**1**	**3**	**15**	**14**	**11**
Profit tax	0	0	4	0	0	0	0
Net profit	**0**	**2**	**-3**	**3**	**15**	**14**	**11**

Financial Ratios

JSC UES Sakrusenergo	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	13 %	6%	13%	76%	-2%	-9%
Change of expenses	-	- 2%	20%	0%	22%	3%	-2%
Operating margin	4%	15 %	2%	11%	42%	34%	29%
ROA	0%	2%	-3%	3%	14%	11%	8%
ROE	0%	2%	-3%	3%	14%	12%	9%
Cost recovery	106%	121 %	108%	120%	178 %	165%	156%

Liquidity							
Current ratio	477%	732 %	566%	823%	589 3%	1519 9%	6974%
Solvency							
Debt to equity	2%	2%	3%	2%	0%	1%	1%
Interest coverage	-	-	-	-	253 9%	-	-

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	Medium risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk
Return on equity	Medium risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk
Cost recovery	Medium risk	Medium risk	Medium risk	Medium risk	Very low risk	Very low risk	Very low risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	low risk	low risk	low risk	low risk	low risk	low risk	low risk

- It can be said that the Gas Transportation Company is the only company in the pandemic that closed the year with better performance than the previous year,which was ensured by the foreign currency revenue.
- The company received GEL 10.6 million more operating profit in 2020 compared to 2019. The increase in operating profit was due to both the increase in revenue, in particular the revenue from increase in natural gas transportation rates, as well as the reduction in expenses, in particular,the reduction in gas cost as a result of its purchase price and volume.

Balance Sheet

in GEL million

Georgian Gas Transportation Company Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**78**	**100**	**108**	**158**	**0**	**172**	**200**
Current assets	50	69	69	123	0	114	112
Non-current assets	28	31	38	35	0	58	88
Total Equity	**42**	**2**	**57**	**117**	**103**	**141**	**169**
Owner's Equity	23	26	36	84	56	34	4
Capital Injections	0	0	14	14	14	14	14
Retained Earnings	0	0	8	19	32	52	85
Accumulated deficit	0	0	0	0	0	0	0
Other Equity	20	-24	0	0	0	40	66
Liabilities	**36**	**98**	**51**	**41**	**38**	**33**	**31**
Current liabilities	36	98	51	20	19	13	14
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	21	19	20	17
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**78**	**100**	**108**	**158**	**141**	**173**	**200**

Income Statement

In GEL Million

Georgian Gas Transportation Company Ltd	2014	2015	20 16	2017	2018	2019	2020

Total Revenue	189	222	165	182	108	120	122
Operating Revenue	187	218	161	165	104	117	117
Non-operating Revenue	2	3	4	18	4	4	6
Total Expenses	**201**	**264**	**114**	**171**	**93**	**100**	**90**
Operating expenses	201	264	114	171	93	100	90
Depreciation/amortization	0	0	2	2	2	2	3
Non-operating expenses	0	0	0	0	0	0	0
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss rates	0	0	0	0	0	0	0
Other non-operating expenses	0	0	0	0	0	0	0
Profit before tax	-13	-42	51	11	16	20	32
Profit tax	-2	2	3	0	0	0	0
Net profit	-11	-44	48	11	16	20	32

Financial Ratios

Georgian Gas Transportation Company Ltd	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	18%	-25%	10%	-41%	11%	2%
Change of expenses	-	31%	-57%	50%	-46%	8%	-10%
Operating margin	-8%	-21%	29%	-4%	11%	14%	23%
ROA	-14%	-44%	45%	7%	11079%	12%	16%
ROE	-26%	-1850%	85%	10%	15%	14%	19%
Cost recovery	94%	84%	145%	107%	117%	120%	136%
Liquidity							
Current ratio	139%	71%	137%	611%	1%	906%	787%

Solvency							
Debt to equity	85 %	4128%	88%	35%	37%	23%	18%
Interest coverage	-	-	-	-	-	-	-

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	High risk	High risk	Medium risk	Medium risk	Very low risk	Medium risk	Medium risk
Return on equity	High risk	Very high risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Cost recovery	High risk	High risk	Low risk	Medium risk	Medium risk	Medium risk	Low risk
Liquidity							
Current ratio	Medium risk	Very high risk	Medium risk	Very low risk	Very high risk	Very low risk	Very low risk
Solvency							
Debt to equity	Low risk	Very high risk	Low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Medium risk	High risk	Low risk	Low risk	Low risk	Low risk	Low risk

JSC Georgian Energy Development Fund

- The company ended 2020 with a profit and, similar to the last few years, has maintained a stable profit margin.
- 2019 is the exception, when the company's revenue increased almost 4 times compared to 2018, which was caused by the sale of the share of "Kartli Wind Power Plant" for USD 7 214 400.

Balance Sheet

in GEL million

JSC Georgian Energy Development Fund	2014	2016	2016	2017	2018	2019	2020
Assets	**56**	**100**	**71**	**70**	**72**	**83**	**77**
Current assets	20	43	32	31	31	51	58
Non-current assets	35	57	39	39	41	32	19
Total Equity	**55**	**56**	**70**	**70**	**72**	**82**	**77**
Owner's Equity	52	54	54	56	56	56	50
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	16	14	16	25	26
Accumulated deficit	0	0	0	0	0	0	0
Other Equity	2	1	0	0	0	0	0
Liabilities	**1**	**44**	**1**	**0**	**0**	**1**	**0**
Current liabilities	1	44	1	0	0	1	0
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	0	0	0
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**56**	**100**	**71**	**70**	**72**	**83**	**77**

Income Statement

In GEL Million

JSC Georgian Energy Development Fund	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**2**	**2**	**26**	**3**	**3**	**13**	**5**
Operating Revenue	1	0	0	0	1	0	0
Non-operating Revenue	1	2	26	3	3	13	5
Total Expenses	**1**	**3**	**9**	**2**	**2**	**3**	**4**
Operating expenses	1	1	1	1	2	3	4
Depreciation/amortization	0	0	0	0	0	0	0
Non-operating expenses	0	2	8	0	1	0	0
Incl. interest cost	0	0	3	0	0	0	0

Incl. foreign exchange loss	0	0	1	0	0	0	0
Other non-operating expenses	0	2	4	0	1	0	0
Profit before tax	**1**	**-1**	**17**	**1**	**1**	**10**	**1**
Profit tax	0	0	2	0	0	0	0
Net profit	**1**	**-1**	**15**	**1**	**1**	**10**	**1**

Financial Ratios

JSC Georgian Energy Development Fund	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	35%	1012%	-88%	9%	279%	-58%
Change of expenses	-	240%	156%	-81%	35%	36%	28%
Operating margin	-44%	-	-	-	-150%	-	-
ROA	1%	-1%	21%	2%	1%	12%	2%
ROE	1%	-2%	22%	2%	1%	12%	2%
Cost recovery	172%	203%	2168%	226%	223%	403%	134 %
Liquidity							
Current ratio	1911%	97%	2528%	93147%	102136 %	3422 %	109289 %
Solvency							
Debt to equity	2%	79%	2%	0%	0%	2%	0%
Interest coverage	-	-4897%	473%	-	22523%	-	-

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk

Return on equity	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Cost recovery	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Low risk
Liquidity							
Current ratio	Very low risk	Very high risk	Mediu m risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very low risk	Very high risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Low risk	High risk	Low risk	Low risk	Low risk	Low risk	Low risk

Engurhesi Ltd

- The share of consumption in occupied Abkhazia in the annual generation of Enguri HPP increases from year to year, which isa financial burden forthe company. This is an explicit quasi-fiscal activity.
- In 2020, the company's revenue from the sale of electricity amounted to GEL 14.8 million. This volume does not include the cost of electricity supplied to Abkhazia free of charge. The company's loss in 2020 amounted to GEL 62 million, which is largely due to the depreciation of the national currency - GEL 42 million;
- In 2020, during the pandemic, the energy consumption declined by about 10% in the territory controlled by Georgia, while the consumption in the occupied Abkhazia region increased by 24% in the same period. It would be logical to expect that energy consumption in occupied Abkhazia would have been more dramatic compared to the Georgian-controlled territory, instead we got the exact opposite result. The same period is associated with a rise in cryptocurrency prices, which in turn increases the demand for mining. We can conclude that the increase in consumption by 100% comes from mining. Assuming that this is not partially offset by energy imported from Russia, the accrued revenue of Enguri HPP through illegal mining onlyin 2020 would be at least GEL 9 million[8]. Mentioned makes a great threat to the company’s financial soundness, in turn creating a fiscal risk for the state.

[8] There is no statistical data regarding this issue. Calculation is based on evaluation from personnel of Ministry of Finance.

Balance Sheet

in GEL million

Engurhesi Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**330**	**349**	**348**	**354**	**371**	**387**	**416**
Current assets	14	14	6	11	31	22	8
Non-current assets	315	335	341	342	340	365	408
Total Equity	**200**	**186**	**169**	**161**	**182**	**177**	**116**
Owner's Equity	208	207	207	208	208	208	208
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-38	-47	-26	-31	-93
Other Equity	-8	-21	0	0	0	0	0
Liabilities	**130**	**163**	**179**	**192**	**188**	**210**	**301**
Current liabilities	9	6	16	2	4	6	22
Incl. current loans	0	0	0	0	0	1	10
Non-current liabilities	121	157	163	190	184	204	279
Incl.non-current loans	0	0	0	0	0	184	271
Total equity and liabilities	**330**	**349**	**348**	**354**	**371**	**387**	**416**

Income Statement

In GEL Million

Engurhesi Ltd	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**61**	**47**	**37**	**42**	**63**	**44**	**27**
Operating Revenue	54	46	37	42	62	43	15
Non-operating Revenue	7	1	0	0	1	1	12
Total expenses	**50**	**60**	**45**	**51**	**43**	**49**	**89**
Operating expenses	44	46	35	36	40	40	44
Depreciation/amortization	0	0	1	1	1	1	1
Non-operating expenses	6	14	10	15	3	8	45
Incl. interest cost	0	0	3	3	3	3	3
Incl. foreign exchange loss	0	0	7	13	0	6	42
Other non-operating expenses	5	14	0	0	0	0	0

Profit before tax	11	-13	-8	-9	21	-5	-62
Profit tax	0	0	0	0	0	0	0
Net profit	**11**	**-13**	**-8**	**-9**	**21**	**-5**	**-62**

Financial Ratios

Engurhesi Ltd	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	-23%	-21%	14%	49%	-31%	-38%
Change of expenses	-	20%	-24%	13%	-17%	15%	82%
Operating margin	19%	0%	5%	15%	36%	7%	-189%
ROA	3%	-4%	-2%	-2%	6%	-1%	-15%
ROE	6%	-7%	-5%	-5%	11%	-3%	-54%
Cost recovery	138%	102%	105%	118%	159%	108%	62%
Liquidity							
Current ratio	155%	233%	41%	642%	817%	378%	39%
Solvency							
Debt to equity	65%	88%	106%	119%	103%	118%	261%
Interest coverage	2678%	-2639%	-300%	-327%	807%	-185%	-2072%

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	Medium risk	High risk	High risk	High risk	Medium risk	High risk	High risk
Return on equity	Medium risk	High risk	High risk	High risk	Medium risk	High risk	High risk
Cost recovery	low risk	Medium risk	Medium risk	Medium risk	Very low risk	Medium risk	Very high risk
Liquidity							

Current ratio	Low risk	Very low risk	Very high risk	Very low risk	Very low risk	Very low risk	Very high risk
Solvency							
Debt to equity	Low risk	Low risk	Medium risk	Medium risk	Medium risk	Medium risk	Very high risk
Interest coverage	Very low risk	Very high risk	Very high risk	Very high risk	Very low risk	Very high risk	Very high risk
Overall risk rating	Low risk	Medium risk	High risk	Medium risk	Low risk	Medium risk	Very high risk

Tbilisi Transport Company Ltd.

Balance Sheet

in GEL million

Tbilisi Transport Company Ltd.	2014	2016	2016	2017	2018	2019	2020
Assets	**468**	**460**	**511**	**288**	**424**	**406**	**632**
Current assets	32	37	51	71	221	80	58
Non-current assets	436	423	460	217	203	326	573
Total Equity	**465**	**458**	**472**	**249**	**383**	**344**	**625**
Owner's Equity	339	348	365	332	521	554	991
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	0	-83	- 138	-210	- 366
Other Equity	126	110	107	0	0	0	0
Liabilities	**2**	**2**	**39**	**39**	**42**	**62**	**7**
Current liabilities	2	2	39	14	19	31	7
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	25	23	31	0
Incl.non-current loans	0	0	0	0	0	0	0

Total equity and liabilities	468	460	511	288	424	406	632

Income Statement

In GEL Million

Tbilisi Transport Company Ltd.	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**114**	**117**	**122**	**132**	**149**	**174**	**91**
Operating Revenue	109	112	113	128	140	153	86
Non-operating Revenue	5	5	9	4	9	21	6
Total Expenses	**133**	**133**	**133**	**202**	**205**	**245**	**248**
Operating expenses	132	133	132	202	205	245	239
Depreciation/amortization	0	0	0	16	16	21	53
Non-operating expenses	1	0	0	0	0	0	9
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	1	0	0	0	0	0	9
Profit before tax	**-19**	**-16**	**-10**	**-71**	**-56**	**-71**	**-156**
Profit tax	0	0	0	0	0	0	0
Net profit	**-19**	**-16**	**-10**	**-71**	**-56**	**-71**	**-156**

Financial Ratios

Tbilisi Transport Company Ltd.	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	2%	4%	8%	13%	16%	-47%
Change of expenses	-	0%	-1%	53%	1%	20%	1%
Operating margin	-21%	-19%	-17%	-58%	-46%	-60%	-179%
ROA	-4%	-3%	-2%	-24%	-13%	-18%	-25%

ROE	-4%	-3%	-2%	-28%	-15%	-21%	-25%
Cost recovery	86%	88%	93%	65%	73%	71%	38%
Liquidity							
Current ratio	1296%	1750%	131%	506%	1167%	261%	842%
Solvency							
Debt to equity	1%	0%	8%	16%	11%	18%	1%
Interest coverage	-	-	-6143%	-41511%	-	-	-

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	High risk	High risk	High risk	High risk	Medium risk	High risk	High risk
Return on equity	High risk	High risk	High risk	High risk	Medium risk	High risk	High risk
Cost recovery	High risk	High risk	High risk	Very high risk	Very high risk	Very high risk	Very high risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very high risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very low risk	Very low risk	Very high risk	Very high risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Medium risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk	Medium risk

- The company's revenue in 2020 declined compared to the previous reporting year, decreased revenue from postal courier services, product sales, as well as cargo shipping. The percentage distribution of operating revenue by 2020 is as follows:
  - Revenue from postal services - 43%;
  - Revenue from cargo transportation - 20%;
  - Revenue from product sales - 34%.
- Compared to 2019, the company increased its non-operating revenue in 2020 at the valueof subsidies received from the state budget, in particular, according to the audited financial statements of the company for 2020, the company received financial assistance from the state budget in the amount of 2.2 million GEL.

Balance Sheet

in GEL million

Georgian Post Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**53**	**57**	**70**	**72**	**84**	**88**	**93**
Current assets	16	21	32	27	43	37	45
Non-current assets	37	35	38	45	41	50	48
Total Equity	**39**	**39**	**48**	**51**	**47**	**50**	**65**
Owner's Equity	43	42	51	51	48	50	59
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	6
Accumulated deficit	0	0	0	0	0	0	0
Other Equity	-4	-3	-3	0	0	0	0
Liabilities	**14**	**18**	**22**	**21**	**37**	**38**	**28**
Current liabilities	14	17	22	21	28	23	23
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	9	15	6
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**53**	**57**	**70**	**72**	**84**	**88**	**93**

Income Statement

In GEL Million

Georgian Post Ltd	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**54**	**61**	**73**	**89**	**103**	**86**	**83**
Operating Revenue	53	59	70	86	98	83	74
Non-operating Revenue	1	3	3	3	5	3	8
Total Expenses	**56**	**61**	**72**	**89**	**104**	**85**	**76**
Operating expenses	54	59	69	86	100	85	76
Depreciation/amortization	0	0	0	3	4	5	5
Non-operating expenses	2	1	3	3	4	0	0
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	2	1	3	3	4	0	0
Profit before tax	**-1**	**1**	**1**	**0**	**0**	**1**	**6**
Profit tax	0	0	0	0	0	0	0
Net profit	**-1**	**1**	**1**	**0**	**0**	**1**	**6**

Financial Ratios

Georgian Post Ltd	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	13%	19%	22%	16%	-17%	-4%
Change of expenses	-	9%	19%	24%	16%	-18%	-11%
Operating margin	0%	-1%	1%	-1%	-1%	-3%	-2%
ROA	-2%	1%	2%	0%	0%	1%	7%
ROE	-3%	2%	3%	0%	-1%	2%	9%
Cost recovery	102%	103%	106%	103%	104%	101%	108%
Liquidity							
Current ratio	113%	122%	146%	132%	152%	165%	201%
Solvency							
Debt to equity	37%	46%	45%	41%	78%	75%	43%

Interest coverage	-	-	-	-	-	-	-

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	High risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk
Return on equity	High risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk	Medium risk
Cost recovery	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk
Liquidity							
Current ratio	High risk	High risk	Medium risk	Medium risk	Low risk	Low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Low risk	Low risk	Very low risk
Interest coverage	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Medium risk	Medium risk	Low risk	Medium risk	Medium risk	Low risk	Low risk

Georgian Amelioration Ltd

Similarly to United Water Supply Company, Georgian Amelioration activities present a huge non-commercial activities. . While this is somewhat acceptable for the irrigation sector, it is necessary to take some steps to make tariff policy more transparent ., corporate governance practices should be introduced in the company, that should terminate or slow the growing trend of subsidy dependencies.

Balance Sheet

in GEL million

Georgian Amelioration Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**602**	**665**	**83**	**107**	**72**	**81**	**106**
Current assets	129	159	24	51	18	31	32
Non-current assets	473	506	59	55	55	50	74
Total Equity	**575**	**634**	**69**	**90**	**56**	**46**	**71**

Owner's Equity	677	762	840	910	907	900	922
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	0	-820	-851	-854	-851
Other Equity	-102	-129	-771	0	0	0	0
Liabilities	**27**	**32**	**14**	**16**	**16**	**35**	**35**
Current liabilities	22	26	13	16	16	17	17
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	5	5	1	1	0	18	18
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**602**	**665**	**83**	**107**	**72**	**81**	**106**

Income Statement

In GEL Million

Georgian Amelioration Ltd	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total Revenue	**21**	**17**	**19**	**21**	**23**	**25**	**32**
Operating Revenue	4	5	5	5	5	6	6
Non-operating Revenue	17	13	14	16	18	19	26
Total Expenses	**37**	**41**	**59**	**69**	**62**	**56**	**117**
Operating expenses	36	41	58	68	61	53	116
Depreciation/amortization	0	0	20	7	7	6	6
Non-operating expenses	0	0	1	1	1	3	0
Incl. interest cost	0	0	1	1	1	1	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	0	0	0	0	0	1	0
Profit before tax	**-15**	**-24**	**-40**	**-48**	**-39**	**-31**	**-84**
Profit tax	0	0	0	0	0	0	0
Net profit	**-15**	**-24**	**-40**	**-48**	**-39**	**-31**	**-84**

Financial Ratios

Georgian Amelioration Ltd	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	-19%	12%	11%	8%	8%	30%
Change of expenses	-	12%	45%	17%	-10%	-11%	109%
Operating margin	-754%	-757%	-1051%	-1200%	-1066%	-791%	-1774%
ROA	-3%	-4%	-48%	-45%	-54%	-38%	-80%
ROE	-3%	-4%	-58%	-53%	-70%	-67%	-119%
Cost recovery	59%	43%	33%	31%	38%	47%	28%
Liquidity							
Current ratio	585%	605%	184%	328%	114%	179%	191%
Solvency							
Debt to equity	5%	5%	21%	18%	28%	77%	49%
Interest coverage	-33344%	-50034%	-4236%	-5083%	-2858%	-2377%	-

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	High risk	High risk	High risk	High risk	High risk	High risk	High risk
Return on equity	High risk	High risk	High risk	High risk	High risk	High risk	High risk
Cost recovery	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Liquidity							
Current ratio	Very low risk	Very low risk	Low risk	Very low risk	High risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Low risk	Very low risk
Interest coverage	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very low risk
Overall risk rating	Medium risk	Medium risk	Low risk	Medium risk	High risk	High risk	Medium risk

State Construction Company Ltd

- In 2020 the company's activity was limited .
- The main order of the company is the Ministry of Regional Development and Infrastructure and its main area of activity is the implementation of disaster relief works with urgent necessity.

Balance Sheet

in GEL million

State Construction Company Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**90**	**101**	**98**	**120**	**96**	**91**	**89**
Current assets	69	82	81	110	88	87	86
Non-current assets	20	19	17	10	8	4	3
Total Equity	**79**	**92**	**85**	**94**	**89**	**90**	**88**
Owner's Equity	95	115	118	132	142	133	134
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-34	-40	-54	-44	-47
Other Equity	-16	-22	1	1	1	1	1
Liabilities	**10**	**9**	**13**	**27**	**7**	**1**	**1**
Current liabilities	10	9	13	27	7	1	1
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	0	0	0	0	0	0	0
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	**90**	**101**	**98**	**120**	**96**	**91**	**89**

Income Statement

In GEL Million

State Construction Company Ltd	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**36**	**22**	**16**	**20**	**44**	**15**	**0.5**
Operating Revenue	36	21	16	20	44	2	0.4
Non-operating Revenue	0	1	0	0	0	13	0.1
Total expenses	**45**	**28**	**27**	**26**	**51**	**5**	**3**
Operating expenses	45	28	26	25	51	5	2
Depreciation/amortization	0	0	1	0	0	1	0
Non-operating expenses	0	0	0	1	0	0	1
Incl. interest cost	0	0	0	0	0	0	0
Incl. foreign exchange loss	0	0	0	0	0	0	0
Other non-operating expenses	0	0	0	1	0	0	1
Profit before tax	**-9**	**-6**	**-10**	**-6**	**-7**	**10**	**-2.5**
Profit tax	0	0	0	0	0	0	0
Net profit	**-9**	**-6**	**-10**	**-6**	**-7**	**10**	**-2.5**

Financial Ratios

State Construction Company Ltd	2014	2015	2016	2017	2018	2019	2020
Profitability							
Change of revenues	-	-40%	-24%	21%	122%	-66%	-96%
Change of expenses	-	-38%	-5%	-3%	96%	-91%	-37%
Operating margin	-26%	-32%	-63%	-28%	-15%	-159%	-406%
ROA	-10%	-6%	-10%	-5%	-7%	11%	-3%
ROE	-12%	-7%	-12%	-7%	-8%	11%	-3%
Cost recovery	81%	78%	63%	78%	87%	312%	29%
Liquidity							

Current ratio	680 %	957%	623%	414%	1304%	8573 %	1559 9%
Solvency							
Debt to equity	13%	9%	15%	28%	8%	1%	1%
Interest coverage	-	-	-	-	-	-	-

Year	2014	2015	2016	2017	2018	2019	2020
Profitability							
Return on Assets	High risk	High risk	High risk	High risk	High risk	Medium risk	High risk
Return on equity	High risk	High risk	High risk	High risk	High risk	Medium risk	High risk
Cost recovery	High risk	High risk	Very high risk	High risk	High risk	Very low risk	Very high risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Overall risk rating	Medium	Medium	Medium	Medium	Medium risk	Low risk	Medium risk

Agricultural Logistics and Services Company Ltd

- The company owns service centers throughout Georgia, where agricultural equipment and tractor brigades are stored , through which it carries out more than 80 different types of agro-operations.
- Within the framework of the preferential agro-credit program, the company subsidizes the loan interest.

Balance Sheet

in GEL million

Agricultural Logistics and Services Company Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	200	185	167	178	170	116	97
Current assets	9	13	10	31	13	13	13
Non-current assets	191	173	157	147	156	103	84
Total Equity	146	143	142	167	156	100	78
Owner's Equity	208	242	267	336	374	374	374
Capital Injections	0	0	0	0	0	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-125	-168	-218	-274	-295
Other Equity	-62	-99	0	0	0	0	0
Liabilities	54	42	25	11	11	16	18
Current liabilities	1	2	3	7	3	4	6
Incl. current loans	0	0	0	0	0	0	4
Non-current liabilities	53	40	22	5	8	13	12
Incl.non-current loans	0	0	0	0	0	0	0
Total equity and liabilities	200	185	167	178	167	116	97

Income Statement

In GEL Million

Agricultural Logistics and Services Company Ltd	2014	2015	2016	2017	2018	2019	2020
Total Revenue	23	20	15	6	12	13	14
Operating Revenue	20	20	15	5	10	12	13
Non-operating Revenue	3	1	0	0	2	1	1
Costs	55	57	41	28	43	50	36
Operating expenses	49	44	34	24	38	47	33
Depreciation/amortization	0	0	16	1	11	9	6
Non-operating expenses	5	13	7	4	5	2	2
Incl. interest cost	4	3	2	1	2	1	2
Incl. foreign exchange loss	0	0	2	0	0	1	1

Other non-operating expenses	2	9	3	3	3	1	0
Profit before tax	-32	-36	-26	-22	-32	-36	-22
Profit tax	0	0	0	0	0	0	0
Net profit	-32	-36	-26	-22	-51	-40	-22

Financial Ratios

Agricultural Logistics and Services Company Ltd	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	-11%	-25%	-62%	102%	11 %	3%
Change of expenses	-	4%	-28%	-32%	55%	14 %	-28%
Operating margin	- 149%	-124%	-123%	-345%	-274%	-284%	- 161 %
ROA	-16%	-20%	-15%	-12%	-30%	-34%	-23%
ROE	-22%	-25%	-18%	-13%	-33%	-40%	-28%
Cost recovery	47%	46%	46%	24%	31%	28 %	41 %
Liquidity							
Current ratio	593%	558%	318%	480%	394%	367%	201 %
Solvency							
Debt to equity	37%	29%	17%	7%	7%	16 %	23%
Interest coverage	- 846%	-1084%	-1252%	-2100%	-3091%	-4130%	- 1193 %

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							

Return on Assets	High risk	High risk	High risk	High risk	High risk	High risk	High risk
Return on equity	High risk	High risk	High risk	High risk	High risk	High risk	High risk
Cost recovery	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Interest coverage	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Overall risk rating	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk	Medium risk

Marabda-Kartsakhi Railway Ltd

- At the stage of SOE sectorization, the company did not belong to either SOEs or government sectors. The main activity of the company is the construction of a railway line on the territory of Georgia, which will connect the railway networks of Azerbaijan and Turkey, and its activities do not aim to generate profit. Therefore, we do not consider it appropriate to include the Marabda-Kartsakhi railway in the consolidated financial results of the portfolio of SOEs. However, for transparency purposes, we still attach.
- The company's current loss is due to large-scale losses arising from the exchange rate difference and accrued interest expenses.
- The company has received loans from the Ministry of Transport of the Republic of Azerbaijan. The line of credit is USD 775 million and its sole purpose is to finance the project and any unavoidable operating expenses associated with it. The loan was issued in 2 tranches:
    - First tranche - USD 200 million; Annual interest rate - 1%; The tranche is fully assimilated;
    - in the second tranche - 575 million USD; Annual interest rate 5%; As of December 31, 2020 the company had USD 79,095 thousand in cash available under the second tranche of its line of credit (as of December 31, 2019: USD 109,742 thousand).
- Company's loan is not part of the state debt.

Balance Sheet

in GEL million

Marabda-Kartsakhi Railway Ltd	2014	2016	2016	2017	2018	2019	2020
Assets	**1,010**	**1,170**	**1,285**	**1,393**	**1,461**	**1,535**	**1,679**
Current assets	344	310	261	281	258	248	245
Non-current assets	666	860	1,025	1,112	1,203	1,288	1,434
Total Equity	**-82**	**-414**	**-616**	**-565**	**-664**	**-847**	**-1,229**
Owner's Equity	53	53	53	53	57	57	57
Capital Injections	0	0	30	30	30	0	0
Retained Earnings	0	0	0	0	0	0	0
Accumulated deficit	0	0	-699	-648	-751	-933	-1,316
Other Equity	-135	-467	0	0	0	30	30
Liabilities	1,092	1,584	1,902	1,959	2,126	2,382	2,908
Current liabilities	9	23	10	14	19	23	28
Incl. current loans	0	0	0	0	0	0	0
Non-current liabilities	1,083	1,561	1,891	1,945	2,107	2,359	2,881
Incl.non-current loans	0	0	0	0	2,107	2,359	2,881
Total equity and liabilities	**1,010**	**1,170**	**1,285**	**1,393**	**1,461**	**1,535**	**1,679**

Income Statement

In GEL Million

Marabda-Kartsakhi Railway Ltd	2014	2015	2016	2017	2018	2019	2020
Total Revenue	**9**	**0**	**43**	**178**	**134**	**72**	**202**
Operating Revenue	0	0	0	0	0	0	0
Non-operating Revenue	9	0	43	178	134	72	202
Total Expenses	**97**	**332**	**248**	**164**	**237**	**254**	**585**
Operating expenses	13	16	18	20	20	22	22
Depreciation/amortization	0	0	2	2	2	2	2
Non-operating expenses	84	317	230	144	217	233	563
Incl. interest cost	5	6	8	8	11	9	15
Incl. foreign exchange loss	0	0	223	137	202	224	547

Other non-operating expenses	79	311	0	0	4	0	0
Profit before tax	**-88**	**-332**	**-205**	**14**	**-103**	**-183**	**-383**
Profit tax	0	0	-3	0	0	0	0
Net profit	**-88**	**-332**	**-202**	**14**	**-103**	**-183**	**-383**

Financial Ratios

Marabda-Kartsakhi Railway Ltd	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Change of revenues	-	-100%	178031%	317%	-24%	-46%	181%
Change of expenses	-	243%	-25%	-34%	44%	7%	130%
Operating margin	-	-65090%	-	-	-	-	-
ROA	-9%	-28%	-16%	1%	-7%	-12%	-23%
ROE	108%	80%	33%	-2%	15%	22%	31%
Cost recovery	68%	0%	242%	899%	660%	334%	910%
Liquidity							
Current ratio	3942%	1353%	2579%	2071%	1365%	1077%	882%
Solvency							
Debt to equity	-1333%	-382%	-309%	-346%	-320%	-281%	-237%
Interest coverage	-1738%	-5341%	-2626%	173%	-935%	-1973%	-2514%

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Profitability							
Return on Assets	High risk	High risk	High risk	Medium risk	High risk	High risk	High risk
Return on equity	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk

Cost recovery	Very high risk	Very high risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Liquidity							
Current ratio	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk	Very low risk
Solvency							
Debt to equity	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk
Interest coverage	Very high risk	Very high risk	Very high risk	Low risk	Very high risk	Very high risk	Very high risk
Overall risk rating	Medium risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk	Very high risk

Sensitivity analysis of SOEs

Introduction

This chapter provides a financial risk analysis of the six major Georgian State-Owned Enterprises (SOEs). The chapter discusses the purpose of the analysis, key assumptions underlying the analysis and the modeled macroeconomic scenarios, also key findings of risk analysis and conclusions. The six SOEs that are examined are:

1. Enguri HPP;
2. Georgian Railway;
3. Georgian Oil and Gas Corporation (GOGC);
4. Georgian State Electrosystem (GSE);
5. Marabda-Kartsakhi (MK) Rail;
6. United Water Supply Company (UWSC).

These SOEs have been chosen because of their financial significance, The total assets of these companies for 2020 account for 60% of the total assets of the state-owned enterprises contemplated in the fiscal risk analysis.

The Objectives of Sensitivity analysis

The objective of the scenario analysis is to provide a "high level" financial assessment of some of the financial risks the Georgian government faces from several large SOEs over the next five years. The key question the analysis seeks to address is "what are the financial implications for the SOEs and their shareholder, the Georgian Government, of adverse macroeconomic shocks. The shocks that are modeled, are adverse shocks to GDP growth, the exchange rate, and interest rates.

The analysis is undertaken at a high-level and the quantification of the risks is intended to be indicative rather than precise as there is inevitable uncertainty about the future financial projections and the impact of external events on a company.

The model includes three-year historic (2018-2020) and five-year Pro-forma (2021-2025) financial projections. The financial statements are a high-level Income Statement, Balance Sheet and Statement of Cash Flows. From these financial statements, key financial ratios are generated.

The Economic Scenarios

The model considers five scenarios for Georgia's macroeconomic outlook.

- Scenario 1, the base-case scenario, uses each SOE's financial forecasts for the company's current and subsequent four years (i.e. 2021 to 2025);
- Scenario 2 - assumes an adverse GDP shock, with GDP growing by only 2.3% and 1.8% in 2022 and 2023 respectively (compared with the base case assumptions of growth of 6% in 2022 and 5.5% in 2023) with other assumptions unchanged;
- Scenario 3 - assumes an adverse exchange rate shock, with the GEL depreciating approximately by 30% against other currencies in 2022, and by maintaining this figure in subsequent years, with all other assumptions unchanged;
- Scenario 4 - assumes an interest rate shock, with a standard deviation of 0.5 in 2022-2025, with all other assumptions unchanged;
- Scenario 5 - provides a Combined Shock scenario and assumes adverse shocks to all three macroeconomic variables (GDP, exchange rate and interest rates), with the magnitude and timing of the shocks equal to the assumptions described in Scenarios 2 to 4.

The assumptions in the scenarios are based on the scenarios prepared by the Ministry of Finance of Georgia for the purposes of this analysis. It should be noted that the economic assumptions underlying Scenarios 2 to 5 outlined above are not the the vision of the Ministry on the forecasts for the development of the Georgian economy in the coming years. Rather, the scenarios are depictions of what could happen, given Georgia's recent past, in the case of adverse shocks impacting on the economy. The purpose of the scenarios is to examine what would be the impact on the Georgian SOEs and their shareholder, the government.

The quantitative economic assumptions for the Georgian economy are provided in Table 1 below:

Table 1. Base Case Scenario

Base Case Scenario Assumptions	2021	2022	2023	2024	2025
Real GDP growth rate	9.5%	6.0%	5.5%	5.2%	5.2%
Exchange Rate GEL/USD	3.12	3.12	3.12	3.12	3.12
Interest Rates					
Interest rate on GEL borrowings	8.8%	9.1%	8.3%	8.3%	8.3%
Interest rate on foreign currency borrowings	1.5%	1.0%	1.0%	1.0%	1.0%

In the base case scenario, the growth forecast of the Georgian economy for 2022 is reduced and is characterized by a downward trend for the next 2 years, the exchange rate is unchanged and interest rates fluctuate slightly and remain more or less stable at the same level.

The economic assumptions underlying the alternative scenarios (Scenarios 2 to 5) are provided in Table 2 below:

Table 2. Alternative Scenarios

DSA Assumptions	2021	2022	2023	2024	2025
Scenario 2: Real GDP growth rate	9.5%	2.3%	1.8%	5.2%	5.2%
Scenario 3: Exchange Rate GEL/USD	3.12	4.45	4.45	4.45	4.45
Scenario 4: Interest Rates					
Interest rate on GEL borrowings (Floating)	8.8%	9.5%	8.7%	8.7%	8.7%
Interest rate on foreign currency borrowings (Floating)	1.5%	1.2%	1.2%	1.2%	1.2%
Scenario 5: Combined GDP, Exchange rate and Interest rate shock					

The financial-risk analysis is based on a medium-term (5 year) model using annual figures. As such, the analysis does not attempt or purport to capture all the financial risks facing the SOEs. For example, the model does not capture the following risks, even though these risks could be significant for several or all of the SOEs:

- Credit risks arising from late or defaulted payments by the SOEs' customers;

- Sector-specific risks such as changes in gas or electricity commodity prices or volumes that Enguri HPP, GOGC and GSE in particular are exposed to;
- Market-share risks, as competitors increase their market share, for example through alternative forms of transport taking volumes away from Georgia Rail and MK Rail;
- Construction and project-management risks which can be a major source of financial risk for some of the SOEs like UWSC and MK Rail.

As with any model, the model is only as precise as the core data and assumptions underlying it. No audit of the underlying data provided by the SOEs has been undertaken.

Results of the analysis

Base Case Scenario Projections

Before presenting the results of the scenario analysis, Table 3 below provides the base-case financial projections for six SOEs combined. As the table indicates:

- The projected net profit after taxes for 2021 is 192 million GEL. The projected net profit is declining for 2022, and in the following years is characterized by an upward trend;
- The ROE of the SOEs in 2021 is expected to be 47%. The ROA of the SOEs ranges from 3% to 6% between 2021-2023.
- The debt to total assets ratio for the SOEs as a group is high, 95% in 2021. There is considerable variation in this ratio across the SOEs (with GOGC being around 46%, Enguri HPP– 70%, GSE and MK Rail, being over 100%). The typically high level of debt to assets means the SOEs have little ability to withstand adverse economic shocks.

Table 3. Key Financial Indicators – Base Case Scenario

Base Case	2021	2022	2023	2024	2025
NPAT (GEL Million)	192	56	241	276	316
Net Worth (GEL Million)	411	769	1,377	2,107	2,825
Return on Equity (ROE) (%)	47%	7%	18%	13%	11%
Return on Assets (ROA) (%)	3%	5%	6%	6%	6%
Debt to Total Assets (D/(D+E)) (%)	95%	90%	84%	79%	74%
Interest Coverage Ratio	7.1	1.2	2.0	2.0	2.1

Current Ratio (CR)	2.0	1.0	0.8	0.9	1.1
Quick Ratio (QR)	1.8	0.9	0.6	0.7	0.9

The impact of the different economic shocks on the above base-case financial projections for the six SOEs is presented below. The discussion focuses on the impact of the economic shocks on three key financial ratios for the SOEs:

- Aggregate net profit after tax (NPAT);
- The combined net worth of the SOEs; and
- The debt-to-total assets ratio for the SOEs as a group.

Low Growth Scenario

Low economic growth envisages GDP growth of 2.3% for 2022, 1.8% for 2023 and 5.2% for 2024-2025, respectively. Other assumptions of the baseline scenario remain unchanged.

The results of the lower economic growth assumptions on the three key financial metrics noted above for six SOEs combined is provided in Figures 1 to 3 below. The impact is material but nowhere near as large as the impact of an exchange rate shock as discussed in the next scenario.

Figure 1. Decline in net profit after tax of SOEs in low economic growth scenario

Low economic growth reduces the SOEs' projected net profit after tax (NPAT) by about 38 and 43 million GEL for 2022 and 2023.

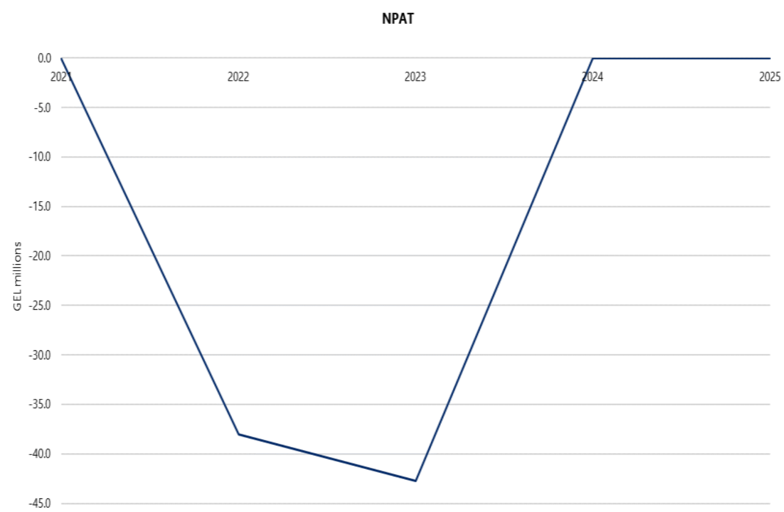


Figure 2. Decline in net worth of the SOEs in low economic growth scenario

The net worth of the SOEs declines by around 25 million GEL in 2022 under the low economic growth scenario compared to the baseline scenario.
Losses due to net worth increase in 2023 and maintain in the following years.

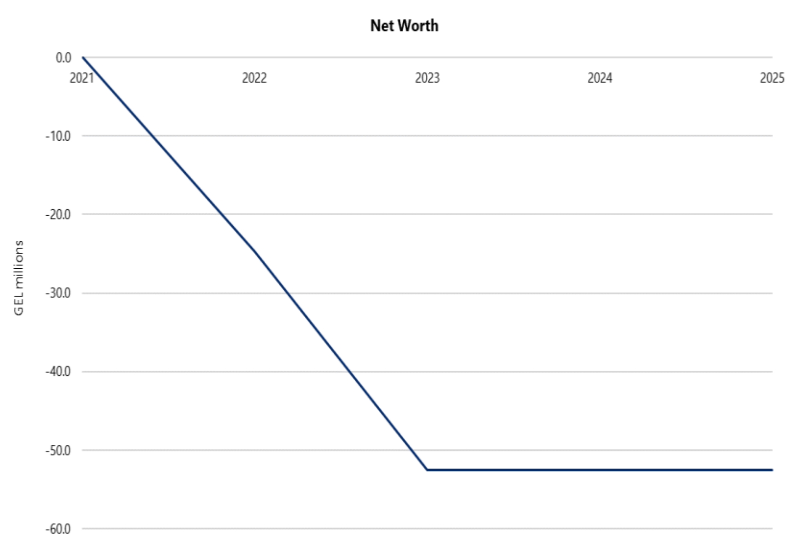
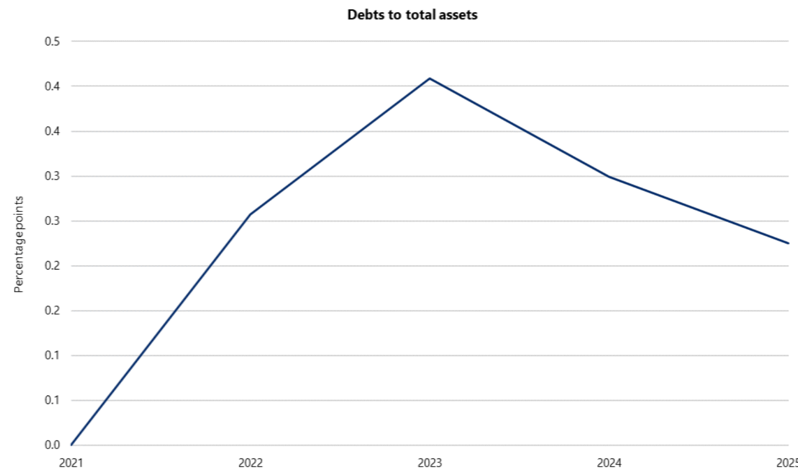


Figure 3. Debt to total assets ratio of the SOEs in low economic growth scenario

In the low economic growth scenario the ratio of debt to total assets for the SOEs is slightly increasing with a decreasing trend in the following years.



Exchange Rate Shock Scenario

In the exchange rate shock scenario, the Georgian Lari is assumed to depreciate by 30% against other currencies in 2022 and in the following years the 2022 rate is maintained.

The results of the exchange rate shock on the financial performance and financial position of the SOEs is very significant, as indicated by Figures 4 to 6 below. The impact is so large because the SOEs have around 8,150 million Lari in debt, with almost all the debt denominated in foreign currencies (mainly USD and Euro). When the Lari depreciates the costs of servicing this debt increases proportionately.

The effects of the exchange rate depreciation is dampened somewhat because some of the SOEs (eg, GOGC) receive revenue in foreign currency terms.

Figure 4. Decline in net profit after tax of SOEs in exchange rate shock scenario

The exchange rate shock has a significant impact on the SOEs' projected net profit after tax (NPAT). NPAT is projected to decline by around 3,060 million GEL. This is a huge impact and arises from the SOEs' large holdings of foreign currency denominated debt. The reduction in NPAT of SOEs is equivalent to 6% of GDP.

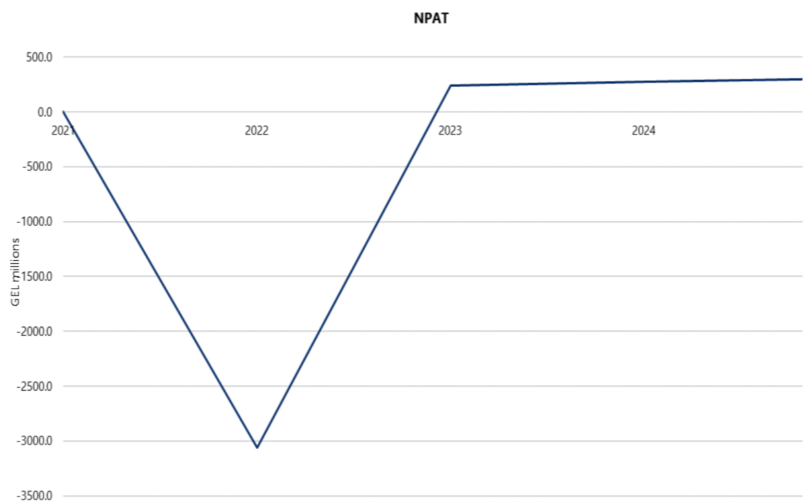


Figure 5. Decline in net worth of the SOEs in exchange rate shock scenario

The exchange rate shock results in the net worth of the SOEs declining by a similar amount as the decline in NPAT, i.e. around 3,040 million GEL.

Most of the decline in net worth is permanent. A partial recovery in net worth is expected.

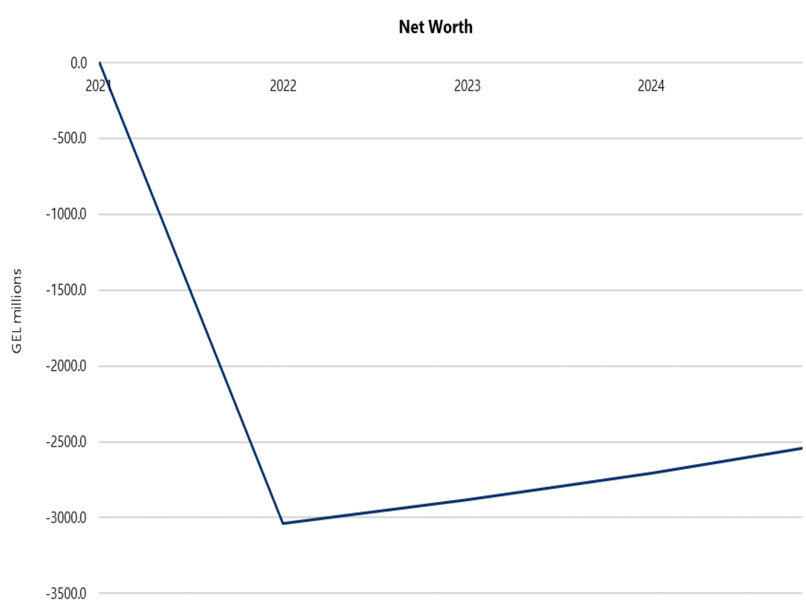
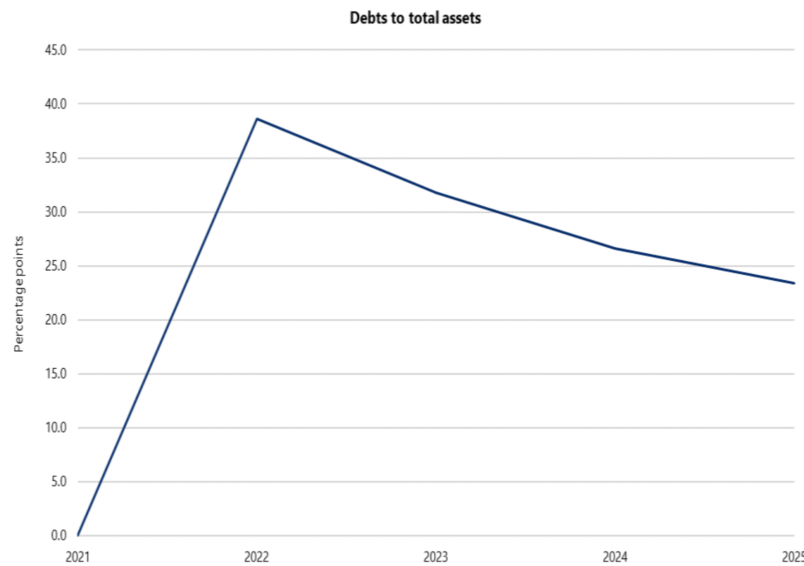


Figure 6. Increase in debt to total assets of the SOEs in exchange rate shock scenario

The ratio of debt to total assets of the SOEs increases by over 35% percentage points in the exchange rate shock scenario. In the base case, the average debt to total assets ratio for the SOEs is 95% in 2021

The exchange rate shock results in debt to total assets increasing above 100%, which indicates that the debt of state-owned enterprises exceeds the volume of their assets.



Interest Rate Shock Scenario

The interest rate scenario assumes the interest rate shock, with a standard deviation of 0.5 in 2022-2025, with all other assumptions remain unchanged.

The results of the interest rate shock on the financial metrics for the SOEs is presented in Figures 7 to 9 below. The impact is material but nowhere near as significant as the impact of the exchange rate shock. The impact of higher interest rates is dampened by many of the SOEs having large parts of their debt portfolio at fixed interest rates which are sheltered from the increase in interest rates for the term over which the rates are fixed.

Figure 7. Decline in net profit after tax of SOEs in interest rate shock scenario

The increase in interest rates reduces the SOEs' projected net profit after tax (NPAT) by 6-8 million GEL.

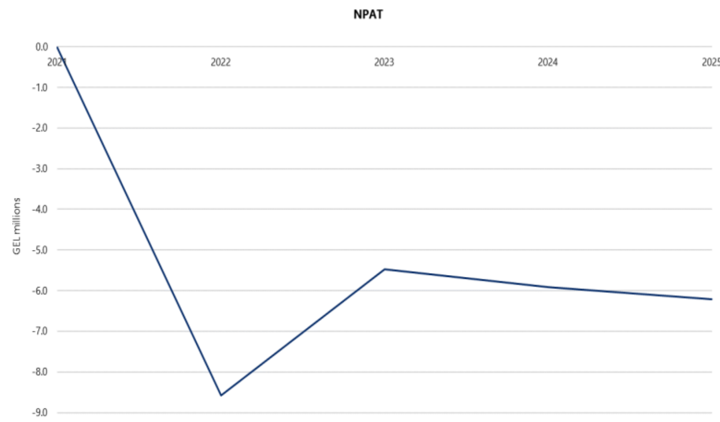


Figure 8. Decline in net worth of the SOEs in interest rate shock scenario

The net worth of the SOEs declines by around 6-17 million GEL under the higher interest rate scenario. The loss of net worth is permanent.

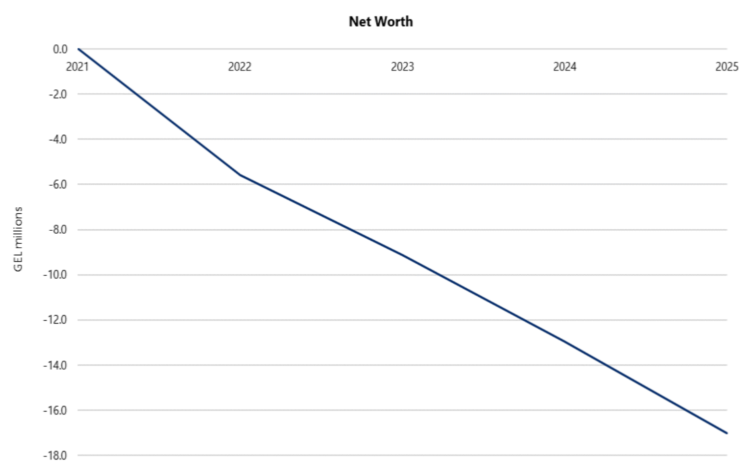
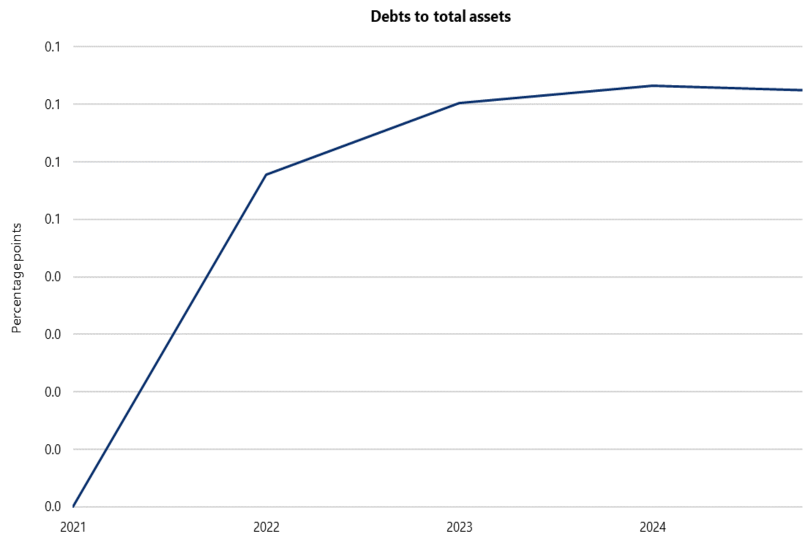


Figure 9. Increase in debt to total assets of the SOEs in interest rate shock scenario

There is only a very small increase in the ratio of debt to total assets of the SOEs in the interest rate shock scenario.



Combined Shock Scenario

In the Combined Shock scenario, there are assumed to be adverse shocks to all three macroeconomic variables (GDP, exchange rate and interest rates), with the magnitude and timing of the shocks as described in the scenarios above.

The results of the combined economic shocks on the financial performance and financial position of the SOEs is very significant, largely because of the exchange rate effect noted above. The magnitude of the impacts is presented in Figures 10 to 12 below.

Figure 10. Decline in net profit after tax of SOEs in combined shock scenario

The combination of lower economic growth, depreciation of GEL and higher interest rates has a major impact on the SOEs' net profit.

NPAT is projected to decline by around 3,117 million GEL in the combined shock scenario. This decline is equivalent to 6% of GDP.

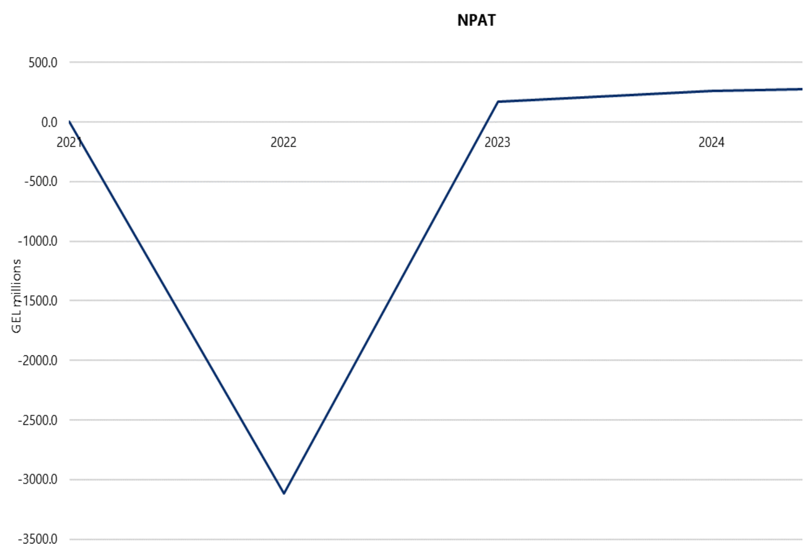


Figure 11. Decline in net worth of the SOES in combined shock scenario

The net worth of the SOEs declines by around 3,097 million GEL in the combined shock scenario.
This huge loss of net worth is partially recovered in the subsequent years.

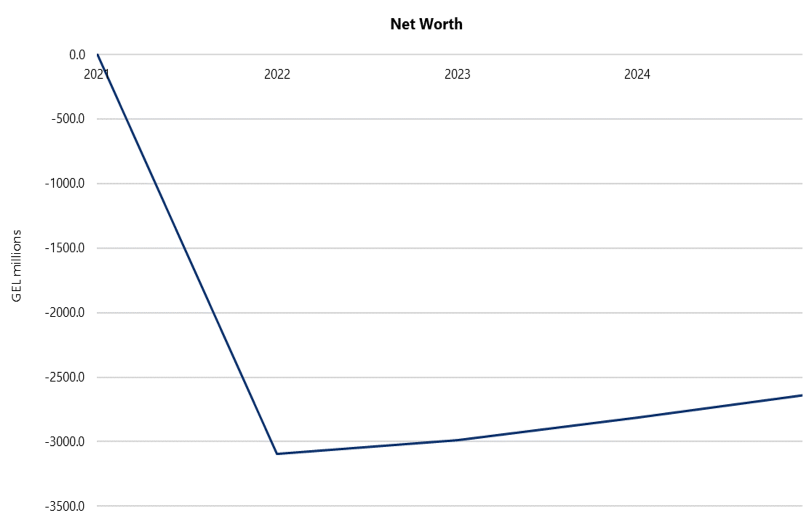
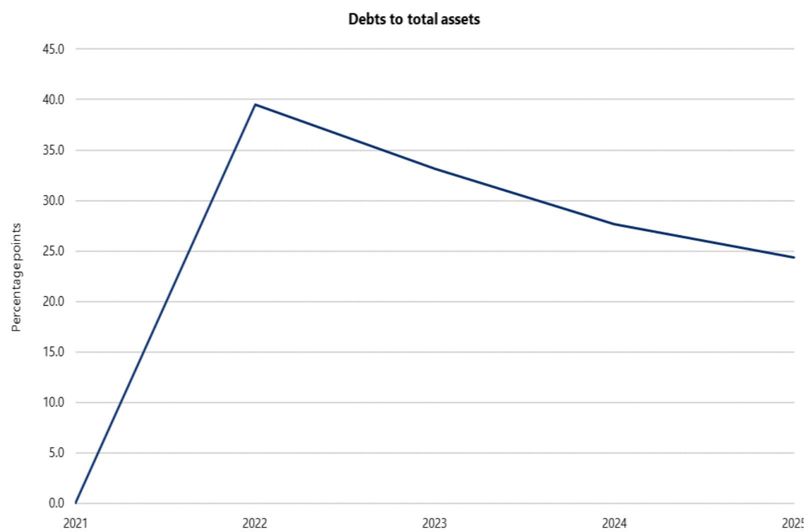


Figure 12. Increase in debt to total assets of the SOES in combined shock scenario

The ratio of debt to total assets of the SOEs increases by approximately 40 percentage points in the combined shock scenario.

In the base case, the average debt to total assets ratio is 95% in 2021. The combined economic shocks result in debt to total assets ratio increasing above 100%.



Conclusions

While the SOEs project this situation to improve over the next five years, their high levels of debt to total assets (at over 84% on average) means they are highly exposed to adverse economic shocks. That most of their current 8,150 million GEL of debt is denominated in foreign currencies means the SOEs and their owner, the government) is highly exposed to a depreciation in the exchange rate.

The analysis presented in this report highlights that this foreign exchange risk is by far the main macroeconomic risk the SOEs as a group face. The analysis in this report indicates that the impact of a major foreign exchange shock on the major SOEs is huge. The adverse impact on their combined NPAT and net worth and debt is over 3,060 million GEL and the companies' average debt to total asset increases by over 35 percentage points. The impact on NPAT is equal to around 6% of Georgia's GDP. As a result of the above mentioned, in case of the realization of foreign exchange risk, in addition to the planned budget injections, the gross financing need of SOEs from the government will be 3,060 mln Gel, that will be an additional financial burden on the state budget.

The analysis indicates that the SOEs are much less exposed to downturn in the economy or higher interest rates. Further, any major economic downturn or increase in interest rates is likely to be accompanied by a decline in the exchange rate, with the resulting large negative effects as shown in this report.

Goergia's Public Corporation Reform Strategy

A. Background To The Strategy

The Government Program 2021-2024 has committed the Government to implement the reform of State-Owned Enterprises (SOEs). The first stage of the reform will focus on public corporations, i.e., those SOEs that are defined as essentially commercial in nature according to international standards by the sectorization conducted by the Ministry of Finance, that are Public Interest Entities (PIEs) following the criteria set out in the *Law of Georgia on Accounting, Reporting and Auditing.* There are 24 public corporations that currently meet these criteria.

The Government Program 2021-2024 further provides that the reform will be based on five pillars:

1. The commercial objectives of public corporations will be prioritized.
2. Corporate governance of public corporations will be implemented based on the Organization for Economic Cooperation and Development (OECD) recommendations.
3. There will be a formal rationale and policy guiding the ownership of public corporations.
4. The performance management framework for public corporations will be based on medium- term objectives defined by financial and non-financial key performance indicators (KPIs).
5. Public corporations will not distort competition in the sectors in which they operate.

Since 2015, the Government has improved the transparency of SOEs by publishing assessments of their financial performance and fiscal risks in an annual *Fiscal Risks Statement* accompanying the draft state budget submitted to parliament. This improved transparency, which is recognized internationally as high quality, has produced some tangible benefits in terms of improved performance and reduced fiscal risks as a result of improving the accountability of public corporation managers and supervisory board members. However, it has not been sufficient to ensure satisfactory financial performance overall; indeed, there has been an overall deterioration of financial performance in recent times.. Without suitable legal and institutional arrangements, transparency alone cannot ensure that public corporations will deliver their full potential benefits to Georgia.

The last five years of improved transparency have highlighted the scale of these potential benefits, both financial and non-financial, as has the public corporation reform implementation experience of many other countries. The last five years of improved transparency, as well as international experience, have also clarified the reforms that need to be undertaken. It is therefore the right time now to begin to implement them on a comprehensive basis.

The fact that SOEs are generating only marginal revenues for central and local government budgets in the form of dividends, with large SOEs making almost zero contributions, represents a materialization of fiscal risks. However, the main objective of the reform is not to increase budget revenues but to increase efficiency in the economy, improve the business environment and contribute to the economic growth of the country.

B. Purpose Of The Strategy

The purpose of this Strategy is to:

- Define a vision for the planned reforms for public corporations. This vision will help to ensure that the policy, legal and institutional changes contribute to achieving the aim of the reforms.
- Create a basis for communicating with stakeholders, including the general public, members of parliament and public corporations, to maximize co-operation in executing the Strategy, thereby easing the transition to the reformed legal and institutional arrangements.

C. Objectives Of Reform

The objectives of the reform of public corporations are to :

Increase economic growth. In 2018, the 16 largest public corporations accounted for 18 percent of Georgia's GDP, and so improvements in the efficiency of the use of public corporation resources – capital, assets, labor, and intermediate goods and services – would significantly and directly increase economic productivity and growth. In addition, improved economic efficiency of public corporations would have significant indirect economic growth benefits, by improving the efficiency of other sectors that use their products, e.g. energy and transport services, and by stimulating Georgia's business environment and domestic capital market generally.

- **Strengthen public finances.** Public corporations have been a drain on Georgia's public finances since independence. Just in the period between 2014 and 2018, central government public corporations have received capital injections of GEL 1.3 billion but their net worth has still declined by GEL 0.7 billion. Improvements in their financial performance would help to ensure that they deliver critical services effectively, their burden on public finances and fiscal risks are controlled, their assets are properly managed, and they are integrated into Georgia's overall strategy for improving public financial management.
- **Improve the business environment.** Large SOEs in Georgia are predominantly in the energy and logistics sectors. Efficiency in these SOEs will have a positive impact on their sectors and therefore on the business environment in the country as a whole.
- **Develop the capital market.** SOE reform will also be conducive to capital market development objectives of the country. This impact of SOE reform has been demonstrated internationally.[9]

[9] See World Bank, Corporate Governance of SOEs. A Toolkit, p. 17.

D. Five Pillars Of The Reform

The five pillars of the reform, set out in the Government Program 2021-2024, are: commercial objectives; corporate governance; ownership policy; performance framework; and competitive neutrality. They are based on well-established international principles for public corporation ownership and corporate governance that are appropriate for a country like Georgia adopting European standards of corporate governance, notably via its Association Agreement with the European Union (EU). These principles have been developed and refined over several decades and are appropriate for public corporations operating in a market economy.

The principles have been elaborated by Georgia's development partners, including the OECD, the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). Annex 1 of this Strategy provides references to key publications by these organizations.

The five pillars are interdependent. To achieve the standards and the associated improvements in the public corporation corporate governance and performance all five pillars must be implemented.

The IMF, World Bank and ADB, all of which Georgia is a member, have committed to support the implementation of various aspects of the Strategy.

Pillar 1. Commercial Objectives

The primary objective of public corporations will be to operate commercially. They should achieve a comparable financial performance to that of similar private sector commercial companies, on average over time. Benchmarking their performance against private sector comparators will ensure that public corporations are not held to higher or lower standards than their private sector competitors and thus that *Competitive Neutrality* is achieved. International experience shows that such benchmarking is possible even where public corporations do not have direct private sector competitors. The *Performance Framework (pillar 4)* will ensure that public corporations are held accountable for achieving their financial and non-financial commercial objectives.

The non-financial objectives of public corporations will also be comparable with those of comparable private sector commercial companies. These include:

- Limits on the risks that public corporations should be permitted to take.
- Quality standards for the supply of goods and services by public corporations, e.g. maximum levels of service interruption.
- Standards of corporate responsibility by public corporations, e.g. towards employees, customers, the communities in which they operate and the physical environment.

If, as a secondary objective, the central or local government wishes public corporations to conduct non-commercial activities, also known as *quasi-fiscal activities* (QFAs), it will compensate them fully for their expenses.

Key Reform Action Points for Pillar 1
Incorporate in a framework Public Corporations Law: • The primary commercial objective for public corporations. • The approach to handling their secondary non-commercial objective.
Ensure that *Ownership Policy* is consistent with the prime responsibility of public corporations to operate commercially.
Ensure that the *Commercial Objectives* are defined comprehensively and consistently with *Corporate Governance*, *Ownership Policy*, *Performance Framework* and *Competitive Neutrality*.

Pillar 2. Corporate Governance

Corporate Governance refers to the structures and processes for the direction and control of corporations. It specifies the distribution of powers and responsibilities among the corporation's stakeholders, including owners, supervisory board members, and full-time executives, and articulates the rules and procedures for making the decisions in the name of the corporations.

Corporate Governance is essential for achieving the other pillars of the Strategy, helping to build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, and business integrity.

Corporate Governance for public corporations requires expanding on the existing requirements of Georgia's *Law on Entrepreneurs* and extending its provisions to public corporations that are not joint stock companies (JSCs). The need to strengthen the corporate governance provisions applicable to all corporations in Georgia, without undermining *Competitive Neutrality*, is a clear lesson from international experience and is the result of the particular ownership and public policy context of public corporations.

Regardless of its legal form, each public corporation will have a supervisory board. It will comprise members with the appropriate skills, knowledge, experience, independence and time to exercise independent oversight over the day-to-day activities of the corporation' full-time executives, in particular the chief executive officer (CEO). Supervisory board members will be held accountable for the performance of their duties.

The framework Public Corporation Law will stipulate that the number of supervisory board members is in line with international good practice, depending on the size and complexity of the corporation.

The public corporations ownership entity, i.e., the entity assigned responsibility to exercising the state's shareholder or ownership rights in respect of the public corporations (see section F below), in association with other shareholders in the case of corporations with less than 100 percent central or local government ownership, will have the right to:

- Obtain relevant information about the public corporation on a timely and regular basis.
- Participate and vote in a general meeting of shareholders.
- Appoint and dismiss supervisory board members and determine their remuneration.
- Agree to, and monitor the implementation of, the mandate, objectives and performance targets as specified in the *Statement of Corporate Intent* (SCI), which is a key element of the *Performance Framework*.
- Approve decisions to amend the charters of public corporations, the issuance of additional shares and major and extraordinary transactions. The central or local government will be responsible for developing the ownership policy, which will specify how it intends to perform these functions.

Duties of care and loyalty on the part of supervisory board members towards their public corporations will be established. This means that they will be required to exercise appropriate care and professionalism in undertaking their responsibilities. They will be required to manage conflicts of interest and not use any information for their personal gain. Should they fail to uphold these duties of care and loyalty, they will be held accountable.

Further key responsibilities of a public corporation's supervisory board will include:

- Agreeing the SCI, adopting the corporation's strategic plan to deliver on its mandate and KPIs, and monitoring implementation of the corporation's strategic plan by the CEO and other executives.
- Setting the corporation's policies.
- Appointing and dismissing the corporation's CEO and other senior executives and setting their remuneration in line with the remuneration policy approved by the ownership entity.
- Overseeing the integrity of the corporation's accounting and financial reporting systems and compliance with all applicable legislation.
- Approving the corporation's formal disclosures and overseeing its communications.

Supervisory board members will be prohibited from involvement in the day-to-day management of the public corporation, to ensure that they are able to perform effectively their monitoring responsibility. The CEO will be responsible for day-to-day management of the public corporation, including the implementation and execution of the SCI, strategic plan and policies approved by the supervisory board. The CEO, together with the other senior executives, will also be responsible for undertaking any functions delegated to them by the supervisory board.

A special committee will be appointed by the Prime Minister or mayor on the recommendation of the Ministry of Finance or local finance department to nominate candidates for supervisory board membership. This approach will promote transparency and independence in the formation of supervisory boards. Members of the special committee should desirably be experienced actual or former supervisory board members of public or private sector corporations.

The process to be followed by the special committee is set out below. The candidates to be appointed to each supervisory board will be appointed by the applicable public corporation ownership entity from among those nominated by the special committee.

Skills profiling

- Skills and experience of ideal appointee required to fill any vacancies identified, based on a review of the skills required to deliver on the corporation strategic plan and the existing skills of the board to identify the critical gaps
- Other critical skills and qualities identified
- Requirements published

Candidate identification

- Open advertisements with no pre-screening
- Applications by potential candidates (in response to advertisement)
- Search consultants

Short-list nominated

- All potential candidates considered and a short-list of preferred candidates that appear to match the skill requirements of the board are nominated
- Interviews held with short-listed candidates

Vetting

- Identification of possible conflicts of interest
- Verification of qualifications and experience and reference checks
- Ability to dedicate sufficient time to the public corporation supervisory board based on employment status and other board memberships assessed
- Criminal record checks

Public corporation supervisory board members will serve terms of three years and a maximum of two terms on each supervisory board.

Candidates will be required to meet a number of criteria to be considered for a position as a supervisory board member of a public corporation, including:

- Having industry, financial, business, legal and/or corporate governance skills.
- Having more than 10 years' experience in senior management or on supervisory boards, a portion of which should have been in the private sector.
- Being individuals of proven ethics and integrity, having exhibited the capacity to think critically and be independently minded, and having demonstrated the soft skills necessary for working effectively as part of a supervisory board.

Certain individuals will be disqualified from serving on the supervisory board of a public corporation, including:

- Ministers and other elected central and local government officials as well as civil servants, or persons who have occupied such posts within the preceding two years;
- People that have been removed from a position of trust due to misconduct or dishonesty.
- People that have been convicted of theft, fraud, misrepresentation, dishonesty, perjury, corruption, or a securities-related complaint.

Pillar 3. Ownership Policy

A public corporation will only be established if this is clearly the most efficient option for meeting a relevant and significant public policy objective, after the costs and benefits of each option have been assessed. Other options for meeting the policy objective could include regulation, targeted taxation and expenditure measures, or establishment of a non-commercial government unit.

An existing public corporation will be:

- Liquidated if it is: (i) not commercially viable; and (ii) no longer the most efficient option for meeting the policy objective.
- Converted into a Legal Entity of Public Law (LEPL) if it is: (i) not commercially viable; but (ii) remains the most efficient option for meeting the policy objective.
- Privatized if it is (i) commercially viable; but (ii) no longer the most efficient option for meeting the policy objective.
- Retained as a public corporation if it is: (i) commercially viable; and (ii) remains the most efficient option for meeting the policy objective. International examples of the circumstances in which public corporations have been the most efficient option for meeting significant and relevant policy objectives include:
    - National security.
    - Natural monopolies where market regulation is insufficiently effective.

- The delivery of public goods or services where public ownership is more efficient or reliable than contracting out to private operators.
- Investments that are too large for the private sector to undertake.

The status of each existing public corporation will be reviewed according to these criteria at least every five years.

Both the cases for the establishment of new public corporations and the reviews of existing public corporations will be subject to independent assessments, which will be published.

Public corporations may be wholly owned by the state. The state may also have a majority stake in a company, or a minority stake. The extent of public ownership required to achieve the identified policy objectives most efficiently will be scrutinized as part of the assessments of their establishment or retention.

The central and each local government will develop, update and publish an ownership policy statement on its public corporations. As necessary, the Ministry of Finance will lead this process for local governments. This statement will set out clearly the rationale for retaining the public corporations and the related policy objectives. The statement will also convey:

- How the central or local government intends to exercise its ownership or control rights.
- The organization of the central or local government ownership or control function.
- The main functions carried out by the central or local government as owner or controller of the public corporations.
- The mandate and financial and non-financial objectives of each public corporation.
- The basis of financial and nonfinancial oversight.
- The main principles and policies to be followed, such as ensuring *Competitive Neutrality*.

The ownership policy statement will also refer to the constitution, statutes, subsidiary legislation and other documents that define the ownership or control rights of the central or local government. On financial oversight, the policy will explicitly address:

- Planning and budgeting requirements.
- Approval of major transactions.
- Reporting requirements.
- Pricing and tariffs.
- Dividend policy.
- Financial assistance or compensation from the central or local government, including guarantees and contractual commitments.

All these elements will be included in the *Performance Framework*.

Key Reform Action Points for Pillar 3
Incorporate in the framework Public Corporations Law: ● The criteria for establishing or retaining a public corporation. ● The requirement to develop, update and public corporation ownership policy statements. Develop secondary legislation to give effect to these provisions in the Law. Ensure that the *Ownership Policy* is defined comprehensively and consistently with the *Commercial Objectives, Corporate*

Pillar 4. Performance Framework

The *Performance Framework* should replicate the performance discipline that equity markets, including the market for corporate control, apply to private corporations. It will be the central mechanism through which the central or local government sets out its expectations of each public corporation's performance and holds the public corporation's supervisory board accountable for achieving the performance. Thus, the *Performance Framework* will define the mandate, objectives, performance targets and risk tolerance thresholds for each public corporation; the monitoring and evaluation of performance; and the appropriate rewarding of good performance and sanctioning of poor performance.

Each year, public corporations will develop a SCI to be submitted by the supervisory board to the Ministry of Finance or local government finance department for review. The Ministry of Finance or local government finance department will provide comments on the SCI, which will be finalized taking these comments into account. The finalized SCI will be submitted, together with a strategic plan for delivering on the objectives and targets set out in the SCI, to the Ministry of Finance or local government finance department before the start of the financial year. The Ministry of Finance or local government finance department will then submit both documents to the national or local parliament for information.

Amendments of the SCI may be initiated by the supervisory board or the Ministry of Finance or local government finance department. However, amendments will be limited to exceptional circumstances to avoid significantly changing the accountability framework during the year and thereby undermining accountability. Amendments to the SCI or to the strategic plan will be submitted to the national or local parliament for information.

Both the SCI and strategic plan should cover the four-year period of the central government's medium-term budget framework and be updated annually on a rolling basis. The SCI should include the following elements:

- Define the scope of the public corporation's business, outside which it is not authorized to operate.
- Define the public corporation's objectives, including its financial and non-financial KPIs and targets and dividend policy, consistent with its forecast financial statements.
- Define the limits of the risks that the public corporation is authorized to bear.
- Define any transfers the public corporation shall receive from, or pay to, the state or local budget to compensate for competitive disadvantages and advantages.
- Define any QFAs and the transfers the public corporation shall receive from, or pay to, the state or local budget to compensate for undertaking such activities at the central or local government's direction.
- Include reconciliations between financial and non-financial data and other information provided in it and the corresponding data and information included in the management report for the previous year and the previous SCI.
- Include a statement outlining the public corporation's corporate governance framework.
- Define the consequences of the public corporation's failure to achieve its objectives or comply with its risk limits or other obligations, including those contained in its SCI.

The strategic plan shall, as a minimum, include the following elements:

- A business plan containing the strategic initiatives for delivering the objectives agreed in the SCI.
- Forecast financial statements as well as borrowing and capital expenditure plans aligned to the SCI and business plan.
- Quarterly breakdown of the financial forecasts and performance targets for the upcoming financial year to facilitate quarterly monitoring.
- An assessment of strategic risks and a risk management plan consistent with it.

The SCI should be an agreement between the ownership entity and the public corporation on the results the public corporation needs to achieve, whereas the strategic plan should be the plan for
how the public corporation will achieve the results specified in the SCI which the Supervisory Board takes responsibility for. If the two documents were combined, the ownership entity would become responsible for the strategic plan and therefore would have difficulty in holding the Supervisory Board accountable for achievement of the results.

Supervisory boards will submit quarterly reports to the Ministry of Finance or local government finance department. They will cover:

- Actual financial performance versus the financial projections or budget.

- Actual performance against quarterly targets in the SCI.
- Reasons for any deviations and actions to be taken to get performance back on track.

At the end of each year, the supervisory board will include in the public corporation's annual report the actual performance against each of the objectives and targets set in the SCI. This performance will be independently audited to ensure the reliability of the information, as they will form the basis for evaluating the performance of the public corporation. The Ministry of Finance or local government finance department will evaluate the performance. The corporation risk assessments in a public corporation's annual report will normally be consistent with the fiscal risks assessments in the annual Fiscal Risks Statement prepared by the Ministry of Finance, as the two types of risks are related to each other.

The *Performance Framework* will be codified in the framework Public Corporations Law as well as in subsidiary legislation.

Key Reform Action Points for Pillar 4

Incorporate in the framework Public Corporations Law:

- The key contents of public corporations' SCIs and strategic plans and the procedures for submitting and approving them.
- The requirement for public corporations to submit regular reports and their key contents.
- Essential procedures for evaluating public corporation performance.
- The role of the Ministry of Finance or local government finance department in the Performance Framework.

Develop secondary legislation to specify the Law's requirements in greater detail.

Pillar 5. Competitive Neutrality

Public corporations will operate on a competitively neutral basis. This means that they will not enjoy competitive advantages or face competitive disadvantages as a result of their ownership of control by the central or local government. The application of competitive neutrality helps to ensure that public corporations use scarce economic resources – capital, assets, labor and intermediate goods and services – efficiently, and therefore to enhance their positive impact on economic productivity and growth.

Public corporations compete not only with those private sector commercial firms actually in their market, but also those potentially competing in their market as well as those offering substitute product or services. For example, Georgian Railway's competition is not only in the rail market, but in the market for transport services and its competitors include both actual and potential providers of transportation services. Public corporations also compete with all Georgia's public and private sector firms in the markets for inputs such as capital, labor, materials and services.

Public corporations will:

- Be subject to general laws, regulations, and taxes, and will not be granted exemptions or be subject to special laws, regulations and tax arrangements that undermine competitive neutrality. The applicable general laws will include general company, labor, environmental and consumer protection laws. The framework Public Corporation Law and associated subsidiary legislation will not undermine competitive neutrality but will enhance it.
- Face market conditions for access to, and the cost of debt. They will be required to obtain debt finance on commercial terms from financial markets where possible. Any on-lending from the central or local government will be on standard commercial terms, using market interest rates matching the maturity and risk profile of the debt. Similarly, any inter-public corporation lending or other transactions will be on market terms. Any debt raised by the public corporations will not be guaranteed by central or local government, and this will be stated explicitly in all debt documentation.
- Face market conditions for access to, and the cost of equity. In respect of the cost of equity, they will be required to earn rates of return on equity consistent with those obtained by comparable private sector commercial firms. On any new investments of equity, there should be a reasonable expectation that the public corporations will be able to generate such a rate of return. Benchmarking of market returns on equity will be done using standard corporate finance tools. Similarly, public corporations will be subject to private sector norms with respect to their dividend policies and capital structures.
- Will not benefit from indirect financial support from the central or local government that confers an advantage on them over comparable private sector commercial firms. Thus, public corporations will not be eligible for special guarantees or subsidies from the central or local government beyond those required to achieve competitive neutrality; instead, they should be treated the same as private sector companies. They will be fully and transparently compensated financially for any QFAs they are required to undertake.
- Will be subject to the financial reporting, disclosure, auditing, and corporate governance

requirements that are similar to those of comparable private sector firms, albeit enhanced in certain respects because of the particular requirements of ownership by the central or local government.

E. Reform Interdependencies

The five pillars of the reform are interdependent. Therefore, in order to ensure that the reform succeeds in achieving its objectives, all the pillars will be implemented consistently with a high level of compliance with international and European standards. Modifications of these standards to reflect the practical realities of Georgia today and in the foreseeable future will be necessary but will be minimized.

Key Reform Action Points for Pillar 5

Incorporate in the framework Public Corporations Law the requirement for public corporations to operate under conditions of competitive neutrality in the markets for both their outputs and inputs.

Review the legal, regulatory and taxation frameworks of public corporations and develop a plan to remove any elements of them that are inconsistent with competitive neutrality.

For example, *Competitive Neutrality* would be unachievable without a *Performance Framework* that holds public corporations accountable on a basis comparable with private sector firms competing with them. Conversely, a *Performance Framework* would have limited meaning and enforceability if the public corporations involved enjoyed significant competitive advantages or suffered significant competitive disadvantages, by virtue of their ownership by central or local government.

Although the interdependencies between the five pillars make the design, sequencing, and implementation of the reform more challenging, they also mean that the reform, when implemented, will be robust as the five pillars will reinforce one another. This is the clear lesson from European and international experience and good practice.

F. Ownership Entity

In line with OECD recommendations, responsibility for exercising the shareholder rights of public corporations in Georgia will, with one exception, be centralized in single ownership entities for each local government and the central government. To ensure that there is a clear separation between the state's shareholder and policymaking functions, the Ministry of Finance will be the central ownership entity for central government, and local government finance departments will be the central ownership entities for local governments, with the Ministry of Finance as necessary acting for local finance departments. Line ministries and departments will continue to be responsible for policymaking and regulation of the sectors in which the public corporations operate.

The one exception is that, in order to comply with the European Union unbundling directive, the Ministry of Finance oF will be the ownership entity for the state-owned electricity transmission company whereas the Ministry of Economy and Sustainable Development will be the ownership entity for the electricity generation companies. However, in order to reduce the impact of the Ministry of Economy and Sustainable Development's conflict of interest between its ownership entity role and its policy/regulatory role, additional measures will be taken to separate these roles within the Ministry of Economy and Sustainable Development.

The centralized model of public corporation ownership will ensure that ownership is exercised consistently for all public corporations, i.e. it will ensure consistency in the way the state and local government give effect to their ownership policy. It will facilitate aggregate reporting on public corporations, which is an established good practice internationally.

As the Ministry of Finance and local government finance departments are not involved in sector policymaking, they will be able to serve as relatively unconflicted centralized ownership entities in line with the OECD recommendations. In contrast, line ministries and line departments decide on policies for the sectors in which some of the public corporations operate , which could give rise to significant conflicts of interest. Such conflicts could make it more difficult to maintain *Competitive Neutrality* and therefore the *Performance Framework*, *Corporate Governance* and *Commercial Objectives*.

Assigning the public corporation ownership powers to the Ministry of Finance and local government finance departments will improve their ability to control the fiscal risks that arise from the activities undertaken by public corporations. This will also help the Ministry of Finance and local government finance departments to strengthen aggregate reporting on the public corporations, building on the reports they currently produce.

It is preferable to assign the ownership powers to the Ministry of Finance and local government finance departments than to autonomous agencies or holding companies. An agency or holding company structure can be opaque, creating difficulties in overseeing the use of public resources. Moreover, there is scope for cross-subsidization between public corporations within an agency or holding company structure that would be difficult to monitor and manage. Also, holding companies can have considerable power to determine how resources generated from dividends and divestments are reinvested, which could complicate the exercise of ownership powers over individual public corporations.

Key Reform Action Points for Ownership Entity

- Incorporate in the framework Public Corporations Law provisions defining the institutional arrangements for the exercise of ownership powers.
- Transfer the ownership of public corporations to the Ministry of Finance and local government finance departments.
- Enable the Ministry of Finance to act for local finance departments.
- Define the separation between the policy/regulatory and ownership within the Ministry of Economy and Sustainable Development with respect to electricity generation.

G. Coverage Of The Reform

The first stage of the reform will apply to:

- The 18 public corporations as currently defined by the Ministry of Finance according to the international standards codified in the IMF's Government Finance Statistics Manual 2014 that are also PIEs.

- 2 other SOEs that are currently classified by the Ministry of Finance as general government units and that the Government deems to have the potential to become public corporations in the foreseeable future.

Thus, the first stage of the reform will apply to:

N	SOE Name	Founder	PC/GG
1	JSC Georgian State Electrosystem	Ministry of Economy and Sustainable Development of Georgia	PC
2	LTD Engurhesi	Ministry of Economy and Sustainable Development of Georgia	PC
3	JSC Georgian Oil and Gas Corporation	JSC Partnership Fund	PC
4	JSC Georgian Railway	JSC Partnership Fund	PC
5	LTD Georgian Gas Transportation Company	Ministry of Economy and Sustainable Development of Georgia	PC
6	LTD Sakaeronavigatsia	Ministry of Economy and Sustainable Development of Georgia	PC
7	LTD Georgian Airports Association	Ministry of Economy and Sustainable Development of Georgia	PC
8	LTD Georgian Amelioration	Ministry of Environmental Protection and Agriculture of Georgia	GG
9	LTD United Water Supply Company of Georgia	Ministry of Regional Development and Infrastructure of Georgia	GG
10	JSC "Tam" Tbilaviamsheni	LTD Tbilaviamsheni	PC

11	JSC Sachkheregazi	Sachkhere Municipality	PC
12	LTD National High Technology Center of Georgia	LTD Asset Management and Development Company	PC
13	LTD Batumi Water	Batumi Municipality	PC
14	LTD Tbilisi Transport Company	Tbilisi Municipality	PC
15	LTD Batumi Seaport	Ministry of Economy and Sustainable Development of Georgia	PC
16	LTD Georgian Post	Ministry of Economy and Sustainable Development of Georgia	PC
17	LTD Georgian TV and Radio Center	Ministry of Economy and Sustainable Development of Georgia	PC
18	LTD Black Sea Flora and Fauna Research Center	Batumi Municipality	PC
19	LTD Service- 7	Ministry of Economy and Sustainable Development of Georgia	PC
20	JSC Akura	Ministry of Environmental Protection and Agriculture of Georgia	PC

The public corporation accountability framework that is the subject of this reform is not suitable for non-commercial entities. Because general government units are essentially non-commercial entities, notwithstanding the fact that SOEs that are general government units have the legal form of companies incorporated under Georgia's *Law on Entrepreneurs*, such SOEs will be subject to a different accountability framework that the Government will develop subsequently.

Key Reform Action Points for Coverage

Advise that SOEs that will initially be covered by the reform of their status and that they will be required to comply with the reform's principles.

H. Quasi-Fiscal Activities

A QFA is an operation that is undertaken by a public corporation in pursuit of a public policy objective and that is not strictly commercial in nature, for example:

- Its cost is not, or only partially, compensated by revenues from customers or transfer from the central or local government.
- It uses a monopoly position to charge its customers more than would be strictly justified commercially, using the excess profits to cross-subsidize its other activities.

A QFA takes a range of forms, for example:

- *Non-commercial service obligations (NCSOs)*: charging less than commercial prices for the provision of goods and services to the general public or target groups. On the other hand, a *Commercial Service Obligation* (CSO) is a service obligation, the full cost of which (including an appropriate return on capital) is recovered by the public corporation from its customers.
- *Noncore functions*: obligations imposed by the central or local government for the public corporation to provide goods and services, or undertake capital investments, that are unrelated to their core functions.
- *Subsidized purchases*: paying above commercial prices to particular suppliers of goods and services or assets.
- *Super-dividends*: withdrawal of own funds in excess of the distributable income of the accounting year, normally as a consequence of sales of assets or payments out of accumulated reserves.
- *Pricing for short-term budget revenue purposes*: setting a higher price for goods and services so as to increase a public corporation's profits and dividends in the short term, even if this risks reducing the corporation's market share and its profits in the medium term.
- *Abuse of a monopoly position:* charging customers more than would be strictly justified commercially, using the excess profits to cross-subsidize its other activities.

Some QFAs are explicit, i.e., defined in a statute, central or local government decree, or formal agreement, and some are implicit, i.e., public corporations undertake QFAs without explicit direction in statute, decree, or a formal agreement. In either case, public corporations have usually operated on the understanding that they would not be held accountable for the worse financial position caused by the QFAs.

Implicit QFAs and explicit QFAs that are not NCSOs will be prohibited, which will be reflected in:

- Provisions in the framework Public Corporation Law that require public corporations to act commercially and therefore not to undertake QFAs unless they are explicit and their costs or benefits are fully compensated for by transfers between them and the central or local government budgets.

- Provisions in public corporation SCIs prohibiting implicit QFAs.

All CSOs will be included in SCIs, which will also include an explicit statement that such a social obligation is a CSO, and not an NCSO. CSOs will be publicly disclosed in the annual management reports of public corporations, in the section reporting on their performance against their SCIs. The information thus disclosed should include a description of each CSO, an estimate of its full cost, and a description and quantification of how this cost is recovered from customers. Summaries of CSOs will also be disclosed in the fiscal risks statements prepared by the Ministry of Finance, because CSOs have the potential to become NCSOs.

The net cost of NCSOs, including an appropriate return on capital, will be compensated through transfers from state or local budgets to public corporations. These transfers must not exceed the total net costs. The transfers, and their underlying NCSOs, will be considered and prioritized in the state and local budget processes on the same basis as other expenditures. Where funds are not provided to cover the costs, public corporations may not undertake NCSOs.

All NCSOs and their metrics used to assess the effectiveness and efficiency of their performance will be included in the SCIs. NCSOs will also be disclosed in the annual management reports of public corporations, in the section reporting on their performance against their SCI. The information thus disclosed will be audited by the State Audit Office and will include a description of each NCSO, its actual versus budgeted cost, and its associated actual and planned associated non-financial outcome(s). Summaries of NCSOs will also be disclosed in the Fiscal Risk Statements, together with a qualitative discussion of the possibilities for the actual expenditures on them to vary from the budgeted and forecast expenditures amounts.

Key Reform Action Points for QFAs

Incorporate in the framework Public Corporations Law:

- A comprehensive definition of QFAs.
- Principles for handling QFAs, NCSOs and CSOs.

Develop secondary legislation to give effect to the definitions and principles of the Law on QFAs.

Develop methodological guidelines to explain QFAs and how to handle different examples of QFAs.

Ensure that the legal and methodological framework for QFAs is comprehensive and consistent with Competitive Neutrality, Commercial Objectives, and the Performance Framework.

I. Auditing, Reporting And Disclosure

International best practice is that public corporations should, as far as practicable, prepare, have audited and publish their financial statements on the same basis as comparable private sector enterprises, to reinforce competitive neutrality, transparency and accountability. Current practice in Georgia is defined by the *Law on Accounting, Reporting and Auditing,* together with Government Resolution 584 of November 29, 2019, and is largely consistent with international good practice.
However, the following enhancements will be made to take into account the particular circumstances of central or local government ownership:

- The financial statements of all public corporations will include disclosures on QFAs and related party transactions, i.e. transactions between the corporations and the government and other public corporations.
- The financial statements should be submitted by the public corporations to the national and local parliaments so that they can be discussed by them formally.

Current practice in Georgia for the preparation and publication of public corporation management reports is also largely consistent with international good practice. However, the following enhancements will be made to take into account the particular circumstances of central or local government ownership:

- The management reports will report against financial and non-financial performance requirements contained in documents, i.e. SCIs, formally approved by the central or local government and accepted by the public corporations.
- The management reports will include disclosure of supervisory board members' qualifications and experience, current employment, other directorships and whether they are considered independent or not. Supervisory board members' attendance of board and committee meetings, and their aggregate and individual remuneration as well as that of the executives will also be disclosed.
- The requirements for management reports will also apply to public corporations in the third and fourth categories.
- The management reports will be submitted by the public corporations to the national and local parliaments together with the financial statements.

In addition, in line with international good practice, public corporations will also be required to report regularly intra-year to the Ministry of Finance and local government finance departments as per the requirements of their SCIs. This should include information that would not necessarily be included in the financial statements or management reports, e.g. information that is sensitive commercially or legally, or for privacy or security reasons; and more detailed and/or wide-ranging analysis or elaboration. The Ministry of Finance and local government finance departments will produce, publish and submit to the central and local governments and parliaments aggregate
reports on the corporations for which they are responsible, including aggregate information, summary information

on individual corporations and commentary by the Ministry of Finance and local government finance departments on performance and prospects. To the extent practicable, the annual fiscal risk statements produced by the Ministry of Finance and submitted to the national parliament should avoid duplicating the information in these aggregate reports, including by using cross-references.

Key Reform Action Points for Auditing, Reporting and Disclosure

Ensure that the key requirements for auditing, reporting and disclosure are incorporated in the framework Public Corporations Law or the *Law on Accounting, Reporting and Auditing*.

Develop secondary legislation to give effect to the statutory requirements on auditing, reporting and disclosure.

Ensure that the framework for auditing, reporting and disclosure is comprehensive and consistent with the Performance Framework.

J. Pilots

The Strategy will be piloted in a few selected public corporations. The main purpose of the pilots will be to test the Strategy to ensure that it is appropriately and efficiently designed for the Georgian context. This will inform the development and fine-tuning of the framework Public Corporation Law and its subsidiary legislation.

Having an opportunity to begin putting into practice the key elements of the Strategy will also allow all stakeholders to begin learning how to perform their new roles and developing the required capacity.
The public corporations selected for the pilots are Georgian State Electrosystem (GSE), Georgian Oil and Gas Corporation (GOGC) and the United Water Supply Company (UWSC). These public corporations have been selected for the pilot as they reflect companies, whose financial positions vary, and which have different levels of complexity and governance challenges.

The UWSC is currently not classified as a public corporation, but as a general government unit, primarily due to the persistent losses. However, it is intended to be restructured and its performance improved with a view to its re-classification as a public corporation in due course.

The main elements of the Strategy that will be tested in the pilot will be:

- *Corporate Governance.* Where it is necessary to appoint or replace supervisory board members or executives in one of the pilot corporations, the process will be aligned to the procedures envisaged by the Strategy. The pilot corporations will also be required to undertake board evaluations as well as to develop and begin implementing a corporate governance code and code of ethics.
- *Performance Framework.* The selected public corporations will be required to develop and discuss with the Ministry of Finance a SCI for 2021-2024, consistent with state budget and public investment management process projections and approvals. They will also need to prepare and approve a strategic plan, consistent with their SCI. The selected public corporations will be required to report quarterly to the Ministry of Finance on performance against their SCI.
- *Competitive neutrality.* As far as possible, steps will be taken so that the selected public corporations operate in a competitively neutral regulatory environment. To the extent that this is not possible (e.g., because of legislation that can only be amended by parliament) transfers to or from the public corporation and the state budget will be made to ensure competitive neutrality.
- *QFAs.* Transfers will be made to the selected public corporations to compensate them for the costs of undertaking the QFAs that have been explicitly mandated in the SCI.
- *Auditing, reporting and disclosure.* Where they do not already exist, the pilot corporations will be required to establish an Audit Committee, which will oversee the internal audit function and the external audit. The procedures for auditing public corporation performance information and QFAs will be piloted. The selected public corporations should attempt to meet the proposed information disclosure requirements. The Ministry of Finance will use the information from the pilot to

strengthen the aggregate report that it is already producing as part of the Fiscal Risks Statement.

- *Ownership entities.* During the pilot, the Ministry of Finance will assume the responsibilities of the ownership entity.

Key Reform Action Points for the Pilot
Selected public corporations to be notified and agree to participate in the pilot.
Pilot corporate governance arrangements with selected public corporations.
Use lessons from the pilots to fine-tune the draft framework Public Corporation Law.

K. Framework Public Corporation Law

International experience suggests that comprehensive, robust and enduring reform of Georgia's public corporations will require the enactment by parliament of a framework Public Corporations Law. This is because Georgia's *Law on Entrepreneurs* and *Law on Accounting, Reporting and Auditing* do not take into account sufficiently the particular circumstances of central or local government ownership, and therefore need to be enhanced. However, good international practice is for a framework Public Corporations Law to build on the foundations of the general law applying to private sector firms. Accordingly, a framework Public Corporations Law in Georgia will complement and enhance the *Law on Entrepreneurs* and *Law on Accounting, Reporting and Auditing*, and will not weaken their application to public corporations.

The framework Public Corporation Law in Georgia will codify in statute the key elements of this Strategy that are not already codified in the *Law on Entrepreneurs* and *Law on Accounting, Reporting and Auditing*. It will include the following:

- Definition of a public corporation and the scope of application of the Law.
- Institutional arrangements and governance procedures at both the ownership and supervisory board levels.
- The rationale for public corporation ownership and its reflection in an ownership policy statement.
- The primary and secondary objectives for public corporations.
- The principles of competitive neutrality, including the treatment of QFAs.
- The requirements for enabling the oversight and control of public corporation performance.
- How major public corporation transactions will be handled.
- The framework for supervisory board member appointments, dismissals, evaluation, remuneration, roles, and responsibilities.
- Disclosure requirements for public corporations and their central and local government owners.
- Requirements relating to auditing of financial and performance information.
- Sanctions for violations.

Key Reform Actions for the Framework Public Corporation Law

- Develop the draft framework Public Corporation Law.
- Consult on the draft law with stakeholders.
- Submit the draft Law to parliament.
- Develop subsidiary central and local government decrees and Ministry of Finance and local government finance department instructions.

Consultations will be held with stakeholders on the draft Law, including public corporations, civil society and key donors, as well as the relevant agencies of central and local government, before a draft is submitted to parliament. In addition, the learnings from the pilot will be used to refine the draft.

Annex I. State Public Corporations Corporate Governance Code Annex II. Key References

ADB, *Reforms, Opportunities and Challenges for SOEs*.

IMF Fiscal Affairs Department, *How to Improve the Financial Oversight of Public Corporations*. OECD, *Guidelines on Corporate Governance of SOEs.*

OECD, *Competitive Neutrality: Maintaining a Level Playing Field between Public and Private Business.*

World Bank, *Corporate Governance of SOEs. A Toolkit.*

Association Agreement between the EU between and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part.

G20/OECD Principles of Corporate Governance

Report on Corporate Governance Practices of SOEs

Summary

The reasons for the failure experienced by SOEs in recent years are complex. One of the most important factors that provoked large-scale losses of enterprises should be the existing ownership model. SOEs are often characterized by sectoral policy-making ministries' and political influences in general (political influence on SOEs is natural, we focus on influences that may lead to inefficiencies in the enterprise), and Georgia's situation is no different. The lack of a shareholder function is followed by a number of inefficiencies directly at the enterprise level. Most enterprises do not have a supervisory board. Where a council is set up, their independence is not proven. Good corporate governance practices are not fully implemented in any enterprise. However, the ongoing reforms in the "Georgian State Electrosystem" provide a basis for optimism that the company will achieve full compliance with good corporate governance practices and become a model of success for other large enterprises.

Given the specifics of the SOE sector in Georgia, the centralized ownership model should ensure that all the inefficiencies mentioned above are eliminated. However, the question to be answered is which body should incorporate this function, or whether another new unit should be established.

In this regard, there are several successful models in the world. Given that the Ministry of Finance naturally has the function of a fiscal supervisor and at the same time, unlike the sectoral ministries, is a neutral body, it would be appropriate to assign the function of a shareholder to the Ministry of Finance.

It should be noted that SOEs are subject to exactly the same norms of accounting, reporting and auditing as the private sector, which is the best practice.

There is need to sake steps in order to create/refine the legal framework. Regulatory norms on SOEs are scattered in various laws and regulations, some of which may be outdated and inconsistent with good practice. It is necessary to develop a law on a unified, comprehensive SOE and its by-laws, which will systematically regulate the issues of SOEs and ensure that the results of the reforms implemented in the sector are maintained and further improved.

General Overview

SOEs in Georgia operate both as joint stock companies and limited liability companies and are regulated in accordance with the Law of Georgia on Entrepreneurs and the Law of Georgia on State Property.

They have the potential to play a leading role in the development of certain sectors of the economy and in the protection of the strategic interests of the state.

The Ministry of Finance of Georgia maintains a register of enterprises created with the participation of the central government and local governments, which is based on information provided by government agencies, the National Statistics Office of Georgia and other administrative sources.

Based on data obtained in 2020, the number of enterprises significant for fiscal risk analysis was 352, 179 from which were owned by central government and 173 by local government. In addition, a number of enterprises have established a total of 82 subsidiaries. The list of enterprises includes all enterprises of the central government and municipal enterprises in which the share of the municipality is more than 25%, the annual turnover exceeds 200 thousand GEL, or the issued annual salary exceeds 15 thousand GEL.

Accounting, Reporting and Auditing Supervision Service, according criteria for identifying a legal entity as subject to public interest (SDP), has identifyied 48 SOEs so far.

The activities of SOEs are divided between 12 sectors, with 52 and 28 percent of the total income of enterprises coming from the energy and transport sectors.

Legal Framework, Ownership Model

According to the best international standards and practices, the state should have a legal and regulatory framework for SOEs, which will establish clear principles and norms for their activities. The legal framework should ensure the best balance between the oversight/ownership function of the state and the independence of SOEs. In order to avoid discrimination on the basis of ownership and to ensure equal conditions, it is a good practice to apply general entrepreneurial legislation in the country to SOEs, which will encourage a competitive environment between SOEs and private companies[10].

The activities of SOEs in Georgia are regulated by general entrepreneurial legislation, for example, the Law of Georgia on Entrepreneurs applies to them. The law recognizes the state as the holder of the voting rights, shares, shares of an entrepreneurial entity, although the term "state enterprise" is not found in the law. The law stipulates the establishment of a supervisory board in enterprises where the state holds more than 50% of the total number of votes as a non-binding norm, in particular, according to article 46 of the statute *"In a society in which the state, the Autonomous Republic of Abkhazia or Adjara holds more than 50% of the total number of votes, a board of supervisors may be established by*

[10] Source „Corporate Governance of State-Owned Enterprises in Europe and Central Asia", CFRR, World Bank Group, 2020, p. 15-16

the decision of the Government of Georgia, the Government of Abkhazia or the Autonomous Republic of Adjara." A board member may be a public servant if he or she does not have a conflict of interest with a particular enterprise. A member of the supervisory board, who is also a public servant, performs his/her duties without remuneration and his/her activities in the public service will not be considered as incompatible of interests. In addition, the law regulates the appointment and dismissal of a manager, in particular, according to article 46 5 5 of the Law,"*In an enterprise in which the state, Abkhazia or Adjara The Autonomous Republic holds more than 50% of the total number of votes, the appointment and dismissal of the management personnel must be agreed by the supervisory board to the shareholder holding more than 50% of the votes of the enterprise. "*

Article 182 of the Law of Georgia on Entrepreneurs defines the grounds for the mandatory establishment of a supervisory board in a joint stock company. Paragraph 3 of this article states that if a joint stock company is an accountable enterprise defined by the Law of Georgia on the Securities Market, whose securities are admitted to trading on a stock exchange, or if the joint stock company is licensed by the National Bank of Georgia, supervisory board should be created with at least 3 and no more than 21 members.

Article 78 of the Law of Georgia on Entrepreneurs regulates the rules and grounds for the dissolution of an entrepreneurial society. According to paragraph 4 of this article, *"The rules for the dissolution of an enterprise in which more than 50% of shares or stakes are owned by state, are approved by the Minister of Economy and Sustainable Development of Georgia, and the rules for the dissolution of an enterprise whose in which more than 50% of shares or stakes are owned by the Autonomous Republic of Abkhazia or Adjara, - relevant Minister authorized in the field of economy of Abkhazia or the Autonomous Republic of Adjara".* Approval of this rule in accordance with paragraph 3 of article 254 of the Law shall be provided by the Minister of Economy and Sustainable Development of Georgia until november 1, 2021.

According to paragraph 6 of article 1 of the Law of Georgia on State Property, the management and disposal of state property is carried out by a legal entity of public law within the system of the Ministry of Economy and Sustainable Development - the National Agency for State Property. According to the same article, the Property Agency also exercises other powers defined by the Government of Georgia, including facilitating the management of the property of interested individuals and legal entities of public and private law.

According to the law, the Ministry of Economy and Sustainable Development of Georgia determines and manages the state policy related to the management and disposal of state property. Paragraph 2 of article 43 of the Law clarifies that the powers of a partner (shareholder) of an enterprise operating with a state share are exercised by the property manager who decides on the implementation of state property, including shares and stocks, as well as cash contributions (contributions) in the capital of an enterprise operating with a state shareholding. According to the same law, the property manager can be a ministry, a property agency or a body operating within the authority delegated by them; A person using state property (except for a natural person and a legal entity of private law), who exercises the powers provided for by the Law of Georgia on State Property in the manner and form defined by a resolution of the Government of Georgia. According to article 39, Paragraph 4 of the Law, with the participation of the state The Government of Georgia shall make a decision on the purchase/redemption of the shares/shares of the current enterprise in accordance with the rules established by the Law of Georgia on Entrepreneurs.

In order to protect the principle of transparency and fight corruption, in accordance with the Law of Georgia on Conflict of Interest and Corruption in Public Institutions, a list of SOEs whose officials are obliged by the same law to fill in and submit the property declaration of the official , shall be determined by a resolution of the Government of Georgia,. The notion of an official in relation to SOEs is defined by Article 2 2 (c) of the Law: "*The head of an enterprise whose 100% stake or share is owned by a state body or municipality/municipalities, as well as the head of a subsidiary of that enterprise*".

In order to ensure the rational spending of public finances and to promote effective competition, the Law of Georgia on State Procurement applies to enterprises in which more than 50% of shares or stakes are owned by the state or municipality/municipalities. According to sub-paragraph, public procurement is considered to be procurement of any goods, services and construction works by the procuring entity using electronic or other means in the cases defined by the mentioned law with the funds of the enterprise, in which more than 50% of shares or stakes are owned by the state or municipality/municipalities, except when the said enterprise, when purchasing goods or services related to the specifics of its activity, is guided by a special rule established by the Government of Georgia for the procurement of these goods or services, the validity of which may not exceed 2 years. In addition, in case the Government of Georgia does not establish a special rule, the procurement shall be carried out in accordance with the mentioned law.

In order to ensure the accountability and financial sustainability of SOEs, the economic activities of SOEs are subject to scrutiny by the State Audit Office. Pursuant to Article 17 (2) (i) of the Organic Law of Georgia on the State Audit Office, the State Audit Office inspects the financial and economic activities of the legal entity of private law, in which the Autonomous Republic and/or the municipality/municipalities own/owns 50 per cent and more of the shares, as well as the financial and economic activities of a private legal entity established by the State with a 50 per cent and more share, unless the enterprise securities - shares, part are listed on the International Stock Exchange. This enterprise shall submit information on its financial statements to the State Audit Office upon request.

In order to ensure early access to information on the fulfillment of international obligations and financial results of SOEs, the order N217 of Government of Georgia dated as of February 11, 2021 defines public submission of audited financial statements and other types of statements by SOEs to the Accounting, Auditing and Auditing Supervision Service before July 1 of the year following the reporting period, and reporting of unaudited financial and other statements until the year following the reporting period. In addition, according to the Law of Georgia on Accounting, Reporting and Auditing, SDPs are required to maintain accounting and financial reporting in accordance with International Financial Reporting Standards (IFRS).

According to the best corporate governance standards, it is important to establish an internal audit unit in the enterprise to ensure the efficiency and effectiveness of internal control, risk management and management systems. The Law of Georgia on State Internal Financial Control defines as a non-imperative norm the possibility of establishing an internal audit entity in those legal entities of private law, in which more than 50% of shares or stakes are owned by the state.

As already mentioned, SOEs are guided by other legislative normative acts and bylaws defined by the Law of Georgia on Entrepreneurs and the legislation of Georgia. At the same time, it should be noted that JSC "Partnership Fund" is the only SOE for the regulation of which a separate law has been adopted - the Law of Georgia on Joint Stock Company - Partnership Fund.

The model of ownership of SOEs in Georgia can be classified as a dualistic model. This model implies the redistribution of ownership responsibilities and powers between the centralized coordinating body and the relevant sector ministries.

The resolution №391 of the Government of Georgia on the Approval of the Statute of the Legal Entity of Public Law - National Agency for State Property dated as of September 17, 2012 defines the goals of the Agency, including one of the objectives to exercise the authority of a partner / shareholder in SOEs. Accordingly, as a partner, according to the statute, it makes decisions on the following issues:

a) to make changes in the capital of an enterprise operating with the share participation of the state

b) approval of business plans of enterprises;

c) borrowing and giving loan by enterprises;

d) establishment/liquidation of branches by enterprises;

e) within the scope of its competence, to prepare an issue for the distribution of net profits of enterprises;

f) reorganization of enterprises, liquidation, starting rehabilitation and bankruptcy proceedings;

g) investing in enterprises;

h) temporary transfer of property of enterprises, write-off, sale, encumbrance with pledge, mortgage and other forms provided by the Civil Code of Georgia.

The existence of the agency as a coordinating body is characteristic of a dualistic model. The coordinating body should, together with the other ministry, exercise the powers of the partner (powers should be redistributed between the agency and the ministries and not fully delegated). In fact, all the powers of the partner are exercised by the relevant ministries. However, the agency does not perform the function of coordination and supervision, for which it is necessary to have relevant information about the enterprises transferred with the right of management. The agency's reporting system is only for enterprises under its management. The only leverage for the management of enterprises by the Agency is that the Ministries can not manage, liquidate, bankrupt, sell property, invest in and/or withdraw capital, make urgent purchases, change directors, etc. without the consent of the Agency (for example, in the case of a number of enterprises, ministries are also not allowed to take loans and make investments without the consent of the Agency)[11].

In order to effectively supervise SOEs and to exercise the partner / shareholder authority, it is important to introduce a model of ownership that meets the best international standards of SOEs. The guidelines of the Organization for Economic Co-operation and Development (OECD) indicate the centralization of the state's shareholder / partner function and the definition of the relevant state body to play this role. The existence of such a model ensures, among other things, the separation of the role of the state as a shareholder / partner from the role of a policy maker / regulator, which is a good practice. It is also important to bring together specialized expert knowledge, skills and experience in one public body. At the same time, this model is characterized by more flexible and strong oversight, which ensures the receipt of sufficient and timely information from SOEs, operative identification of problems and unification of practice for solving them[12].

SOE Reform Strategy

The Ministry of Finance of Georgia, in active cooperation with international partner organizations, has developed a draft strategy for the reform of SOEs and continues to work on its refinement. The draft strategy is based on the best practices of the OECD, IMF, WB and ADB. In addition, the resolution N156 dated as of April 7, 2021 of the Government of Georgia established the State Enterprise Reform Council, which is composed of representatives of the Government of Georgia and the Parliament of

[11] Source: State Audit Office, audit of the Efficiency of Management and Disposal of State Enterprises; 2015; p. 30-31

[12] Source: Corporate Governance of State-Owned Enterprises in Europe and Central Asia", CFRR, World Bank Group, 2020, p.85-86; Corporate Governance of State-Owned Enterprises: A Toolkit (2014), World Bank Group, p.78; State Audit Office, State Audit Office, audit of the Efficiency of Management and Disposal of State Enterprises; 2015; p.27-28

Georgia. The Council shall submit to the Government of Georgia for approval a strategy for the reform of SOEs and shall determine the pilot enterprises for the reform.

The reform consists of 5 main pillars:

Corporate governance - involves the introduction of corporate governance standards in SOEs in accordance with OECD guidelines. In this regard, we mainly consider selecting independent members of the supervisory boards of the enterprises as staff through transparent procedures. Successful piloting in this regard has already been carried out in JSC "Georgian State Electrosystem".

Commerciality, as the main goal of the enterprise - nowadays, in some cases, SOEs do not operate fully in line with commercial goals and are involved in activities that would not be carried out by another private sector company. Profit orientation should be defined as the primary task of SOEs, identify and limit their involvement in non-profit activities, except for public interest activities, which should be fully and transparently offset by the budget so that these activities do not become a financial burden on enterprises. Naturally, with the assumption that other types of operating inefficiencies will be eliminated.

Promoting competition - the ownership of an enterprise by the state should not give the company any advantage or create an unfavorable situation for it. For example, the specific direction of the enterprise may prevent a private company from entering the sector and further developing the sector. This type of activity must be alienated or find alternative ways to eliminate the breach of competitive neutrality.

Purpose of ownership of SOEs, rationality of participation scope - the state should have a clearly defined policy that determines the expediency of SOE(s) in a particular sector, the need to maintain them and assesses when a new enterprise is permissible and justified, moreover, determines the rationality of incomplete ownership of an enterprise (e.g., minority stake). In general, the ownership / establishment of a SOEs is justified if it is the best and most rational solution for the provision of a specific critical service;

Management of corporate goals - the state, as a shareholder, must have a certain framework to manage the company within its competence, such instrument is so called Statement of Corporate Intent. The supervisory board of the enterprise is accountable for the execution of the document. The document defines the scope and scope of the company's activities, key financial and non-financial indicators - so-called KPIs, risk limits, non-profit activities that should potentially be funded from the state budget, major planned transactions. Subsequently, the supervisory board of the SOE reports on its performance to the shareholder on the basis of the said document, which may serve as a basis for encouragement or sanction of the board.

Code of Corporate Governance of SOEs

The Ministry of Finance of Georgia, with the support and direct involvement of international partner organizations, has developed a Code of Corporate Governance for SOEs (see Annex). The Code ensures the adoption and implementation of corporate governance standards in accordance with the guidelines of the Organization for Economic Cooperation and Development (OECD), which is also one of the priorities set by the Government of Georgia for the "Building of the European State for 2021-2024".

Introducing effective and sound corporate governance systems in enterprises will help increase their contribution to economic activity, improve the business environment, reduce fiscal risks and pressure on the fiscal area. Increasing the transparency and financial sustainability of enterprises will also play an important role in their capital market integration and active participation.

To achieve these goals, the Code sets out the basic principles of corporate governance, shareholder rights, supervisory board membership, independence criteria and merit-based selection procedures, roles and responsibilities of the board, its committees and executives, internal control systems for risk management, principles of transparency, accountability. International good practice provides for the preparation of compliance reports directly by the enterprise. Enterprises will be given the opportunity to ensure gradual compliance with the principles set out in the Code, as well as to publish annual reports on this.

It is advisable to mandatorily extend the Code on a "Comply or Explain" basis to large enterprises, about 20 major SOEs..

Research on Corporate Governance Practices

At the request of the Government of Georgia, the World Bank is assessing the legal framework and practices of corporate governance in Georgia. The assessment is based on the Standards and Codes Compliance Report (ROSC) developed jointly by the World Bank and the International Monetary Fund. The program determines the compliance of corporate governance practices of SOEs in the country with international best practices. The questionnaire was sent to thirteen major SOEs as part of this assessment.

Only 15% of the surveyed enterprises have distributed dividends in the last 5 years. During the same period, the accumulated losses of SOEs increased significantly. However, more than 60% of enterprises need to raise funding for various infrastructure projects. It is important that this is not done through government loan and that companies are able to raise funds independently.

85% of enterprises believe, that improving the corporate governance of enterprises would increase the effectiveness of strategic decisions. 92% of enterprises do not prioritize the interests of the shareholder, which is a reflection of the current situation. In particular, the function of a shareholder is not performed in reality, functions of shareholder, supervisory board and director / management are not separated.

" JSC "Georgian Railway" - state share: 100% (100% is owned by JSC "Partnership Fund", which, in turn, is fully state-owned).

Improving corporate governance for the company aims to increase the efficiency of the strategic decision-making process, improve the supervisory and controlling function, and increase the effectiveness of internal control. The company has important documents for the corporate governance system: The Code of Ethics, a document outlining the functions of the supervisory board, has developed a policy document on transactions / conflicts of interest with related parties. However, there is no corporate secretary position in the company, the functions of which is to provide advice to the supervisory board and executives on corporate documentation and procedural issues.

It is noteworthy, that the company does not plan to take the necessary measures to improve corporate governance over the next 3 years, other than to improve internal documentation.

According to the company, in order to improve corporate governance over the last 3 years, the company has added independent members to its supervisory board, improved internal documentation and financial reporting.

However, according to the company, there are no obstacles within the company to improve corporate governance. According to the company, the general meeting is responsible for accepting and approving decisions on the issue of additional shares, which is in line with the functions of a shareholder defined by good practice. The Annual General Meeting was held In 2020.

As for the composition of the company's supervisory board, the board consists of 7 members, 6 members from which, according to the company, are independent, and 1 member is a shareholder. The independence of the majority of board members is a good practice. The supervisory board does not have a female member, 1 member of the board is not Georgian, the average age of the members is 43 years. A complete gender imbalance is not in line with the principle of diversity in the composition of the council. 11 meeting was held in 2020. Company does not have announced whether the chairman of the supervisory board is elected from independent members of the board. An audit committee is set up with the supervisory board, consisting of 1 independent member with relevant expertise and experience in finance. According to the company, the process of appointing the chairman of the remuneration committee, his deputies and members is underway, the statute of the committee has been developed. According to the OECD guidelines, the supervisory board should be composed of qualified and independent members of the board's specialized committees, especially in the areas of risk, audit, and remuneration.

The general meeting and the supervisory board are responsible for appointing the members of the company's supervisory board, which is in line with good practice. In addition, in order to select members of the supervisory board, the enterprise must have appropriate transparent selection procedures and policies and must ensure compliance with the existing criteria.

It should be noted that the performance of the company's supervisory board is not evaluated, including through a self-evaluation procedure, which is not a good practice. Remuneration of the members of the supervisory board is fixed and the average monthly salary of the members of the board is 2500 GEL. A member of the Board does not receive remuneration if he / she is a public servant or holds a paid position in the company of JSC "Partnership Fund".

The company's board of directors consists of 5 members, none of whom are women. The company has not issued any information on the average annual salary of the board of directors. According to the company, the general assembly and the supervisory board are responsible for appointing the members of the board of directors.

In accordance with good practice, the company has established an internal audit function unit, which is accountable to the audit committee. The committee has its bylaw, that defines its roles and responsibilities. According to the company, the internal auditor and control functions are supervised by the supervisory board, the audit committee and the board of directors. The oversight of the internal audit function by the board of directors violates the recognized principles of functional and organizational independence of internal auditors. The company also has a risk management function.

According to the company, the development of the strategy is the responsibility of the supervisory board and the board of directors, and the approval of the strategy is the function of the supervisory board. According to good practice, the supervisory board is responsible for developing and approving strategies, approving strategy implementation policies, delegating authority and authority to implement approved strategies and policies, and overseeing the implementation of strategic objectives by management. The supervisory board and the board of directors also review and approve related party transactions. Supervising and controlling related party transactions through effective procedures and good practice is the function of the supervisory board. Reviewing and approving major operations is the function of the company's general meeting, supervisory board and board of directors. Good practice The function of developing rules for the control of major transactions (significant transactions) is assigned to the supervisory board, and the approval of the decisions on them is the authority of the shareholder.

As for compliance with transparency standards by the company, according to the information provided, the company has a practice of preparing and publishing annual reports, which includes corporate governance and governance reporting as required by law. The company publishes the information on its website. The company's annual report also contains information on compliance with sustainable development standards. The company also has a function of communication with investors. All of the above meet best standards and good practice. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law.

JSC "Partnership Fund" - State share: 100%

Improving corporate governance for the company aims to increase the effectiveness of internal control and ensure the prevention of corporate conflicts. The company has important documents for the corporate governance system: a document that defines the functions of the supervisory board, has developed a policy document of transactions / conflict of interest with related parties. The company has not developed a code of ethics. There is a corporate secretary position in the company. The company's corporate secretary acts as a mediator between the supervisory board and the board of directors.

The company plans to take the necessary measures to improve corporate governance over the next 3 years. In particular, it intends to add independent members to the supervisory board, to introduce an effective remuneration system for members of the supervisory board, to improve internal documentation.

According to the company, in order to improve corporate governance over the last 3 years, the company has implemented an effective remuneration system for members of the board of directors, developed software for electronic meetings of the supervisory board. However, no relevant measures have been taken, for example, to add independent members to the supervisory board. Moreover, according to the company, there are no obstacles within the company to improve corporate governance.

According to the company, no annual general meeting was held in 2020. It should be noted, that the composition of the supervisory board of the company is specific, namely, it consists of the Prime Minister and 4 Ministers, therefore, many issues are resolved by the supervisory board, which approves the budget for the next reporting year and last year. The board has no independent member, 2 of the board members are women, the average age of the members is 47 years. During 2020, the Council held 28 meetings. The appointment of the members of the supervisory board is a function of the general meeting. The absence of independent members on the supervisory board and the overlapping and non-separation of the roles and functions of the shareholder and the supervisory board violate the best standards and principles of corporate governance.

It should be noted, that the activities of the Company's supervisory board are not evaluated, including through a self-evaluation procedure. Supervisory board members also are members of the government. The supervisory board is not remunerated.

The company's board of directors consists of 8 members, one of whom is a woman. The CEO and his two deputies are appointed by the supervisory board, while the other members of the board of directors are appointed by the CEO. The company's strategy will be developed by the board of directors. The strategy is approved by the supervisory board. The company has not issued any information on the average annual salary of the Board of Directors.

No committee has been set up with the company's supervisory board. However, the company plans to set up an audit and risk committee.

The supervisory board reviews and approves related party transactions, while reviewing and approving major transactions is the function of the company's general meeting and supervisory board.

The company has an internal audit function, which in accordance with good practice should be accountable to the supervisory board and the audit committee. However, the company has not yet established an audit committee. The company also has a risk management function.

According to the company, the internal audit and control functions are supervised by the board of directors, which violates the recognized principles of functional and organizational independence of internal auditors and is contrary to good practice.

According to the company, the general meeting is responsible for approving and approving decisions to issue additional shares.

The company has a practice of preparing and publishing annual reports, which includes corporate governance and governance reporting as required by law. The company publishes the information on its website. The company is also preparing a report on compliance with sustainable development standards. The company also has a function of communication with investors. All of the above is in line with good practice. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law.

JSC "Commercial Electricity System Operator (ESCO)" - State share 100%

Improving corporate governance for the company aims to increase the efficiency of the strategic decision-making process, increase the effectiveness of internal control, and ensure the prevention of corporate conflicts. The company has developed a policy document for transactions / conflicts of interest with related parties, but does not have a code of ethics and a document that defines the functions of the supervisory board. There is no corporate secretary position in the company.

The company plans to establish only an internal control unit in order to improve corporate governance over the next 3 years. According to the company, in order to improve corporate governance over the last 3 years, the company has improved internal documents and financial reporting. Moreover, according to the company, the obstacle to improving corporate governance is the lack of information within the company.

According to the company, the annual general meeting was held in 2020.

The company has no information on the composition of the supervisory board and the board of directors, the number of members, the number of meetings of the supervisory board during 2020, the average annual remuneration of the board of directors and the remuneration form of the supervisory board and the average remuneration of the supervisory board.

According to the company, the supervisory board does not have any committees. There is no internal audit unit in the company. The company completes the risk management function.

The company's board of directors is responsible for approving and approving decisions to issue additional shares, which in accordance with good practice is the function of the shareholder.

The company has no information on the units responsible for appointing the members of the supervisory board and the board of directors and developing the strategy. According to the company, the CEO is responsible for approving the strategy, reviewing and approving related party transactions and major operations, as well as overseeing internal control functions. This is not in line with good corporate governance practices.

It should be noted that the performance of the company's supervisory board is not evaluated, including through a self-evaluation procedure, which is not a good practice.

The company has the practice of preparing and publishing annual reports, which includes the reporting of corporate management and governance envisaged by the legislation. The company publishes the information on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company also fulfills the function of communication with investors. The company does not prepare a report on compliance with sustainable development standards.

JSC "Georgian Oil and Gas Corporation" - State share: 100% (100% share is owned by JSC "Partnership Fund", which, in turn, is fully in state ownership).

Improving corporate governance for the company aims to increase the efficiency of the strategic decision-making process, improve the supervisory and supervisory function, and increase the effectiveness of the relationship between the shareholder and the governing bodies. The company has important documents for the corporate governance system: Code of Ethics, a document that defines the functions of the supervisory board, has developed a policy document of transactions / conflicts of interest with related parties. The company has the position of corporate secretary, whose functions are to organize annual meetings with the shareholder, to communicate with the shareholder, investors, to act as a mediator between the supervisory board and the board of directors.

The company plans to take the necessary measures to improve corporate governance over the next 3 years, in particular, it intends to improve internal documentation and financial reporting. The company has taken steps in these directions in the last 3 years. However, the company did not respond to impediments to improving corporate governance due to information confidentiality.

The company explained that the annual general meeting was not held in 2020, as since the company has a single shareholder, there is no need to hold meetings with the shareholder. Relevant decisions are made and sent by official letter, which, according to the company charter and the Law of Georgia on Entrepreneurs, is equivalent to the decision of the shareholders' meeting.

The Company's supervisory board consists of 3 members, of which 2 members are independent and 1 member is a shareholder representative. The supervisory board does not have a female member. The average age of the members of the supervisory board is 46 years. In 2020, the council held 10 meetings. The company has no information as to whether the chairman of the supervisory board is from independent elected board members. The board of directors of the company consists of 5 members, 1 of which is a woman.

No committee has been set up with the company's supervisory board. The company performs internal audit and risk management functions.

It should be noted, that the performance of the company's supervisory board is not evaluated, including through a self-evaluation procedure, which is not a good practice. The remuneration of the members of the supervisory board is fixed and the average monthly salary of the board is 1504 GEL. A member of the board does not receive remuneration if he / she is a public servant or holds a paid position in the company of JSC "Partnership Fund".

The general meeting of the company is responsible for approving and approving d ecisions on the issue of additional shares and appointing members of the supervisory board. The Company's supervisory board is responsible for appointing the members of the board of directors. According to the company, the company's supervisory board and board of directors develop and approve the company's strategy.

It is the function of the board of directors to review and approve transactions with related parties in the company. It is the responsibility of the general meeting and the supervisory board to review and approve major operations.

The supervisory board and the board of directors are responsible for overseeing the internal audit and control functions in the company.

The company has a practice of preparing and publishing annual reports, which includes corporate governance and governance reporting as required by law. The company publishes the information on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company completes the function of communication with investors.

“Engurhesi” Ltd - State share - 100%, share manager Ministry of Economy and Sustainable Development of Georgia.

Improving corporate governance for the company aims to increase the efficiency of the strategic decision-making process. The company has important documents for the corporate governance system: Code of Ethics, a document that defines the functions of the supervisory board. Has not developed a policy document on transactions / conflicts of interest with related parties. The company has the position of corporate secretary, whose functions are to organize annual meetings with the shareholder, communicate with the shareholder, investors, perform the function of mediation between the supervisory board and the board of directors, as well as between the shareholder and the board of directors.

The company plans to take the necessary measures to improve corporate governance over the next 3 years, in particular, it intends to improve internal documentation and financial reporting. According to the company, in order to improve corporate governance over the past 3 years, the company has improved internal documentation and financial reporting, as well as conducted training on corporate governance for supervisory board members. Moreover, according to the company, the obstacles to improving corporate governance within the company are the shortcomings of the legal framework and the risks associated with the introduction of Western standards.

According to the company, the annual general meeting was held in 2020.

The company's supervisory board consists of 5 members, the vast majority of whom are representatives of the state, the shareholder. The supervisory board does not have a female member. The average age of the members of the supervisory board is 50 years. In 2020, the council held 13 meetings. The supervisory board conducts an annual self-assessment of its activities. Remuneration of board members is fixed and averages GEL 2725 per month. No committee has been set up with the company's supervisory board. The company performs internal audit and risk management functions.

The board of directors of the company consists of 3 members, none of whom are women. The company has not issued any information on the average annual salary of the board of directors.

The general meeting of the company is responsible for approving and approving decisions on the issue of additional shares and appointing members of the supervisory board. The Company's supervisory board is responsible for appointing the members of the board of directors. This is in line with good practice. According to the company, the strategy of the enterprise will be developed by the board of directors and approved by the general meeting.

It is the function of the general meeting to review and approve transactions and significant agreements with related parties in the Company.

The board of directors is responsible for overseeing the internal audit and control functions of the company.

The company has a practice of preparing and publishing annual reports, which includes corporate governance and management reporting as required by law. The company publishes the information on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company is also preparing a report on compliance with sustainable development standards. The company does not perform the function of communicating with a separate investor.

"Georgian Amelioration" Ltd - state share - 100%, the share manager is the Ministry of Environment Protection and Agriculture of Georgia.

Improving corporate governance for the company aims to increase the effectiveness of the strategic decision-making process, the supervisory and controlling functions of the enterprise, and the communication between the shareholder and the governing bodies The company does not have the important documents for the corporate governance system: the Code of Ethics, the document that defines the functions of the Supervisory Board, the policy document of conflicts of interest and related parties. There is also no corporate secretary position in the company.

The company plans to take the necessary measures to improve corporate governance over the next 3 years, in particular, it intends to improve internal documentation and financial reporting. According to the company, in order to improve corporate governance over the past 3 years, the enterprise has improved internal documentation and financial reporting, as well as established a supervisory board and introduced an effective remuneration system for members. Moreover , according to the company, the obstacles to improving corporate governance within the company are the lack of information and relevant qualified specialists.

According to the company, no annual general meeting was held in 2020.

The Company's supervisory board consists of 3 members, the vast majority of whom are representatives of the state, the shareholder. The supervisory board does not have a female member. The average age of the members of the supervisory board is 65 years. In 2020, the council held 20 meetings. The supervisory board conducts self-assessment of its activities twice a year. Remuneration of board members is fixed and averages GEL 4,239 per month. No committee has been set up with the company's supervisory board. The company has an internal audit function and does not complete the risk management function. The company does not have a board of directors.

According to the company, the Government of Georgia is responsible for approving and approving decisions on reorganization of the company and / or issuance of additional shares. The Ministry of Environment Protection and Agriculture of Georgia is responsible for the appointment of the supervisory board. According to the company, the strategy of the enterprise will be developed by the general director, and the approval of the strategy is the function of the Ministry of Environment Protection and Agriculture of Georgia.

Reviewing and approving transactions with related parties in the company is the function of the general director, reviewing and approving important transactions by the Government of Georgia. The CEO is responsible for overseeing the company's internal audit and control functions.

The company has a practice of preparing and publishing annual reports, which includes governance reporting as required by law. The company publishes the information on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company completes the function of communication with the investor.

Georgian Gas Transportation Company Ltd - State share - 100%, share manager of the Ministry of Economy and Sustainable Development of Georgia.

Improving corporate governance for the company aims to increase the effectiveness of the strategic decision-making process, the internal control of the enterprise, as well as to provide timely and accurate information about the company. The company does not have the important documents for the corporate governance system: the Code of Ethics, the document that defines the functions of the Supervisory Board, the policy document of conflicts of interest and related parties. There is also no corporate secretary position in the company.

The company is a limited liability company in organizational-legal form and does not have a supervisory board. In view of the above, the company considers that corporate governance in this regard is not as relevant as it would be in the case of a joint stock company and therefore, does not plan to take appropriate measures to improve corporate governance over the next 3 years nor take appropriate measures in the last 3 years. According to the company, the obstacles to improving corporate governance within the enterprise are the shortcomings of the legal framework. Moreover, the company's position is that if a shareholder decides to reorganize the enterprise into a joint stock company, the company will be motivated to introduce corporate governance standards.

According to the company, the annual general meeting was held in 2020. The decision of the shareholder is made in the form of an order of the Ministry, which performs the functions of a shareholder.

The company completes its internal audit function. According to the company, the general meeting is responsible for approving and approving decisions to issue additional shares. The company has no supervisory and board of directors. The general director of the Enterprise is appointed to the position by the General Assembly. The CEO is responsible for developing the enterprise strategy. The company agrees with the Georgian National Water Supply Regulatory Commission as a regulator on a certain part of the strategy.

It is the responsibility of the general meeting to review and approve transactions and significant transactions with related parties in the company, and some important transactions may be approved by the Government of Georgia. The CEO is responsible for overseeing the company's internal audit and control functions.

The company has a practice of preparing annual reports, which includes governance reporting as required by law. The company does not publish periodic reports on its website. The company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor.

JSC "Georgian State Electrosystem" - state share - 100%.

Improving corporate governance for the company aims to increase the efficiency of communication between strategic decision-making process, enterprise internal control, supervisory and controlling function, shareholder and management bodies as well as ensuring timely and accurate disclosure of company information and the reduction and prevention of corporate conflicts. The company has important documents for the corporate governance system: the corporate governance code and the new charter, which define, including the functions of the supervisory board, the conflict of interest and related party transaction policy document, it has also adopted a Code of Ethics and there is the position of corporate secretary in the company.

The company created and staffed a supervisory board with independent members in 2021, which can be said to be the first precedent in the country.

According to the company, no annual general meeting was held in 2020.

The company has no information on the supervisory board, its committees, remuneration and performance appraisal, as well as the average annual remuneration of the board of directors. According to the company, the board of directors of the enterprise consists of 10 members, none of whom are women. However, the supervisory board was set up after compiling this questionnaire, so we expect the situation to improve substantially.

The company performs internal audit and risk management functions. According to the company, the general meeting is responsible for approving and approving decisions to issue additional shares. The appointment of the supervisory board and the board of directors, the approval of the enterprise strategy, and the review and approval of important transactions are also functions of the general meeting.

The company has a practice of preparing and publishing annual reports, which includes governance reporting as required by law. The company publishes periodic reports on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor.

"Sakaeronavigatsia Ltd" - State share - 100%

Improving corporate governance for the company aims to increase the effectiveness of the strategic decision-making process and internal control of the enterprise, as well as to improve the supervisory and controlling functions. The company has important documents for the corporate governance system: a Code of Ethics, a corporate governance code or other document that outlines the functions of the supervisory board, a policy document for conflicts of interest and related parties. The company has the position of corporate secretary, whose functions are to organize the annual meeting with the shareholder, the shareholder and the board of directors,as well as mediate between supervisory board and board of direcotrs.

The company plans to take the necessary measures to improve corporate governance over the next 3 years, in particular, it intends to improve internal documentation and financial reporting. According to the company, in order to improve corporate governance over the last 3 years, it has established an internal control unit, improved internal documentation and created the position of corporate secretary in the organizational structure. Moreover, according to the company, the obstacles to improving corporate governance within the company are the lack of information and relevant qualified specialists.

According to the company, the annual general meeting was held in 2020.

The company's supervisory board consists of 4 members, all of whom the company believes are independent. One of the members of the supervisory board is a woman. The average age of board members is 47 years. During 2020, the Council held 4 meetings. The supervisory board does not evaluate its own activities. By the order of the Government of Georgia in 2013, the composition of the supervisory board of the company was determined:

-Deputy Minister of Economy and Sustainable Development of Georgia;

- Deputy Minister of Internal Affairs of Georgia;

- Deputy Minister of Finance of Georgia;

- Deputy Minister of Defense of Georgia.

Accordingly, the Company's wording regarding the independence of the board members is inconsistent with the definition of independence set out in our corporate governance Code.

The company has no information on the remuneration of the members of the supervisory board. Only the risk committee is established under the company's supervisory board, which consists of 7 members, none of whom is a member of the board and 2 members have expert knowledge in the field of risk management. The risk committee does not have a statute defining its roles and responsibilities. The company does not have an internal audit function, but it does have a risk management function that is accountable to the risk committee.

The company's board of directors consists of 2 members, none of whom are women. The company has not issued any information on the average annual salary of the board of directors. The responsibility of the board of directors of the enterprise is to review and approve transactions and significant agreements with related parties. The internal control function of the enterprise is supervised by the supervisory board and the board of directors.

According to the company, the appointment of the supervisory board of the enterprise is the responsibility of the LEPL “National Agency for State Property”. The supervisory board is responsible for the appointment of the company's board of directors.

The company has a practice of preparing and publishing annual reports, which includes corporate governance and governance reporting as required by law. The company publishes periodic reports on its website. The company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law.The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor.

“United Airports of Georgia” Ltd - State share - 100%

Improving corporate governance for the company aims to increase the strategic decision-making process, the effectiveness of the enterprise's internal control, and the accountability of management bodies. The company has important documents for the corporate governance system: Code of Ethics, Conflict of Interest and related party transaction policy, but does not have a corporate governance code or other document outlining the functions of the Supervisory Board. There is also no corporate secretary position in the company.

The company plans to take appropriate measures to improve corporate governance over the next 3 years, in particular, it intends to establish an internal control unit, improve internal documentation, introduce and reorganize the position of corporate secretary. According to the company, internal documentation and financial reporting have been improved over the past 3 years to improve corporate governance. Moreover, the company believes that the lack of adequate human resources within the company is an obstacle to improving corporate governance.

According to the company, the annual general meeting was held in 2020.

The Company's supervisory board consists of 7 members, as company believes, all of them are independent. None of the members of the supervisory board are women. The average age of board members is 44 years. During 2020, the council held 3 meetings. No committee has been set up with the supervisory board. The supervisory board does not evaluate its own activities. According to the company, the appointment of the supervisory board is the responsibility of the general meeting, the Deputy Ministers of various Ministries are appointed as members of the board by the decree of the Government of Georgia.

The company does not have a board of directors. Management is responsible for developing the company strategy (CEO - Deputies). The company does not have a body responsible for approving the strategy, although it can be submitted to both the supervisory board and the partner. In addition, the company's annual business plans are subject to review by the supervisory board and to approval by the partner. The enterprise does not have a related procedure for reviewing and approving related party transactions. As for the responsibility of reviewing and approving important transactions, it is the function of the said general meeting and the supervisory board. Moreover, according to the company, there is no domestic policy governing significant transactions, although there are certain transactions (depending on the type of transaction) that are subject to approval by the supervisory board and / or the LEPL National Agency for State Property.

The company does not have an internal audit function, but the risk management function is completed. The CEO of the enterprise is responsible for overseeing the internal control function of the company.

According to the company, according to the charter of the enterprise, the Ministry of Economy and Sustainable Development of Georgia is responsible for approving and approving decisions on the issuance of additional shares.

The company has an annual reporting practice that includes corporate governance and governance reporting as required by law. The company does not publish periodic reports on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor.

"Tbilisi Transport Company" Ltd - Tbilisi Municipality - 100%

Improving corporate governance for the company aims to increase the strategic decision-making process, the effectiveness of the enterprise's internal control, and the improvement of the supervisory and controlling function. The company does not have the important documents for the corporate governance system: the Code of Ethics, the policy for conflict of interest and related party transaction, but it does have a document that defines the functions of the supervisory board. There is no corporate secretary position in the company.

The company plans to improve its operations over the next 3 years with the support of the EBRD. According to the company, in order to improve corporate governance over the last 3 years, internal documentation has been improved. However, according to the company, the obstacle to improving corporate governance within the company is the lack of qualified specialists and the shortcomings of the legal framework.

According to the company, no annual general meeting was held in 2020. General meeting is responsible for appointing thebBoard of directors, as well as reviewing and approving important transactions.

The company has not issued any information about the supervisory board. The company's board of directors consists of 7 members, one of whom is a woman. The company also has no information on the average annual salary of the board of directors. Develops and approves company strategy, also reviews and approves related party transactions, and oversees internal audit and control functions.

The company carries out internal audit and risk management functions.

The company has no practice of preparing and publishing annual reports. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor.

"**Marabda-Kartsakhi Railway" Ltd** – state share 100%

The company has not released any information regarding corporate governance improvement goals.

The company has important documents for the corporate governance system: a Code of Ethics and a document that defines the functions of the supervisory board. There is no corporate secretary position in the company and no policy document on conflicts of interest and related parties has been developed.

The company does not plan to take appropriate measures to improve corporate governance in the next 3 years and does not plan to make changes in this direction. According to the company, no changes have been made in the last 3 years to improve corporate governance. Moreover, the company believes that there are no obstacles within the company to improve corporate governance.

According to company, annual meeteing was not held in 2020.

The company's supervisory board consists of 7 members, although the company has not issued any information about the existence of independent members on the board. The average age of board members is 50 years. During 2020, the council held 4 meetings. No committee has been set up with the supervisory board. The supervisory board does not evaluate its own activities, although its activities are evaluated annually by the consultant. According to the company, the appointment of the supervisory board is the responsibility of the supervisory board itself. It is also the function of the supervisory board to review and approve important transactions. Remuneration of the members of the supervisory board is fixed. The company has no information on the average monthly salary of the supervisory board.

The company has not released any information about the board of directors as well as on the person responsible for developing and approval of strategy. According to the company, reviewing and approving transactions with related parties is the function of the director, moreover, it is director's responsibility to oversee the internal audit and control functions.

The company carries out its internal audit function.

The company has a practice of preparing and publishing annual reports, which includes corporate governance and governance reporting as required by law. The company publishes periodic reports on its website. The company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law. The company is also preparing a report on compliance with sustainable development standards. The company completes the function of communication with the investor.

For reference, "In the context of public finance statistics (GFS) and the economic nature of the company, the Marabda-Kartsakhi Railway Ltd is classified outside the government sector. This is due to the fact that Marabda-Kartsakhi is governed by the Government of Azerbaijan, and according to GFSM 2014, the public sector consists of only those units that are controlled by the state. Thus, Marabda-Kartsakhi is classified as a resident company in Georgia, in the sector of foreign-controlled corporations. However, the Marabda-Kartsakhi Railway is a corporation controlled by a non-resident (other country) government, in which case the role (control) of the Government of Georgia in the Marabda-Kartsakhi project should not be significant. Given this fact, the corporatization of the Marabda-Kartsakhi Railway should not be a priority for the Government of Georgia compared to other enterprises.

"United Water Supply Company of Georgia" Ltd - State share - 100%, share manager - Ministry of Regional Development and Infrastructure of Georgia.

Improving corporate governance for the company aims to increase the efficiency of the strategic decision-making process and improve the supervisory and controlling functions. The company has developed a document outlining important documents for the corporate governance system that defines the functions of the supervisory board, although it does not have a code of ethics and a policy document for conflicts of interest and related parties. There is also no corporate secretary position in the company.

The company plans to introduce the position of corporate secretary in the next 3 years in order to improve corporate governance. The company has not issued any information on measures taken to improve corporate governance in the last 3 years. Moreover, according to the company, the lack of relevant qualified specialists is an obstacle to improving corporate governance within the company.

The company has no information on holding an annual general meeting in 2020. However, it has almost no other information requested by the questionnaire, discussed on the example of other enterprises.

The company has a practice of preparing and publishing annual reports, which includes governance reporting as required by law. The company publishes periodic reports on its website. The Company's financial statements are submitted to the Accounting, Reporting and Auditing Supervision Service in accordance with the law.

The company does not prepare a report on compliance with sustainable development standards. The company does not complete the function of communication with the investor. Corporate Governance Code of State-Owned Enterprises

Article 1. Basic Provisions

The given Corporate Governance Code (hereinafter referred to as "the Code") applies to enterprises defined by the State-Owned Enterprise Reform Council established by Decree N156 of the Government of Georgia of April 7, 2021. The purpose of the given Code is to define the basic principles of corporate governance of enterprises to ensure effective and sound corporate governance.

Article 2. Definition of Terms

The terms used in the given Code have the following definitions:

A. Independence - the ability to make objective judgments and make independent decisions without the influence from any other party.

B. Independent member of the Supervisory Board - a member who does not belong to any of the following groups:

i. For the last two years has been in personal relations, such as kinship, cohabitation, and so on with a member of the Supervisory Board or CEO of the enterprise, or with a person or persons holding a significant share of the enterprise.

ii. For the last two years has held the position of a Minister, Deputy Minister, Member of the Parliament of Georgia and / or other political or state-political positions defined by the legislation of Georgia.

iii. Has managed / run the business (directly or indirectly) for the past two years, or has had any other substantial business relationship with the enterprise or with a person or persons that directly or indirectly owns a significant share in the enterprise.

iv. Has any material liabilities, including financial, to management or shareholders holding a significant share of the enterprise.

v. Has had a professional or other business relationship (including providing business services) with the enterprise, its executives, or shareholders holding a significant share of the enterprise for the past five years.

vi. In addition to the dividend and the fixed salary received for the supervisory board membership, the enterprise pays him/her additional amounts.

vii. Has any other kind of relationship that may affect his or her independence.

viii. Is a public servant as defined by Paragraph 4 of Article 46 of the Law of Georgia on Entrepreneurs (August 2, 2021 amendment).

C. Statement of Corporate Intent (hereinafter referred to as SCI) - a document that defines the financial and non-financial goals to be achieved by the enterprise within the established risks. The SCI is a 4-year document that must be updated annually. The document shall be submitted to the Ministry of Finance of Georgia for approval no later than September 1. The document can be adjusted to take into consideration the recommendations and instructions of the Ministry of Finance. The Supervisory Board is accountable for the implementation of the SCI. The document shall specify the enterprise's:

C.A. Field of activity.
C.B. Financial and non-financial goals along with the key performance indicators (KPIs), target indicators and dividend policy. It should be consistent with the projected financial statements.
C.C Risk limits.
C.D. Any transfers that an enterprise must receive from the budget or pay to the budget due to unfavorable competitive conditions or advantages.
C.E. Any quasi-fiscal activities and transfers that the enterprise must receive from the budget or pay to it, under the instructions of the central government, in order to carry out similar

activities.

C.F Ensuring that the information (financial, non-financial or other information) is consistent with the information in the previous year's statement of corporate intent and governance report.

C.G. Expected results in case of non-achievement of enterprise goals, risk limits and non-fulfillment of obligations

D. Strategy - A guide developed by an enterprise to achieve long-term goals. The document defines the mission, vision and direction of the enterprise, describes a clear list of plans, actions and goals for the operation in a competitive, undefined environment and with limited resources.

E. Enterprise - an enterprise created with the share participation of the state.

F. Parent enterprise - an entity that controls one or more subsidiaries in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

G. Subsidiary - an entity controlled by a parent enterprise, including a subsidiary that is a parent enterprise in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

H. Control functions - Functions that manage the objective evaluation, reporting and assurance. Such functions include: risk management, compliance determination and internal audit functions, as well as structural units performing these functions.

I. Compliance Function - Unit that, among other functions, ensures that an enterprise complies with the existing legislation, rules, internal policies, and procedures, as well as identifies and assesses compliance risks, makes recommendations to the Supervisory Board and senior management to manage and monitor compliance risks. It also ensures that employees are informed about compliance issues.

J. Risk limits - A specific quantitative limit or limit that determines the distribution of total enterprise risk to specific areas of business, legal entities (where applicable), as well as to specific risk categories, concentrations and, if necessary, to other types of risks.

K. Relatives (persons) - persons who, in accordance with the Civil Code of Georgia, are the first and second-line heirs.

All other terms used in the given Code have the relevant meanings defined by the legislation of Georgia.

Article 3. Basic Principles of Corporate Governance

1. There should be a Supervisory Board in the organizational structure of the enterprise.

2. The Supervisory Board is responsible for the corporate governance of the enterprise. In addition, senior management plays an important role in ensuring the effectiveness of governance and is responsible for the efficiency of the enterprise in accordance with various policies approved by the Supervisory Board.

3. The enterprise should have a clearly defined organizational structure that ensures a clear division of responsibilities, effective risk identification, proper management, monitoring and reporting

procedures, adequate internal control mechanisms, including strict administrative and reporting procedures, effective IT systems and Risk control; Appropriate compensation policies and procedures. These rules should be reviewed and updated regularly within the organization.

4. The enterprise should ensure that its organizational and corporate governance structure does not lead to conflicts of interest and that no one person has unlimited decision-making authority.

5. The corporate governance structure and policy should be clearly defined and communicated to all stakeholders and employees.

6. Any member of the management structure of the enterprise, who has any substantial concerns about the overall corporate governance of the enterprise, has the right to apply to the Supervisory Board.

7. The long-term strategic development plan of the enterprise should take into account sustainable development issues, such as: environmental protection, social responsibility and management (ESM) standards.

Article 4. Roles and Responsibilities of the Supervisory Board

1. The members of the Supervisory Board should act loyally and faithfully towards the enterprise.
2. The members of the Supervisory Board shall be accountable within their duties and responsibilities, shall treat all stakeholders fairly and shall carry out their duties in a transparent manner.
3. Among other functions, the members of the Supervisory Board should be individually and jointly responsible for performing the following functions:

A. Establishing the values of the enterprise, corporate governance structures and ensuring sound governance of the enterprise in general, in full compliance with the principles of fairness, competence, professionalism, ethics and corporate governance.

B. Playing the role of the core center and supervisor of corporate governance in the enterprise, including approving policies and plans, overseeing management activities, and ensuring accountability of the organization by adhering to the principles of accountability and transparency.

C. Establishing an ethical culture in the enterprise and functioning in compliance with the ethical standards of the enterprise by approving the Code of Ethics and ethics policy, constant monitoring of the management and observance of the mentioned policy, application of sanctions and other measures in cases of violation of ethical standards.

D. Monitoring the effectiveness and impartiality of various existing policies and procedures regarding the disclosure of protected information (For instance, whistleblowing system). In addition, it ensures full responsibility of the management for reporting all important issues identified by other units of the enterprise. In addition, whistleblowers must be fully protected from any kind of potential harm and discrimination.

E. Taking into consideration the risks associated with the development of the enterprise strategy, adopting the policy for the implementation of the approved strategy, delegating authority to the management to implement the approved strategy and policy; overseeing the implementation of strategic goals by management and responding to any adverse events and outcomes.

F. Implementation of the legislative, regulatory and supervisory requirements, the given Code, Code of Ethics and internal standards of the enterprise, including the development of compliance policy and meeting the compliance norms by management.

G. Risk management in such a way as to assist in setting and achieving the strategic goals of the enterprise taking into account SCI, the competitive and regulatory environment, long-term interests of the enterprise, risk acceptance. This envisages the creation of a risk management policy framework that defines the types and amounts of risks that the enterprise wishes to pursue in order to achieve its strategic goals. Ongoing risk management controls focus on existing risks, identifying them and responding; risk management effectiveness, control and compliance with enterprise risk limits and risk policies.

H. Establishing a corporate governance structure, judging independently and performing their duties effectively, ensuring an appropriate balance of power so that no single individual has the right to make unfettered decisions-making powers.

I. Ensuring that the organizational structure, appointment, delegation of functions, oversight and evaluation of the activities of the leadership promote the clarity of the role of each body, the effective exercise of the authority and responsibility, distributing the balance of power so that no one has unlimited decision-making power. Approving the framework for the distribution of powers in writing.

J. Ensuring that the Supervisory Board receives sufficient information from management, including explanations and assurances that the activities of the management are fully consistent with the enterprise SCI, strategy, policies and internal control mechanisms approved by the Supervisory Board.

K. Ensuring that the remuneration paid by the enterprise is fair, accountable and transparent, which will help the enterprise achieve its SCI, strategic goals and ethical culture in the short, medium and long term. It also includes reviewing and determining compensation for senior officials, approving compensation, remuneration policies in accordance with the enterprise SCI, strategy, ethical culture and transparency standards, and overseeing the implementation of the decisions made.

L. Ensuring that the reports published by the enterprise enable stakeholders to be informed about the performance of the enterprise and its short, medium and long-term prospects. Including ensuring that the reports comply with legal requirements as well as the legitimate informational needs of the material stakeholders. The reports should be comprehensive and the main reports should be published on the enterprise website.

M. Ensuring the independence and efficiency of the control function and compliance function, which contributes to the completeness and reliability of the information used to prepare the enterprise's internal decisions and external reports, as well as ensuring the independence of the corporate secretary.

N. Supervision and control of the transactions with related parties through effective procedures and policies.

O. Follow and meet the commercial goals of the enterprise, to prevent the implementation of activities that are not normally carried out by private sector companies.

P. Identify the non-profit activities of the enterprise and inform the stakeholders about them.

4. In order to fulfill all these duties, the Supervisory Board should perform the following functions:

A. Appointment and dismissal of senior officials.

B. Approval of the enterprise budget.

C. Adoption of the organizational structure and approval of the payroll grid.

D. Adoption of the internal policies, regulations and instructions, as well as making decisions about delegating functions to the CEO.

E. Adoption of the rules on the control of major transactions (significant transactions) that require the consent of the shareholder.

F. Adoption of the long-term strategy for the enterprise.

G. Submission of SCI to the shareholder;

H. Ensuring the reliability and credibility of the enterprise's internal control and accounting systems;

I. Approval of the financial statements;

J. Selection of an external auditor for shareholder's approval;

K. Identifying the non-commercial activities of the enterprise and communicating with the shareholder on terminating or compensating these types of activities;

L. Overseeing communication and transparency processes;

M. Management of conflict of interest.

5. In order to perform its assigned functions, the Supervisory Board shall meet at least once a quarter and, if necessary, increase the frequency of meetings.

6. The members of the Supervisory Board should not participate in the discussions or decision-making process of the Supervisory Board if they have a direct connection with the issue under consideration, which may lead to a conflict of interest. However, in case of the indirect connection, the Supervisory Board should assess the risks involved that could lead to a conflict of interest. The Supervisory Board should also consider the likelihood of such occurrence in the decision-making process.

7. The members of the Supervisory Board have no right to transfer their rights to anyone other than

the Committees of the Board.

8. The Supervisory Board should meet regularly with management and internal control officers to review the policies and control mechanisms that identify material risks and deterrents. The Supervisory Board should ask questions and critically review the explanations provided by the management and the information provided.

9. Meetings, decisions and recommendations made by the Supervisory Board and its committees should be properly formulated in the form of a document / minutes. The drafting of such a document is the responsibility of the corporate secretary, whose functions should be defined in the organizational structure of the enterprise. The document should contain information about the final decision as well as the opinions and arguments of those who disagreed with the decision or recommendation.

10. At least once a year, the Supervisory Board should evaluate its own activities and the activities of the committees. External consultants should be involved in the evaluation process at least once every three years. An appropriate procedure should be developed and approved by the Supervisory Board.

11. The shareholder should also evaluate the activities of the Supervisory Board, the shareholder should develop and implement in practice the procedures for evaluating the activities of the members of the Supervisory Board. The subsequent evaluation process and the shareholder views on the evaluation results should be reflected in the enterprise's annual report.

Article 5. Composition and Selection of the Supervisory Board

1. The members of the Supervisory Board must have sufficient competence and skills to ensure the financial sustainability and effective supervision of the risks of the enterprise.
2. If a member of the Supervisory Board no longer meets the requirements of the relevant legislation, or his/her membership in the Board is potentially risky, or can no longer perform his/her duties and functions, or can no longer meet the criteria of independence envisaged in Article 2 (b) of the Code.
3. The number of members of the Supervisory Board should be commensurate with the scale and complexity of the enterprise.
4. The term of office of a member of the Supervisory Board is 3 years. However, a person can be appointed as a member of the Board for a maximum of 2 terms.
5. All members of the Supervisory Board should be independent.
6. The members of the Supervisory Board should be selected by the Government on the recommendation of the Ministry of Finance, the relevant sectoral Ministry and the Selection Advisory Commission. The Commission should have a transparent mechanism for advising. The composition of the commission should be balanced to ensure the merit-based selection of the members of the Supervisory Board. The members of the commission, to be named by the business association and relevant social interest groups, must represent at least 20 per cent of the commission. The establishment of a selection Advisory Committee will facilitate the observance of the principles of transparency and independence in the formation of the Supervisory Board. The

functions of the commission are: to determine and publish the necessary skills and qualification requirements, to find and identify candidates on the basis of a public selection application and to check compliance with the established criteria, to compile a shortlist of candidates and to conduct interviews with shortlisted candidates and to identify the possible cases of the conflicts of interest.

7. In order to facilitate the selection process of the members, the enterprise should establish a temporary secretariat of the selection advisory commission.

8. The independence of each candidate for the membership of the Supervisory Board shall be confirmed by a majority of the supervisory board members prior to the nomination of this candidate to the Selection Advisory Commission. A person participating in the process of voting for the independence of a candidate, in turn, must be appointed in accordance with the principles of the given Code, upon the adoption of the given Code.

9. If the Supervisory Board does not have sufficient capacity to vote, or for any reason is unable to determine the candidate's independence, the Selection Advisory Commission shall confirm the candidate's independence during the selection process.

10. All members of the Supervisory Board should be given adequate time to carry out their duties.

11. Members of the Supervisory Board should have skills and experience in relevant fields and have accumulated knowledge to ensure the diversity of opinion. Also, at least 25 percent (25%) of the members of the Supervisory Board shall be women.

12. In order to select the members of the Supervisory Board, the enterprise should have appropriate selection procedures and policies and should ensure compliance with the existing criteria. The Supervisory Board should develop a formal list of mandatory qualifications of the members, which ensures the availability of a wide range of relevant skills among the members of the Board, and the candidates for membership should be evaluated according to the above-mentioned list.

13. The members of the Supervisory Board are jointly responsible for the common interests of the enterprise. In addition, the members of the Supervisory Board have fiduciary, trustworthy and beneficial liabilities towards the enterprise.

14. The Supervisory Board shall ensure the participation of Board members in training programs, which shall include the mastering and maintenance of knowledge and skills by Board members in the performance of their duties. Efforts should be made to improve the skills and knowledge of members in line with the needs identified in the assessment process, as described in Article 10.4, including the areas of finance, regulation or risk assessment. This may require attracting both internal and external resources.

15. If necessary, the Supervisory Board and its committees should be assisted by external experts in the decision-making and recommendation process. To this end, the necessary resources should be identified while formulating an enterprise budget.

Article 6. Chairperson of Supervisory Board

1. The Chairperson of the Supervisory Board shall be elected from among the members of the Board. He/she should be responsible for the functioning of the board as well as maintaining trust and

collegiality among the members, that will facilitate coordination and collegiality between the Supervisory Board and the management. He/she should also act as a liaison between the shareholder and the enterprise.

Article 7. Committees of the Supervisory Board

1. The enterprise shall at least establish the following committees from among the members of the Supervisory Board: Audit and Remuneration, Nomination and Governance Committees.

2. Each Committee shall have a formal statute or other instrument defining its membership, mandate, scope and working procedure. This includes the role and responsibilities of the committees, the responsibilities assigned to the committees in the decision-making process how these committees will be accountable to the Supervisory Board; Their access to resources and information; the minutes of meetings and time for members to work in committees. The Supervisory Board should monitor the composition of its committees to facilitate effective cooperation between committee members. Existence of necessary skills, knowledge and experience in the committees and redistribution of power. Also, the Supervisory Board should consider the periodic rotation of committee members and committee chairmen, which will reduce the risk of unwanted concentration of power and create new prospects.

3. A member of the Supervisory Board may not be a member of more than two committees.

4. Committees shall maintain the records of their recommendations and reviews, which shall be prepared by the Corporate Secretary. Furthermore, the committees should regularly submit reports to the Supervisory Board on the recommendations developed. The final responsibility for implementing each of the committees' recommendations rests with the Supervisory Board.

5. The statutes of the committees, especially in terms of rights and responsibilities, should be reviewed once a year. The content of the reviews should be documented.

6. The committees have the right to investigate and examine all matters within their mandate and to have access to all information necessary for the performance of their duties. At the same time, they have the right to meet with the structural units with the controlling function of the enterprise, without the presence of the senior management.

7. The members of the committees of the Supervisory Board should be appointed based on the specialized skills, expert knowledge and experience. They should be required to provide objective, sound and reasonable recommendations.

Article 8. Audit Committee

1. Audit Committee is responsible:

A. Among other commitments to develop the internal audit and financial reporting policies.

B. To monitor the financial reporting processes so that the enterprise complies with all financial reporting requirements and produces high quality financial reports in accordance with established policies. Also, to approve the financial statements prior to their publication.

C. To monitor and cooperate with internal and external auditors of the enterprise

D. To oversee the internal audit function and ensure its necessary independence and provision of the necessary resources.

E. To supervise the adequacy of internal control of the enterprise and ensure its compliance with regulatory and legislative requirements.

F. To approve or submit the relevant recommendations to the Supervisory Board and shareholders on the support, appointment, remuneration and dismissal of candidates for external independent auditors;

G. To review and approve the scope and frequency of the audit;

H. To obtain the audit reports, plans prepared by management in response to audit findings, and ensure that senior management takes timely corrective action to respond to the weaknesses revealed by the audit in terms of control, non-compliance with the regulations and other policies as well as to other deficiencies detected by other controlling units;

I. To oversee the development of accounting policies and practices.

J. To consider third party views on the effectiveness of the internal control system;

K. To ensure adequate functioning, independence and efficient operation of internal and external audit.

L. To advise on the selection of an external auditor;

M. To review the letters of recommendation prepared by an external auditor and monitor the implementation of corrective measures by the management to address these issues.

2. The Chairperson of the Audit Committee shall not be the Chairperson of the Supervisory Board or any other committee at the same time. Also, the Audit Committee should consist of at least three members; At least 2 members of the Audit Committee, including the Chairperson of the Committee, must have the ability to analyze financial statements and have appropriate knowledge in finance.

3. Members of the Audit Committee have the opportunity to freely apply to senior management, internal audit and all relevant structural units involved in risk management.

4. The Audit Committee shall annually review the issue of the independence of the external auditor and publish the following information in the annual corporate governance report of the enterprise:

A. Total amount paid to external auditors during the financial year.

B. The annual report of the enterprise shall include the details of the fees paid for the audit and non-audit services, or, in the absence of such, an application for the absence of such services. If external auditors also provide a significant amount of non-audit services to the enterprise, the committee should focus on such services as well to maintain objectivity and avoid conflicts of interest.

5. In order to strengthen the independence of external auditors, the Supervisory Board, in accordance with best practice, should from time to time should rotate external auditors, both firms and employees hired by the firm.

Article 9. Committee of Remuneration, Nomination and Governance

1. The Committee of Remuneration, Nomination and Governance should support the Supervisory Board in overseeing remuneration issues, including the strategic human resource decisions, including the development and monitoring of the remuneration system, regulatory/supervisory requirements and commercial objectives in line with the SCI of the enterprise, its ethical culture and long-term strategy.

2. The Committee for Remuneration, Nomination and Governance Committee shall consist of at least three members.

3. The Committee of Remuneration, Nomination and Governance Committee is obliged to:

A. To take responsibility for defining the directions of the remuneration system and approving the policy, thus ensuring fair, amenable and transparent remuneration of all elements included.

B. To oversee the implementation and enforcement of remuneration policies, conduct regular reviews and make recommendations to the Supervisory board on remuneration policies to ensure that the remuneration policies of the enterprise are in line with the SCI and ethical culture, as well as the commercial objectives. This should include overseeing the effectiveness of remuneration policies to achieve the set goals.

C. To provide the annual recommendations on the remuneration of the senior management to the Supervisory Board.

D. To ensure the transparent reporting and disclosure of information on remuneration policy and its implementation, as well as remuneration paid to individual members of Supervisory Board and senior managers.

E. To provide recommendations to the Supervisory Board on strategic issues related to human resources.

F. At the request of the shareholder, to organize a targeted external audit to study the issues of remuneration and provision of human resources.

G. To provide advice to the Supervisory Board on the appointment of all new members. The committee should perform the function of planning the new composition of the Supervisory Board and take into account the future requirements of the business strategy and the current level of professional skills and expertise.

H. Regularly, at least annually, to review the independence, efficiency and effectiveness of the Supervisory Board. To discuss the reasons for appointment and resignation of senior officials - members of the Supervisory Board, CEO, Deputy Chief Executive Officer, Chief Financial Officer (CFO), etc.;

I. To ensure that there are adequate policies and procedures in place for the appointment, dismissal and replacement of managers and to be actively involved in such processes.

J. To ensure that the design of the management structure eliminates the dominance of any person or association of persons in the Supervisory Board to the detriment of the common interests of the enterprise; Also, to ensure the availability of relevant knowledge, professional skills and expertise and encourage independent discussion and consideration.

K. To possibly be involved in evaluating the effectiveness of the Supervisory Board and management and oversee human resource policy.

L. To ensure that development of recommendations regarding the compliance with the company's internal rules, corporate governance documents and requirements.

M. To provide recommendations for the existence of an effective risk-based decision-making system.

N. Among other functions, to be responsible for performing the duties imposed by the Code of Ethics.

Article 10. Self-Assessment of the Activities of the Supervisory Board

1. The Supervisory Board should periodically review its activities, review the structure of the committees and the degree of their coordination, as well as the effectiveness of its governance practices and procedures.

2. The Supervisory Board must undergo a self-assessment procedure at least once a year.

3. Once every three years, the evaluation of the Supervisory Board should be carried out by an external evaluator.

4. Internal and external evaluations of the Supervisory Board should be aimed at identifying deficiencies and issues to be improved. Based on these assessments, the Supervisory Board should develop a plan to address identified deficiencies and improve separate issues. This may include the training of board members.

5. The follow-up evaluation process and the Supervisory Board 's views on the evaluation results should be reflected in the enterprise' s annual report.

Article 11. Managers

1. Managers should ensure the implementation of business strategies, the operation of risk management systems, the control of managing financial and non-financial risks. The Supervisory Board should also be provided with the necessary information to perform the functions assigned to it by the Board, including overseeing the activities of the management and the quality of their work.

2. Managers are responsible for the distribution of functions and responsibilities among the employees of the enterprise, the definition of their remuneration and the introduction of an effective management structure, including ensuring accountability and transparency.

3. The responsibilities of the manager should be defined and documented by the Supervisory Board in order to exclude inappropriate, unrestricted control of the enterprise by any particular person.

4. Managers must have the experience and competence to perform their assigned functions effectively. In addition, they should have the opportunity to participate in training programs to enhance knowledge and competence in relevant fields. It is recommended and should be considered that the

selection of managers should be based on the strategy of the enterprise. The qualifications and skills of all candidates should be assessed during this process.

Article 12. Chief Executive Officer

1. The Chief Executive Officer (CEO) shall be the highest-ranking executive person, who should have the ultimate executive responsibility for the operation of the enterprise, its compliance with the law and for the results of its activities.

2. The CEO is the liaison between the Supervisory Board and the management.

3. The Supervisory Board shall appoint the CEO as a result of selection through contest carried out in a competitive environment.

4. The CEO should have the appropriate personal qualities; professionalism, honesty and dedication to perform the duties assigned to him/her.

Article 13. Corporate Governance of the Enterprise

1. In the structure of the enterprise, the Supervisory Board of the parent enterprise (if any) should have overall responsibility for both the parent and the subsidiary and ensure the establishment and operation of a transparent management framework, taking into account its structure, activities and risks.

2. The Supervisory Board of the parent enterprise should be aware of all risks and issues that may affect the activities of the parent enterprise and its subsidiaries. It should properly supervise the subsidiaries and, at the same time, take into account the legal rights and responsibilities of the Supervisory Boards of these subsidiaries.

3. Supervisory Boards and senior management of subsidiaries are responsible for the effective development of risk management processes in their own companies, which, in turn, promotes effective risk management at the parent enterprise level.

4. The Supervisory Boards of the subsidiaries shall assess the compliance of the enterprise policies with the legal and regulatory norms and, in case of non-compliance, make appropriate amendments.

Article 14. Risk Management

1. The identification of enterprise risks, response measures and monitoring should be appropriate to the scale of the enterprise, its complexity and the requirements of the Statement of Corporate Intent (SCI).

2. The Supervisory Board is obliged to understand the risks faced by the enterprise. The Supervisory Board is required to analyze these risks and is also responsible for identifying emerging risks.

3. The Supervisory Board shall ensure that risk management, compliance and internal audit functions are properly positioned, staffed and provided with resources to carry out their responsibilities independently, objectively and effectively.

4. The information about the risks should be updated in a timely manner, accurately and clearly through dynamic and consistent reporting systems.

Article 15. Internal Control and Audit

1. The risk management system should be supported by an effective internal control system with an effective internal audit function, which ensures the independent assurance of CEO and the Supervisory Board regarding the quality and effectiveness of the enterprise risk management, internal control, management systems and processes.

2. The Supervisory Board and the Senior Management shall ensure the independent and effective functioning of the Internal Audit in the following ways:

A. Ensure the internal audit with full access to the information, records and data of the enterprise, which also includes the information systems and records of all decision-making units;

B. Ensure the independent functioning of internal audit, including structural independence, when assessing the effectiveness and efficiency of risk management, management systems and processes.

C. Internal auditors are required to adhere to national and international professional standards.

D. There is a need for an independent internal audit resource policy and remuneration system that enables appropriate resources to be obtained according to the scale and complexity of the enterprise.

E. Take timely and effective corrective measures by the management in terms of the issues identified during the audit.

F. Internal audit will be able to evaluate the overall risk management structure of the enterprise, which includes, but is not limited to, the following:

(i) effectiveness of risk management and compliance functions.

(ii) the quality of risk reporting to the Supervisory Board and Senior Management.

(iii) the effectiveness of the enterprise's internal control system.

3. The internal audit unit is accountable to the Supervisory Board and the Audit Committee. The Internal Audit Unit shall report to the Audit Committee and the Supervisory Board, which shall make decisions on the recruitment, dismissal, evaluation and remuneration of the Head of the Internal Audit Unit. The management of the enterprise or other executive structures should not have participated in the determination of the remuneration of the internal audit staff.

4. Internal audit should independently assess the following:

A. The effectiveness and efficiency of internal control, risk management and management systems in the context of both current and potential future risks.

B. Reliability, efficiency and credibility of management information systems and processes, including data promptness, relevance, accuracy, completeness, accessibility, confidentiality and integrity.

C. Monitor compliance with legislative and regulatory norms, including any requirements of regulatory and supervisory bodies.

D. Asset protection.

5. The Head of the Internal Audit Unit is responsible for developing the annual internal audit plan, which is part of the multi-annual plan. The plan should be based on risk assessments, including data from senior management and the Supervisory Board. The plan should be updated annually. Changes to the plan can be made as needed. The plan must be approved by the Supervisory Board, which ensures that there is an adequate budget for the implementation of the plan. The budget should be flexible and adjustable to the plan, which in turn should respond to any changes in the risks of the enterprise.

6. The Internal Audit Unit shall operate in accordance with the legislation of Georgia.

7. The Internal Audit Unit should perform the following aspects of risk management within its activities:

A. Risk management organization and mandate, including commercial, financial, operational, reputational, integrity, sustainability, regulatory and non-compliance risks.

B. Evaluate of the risk escalation, reporting and decisions related to these issues within the risk management system. Also, evaluate the adequacy of risk management systems and processes, including the identification, measurement, evaluation, control and response of all types of risks associated with the activities of the enterprise.

C. Integrity and reliability of risk management information systems, including promptness, accuracy, reliability and completeness of data used.

D. Approve and support risk models, including consistency, promptness, and the independence and reliability of the data source used in the models.

8. The Internal Audit Unit should systematically evaluate the effectiveness of the process by which risk and reporting functions interact to prepare timely, accurate, reliable and relevant reports for senior management and the supervisory body.

9. In addition to accountability to the Supervisory Board and also in view of the function of establishing effective control by senior management, internal audit should provide senior management with the information on identified issues and the results of evaluating these issues, which in turn leads to timely decision-making and an appropriate response. Information on the status of retaliatory measures and their consequences should be submitted to the Supervisory Board.

10. In order to ensure the effectiveness of internal audit, it is necessary to have constant communication between the internal audit unit and the Supervisory Board. To do this, the internal audit unit must notify the Supervisory Board of identified risks and deficiencies, as well as provide information on the corrective and response measures set by senior management and the results of those measures.

11. The internal audit unit should be evaluated by the Supervisory Board on the basis of the recommendations of the Audit Committee at least once a year.

Article 16. Remuneration

1. The enterprise must develop and document a "remuneration policy".

2. Remuneration policy shall ensure that the remuneration structure of employees with a Executive function, including the performance component of the work performed, if any, does not question the degree of independence of the given personnel. In order to guarantee the independence of the Executive function, the remuneration of employees should not be based on the financial results of their performance.

3. The Supervisory Board is responsible for the effective functioning of the remuneration system. Remuneration plans, processes and outcomes should be reviewed by the Supervisory Board or the Committee of Remuneration, Nomination and Governance at least once a year.

4. The Supervisory Board, on the recommendation of the Committee of Remuneration, Nomination and Governance, approves the remuneration policy of the top management and executive managers and oversees the effectiveness of these policy, systems and controls.

5. Remuneration of the members of the Supervisory Board should be commensurate with their engagement, responsibilities, efforts and time resources. Their remuneration should not call into question their independence. Remuneration of members of the Supervisory Board should be fixed. A member of the Board, who is also the Chairperson of the Board, is a member or chairperson of any committee of the Board, may also receive remuneration for work performed in this capacity. However, the difference between the remuneration of the members of the Board and those members who are also members of the Committee or hold the position of Chairperson, shall not exceed thirty percent (30%).

6. The remuneration system for managers should include the following elements:

A. Fixed salary

B. Variable salary

Article 17. Rights of the Shareholder

1. A shareholder must have the following rights:

A. To receive information about the enterprise in a timely and regular manner.

B. To participate in the General Meeting of Shareholders and enjoy the right to vote.

C. To Appoint and dismiss members of the Supervisory Board in accordance with the principles set forth in the given Code, determine their remuneration and evaluate their performance.

D. To approve and implement the monitoring of the mandate, goals and objectives of the enterprise in accordance with the Statement of Corporate Intent.

E. If the Ministry of Finance of Georgia is not the body exercising the authority of the shareholder, in case of failure to reach an agreement with the Ministry of Finance on the Statement of Corporate Intent, the body exercising the authority of the shareholder is authorized to submit it to the Government of Georgia for approval.

F. To agree, approve and endorse the decisions on amendments to the enterprise bylaws and the issuance of the additional shares and other securities and significant transactions.

Article 18. Code of Ethics

1. An enterprise shall have a Code of Ethics which regulates matters of conflict of interest, avoidance abuse of power, corruption and other unlawful acts, in particular the code of ethics shall include:

   A. An indication that the enterprise's Supervisory Board and employees must act in good faith and professionally.

   B. An indication that management should act in the best interests of the enterprise and shareholders.

   C. Procedures for resolving existing and potential conflicts of interest and its detection.

   D. Anti-corruption practices, which include offering and receiving bribes, gifts or other benefits.

   E. Procedures for disclosing information about unlawful or unethical conduct.

   F. Issues of protection of targeted use of enterprise assets.

   G. Issues of ensuring compliance with the legislation.

   H. An effective system of anonymous disclosure, within which employees can record illegal / inappropriate / unethical facts confidentially, without the risk of any discrimination or ill-treatment. The system of anonymous disclosure should include, among other things, the procedural issues of investigating and responding to recorded facts. The Supervisory Board should monitor the establishment of an anonymous disclosure system and its proper enforcement.

2. The Supervisory Board shall monitor the development of the Code of Ethics in the enterprise and its proper implementation.

3. The Code of Ethics of the enterprise applies to the Supervisory Board and all employees working in the enterprise.

Article 19. Disclosure and Transparency of Information

1. An enterprise shall ensure that information related to its operation and corporate governance is made public to stakeholders, including in its annual report and on its website relevant information on compliance with the Environmental, Social Responsibility and Governance (ESG) standards.

2. Compliance with ESG standards should include at least information on the following issues:

A. Development of the human resource policy based on internationally recognized labor standards and human rights protection.

B. Ensuring the safe work environment for employees.

C. Environmental protection in accordance with environmental regulations and international standards and guidelines

Article 20. Important Transactions

1. In order to ensure greater transparency and efficiency in the use of public resources, the Supervisory Board of an enterprise shall obtain the consent of the shareholders to the specific operations listed in Article 20 (2) where the value of the important transaction exceeds 30 per cent of the value of the enterprise assets.

2. The following operations/transactions shall be approved by the shareholder:

A. Commencement, production or termination of economic activity.

B. Opening or liquidation of branches.

C. Investment, including the acquisition of assets or the holding of shares in another company.

D. Securing the liabilities in a part that does not belong to the usual operation of the company.

E. Reorganization or liquidation of the enterprise.

F. Disposal of assets owned by the enterprise above the limits agreed with the shareholder, including the alienation of the enterprise's shares or an operation that would substantially alter the nature of the ownership of the enterprise by the shareholder.

3. The Ministry of Finance of Georgia is authorized to set a limit on total loans of the enterprise, above which the consent of the Ministry of Finance shall be required.

4. If there is a limit specified in Article 20 (3), the Supervisory Board shall ensure that the level of lending to the enterprise is maintained within the established limit.

Article 21. Corporate Secretary

1. The exitance of the position of corporate secretary in the enterprise promotes the effective operation of the governing bodies of the enterprise. The main functions of a corporate secretary are:

A. Assisting the Supervisory Board (including committees) and management in carrying out their activities through organizational and informational support.

B. Advising on the corporate paperwork and procedural issues to the Supervisory Board and senior management.

C. Collaborating closely with the Supervisory Board and senior management on the preparation and dissemination of their meeting agenda, the organization and conduct of the meeting, as well as the dissemination of messages.

D. Planning necessary trainings and preparatory orientation meetings for already employed and / or newly appointed members of the Supervisory Board and senior leadership.

E. Producing and / or maintaining all corporate documents, minutes or other required documents and information for a minimum of 6 years.

F. Acting as a liaison between shareholders, the Supervisory Board and the senior management.

G. Acting as the secretary of the meetings of the Supervisory Board (including the committees) and the senior management and to draft the minutes.

2. The Corporate Secretary is a person directly subordinated to the Supervisory Board, who provides information and organizational support to the governing bodies of the enterprise, shareholders and other stakeholders.

3. The Supervisory Board shall adopt an internal charter on the Corporate Secretary, which shall specify in detail the powers and responsibilities of the Corporate Secretary, the list of functions, the required education and qualifications to be held by the candidate.

4. The Supervisory Board appoints the Corporate Secretary and determines the terms of the labor contract.

5. At the same time, the Corporate Secretary shall not be a member of the governing body of the enterprise, or be empowered to make decisions, or otherwise be associated with the enterprise in such a way as to impede the impartial and independent performance of his/her duties.

Article 22. Publishing Corporate Governance Code Compliance Report

1. The enterprise shall annually publish on its website a report on compliance with the Corporate Governance Code, no later than June 1.

2. The report on compliance with the Corporate Governance Code must be signed by the CEO and the Chairperson of the Supervisory Board.

The Impact of Sectorization

The Ministry of Finance of Georgia has implemented the sectorization of state-owned enterprises (SOEs) (Order N96 of the Minister of Finance of April 24, 2020 "On the Approval of the List of Sectorization of State-Owned Enterprises"), which implies the attribution of state-owned enterprises to public corporation or general government units. Among Central Asia and Eastern Europe countries, Georgia is the first state, which fully carried out the sectorization of state-owned enterprises. According to the results of the sectorization, 52 SOEs are belonged to the public corporation sector, 183 enterprises – to the general government sector. Furthermore, at the preparation stage of the Fiscal Risks Analysis Document 2020, the coverage of the enterprises owned by the municipalities has been increased to 100%, which on the other hand caused clarification of sectorization list, where total number of SOEs increased by 116. All of them referred to general government sector, which has been taken into account in quantification of hypothetical sectorization impact on fiscal parameters.

The important criteria in the classification of SOEs are how independent an enterprise is in the decision-making process, whether the enterprise sells its product at an economically significant price in a competitive environment and whether it depends on budget financing.

The sectorization of state-owned enterprises is an important step forward in terms of fiscal transparency in the country, in particular, by reflecting general government units in public finance statistics, which in turn will affect public finance revenues, expenditures and liabilities. Based on the analysis performed, in the Fiscal Risk Analysis Document 2020 presented an estimate of the hypothetical impact of sectorization on the country's fiscal parameters for 2019. This year, with the support of the IMF Technical Assistance Mission, general government units were compiled based on 2019 data according to the government finance statistics principles. The compilation covered 84% of general government units according to the annual turnover. As a result, the impact of sectorization on fiscal parameters for 2019 has been clarified.

The impact of sectorization on the country's 2019 fiscal parameters (relative to GDP)

Impact on State Debt	+1.1%
Impact on Deficit	-0.6%
Impact on Revenues	+2.4%
Impact on Expenses	+3%

Evaluation of Fiscal Risks Arising from Public-Private Partnership Projects

Law of Georgia on Public-Private Partnership entered into force on May 4, 2018, the, which establishes the legal basis for public-private partnership (PPP), including the rules and procedures related to the development and implementation of a public-private partnership project, and the principles of public-private partnership, relevant institutional system, as well as other issues related to public-private partnerships.

The legal framework clearly defines the basic principles of public-private partnership and the criteria that a project must meet in order to qualify for public-private partnership and to fall within the scope of regulation provided by the draft law. According to the law, the main principles of such projects are transparency, predictability, non-discrimination, quality ratio, optimal risk distribution, fiscal responsibility, environmental protection and social sustainability.

PPP projects are the largest source of specific fiscal risks characteristic to Georgia. Such projects are in the form of Power Purchase Agreement (PPA) in the energy sector. The fiscal risks arising from these projects are assessed below.

Under PPP law, energy is the only sector where direct negotiations are allowed. At the time the law was passed, such a decision might have been justified in identifying new projects and encouraging investment in the sector. However, international practice highlights the disadvantages and challenges of allowing direct negotiations in legislation:

- Low transparency;

- Lack of competition;

- Space for corruption.

Implementing a PPP project through direct negotiation increases the likelihood that an adequate level of value for money (Value-for-Money) and risk-sharing between the public and private partners will not be achieved.

Power Purchase Agreements (PPA)

PPA contracts are one of the major sources of fiscal risk for the country. Most of these types of contracts were contracted before the PPP Act was passed, the issuance of the PPA was relatively slowed down after the law was passed, and in 2020, it was completely restricted once the pandemic started.

PPA contracts contain large doses of contingent liabilities. The conditional commitment made by the government is usually realized not at the moment of economic ascent and peak, but during the crisis period, when there is an economic shock. The total amount of contingent liabilities realized in one year may amount to GEL 0.9-1.2 billion, which is a pessimistic scenario modeled by us.

Although the **procedures for termination of the Khudoni and Namakhvani Memoranda are ongoing, in order to demonstrate fiscal risk, the model reflects both projects under the PPA terms set out in the memorandum.** The model is based on the following assumptions:

- All PPAs are operational (enabled). The table shows the generation of each of them;

- It is assumed that due to the reduction of electricity demand in the conditions of economic shock, surplus energy has been created in the country, the purchase of which the state has undertaken;

- As the market is deregulated,the consumer , in the first place, buys cheap energy and the most expensive energy remains unsold, such as the Top-3 project - Nenskra, Khudoni and Namakhvani.

- The bulk of the generation comes from the months covered by the PPA;

- The market price of electricity per 1 kWh is 5.5 US cents.

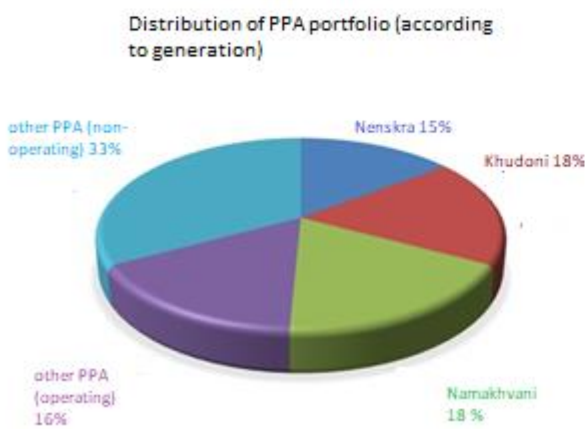
Generation numbers	Generation gwh	Excess generation in percentage	Incl. excess generation gwj	Usage gwh	Rate	Cost on excess generation (USD)	Purchase cost for price higher than market price (USD)
Nenskra	1 219.00	52.1%	634.90	584.10	11.5	73,013,020.83	35,046,250.00
Khudoni	1 527/96	52.1%	795.81	732.15	10.5	83,560,312.50	36,607,375.00
Namakhvani	1 496.00	52.1%	779.17	716.83	6.2	48,308,333.33	5,017,833.33
Other PPA(operating)	1,367.66	0.6 %	7.57	1,360.09	5.8	439,230.38	4,080,275.58
Other PPA(not-operating)	2,749.61	0.0 %	0.00	2,749.61	6	0.00	13,748,030.00
Non- PPA	8,745.99	0.0 %	0.00	8,745.99	3	0.00	0.00
Total	**17,106.22**		**2,217.45**	**14,888.77**		**205,320,897.05**	**94,499,761.91**

Given these assumptions, there are two types of risks:

- The liability arising from the difference between the PPA rate and the market price, which is very likely to be fulfilled, is USD 94.5 million. For example, the cost of Namakhvani in the first year of operation (when the rate is 6.2 cents) is USD 5 million, this amount rises to USD 27 million in the fifteenth year due to tariff escalation; The realization of these types of risks should be stopped as soon as the market is deregulated.

- Excess energy generated by the economic shock (eg e-crisis caused by a pandemic) due to a sharp decline in demand for electricity, on the obligatory purchase of which a state guarantee is issued for in the form PPA contract of - USD 205 million, assuming that economic crises recur every 10 years, we should expect such a risk to materialize in about 10 years. In projects where rates are escalating, the effect is even greater.

Under the presented scenario, the volume of risk realization may amount to approximately USD 300 million (GEL 0.9-1 billion in GEL). The probability of realization of about 30% of this amount is very high, the realization of the rest is tied to the probability of economic shock, which is repeated about once every 10 years and is a pessimistic scenario.

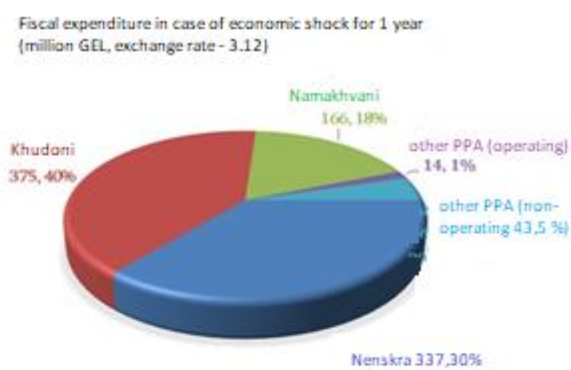


The diagram shows per cent distribution of power plants according to the generation by PPA. 51% of the generation arises from the Top-3 project:

- Nenskra

- Khudoni

- Namakhvani



The diagram shows the results in case of realization of the above two types of risks in millions of GEL and the percentage to be reimbursed from the budget.

Namakhvani is given at rate of 6.2cent and amounts to GEL 166 million. The same figure in 15th year amounts to 314 million GEL.

More than 70% of fiscal risk appears to arise from the TOP-3 project. As, considering above three projects for this stage, it may be said, that 2 projects - Khudoni and Namakhvani will no longer be implemented under the existing PPA conditions, there may be expectations that there is some free area established and there might be desire to renew the implementation of energy projects with PPA memoranda. Further accumulation of fiscal risks on a similar scale and under conditions is considered unacceptable given the current reality. For illustratios, conditions of TOP-3 project PPA are given below:

Name	Staged Power (MW)	Generation (gwh)	Project type	PPA conditions

Khudoni	702	1528	HPP	15 years, 12 months. rate: I-V year 10.50 cents; VI-VIII years 10.25 cents ;; IX-X year 9.74 cents; XI year 9.5 cents; XII year 6 cents; XIII-XV year 5 cents.
Namakhvani	433	1496	HPP	15 years, 8 months, 6.2 Cent, 3% escalation
Nenskra	280	1219	HPP	36 years, 12 months, 7.75 Cents, 3% escalation in the first thirteen years.

To compare with the TOP-3 project, let's focus on the following projects:

- In 2021, an amendment was made to the Oni Cascade Memorandum. Changed project technology, location and PPA conditions, it can be said, the investor presented a completely new project, however, at the expense of replacing the old one.

Terms of the Old Memorandum of the Oni Cascade

Name	Staged Power (MW)	Generation (gwh)	Project type	PPA conditions
Oni 1	122.46	441.20	HPP	20 years, 12 months, 6.65 cents, 3.5% - Jan escalation.
Oni 2	83.70	339.00	HPP	20% of total output, 6.65 cents, 3.5% escalation

Renewed Terms of the Memorandum of the Oni Cascade

Name	Staged Power (MW)	Generation (gwh)	Project type	PPA conditions

Oni wind power plant	206	Up to 780	wind power plant	15 years, 12 months, 6.3 cents

- The company reserved the right to build or not to build the Oni Cascade for three years, however, without the PPA. Under maximum load conditions, the fiscal cost (annual revenue receivable by the company) is approximately 49 million Dollars.

In terms of generation, it is necessary to mention Dariali and Shuakhevi HPPs, however, the fiscal risks arising from them are small compared to the TOP-3 project:

Name	Staged Power (MW)	Generation (gwh)	Project type	PPA conditions
Dariali	108	500	HPP	10 years, Jan, Feb, March, Oct, November, December - 6.5 cents; Apr, May, Jun, Jul, Aug, Sept. - 5 Cent
Shuakhevi	178.2	455	HPP	15 years, 9 months - 5.5 cents, 2% escalation, 3 months (May, June, July) - 3.5 cents

- Dariali's annual fiscal expenditure under maximum workload is approximately 28 million dollars;

- Shuakhevi annual fiscal expenditure under maximum load is about 25 million dollar..

In 2020, the Government of Georgia defined support scheme as an alternative to the PPA, the so-called Feed-in-Premium (FIP). The support period is defined as ten years from the issuance of the plant commissioning and production license (if required by law) for 8 months per year (January, February, March, April, September, October, November, December). Bonus rate is USD 0.015 per 1 kWh, unless the difference between the wholesale (equilibrium) price fixed at the relevant hour in the organized electricity market and USD 0.055 is less than USD 0.015, then the bonus rate will be calculated by this difference.

At given stage, up to 30 projects with an annual generation potential of approximately 106400 million kWh have already been contracted under this support scheme, which underlines the investors' interest in the support scheme.

While the introduction of the FIP has substantially reduced fiscal risks and addressed transparency questionnaires, this does not mean that the existing structure of the FIP taken separately is effective, in particular, there is a risk of paying more than the budget would require in a competitive environment. With this in mind, after a certain period of time, the existing support scheme should be reviewed and a solution found that will on the one hand retain the advantages of FIP such as transparency, and on the other hand will insure against potential inefficiencies.

Assessment of PPP Liabilities

According to the Organic Law of Georgia on Economic Freedom, the debt ratio of the Georgian government to GDP should not exceed 60%. This limit should take into account the current value of government commitments under the Public-Private Partnership (PPP) projects.

Relevant commitments of PPP projects currently in place in the country have been assessed based on international best practice, in particular with the International Public Sector Accounting Standard – IPSAS 32.

Anaklia Black Sea deep sea port - On January 9, 2020, the Government of Georgia terminated the investment agreement „On Construction, Operation and Transfer (BOT) of the Black Sea Deep Sea Port in Anaklia" (signed on October 3, 2016) with „Anaklia Development Consortium LLC" due to nonfulfillment of the contractual obligations by the private partner. On July 29, 2020, a private partner, the „Anaklia Development Consortium", filed a lawsuit in the International Court of Arbitration of the International Chamber of Commerce and began a dispute against the state. Taking into account above mentioned circumstances, liabilities are not assessed within the standard, however, given the current dispute, the project is a source of contingent liability. At the end of 2018 the liability deriving from „Anaklia Port" was estimated at GEL 169,705,000.

Nenskra Hydro Power Plant - Nenskra HPP project is being implemented by JSC Nenskra Hydro, which was established in 2015 as a result of cooperation between the Korean Water Resources Corporation - KWater (investor) and JSC "Partnership Fund". JSC Partnership Fund owns 8% of the company shares. There is a BOT agreement signed with the operator, stipulating for the free of charge transfer of the HPP to the state ownership 36 years after the HPP is commissioned. The project meets the criteria of public-private partnership defined by the legislation of Georgia and the obligations arising from it can be assessed based on the principles set out in the IPSAS 32 standard. In particular, we must recognize liabilities equal to the value of created long-term asset, reduced by the fund's share in the company's total equity, because the fund represents the state. According to the audited report of JSC Nenskra Hydro, the value of long-term asset created by the company at the end of 2020 is 325 299 000 GEL. According to the methodology, the PPP liability from the project at the end of 2020 amounts to 290 671 560 GEL. As of January 1, 2020, the current value of the PPP liability under this project was 266,761,440 GEL.

Tbilisi Shota Rustaveli International Airport - The project envisages the lease of Tbilisi International Airport, its development, purchase of necessary equipment and construction of new buildings by a private partner, ,,TAV Urban Georgia Ltd". The parties of the contract are ,,TAV Urban Georgia" and ,,United Airports of Georgia LLC". ,,TAV Urban Georgia" is responsible for the management and development of Tbilisi Airport, and ,,United Airports of Georgia" is responsible for supervising and assisting it within its competence. The initial agreement entered into force on September 6, 2005 and the new version of the agreement was signed in May 2015. According to the new version of the 2005 agreement, TAV Urban Georgia Ltd will operate and maintain Tbilisi International Airport until January 2027. From 2027 the airport will be transferred to state ownership free of charge. At present, the investments made by the operator include: construction of several terminals, arrangement of a parking lot, rehabilitation of the runway, traffic lane and platform.

,,United Airports of Georgia LLC", in accordance with IPSAS 32, reports the investments made by the operator in the item of deferred revenue (non-financial liability), which is amortized during the term of the concession agreement. Furthermore, the rate of investments made by TAV Urban Georgia differs from the amount reported in the balance sheet of United Airports of Georgia, as United Airports of Georgia recognizes the asset in the amount determined on the basis of the assessment made by an independent appraiser. The balance of deferred revenue as of 31/12/2020 is 104 751 000 GEL.

According to the above reasoning, the volume of PPP liabilities as of January 1, 2021 is 395 422 560 GEL (290 671 560 +104 751 000). As of January 1, 2020, the current value of liabilities under the projects corresponding to the criteria of public-private partnership was 388 789 440 GEL.

Pandemic Fiscal Risks

Introduction

The COVID-19 pandemic that began in late 2019 has raised awareness of the increased likelihood of pandemics. This has come about because of increases in the interactions:

- Between human beings and other species that can lead to viruses being transmitted between them.

- Among human beings as a result of greater social mobility, in particular increased international, domestic and intra-community travel.

The COVID-19 pandemic has also raised awareness of the fiscal costs of mitigating pandemics, in particular via the costs of restricting economic activity to reduce the spread of a pandemic as well as the health sector costs of treating the sick and measures to reduce the pandemic's spread.

Therefore, the assessment of pandemic fiscal risks will be a feature of the Ministry of Finance's Fiscal Risks Statements for the foreseeable future. In doing so, Georgia is joining leading countries in fiscal management in making pandemic fiscal risks a major part of their regular fiscal risks assessments.

In general, pandemic fiscal risks can materialize in the short- to medium-term, as has been seen with the COVID-19 pandemic, and their materialization is difficult to predict. This is complicated by:

- The mutating nature of viruses, which can exacerbate pandemics, as has already been seen with the COVID-19 pandemic.

- The rapid development of knowledge of how to respond to pandemics, including vaccination technology, treatments and methods of restricting their spread.

Furthermore, the current COVID-19 pandemic is far from over. It can worsen at any time, causing further economic and fiscal costs.

In order to start to develop its approach to pandemic fiscal risks assessments, the Ministry of Finance has started to apply the International Monetary Fund's Fiscal Stress Test COVID-19 Module. This module assists with the preparation of the macro-fiscal scenarios of pandemic lockdowns i.e., the restrictions in activity that help to reduce the spread of a pandemic. In the module, a baseline macro-fiscal scenario is projected, reflecting historical national accounts data, fiscal data, as well as other macroeconomic parameters. Against that baseline projection, effects of lockdown measures are analyzed.

The results of the application of the module presented here provide an initial and general overview of the impact on real GDP and government debt of various lockdown scenarios. The Ministry of Finance intends in the future to develop and fine-tune the module to provide more precise analyses as required.

Application of the Module

Two variables — lockdown duration and lockdown stringency — are used. The lockdown duration variable refers to how long these measures and restrictions are applied, ranging for three months to one year. The lockdown stringency variable is an index value that refers to the de facto stringency and number of measures being set by authorities, ranging from restrictions on international travel to stricter measures such as on the sizes of gatherings and the closure of workplaces. The de facto stringency refers to the extent to which measures are enforced effectively as distinct from announced formally.

The module allows the user to vary the duration and de facto stringency of lockdowns e.g., a medium effective stringency and a six-month lockdown duration.[13]

In the module, a lockdown of this **effective** stringency and duration would result in about a 17 percentage point reduction in the level of real GDP relative to the baseline in Year 1 i.e., the year of the lockdown. Georgia's real GDP growth for 2020 was a nearly 11 percentage point reduction in the level of GDP relative to the baseline.[14] This difference suggests that the effective stringency of Georgia's lockdown in 2020 was possibly less than that which had been formally announced, as well as the likelihood that the module's calibration does not capture some particular characteristics of the Georgian economy, both of which are points of further analysis.

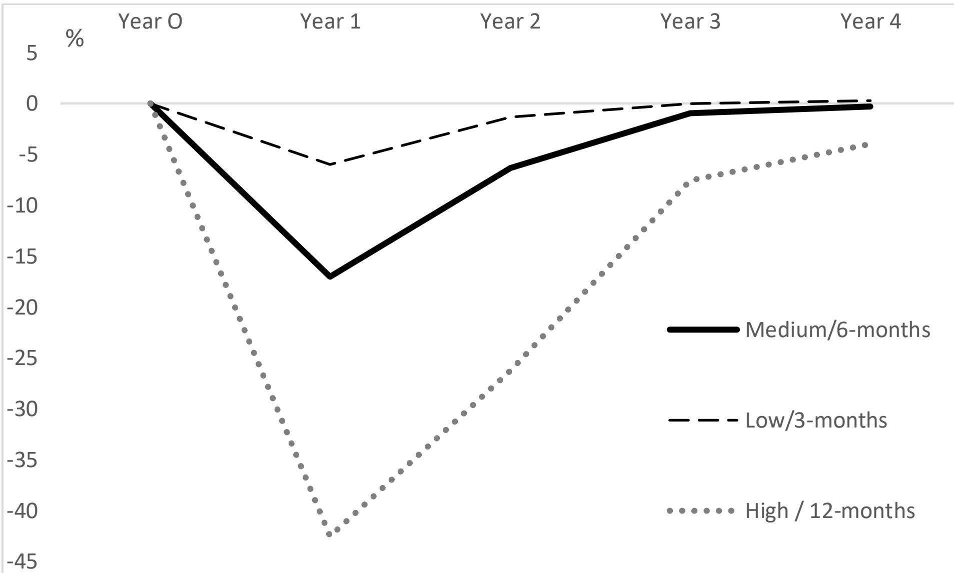
The module assumes that following the end of the lockdown, the economy would revert to the long run trend estimated by a production function that takes into account Georgia's labour force, capital stock, and productivity. By Year 4, the economy is expected to have reverted to the baseline.

Chart 1 below compares impact of the trajectory of a lockdown of medium stringency over six months with lockdowns of low stringency over three months (the least restrictive scenario) and high stringency over one year (the most restrictive scenario). In the least restrictive lockdown scenario, the economy reverts to the baseline in Year 3. In the most restrictive scenario, real GDP is still 4 per cent below the baseline level in Year 4.

[13] According to the Oxford COVID-19 Government Response tracker, Georgia's formally announced stringency measure was the most stringent possible 100 in April 2020, which was gradually lowered in the subsequent two months, and stayed in the 50s and low 60s range for the remainder of 2020. See COVID-19: Stringency Index (ourworldindata.org).

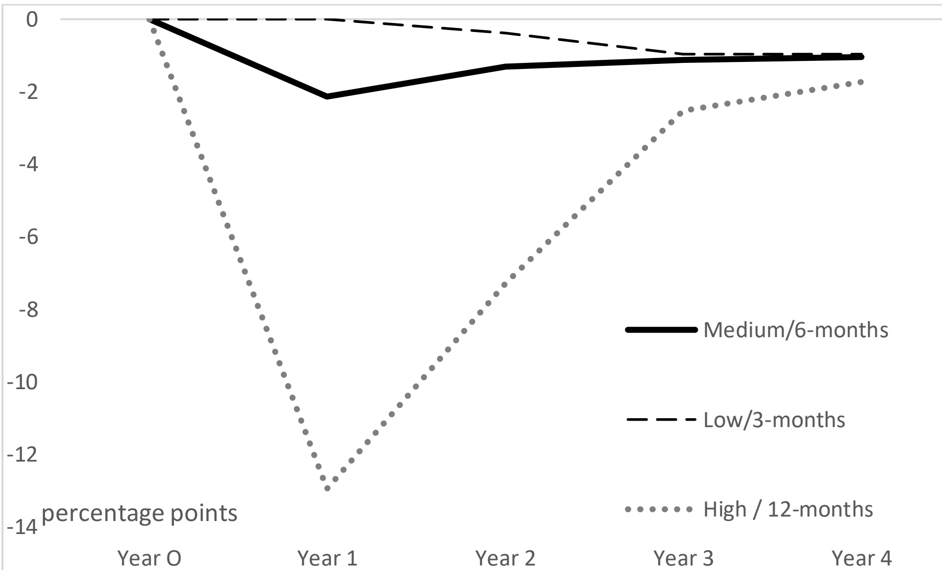
[14] This is composed of an actual -6.2 per cent decline in real GDP in 2020 compared with a 5 per cent average real GDP growth in the pre-COVID period.

Chart 1: Effect of lockdowns on real GDP (percentage point deviation from the baseline) under different lockdown scenarios



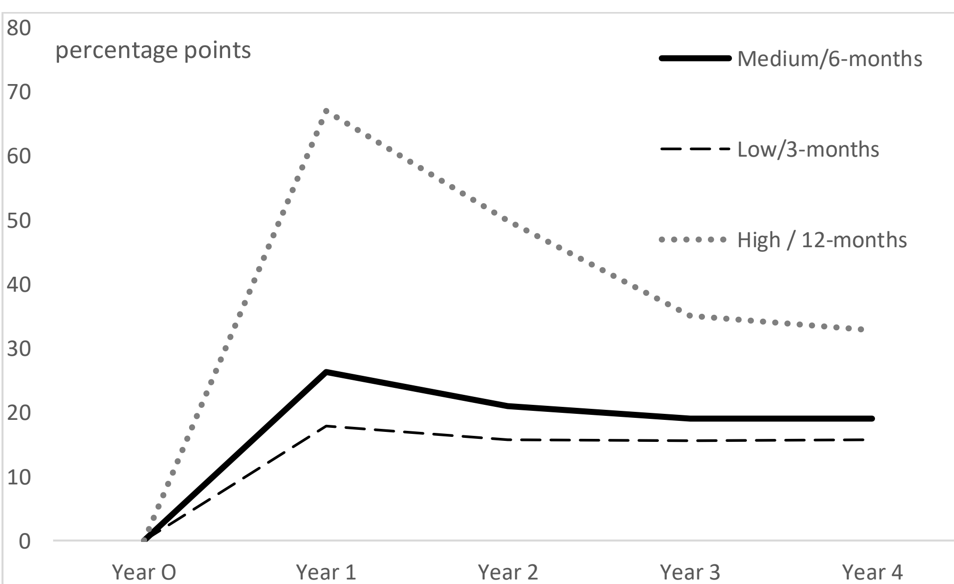
The module then traces the macroeconomic effects of the lockdowns through the fiscal variables, using a set of relationships based on historical outcomes. On the revenue side, historical elasticities, buoyancies, and ratios to GDP are used to project revenue levels under different lockdown scenarios. Historical ratios to GDP are also used to extrapolate expenditure under different scenarios. In addition, the module **assumes** additional health expenditure. Collectively, in this scenario, the overall budget balance deteriorates by about 2 percentage points of GDP in Year 1. Chart 2 refers.

Chart 2: Effect of lockdowns on overall budget balance (percentage point deviation from the baseline) under different lockdown scenarios



Both the decline in GDP and worsening budget balance add to debt-to-GDP ratio, which is 26 percentage points above the baseline level in Year 1, and still nearly 19 percentage points higher than the baseline in Year 4 in the medium scenario. Chart 3 refers.

Chart 3: Effect of lockdowns on debt-to-GDP ratio (percentage point deviation from the baseline) under different lockdown scenarios



In the module, lockdowns result in severe contractions in GDP, and a strong rebound after the lockdown measures are lifted. In reality, real GDP contractions might be less severe, while it might take the economy considerably longer to revert to the pre-pandemic trend. Similarly, the module mechanically links GDP to revenue and expenditure, not taking into account various measures to combat the effects of the pandemic.

Further customization and fine-tuning of the module in line with Georgia's experience with the COVID-19 pandemic thus far will yield different estimates. The Ministry of Finance intends to develop its modelling of the materialization and mitigation of pandemic fiscal risks; this is a high priority given the potential recurrence of pandemics, the severity of the effects of the materialization of these risks, the seriousness of the mitigation choices.

Natural Disaster and Climate Change Fiscal Risks

Introduction

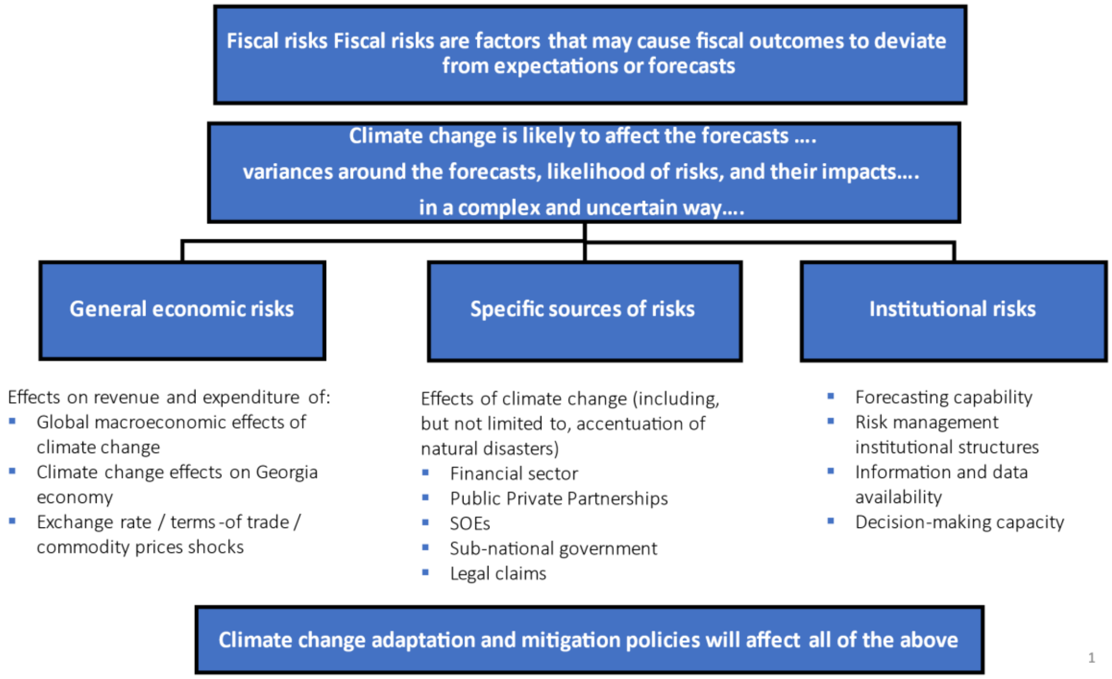
Natural disaster and climate change fiscal risks are factors relating to natural disasters or climate change that could cause outcomes of fiscal aggregates to be significantly different from the levels planned in the state budget for the budget year and forecast in the Basic Data and Directions (BDD) document for the subsequent three years.

Natural disasters pose fiscal risks even in the absence of climate change. Accentuation of natural disasters is likely to be an important effect of climate change. This is the reason for disclosing natural disaster and climate change fiscal risks together.

In addition to natural disasters, however, climate change is likely to have fiscal consequences through: changes in macroeconomic outcomes such as potential growth and inflation; fiscal outcomes such as revenue, expenditure, and financing; and reprofiling of fiscal risks including those associated with SOEs, PPPs, and PPAs.

The fiscal consequences of climate change are not the same as the fiscal risks of climate change as usually defined. Climate change is slow-moving, and the significant uncertainty notwithstanding, many of its fiscal consequences should be reflected in fiscal forecasts. However, the uncertainties surrounding the impact of climate change —including, but not limited to, the gradual transformation of environment that increases the severity and frequency of natural disasters —will increase the variance around macroeconomic and fiscal projections. In addition, climate change is likely to affect the likelihood and impact of fiscal risks surrounding SOEs, PPPs, PPAs, and sub-national governments.

The figure below provides a stylized illustration of how climate change affects fiscal risks.



Natural disasters in Georgia are covered in the next section of this chapter. This is followed by a discussion on the climate change fiscal risks, including risks associated with adaptation and mitigation policies. The concluding section summarizes the significant challenges and proposes next steps.

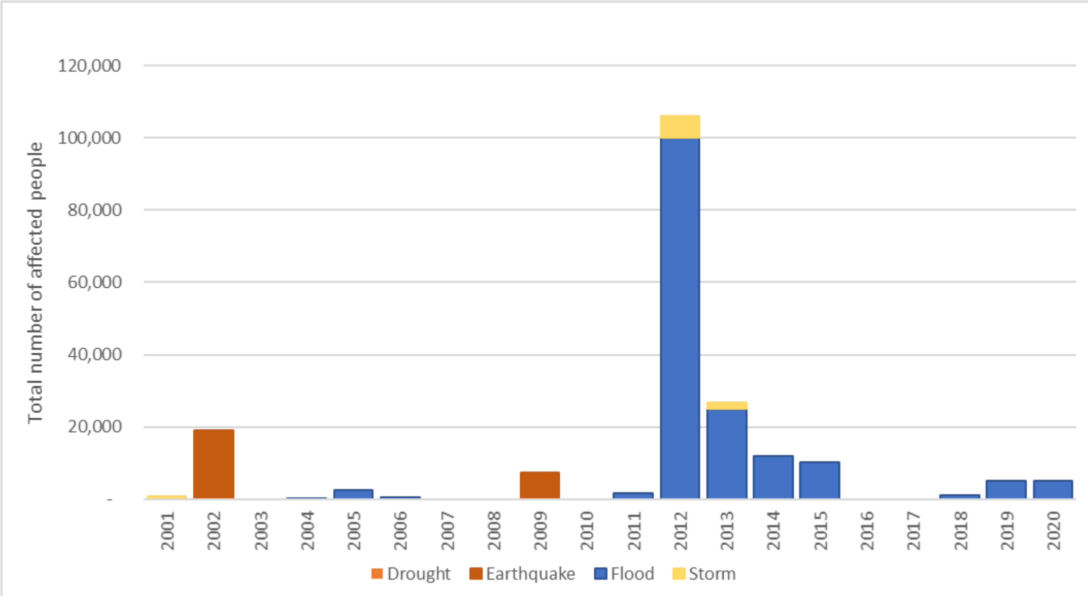
Natural Disasters in Georgia

Georgia has been affected notably by floods and earthquakes. The 2015 flood[15] in Tbilisi resulted in GEL 55 million in physical damage and GEL 10 million in financial losses, the largest amount in recent history. The largest earthquake in the past few decades occurred in Tbilisi in 2002, the losses of which have been estimated at up to GEL 703 million[16]. Historical data on the number of people affected by different disaster types are shown in Chart 1.

[15] Disaster Risk Finance Country Note: Georgia 2017, World Bank.

[16] The exchange rate used is 1 USD to 3.11 GEL.

Chart 1. Number of People Affected by Natural Disasters in Georgia



Source: EM-DAT

A forward-looking assessment of flood and earthquake risks in Georgia indicates potential significant losses in the future for less frequent events for different types of assets.

Flood modelling for Georgia shows that a more frequent flood (that has a 20 per cent chance to happen each year — that is, a once-in-five-year event) can cause damage of GEL 93 million to residential assets. Damage increases to GEL 302 million in the once-in-a-century scenario that has a 1 per cent chance to happen each year. Similar trends are observed in Table 1 for commercial and industrial assets.

Table 1. Annual Expected Damage from Floods at Different Return Periods by Type of Asset
GEL million

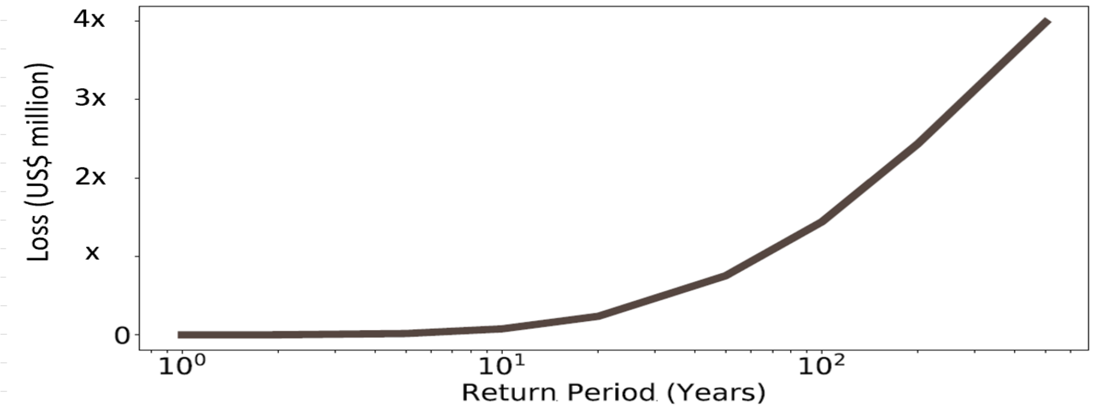
Return Period	Annual average	1 in 5 Year	1 in 10 Year	1 in 20 Year	1 in 50 Year	1 in 100 Year	1 in 200 Year
Residential	46.0	93.3	143.0	189.7	248.7	301.6	516.1
Residential: Gov's Contingent Liability	7.1	14.5	22.2	29.4	38.6	46.7	80.0
Commercial	2.5	2.8	5.6	10.3	16.2	19.9	24.9
Industrial	3.1	5.6	9.0	13.1	18.0	23.3	34.2

Source: JBA.

The exceedance probability[17] curve from earthquake modelling for Georgia shows how losses increase as the return periods get larger (that is, the probabilities get smaller). Figure 2 shows that a once-in-a-century earthquake loss is almost 25 times larger than that of the once-in-a-decade scenario. By way of contrast, a once-in-a-century flood loss is 2.2 times larger than a once-in-a-decade flood loss.

[17] Exceedance probability is the probability that this level of loss will be exceeded, for example, a loss with an exceedance probability of 1 percent will be exceeded on average once every 100 years.

Figure 2 - Exceedance Probability of Earthquakes at Different Return Periods for Georgia



Source: Global Earthquake Model

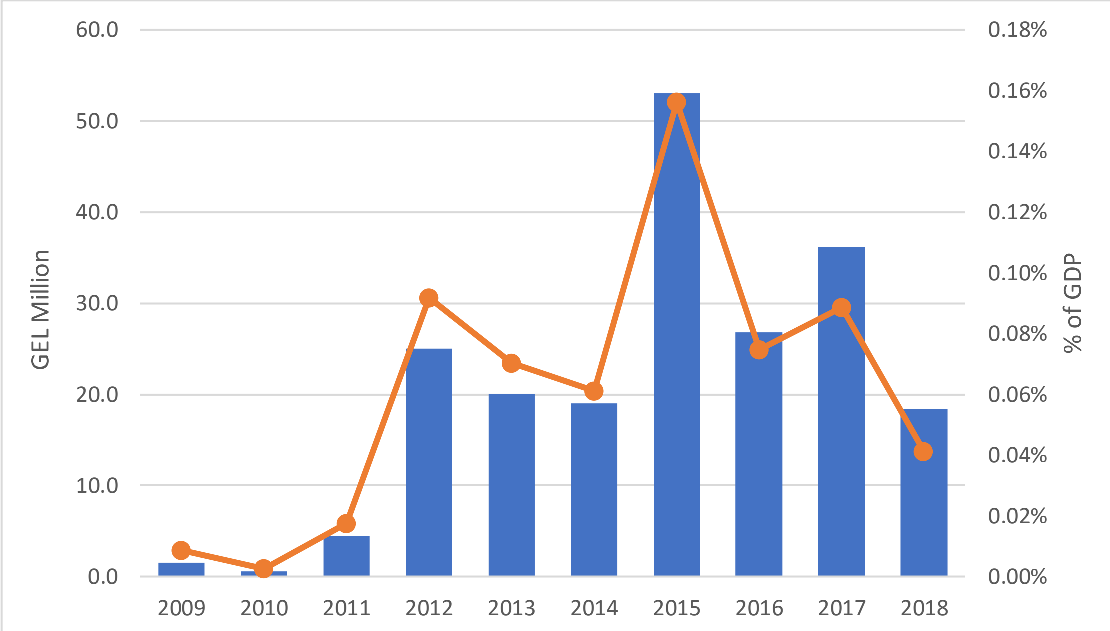
The Government of Georgia has contingent liabilities arising from the need to finance response and recovery following climate and disaster events, in particular emergency response and restoration of critical public services, reconstruction of lifeline public infrastructure and the residential assets of segments of the population for which it took responsibility, and agreed cost-sharing arrangements with local governments. A preliminary assessment indicates that the contingent liabilities for the reconstruction of the residential assets could range from GEL 14 million in a once-in-five-year flood to GEL 80 million in a once-in-200-year event. Chart 3 refers.

Chart 3. Government Contingent Liabilities for Residential Assets

Source: Calculation of Government's Contingent Liability based on JBA floods modeling

The Government spent on average 0.06 percent of total expenditure on disasters from 2009 to 2018. This spending mainly included compensation and fiscal transfers. Budget funds spent on disaster response and recovery are shown in Chart 4. The amount spent from the budget is not disaggregated by type of disaster and might not correlate with the damages and economic losses caused by these disaster events. The reported expenditures might not have captured all the spending related to disasters, e.g., on the reconstruction of public assets in following years.

Chart 4. Government of Georgia Disaster Expenditure



While the Government's disaster-related expenditure has in the past been a small proportion of the GDP, the above analysis indicates that, at any time, there could be a natural disaster that could require major increases in such expenditure. Moreover, as discussed below, this risk is exacerbated by climate change.

The Government's post-disaster financing instruments include the: Reserve Fund of the Government; Fund for Projects Implemented in the Regions of Georgia (RegFund); and the budgets of local government and line ministries. Except for the RegFund, the total post-disaster financing may not exceed 2 percent of the total annual budget allocation unless a budget revision is approved by parliament. Table 2 refers.

Table 2. Available Post-disaster State Budget Financing
GEL million

	Budget 2020	**Budget 2021**	**Plan for 2022**
Reserve Fund of the Government	54.7	40.0	
RegFund	449.5	410.0	

In 2020, the Government also established an agriculture insurance program which co-finances insurance providers to stimulate insurance development for agriculture lands and harvest against disasters such as hail, flood, hurricane and autumn frosts. It is financed from the state budget.

Climate Change Related Fiscal Risks in Georgia

Global Effects on Georgia

Climate change can affect global GDP growth or growth of one or more of Georgia's trading partners. Natural disasters accentuated by climate change that occur outside Georgia, especially in one or more of its major trading partners, could produce a GDP shock in Georgia. The impact of such a shock on debt is illustrated by the shock to real GDP growth described in Section V Public Debt Fiscal Risks. The transmission channels could include lower exports of goods and services, lower inward investment flows and lower production arising from supply chain disruptions, all of which could also be reflected in an exchange rate depreciation and higher real interest rates. Given the accentuation of natural disasters globally as a result of climate change, the occurrence of global climate change-induced shocks to Georgia's real GDP growth during the 2022-2025 period is plausible.

Lower trend GDP growth in Georgia could also arise from lower global economic growth because of climate change globally, in particular in its major trading partners. Lower global economic growth could arise not only because of natural disaster and productivity effects, but also because of the costs of adaptation and mitigation. A negative effect of these factors on economic growth, and therefore on fiscal revenues in particular, during the 2022-2024 period cannot be ruled out.

Another global factor related to climate change that could weigh on Georgia's economic growth rate is international reaction to unsatisfactory performance by Georgia in reducing its emissions e.g., large deviations from the Nationally Determined Contribution (NDC) commitments. These could cause climate change mitigation-related international trade restrictions on Georgia e.g., carbon import taxes, and reductions in development partner financing. Given the Government's strong commitment to mitigation in the NDC, this factor is not a significant fiscal risk for the period 2022-2025.

Accentuation of Natural Disasters in Georgia

The natural disasters in Georgia that can be expected to be accentuated by climate change are mainly hydrometeorological disasters. These include landslides, floods, mudflows, avalanches, storms, heavy winds, droughts and fires. The more severe the disasters, the greater the fiscal effects are likely to be. Government expenditure would be likely to rise, for example through relief and rehabilitation effort in the near term and repair and reconstruction of public infrastructure in the long term. There is also a risk that the financial sector might not able to adapt to more frequent and severe natural disasters, making it difficult for the private sector to absorb the impact. Significant uncertainty will probably persist around the timing and magnitude of natural disaster events, as well as their fiscal impacts.

Domestic Effects on Economic Growth

Climate change could have a negative impact on economic growth by destroying productive capacity, temporarily or permanently. Natural disasters can have disruptive effect on economic growth, flowing through to fiscal aggregates. Moreover, an increase in temperatures as a result of climate change can be expected to reduce the productivity of the Georgian economy in summer months, notably because of its impact on the workforce, livestock and crops. On the other hand, its impact on productivity in winter months can be expected to be positive. The net effect of many of these factors is uncertain, and much of the impact would probably be gradual over time. That said, a negative net effect of these factors on economic growth, and therefore on fiscal revenues in particular, during the 2022-2025 period cannot be ruled out.

Fiscal risks related to adaptation

The Government of Georgia's National Adaptation Plan aims to improve the country's preparedness and adaptive capacity by developing climate-resilient practices that reduce the vulnerability of highly exposed communities. Steps are being taken to integrate climate risk and resilience into core development planning and implementation.

In 2018, the Government, together with the United Nations Development Program and the Green Climate Fund, started developing early warning systems for various threats and the use of climate-related information. The total value of the project is USD 70 million out of which USD 38 million is financed from the state budget. The project aims to support:

- The development of hydrometeorological surveillance network and modeling capacities.
- The development of early warning systems for various threats and new climate information products that are based on effective national regulation, coordination mechanisms and institutional capacities.
- Improving community sustainability based on the introduction of early warning systems and priority risk reduction activities.

Four key sectors are prioritized by Georgia's National Adaptation Plan: agriculture, health, energy, and water.

The fiscal impact of the climate change adaptation measures is distinct from the fiscal risks emanating from them and should be addressed in a long-term fiscal sustainability assessment. The adaptation measures can present three distinct sets of fiscal risks:

- Quantification of remedial adaptations measures such as post-disaster relief, rehabilitation and reconstruction efforts. This is difficult because the timing and magnitude of disasters, and therefore their expected fiscal costs, are difficult to predict. Better disaster preparation plans and early warning systems can help reduce this fiscal risk, but not eliminate it.
- Fiscal uncertainties of specific adaptation measures. For example, adaptation projects could suffer from cost over-runs. Large infrastructure projects are more susceptible to these risks. To the extent that such infrastructure projects are implemented through PPPs or SOEs, the associated fiscal risks, including contingent liabilities, would also apply to these projects. However, because climate change is slow moving, and fiscal risks associated with investment projects are relatively well understood, these risks should be able to be identified and quantified to a substantial extent.
- The macroeconomic and fiscal consequences of adaptation measures. For example, building defenses against floods and coastal erosion diverts capital away from other projects, which could well lead to a decline in the economy's productive capacity, and a slowdown in the trend growth rate. This will, in turn, reduce revenue and put pressure on budget financing. This risk needs to be benchmarked against an alternative where climate change itself can have damaging macroeconomic and hence fiscal consequences.

There are reasons to believe that well-designed adaptation measures can have positive impact on the economy compared with a scenario where climate change occurs without such measures. For example, an analysis using the e3.ge model (economy, energy, environment; Georgia) —a macro-econometric simulation model for Georgia to analyze the overall macroeconomic impacts of climate change and sector-specific adaptation measures—finds that investing in irrigation systems and windbreaks increase agricultural productivity, which flow on to positive macroeconomic and fiscal outcomes.

Fiscal risks related to climate change mitigation

Georgia incurs the fiscal and other costs of mitigation in order to support the international commitment to reduce emissions and to avoid the much higher future economic, fiscal and social costs that would result in the absence of this international commitment. Georgia's mitigation policies are summarized in its updated NDC. These policies are intended to reduce its emissions by 2030 relative to 1990 by 50-57 percent, if it receives sufficient international support, and 35 percent unconditionally (which would be an approximately 16 percent per capita reduction). International support means technology transfer, grants and concessional loans. These targets do not include land use, land use change and forestry emissions

The NDC also sets out sectoral goals designed to keep emissions within these limits. These goals are reduced emissions by 2030 compared to business-as-usual of 15 percent in energy generation and transmission, 5 percent in industry, and 15 percent in transport. The NDC also sets a target of increasing the carbon absorption capacity of forests by 10 percent relative to it 2015 level, and to deploy climate-friendly technologies in buildings, agriculture and waste management.

The NDC mandates the preparation of a Climate Strategy 2030 and Action Plan to specify individual measures achieve these goals. Accordingly, a Climate Change Strategy 2030 and Action Plan for 2021-2023 (CSAP) was approved by the Government and published in December 2020.

The CSAP includes a table of the budgets for activities included in it that are not already included in other policy documents. The budgets cover the years 2021-2023 and activities in the transport, buildings, industry and agriculture sectors. The budgets are modest, totaling for the three years GEL [xxx] financing and GEL [xxx] contribution in kind from the state budget, together with the GEL [xxx] financing from donors. They mainly cover the costs of consultancy projects.

Without comprehensive information on the climate change mitigation activities in other policy documents, it is more difficult to assess the fiscal risks from mitigation. However, it is possible from the CSAP to identify the possible need for fiscal support for many mitigation actions, whether additional expenditures, revenue reductions or guarantees in some form. Donor funding would reduce the effects of the materialization of mitigation fiscal risks noting that international donors have a range of instruments that could be used to support mitigation in Georgia, as set out in the CSAP. The following paragraphs identify the main mitigations of fiscal risks arising from the CSAP.

<u>Energy Generation and Transmission</u>

The CSAP envisages that the planned control of emissions from energy generation and transmission will be achieved by:

- Construction of additional renewable electricity generation, including hydro, solar and wind. This can be expected to require, at a minimum, PPAs with a state sector entity. Additional fiscal support could also be required in other forms e.g., for infrastructure works, and equity and debt finance for projects that are implemented by state sector entities.

- Improvements in the efficiency of thermal electricity generation and reductions in the losses in electricity transmission and distribution network. These could require investments by the state sector, with fiscal implications.

Transport

The CSAP envisages that the planned control of emissions from transport will be achieved by:

- A reduction in the proportion of older, high-emissions vehicles and an increase in the proportion of newer, hybrid and electric low-emissions vehicles. However, might not be achievable without fiscal incentives, e.g. tax incentives and customs concessions.
- An increase in the use of public and non-motorized transport, which might not be achievable without significant public investment.
- Tighter and new regulations, in particular tighter vehicle inspection standards and restrictions on motorized transport in urban areas. Such measures could have a negative effect on economic growth, and thereby fiscal revenues, by increasing the costs of economic activity, although this might not be significant during the period until 2025. In any event, the near-term economic costs of mitigation are inevitable to reduce the greater longer-term economic costs to Georgia of climate change.

Buildings

The CSAP envisages that the planned control of emissions from buildings will be achieved by:

- Improvements in the energy efficiency of buildings, in particular their heating and lighting systems The CSAP refers explicitly to fiscal incentives for energy-efficient lamps and the use of solar energy for water heating. The costs of these and perhaps other fiscal incentives might not be reflected in the fiscal forecasts to 2025.
- The installation of energy efficient lamps in all public buildings and, in schools, the renewal of cladding and the replacement or improvement of solid fuel heaters. It is not clear that all these costs are reflected in the fiscal forecasts to 2025.
- Tighter regulations on building construction. It is not clear whether these are envisaged just for new buildings or for existing buildings as well i.e., requiring retrofitting. Such regulations could result in additional fiscal costs directly because of their effect on the costs of public buildings, and also have a negative effect on economic growth, with the same issues as tighter regulations in the transport sector.

Industry

The CSAP envisages that the planned control of emissions from industry will be achieved by reducing energy consumption in cement production and reducing emissions in nitric acid production. The sources of financing for these activities, and therefore their possible fiscal costs, are not clear. Hence, it is possible that they are a significant fiscal risk for the period to 2025.

Agriculture

The CSAP aims to maximize the feed quality for 20 percent of cattle, which will reduce greenhouse gas emissions caused by enteric (intestinal) fermentation. It is not clear whether this will require fiscal incentives.

Waste Management

The CSAP envisages that the planned control of emissions from waste management will be achieved by:

- Closing existing landfills and constructing new ones, including major ones with gas collection and recycling systems.
- Promoting waste recycling.
- Constructing urban wastewater treatment plants, as well as the installation of gas collection and treatment systems at several stations, including the Tbilisi, Batumi and Kobuleti wastewater treatment plants.

  The fiscal implications of these actions are not clear.

Forestry

The CSAP envisages increasing the carbon absorption capacity of forests by:

- Restoring degraded forest.
- Promoting sustainable forest management.

  The fiscal implications of these actions are not clear.

Impact on Fiscal Projections

In addition to the natural disasters and the adaptation and mitigation policies described above, climate change is likely to affect fiscal projections in complex and uncertain ways. Global effects of climate change may include changes in long term interest rates, which will affect financing options and debt projections.

Changes in production and investment by firms, and consumption by households, will affect the tax base. Government expenditure will also be affected. For example, the increase in temperatures arising from climate change can be expected to increase health expenditures in a number of respects, including:

- The consequences of natural disasters.
- The effect of more extreme heat in the summer on morbidity, including via the spread of chronic and epidemic diseases.
- Lower air quality.
- On the other hand, higher mortality, less extreme cold in winter and less air pollution from emissions could be offsetting factors in terms of health expenditures.

Under its updated NDC approved by the Government in April 2021, it has made a commitment to study the possible impact of climate change on Georgia's health system. On the basis of currently available information, it would be speculative to envisage that the materialization of this fiscal risk could be significant during the 2022-2025 period, although this cannot be ruled out entirely.

Conclusion

Climate change is likely to affect fiscal projections and risks in complex and uncertain ways. As with any fiscal risk management process, analysis aimed at identification and quantification of the particular risks is the first step. Limited data availability, methodological issues, and quantification of risks that have few precedents in the recent past are particular challenges of analyzing climate change fiscal risks.

Climate change is a long-term phenomenon. Georgia does not yet produce formal fiscal forecasts beyond the period of the BDD, although, as noted in section 5 below, the Debt Sustainability Analysis

(DSA) does include fiscal projections for 5 years beyond the horizon of the BDD. The Ministry of Finance plans in due course to publish long-term fiscal sustainability assessments. Slow-moving climate change effects on Georgia's fiscal position and performance will be addressed in these assessments.

For the period of the 2022 state budget and the 2023-2025 BDD:

- Climate change could affect fiscal performance and position negatively, in particular via accentuation of hydrometeorological events. Historical data might understate their future severity and frequency.
- Adaptation and mitigation costs will be incurred in the 2022-2025 period in order to reduce longer-term climate change effects, and these costs are uncertain.

Appendixes

Appendix 1

Subsidiaries of state-owned enterprises

N	SOE Name	state share in %	Founder	PC/GG
1	LTD Saknavtprodukti	100	LTD Rehabilitation	GG
2	LTD Tbilisi N2 Lung Diseases Outpatient Clinic	100	JSC National Center for Tuberculosis and Lung Diseases	GG
3	JSC Georgian Film	100	JSC Georgian Film Development Center	GG
4	LTD GR Property Management	100	JSC Georgian Railway	PC
5	LTD GR Logistics and Terminals	100	JSC Georgian Railway	PC
6	LTD GeoBook	100	LTD Rehabilitation	GG
7	LTD Tbilisi State Concert Hall	100	LTD Asset Management and Development Company	GG
8	LTD Sakcoopservice	100	LTD Rehabilitation	GG
9	JSC Georgian Railway Construction	100	JSC Georgian Railway	GG
10	LTD National High Technology Center of Georgia	100	LTD Asset Management and Development Company	PC
11	LTD Tbilisi Children's Infectious Clinical Hospital	100	NNLE Georgian Medical Holding	PC
12	JSC Givi Zaldastanishvili American Academy in Tbilisi	0.1	LTD Tbilaviamsheni	GG

13	LTD Special Cap Service	100	LTD Asset Management and Development Company	GG
14	LTD GR Georgia Transit	100	JSC Georgian Railway	PC
15	LTD Sakspectransi	100	LTD Asset Management and Development Company	GG
16	LTD Academician Nikoloz Kipshidze Central University Clinic	100	NNLE Georgian Medical Holding	PC
17	LTD Tbilisi N1 Lung Diseases Outpatient Clinic	100	JSC National Center for Tuberculosis and Lung Diseases	GG
18	LTD Scientific-Practical Center of Clinical Pathology	100	LTD Rehabilitation	GG
19	LTD Technical Specialists Training Center	100	LTD Rehabilitation	GG
20	LTD Tam-Valley	100	LTD Tbilaviamsheni	GG
21	LTD Tam-Energy	100	LTD Tbilaviamsheni	GG
22	LTD Tam-Kera	100	LTD Tbilaviamsheni	GG
23	LTD Tam-Polymer	100	LTD Tbilaviamsheni	GG
24	LTD Samtomashveli	100	LTD Asset Management and Development Company	PC
25	LTD Fashion Lyceum	100	LTD Demetre 96	GG
26	LTD National Product Sales Service	100	LTD Demetre 96	GG
27	JSC "Tam" Tbilaviamsheni	93	LTD Tbilaviamsheni	PC
28	LTD Vakhtang Bochorishvili Anti-Sepsis Center	100	LTD Rehabilitation	GG
29	LTD Kutaisi Press House	100	LTD Rehabilitation	GG
30	LTD Kutaisi Regional Narcology Center	100	LTD Mental Health and Drug Prevention Center	GG
31	LTD Zugdidi Preventive Disinfection Department	100	LTD Specialized Epidemiological Surveillance Center for Disinfection, Disinsection and Sterilization	GG
32	JSC Sanatorium Railway	100	LTD Rehabilitation	GG
33	LTD Abastumani Lung Center	100	JSC National Center for Tuberculosis and Lung Diseases	GG
34	LTD Bolnisi Agrobazar	100	LTD Rehabilitation	GG
35	JSC Teko	90	LTD Rehabilitation	GG
36	JSC Marble	55.6	LTD Rehabilitation	GG
37	LTD Regional Health Center	100	NNLE Georgian Medical Holding	GG
38	JSC Resort Menji	100	LTD Asset Management and Development Company	GG

39	LTD Georgian Traditions	100	LTD Rehabilitation	GG
40	LTD Tsalenjikha Agrarian Market	100	LTD Georgian Bazaar	GG
41	LTD Georgia, Maritime Navigation	100	LTD Asset Management and Development Company	PC
42	LTD Vardnil HPP Cascade	100	LTD Engurhesi	PC
43	LTD Sakpressa +	100	JSC Sakpressa	GG
44	Ltd Gino Green City Corporation	49	LTD PF Green Development	GG
45	LTD GR Trans-Shipment	100	JSC Georgian Railway	PC
46	LTD GR Transit	100	JSC Georgian Railway	PC
47	LTD Maganahydro	49	JSC Georgian Energy Development Fund	GG
48	LTD Georgian Kargo	100	LTD Georgian Post	GG
49	LTD Jeo-em-teks	100	LTD Delta Tekstil	GG
50	LTD Gardabani Power Plant	49	JSC Partnership Fund / JSC Georgian Oil and Gas Corporation	PC
51	LTD GR Transit Line	100	JSC Georgian Railway	PC
52	JSC Chalik Georgia Wind	15	JSC Georgian Energy Development Fund	GG
53	LTD Georgian Solar Company	10	JSC Georgian Energy Development Fund	GG
54	LTD Zestafoni Wind Power Plant	10	JSC Georgian Energy Development Fund	GG
55	LTD Enguri Tourist Center	100	JSC Georgian Energy Development Fund	GG
56	LTD Anaklia Magazine	100	LTD Anaklia Development Consortium	GG
57	LTD Borjomhesi	100	JSC Georgian Energy Development Fund	GG
58	JSC Georgian Energy Exchange	50	JSC Georgian State Electrosystem, JSC Electricity System Commercial Operator	GG
59	LTD Georgian Greenhouse Company	100	LTD Rehabilitation	GG
60	LTD Center for Mental Health and Prevention of Addiction	100	NNLE Georgian Medical Holding	GG
61	LTD Georgian Fruit and Vegetable Export Company	100	LTD Tbilisi Logistics Center	GG
62	LTD Akhalsopelihesi	100	JSC Georgian Energy Development Fund	GG
63	LTD Georgian Product	100	LTD Tbilisi Logistics Center	GG
64	JSC Universal Medical Center	100	NNLE Georgian Medical Holding	GG

65	JSC Alternative Energy Company	15	JSC Georgian Energy Development Fund	GG
66	LTD Kvirilahesi	20	JSC Georgian Energy Development Fund	GG
67	LTD Chordulahesi	45	JSC Georgian Energy Development Fund	GG
68	LTD Enguri Hydro-Accumulating Power Plant	40	JSC Georgian Energy Development Fund/ JSC Georgian Oil and Gas Corporation/LTD Engurhesi	GG
69	JSC Namakhvani	100	JSC Georgian Energy Development Fund	GG
70	LTD Inter Glass-Georgia	40	LTD Georgian Gas Transportation Company	GG
71	LTD Georgian Gas Storage Company	100	JSC Georgian Oil and Gas Corporation	GG
72	LTD Poti Fiz Ltd Communal Management TZK	100	LTD Poti Free Industrial Zone	GG
73	LTD GR Borjomi-Bakuriani	100	LTD GR Property Management	GG
74	LTD Gardabani Power Plant 2	100	JSC Georgian Oil and Gas Corporation	PC
75	LTD Kutaisi Davit Agmashenebeli International Airport	100	LTD United Airports of Georgia	GG
76	LTD Qareli Wind Farm	40	JSC Georgian Energy Development Fund	GG
77	JSC Karchal Energy	100	JSC Georgian State Electrosystem	GG
78	Georgian Post (Greece)I.K.E	100	LTD Georgian Post	GG
79	GOGC Trading S.A.	100	JSC Georgian Oil and Gas Corporation	GG
80	LTD Georgian Post (Czech)	100	LTD Georgian Post	GG
81	LTD Gardabani Power Plant 3	100	JSC Georgian Oil and Gas Corporation	GG
82	LLC Owner of Natural Gas Transmission Network of Georgia	100	JSC Georgian Oil and Gas Corporation	GG
83	LTD Agroservice Center	100	LTD Agricultural Logistics and Services Company	GG

Appendix 2

State-owned enterprises

N	SOE Name	state share in %	Founder	PC/GG	Economic Activity	Turnover (thousand Gel)

1	JSC Elmavalmshenebeli	12.8	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	2,100.6
2	LTD Zaur Khubutia IDP Family Medicine Center Dioscuria	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	36.4
3	LTD Rose Revolution Park	100	Tbilisi Municipality	PC	Communal, social and personal services	33.8
4	JSC Agroinvest	99.7	Ministry of Economy and Sustainable Development of Georgia	GG	Financial activities	-
5	JSC Remsheni	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	11.5
6	LTD Geoexpertise	100	Georgian Chamber of Commerce and Industry	GG	Real Estate transactions, leasing and customer service	110.8
7	LTD Tbilisi N3 Medical Prophylactic Center	100	Tbilisi Municipality	GG	Human health and social work activities	171.6
8	JSC Builder	51	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
9	JSC Boris Paichadze National Stadium	91.5	Tbilisi Municipality	GG	Communal, social and personal services	450.9
10	LTD V. Sanikidze War Veterans Clinical Hospital	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	5.2
11	LTD Social Rehabilitation Center for Persons with Disabilities	100	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	70.4
12	LTD Adult and Pediatric Pathology Scientific-Practical Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
13	JSC National Center for Tuberculosis and Lung Diseases	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	673.7
14	LTD Wine Laboratory	100	Ministry of Economy and Sustainable Development of Georgia	PC	Real Estate transactions, leasing and customer service	1,557.4
15	JSC Georgian Railway	100	JSC Partnership Fund	PC	Transport and communication	419,710.9
16	LTD Tbilisi Transport Company	100	Tbilisi Municipality	PC	Transport and communication	82,753.9
17	JSC N. Makhviladze Scientific Research Institute of Occupational Medicine and Ecology	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
18	LTD City Blood Transfusion Station	100	Tbilisi Municipality	GG	Human health and social work activities	15.8
19	LTD Hermes	100	Tbilisi Municipality	PC	Communal, social and personal services	4,610.7

20	LTD Georgian Bazaar	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
21	LTD Georgian TV and Radio Center	100	Ministry of Economy and Sustainable Development of Georgia	PC	Transport and communication	4,715.5
22	LTD Georgian Post	100	Ministry of Economy and Sustainable Development of Georgia	PC	Transport and communication	76,467.7
23	JSC Sakpressa	15	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-
24	JSC Georgian Tungo and Essential Oil	100	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
25	LTD Gurjistan Newspaper	51	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
26	JSC Kakheti Energy Distribution	100	Ministry of Economy and Sustainable Development of Georgia	GG	Electricity, gas and water production and distribution	-
27	JSC Energoremsheni	9	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
28	LTD Tbilisi N1 Dental Polyclinic	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	16.4
29	LTD Marabda-Kartsakhi Railway	100	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	3,779.5
30	LTD Family Medicine Center -Abkhazia	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	35.3
31	LTD Georgian Land Reclamation	100	Ministry of Environmental Protection and Agriculture of Georgia	GG	Agriculture, hunting and forestry	8,591.7
32	LTD Service- 7	100	Ministry of Economy and Sustainable Development of Georgia	PC	Communal, social and personal services	1,290.9
33	LTD Royal District Theater	49	Tbilisi Municipality	GG	Real Estate transactions, leasing and customer service	123.9
34	LTD Tsinandali Estates	45.5	JSC Partnership Fund/LTD Tsinandali Savane(54.49%)	GG	Hotels and Restaurants	6,264.8
35	LTD Georgian Lottery Company	70	Ministry of Economy and Sustainable Development of Georgia	PC	Communal, social and personal services	-
36	LTD Newspaper Vrastani	51	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
37	LTD Tskneti Medical Outpatient Clinic	100	Tbilisi Municipality	GG	Human health and social work activities	23.7

38	JSC Energotekkomplekti	25	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	7.7
39	LTD Sportmshenservice	100	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	31,303.6
40	LTD Pelicom	2	Georgian Chamber of Commerce and Industry	GG	Transport and communication	34.1
41	JSC Saktransgazmretsvi	100	Ministry of Economy and Sustainable Development of Georgia	GG	Electricity, gas and water production and distribution	-
42	LTD GCCI Service	100	Georgian Chamber of Commerce and Industry	GG	Real Estate transactions, leasing and customer service	152.0
43	LTD Logos	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
44	JSC Georgian State Electrosystem	100	Ministry of Economy and Sustainable Development of Georgia	PC	Electricity, gas and water production and distribution	139,698.0
45	LTD Medula - Chemotherapy and Immunotherapy Clinic	15	Ministry of Education and Science of Georgia	GG	Human health and social work activities	3.5
46	LTD Mushtaidi Culture and Recreation Park	100	Tbilisi Municipality	PC	Communal, social and personal services	408.7
47	LTD State Construction Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	442.1
48	JSC Electricity System Commercial Operator	100	Ministry of Economy and Sustainable Development of Georgia	GG	Electricity, gas and water production and distribution	652,372.7
49	LTD Family Medicine Center Tskhumi	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	13.0
50	LTD Abkhazia Psychoneurological Dispensary	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	0.5
51	LTD Demeter 96	100	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	-
52	LTD Aquatic Species Center-Tonus	100	Tbilisi Municipality	GG	Real Estate transactions, leasing and customer service	156.2
53	LTD EXPRESS	70	Ministry of Economy and Sustainable Development of Georgia	PC	Real Estate transactions, leasing and customer service	245.5
54	LTDTbilisi №4 Family Medicine Center	100	Tbilisi Municipality	GG	Human health and social work activities	441.9
55	LTD Rehabilitation	100	Ministry of Economy and Sustainable Development of Georgia	PC	Real Estate transactions, leasing and customer service	140.6
56	LTD Georgian Gas Transportation Company	100	Ministry of Economy and Sustainable Development of Georgia	PC	Transport and communication	187,671.5

57	LTD Tbilaviamsheni	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	1,630.5
58	LTD Sakgeoservice	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
59	JSC Georgian Oil and Gas Corporation	100	JSC Partnership Fund	PC	Electricity, gas and water production and distribution	704,996.6
60	LTD Tbilservice Group	100	Tbilisi Municipality	GG	Communal, social and personal services	94,209.3
61	LTD IDP Family Medicine Center	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	163.2
62	LTD Georgian Oil and Gas Service Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
63	LTD Medical dispensary Ponichala	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	15.4
64	LTD Agricultural Logistics and Services Company	100	NNLE Agriculture Projects Management Agency	GG	Agriculture, hunting and forestry	13,119.7
65	JSC Builder of Buildings	8	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
66	LTD Sakaeronavigatsia	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	51,323.3
67	LTD Adult Polyclinic N25, Tbilisi	100	Tbilisi Municipality	GG	Human health and social work activities	67.4
68	JSC Fermentation	48.6	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	-
69	LTD Lilo Medical Center	100	Tbilisi Municipality	GG	Human health and social work activities	26.3
70	LTD Tbilisi Mental Health Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	13.4
71	JSC United Energy System Sakrusenergo	50	Ministry of Economy and Sustainable Development of Georgia	PC	Electricity, gas and water production and distribution	37,838.4
72	LTD Specialized Epidemiological Surveillance Center for Disinfection, Disinsection and Sterilization	100	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
73	LTD Technician	62.8	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
74	LTD Outpatient Medical Rehabilitation Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	25.3

75	JSC Business Center Agromontation	58.6	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
76	LTD Sports Palace	100	Tbilisi Municipality	PC	Real Estate transactions, leasing and customer service	835.1
77	JSC Scientific-Practical Center for AIDS and Clinical Immunology of Infectious Pathology	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	533.5
78	LTD Kutaisi N4 Mixed Polyclinic	100	Kutaisi Municipality	GG	Human health and social work activities	223.5
79	LTD Bistro	25	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
80	LTD Kutaisi Regional Blood Bank	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	74.7
81	LTD Kutaisi Elevator	100	Kutaisi Municipality	GG	Communal, social and personal services	-
82	LTD Kutaisi Adult Polyclinic N5	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	42.5
83	LTD B. Gabashvili Culture and Recreation Park	100	Kutaisi Municipality	GG	Communal, social and personal services	185.0
84	LTD LJ & Company - Center for Tuberculosis and Infectious Diseases of Western Georgia	5	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	6,276.9
85	LTD Kutaisi d. Nazarishvili Family Medicine and Family Medicine Training Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	330.5
86	LTD IGS	50	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	23.4
87	LTD Shans Oil	100	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-
88	JSC Rioni	62.4	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	-
89	LTD Company Imeretmsheni-2000	4.8	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
90	LTD IDP Family Medicine Center - Bichvinta	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	17.3
91	LTD Building Materials	100	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-

92	LTD Football Club Torpedo Kutaisi	100	Kutaisi Municipality	GG	Communal, social and personal services	19.6
93	LTD Vardisubani	70	Ministry of Economy and Sustainable Development of Georgia	GG	Hotels and Restaurants	-
94	LTD Mountain Resorts Development Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Transport and communication	64,633.3
95	LTD Poti City Transport	100	Poti Municipality	GG	Transport and communication	-
96	LTD Football Club Kolkheti 1913	100	Poti Municipality	GG	Communal, social and personal services	-
97	LTD Poti Polyclinic for Internally Displaced Persons from Abkhazia	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	5.3
98	LTD Laboratory Research Center	100	Poti Municipality	GG	Human health and social work activities	-
99	LTD Poti Free Industrial Zone	10	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	3,718.3
100	LTD Football Club Chiatura	100	Chiatura Municipality	GG	Communal, social and personal services	-
101	LTD Kvemo Kartli Regional Blood Transfusion Station	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
102	LTD Rustavi Mental Health Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	12.1
103	LTD Rustavi Skin and Venereal Diseases Dispensary	100	Rustavi Municipality	GG	Human health and social work activities	96.7
104	LTD Architect	100	Rustavi Municipality	GG	Real Estate transactions, leasing and customer service	43.0
105	LTD Gema	100	Rustavi Municipality	GG	Communal, social and personal services	148.1
106	LTD Basketball Club - Rustavi 1991	100	Rustavi Municipality	GG	Communal, social and personal services	-
107	LTD Rustavi Municipal Road Transport Enterprise	100	Rustavi Municipality	GG	Transport and communication	119.1
108	JSC Construction Company "Kartli"	100	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	103.3
109	LTD Gori Dental Polyclinic	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	1.5
110	LTD Kurta Hospital	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
111	LTD Nikozis Ambulatoria	100	Gori Municipality	GG	Human health and social work activities	33.1

112	JSC Tkibuli oil product	51	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-
113	LTD Football Club Miner	100	Tkhibuli Municipality	GG	Communal, social and personal services	-
114	JSC Tsekavshiri Zugdidi Food Factory	51	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	41.7
115	LTD Zugdidi Pharmacy	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	0.6
116	LTD Samegrelo-Zemo Svaneti TV and Radio Company Samegrelo	64	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
117	LTD Infrastructure Development Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
118	LTD Zugdidi Polyclinic for Internally Displaced Persons from Abkhazia	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	103.7
119	LTD Zugdidi Municipal Transport	100	Zugdidi Municipality	GG	Transport and communication	-
120	JSC Sanatorium Gelati	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
121	JSC Sanatorium Imereti	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
122	JSC Sanatorium Friendship	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
123	LTD Geguti Polyclinic	100	Tskaltubo Municipality	GG	Human health and social work activities	58.1
124	LTD Progress	50	Ministry of Economy and Sustainable Development of Georgia	GG	Electricity, gas and water production and distribution	-
125	LTD Tskaltubo Polyclinic for Internally Displaced Persons from Abkhazia	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	27.8
126	LTD Largvisi Medical Outpatient	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
127	LTD Akhalgori District Polyclinic	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
128	LTD Akhalgori local Hospital	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
129	LTD Tsinagris Medical Dispensary	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-

130	LTD Restaurant Baghdati	51	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	1.5
131	LTD Des-Effect	100	Bolnisi Municipality	GG	Communal, social and personal services	-
132	LTD Hospital-Polyclinic Association	100	Bolnisi Municipality	GG	Human health and social work activities	10.5
133	LTD Kveshi Medical Dispensary	100	Bolnisi Municipality	GG	Human health and social work activities	2.3
134	LTD Communal Services	100	Bolnisi Municipality	GG	Communal, social and personal services	-
135	LTD Newspaper Bolnisi	100	Bolnisi Municipality	GG	Communal, social and personal services	-
136	LTD Bolnisi Culture and Recreation Park	100	Bolnisi Municipality	GG	Communal, social and personal services	4.8
137	LTD Football Club Sioni Ltd	100	Bolnisi Municipality	GG	Communal, social and personal services	614.7
138	LTD Bolnisi-2000	70	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
139	LTD Union	20	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	19.9
140	JSC Wagon	32.5	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
141	LTD Kojori Medical Dispensary	100	Tbilisi Municipality	GG	Human health and social work activities	3.9
142	JSC Tbilsresmsheni	100	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
143	LTD Kumisi Dispensary	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	0.0
144	LTD Axali Samgoris Dispensary	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
145	LTD Chateau Zegaani	2.8	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	422.0
146	JSC Resort Akhtala	99	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	251.9
147	LTD Shida Kartli Primary Health Care Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	1.0
148	LTD Shirak	100	Dedoplistqaro Municipality	GG	Communal, social and personal services	-
149	LTD Dusheti Disinfection Service	100	Dusheti Municipality	GG	Communal, social and personal services	-
150	LTD Barisakhos Dispensary	100	Dusheti Municipality	GG	Human health and social work activities	-

151	LTD Shatili Medical Dispensary	100	Dusheti Municipality	GG	Human health and social work activities	-
152	LTD Automotive Enterprise - 2006	100	Dusheti Municipality	GG	Transport and communication	171.7
153	JSC Grace	42.7	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
154	LTD Kvirila	100	Zestafoni Municipality	GG	Real Estate transactions, leasing and customer service	42.0
155	LTD Manglisi Hospital Polyclinic	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	1.2
156	LTD Tetritskaro Service Group	100	Tetritskaro Municipality	GG	Communal, social and personal services	1,053.4
157	JSC Alazani	50	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
158	JSC Akura	99.1	Ministry of Environmental Protection and Agriculture of Georgia	PC	Manufacturing	37,938.3
159	Deo-Clack	20	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	-
160	LTD Tushetgza	100	Akhmeta Municipality	GG	Construction	382.5
161	LTD Telavi Psychoneurological Dispensary	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	38.2
162	LTD Child Health Center	100	Telavi Municipality	GG	Human health and social work activities	74.6
163	LTD Terjola	100	Terjola Municipality	GG	Trade; Repair of automobiles, household goods and personal items	-
164	LTD Terjola Profdisinfection	100	Terjola Municipality	GG	Real Estate transactions, leasing and customer service	-
165	LTD New Gantiadi	100	Kaspi Municipality	GG	Communal, social and personal services	0.4
166	LTD Grigol Ormotsadze Center Neuron	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	21.9
167	LTD Lanchkhuti	100	Lanchkhuti Municipality	GG	Trade; Repair of automobiles, household goods and personal items	-
168	LTD Guria Medical Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
169	LTD Autopark of Marneuli Municipality	100	Marneuli Municipality	GG	Transport and communication	204.0
170	LTD Autozaz	5.3	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	3.9

171	JSC Glass	0.1	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	62,764.5
172	LTD Dastakari	100	Tbilisi Municipality	GG	Human health and social work activities	2.2
173	LTD Sakenergotekremonti	45.5	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
174	LTD Uniormsheni	60	Ministry of Economy and Sustainable Development of Georgia	GG	Construction	-
175	LTD Devebi	0.7	Ministry of Economy and Sustainable Development of Georgia	GG	Hotels and Restaurants	-
176	LTD Ninotsminda Uboni	56	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	-
177	LTD Adam Beridze Soil and Food Diagnostic Center "Anaseuli"	100	Ministry of Economy and Sustainable Development of Georgia	GG	Agriculture, hunting and forestry	534.3
178	LTD Ozurgeti Municipality Board Enterprise - Municipal Transport	100	Ozurgeti Municipality	GG	Transport and communication	-
179	JSC Samtredia 2002	90	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
180	LTD Samtredia Herald	100	Samtredia Municipality	GG	Communal, social and personal services	-
181	LTD Sports Complex - Samtredia	100	Samtredia Municipality	GG	Real Estate transactions, leasing and customer service	-
182	LTD Sachkhere Water Supply	100	Sachkhere Municipality	GG	Electricity, gas and water production and distribution	664.3
183	JSC Sachkhere Production Combine	75	Ministry of Economy and Sustainable Development of Georgia	GG	Mining	-
184	LTD Forming Sands	49	Ministry of Economy and Sustainable Development of Georgia	GG	Mining	515.8
185	JSC Sachkheregaz	99.8	Sachkhere Municipality	PC	Electricity, gas and water production and distribution	6,023.6
186	JSC Sachkhere District Hospital-Polyclinic Association	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	1,345.0
187	LTD Senaki Hospital-Polyclinic Association	100	Senaki Municipality	GG	Human health and social work activities	48.5
188	LTD Information Center	100	Senaki Municipality	GG	Communal, social and personal services	-
189	LTD Senaki Children's Hospital	100	Senaki Municipality	GG	Human health and social work activities	15.5
190	LTD Dispensary-polyclinic association	100	Senaki Municipality	GG	Human health and social work activities	33.9

191	LTD Senaki Maternity Hospital	100	Senaki Municipality	GG	Human health and social work activities	12.8
192	LTD Senaki Mental Health Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
193	JSC Senaki District Hospital	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
194	LTD Senaki IDP Polyclinic	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	7.0
195	LTD Panacea	100	Kazbegi Municipality	GG	Trade; Repair of automobiles, household goods and personal items	209.1
196	LTD Media Center	100	Kvareli Municipality	GG	Communal, social and personal services	2.5
197	LTD Kevri	72	Ministry of Economy and Sustainable Development of Georgia	GG	Agriculture, hunting and forestry	-
198	LTD Tsageri Auto-Tractor Park	100	Tsageri Municipality	GG	Construction	-
199	LTD Jvari-94	43.4	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	-
200	JSC Cross Petroleum Product	56	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-
201	LTD IDPs from Abkhazia Dispensary	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	38.5
202	LTD East Georgia Mental Health Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	0.2
203	LTD Tsalka Municipality AutoService	100	Tsalka Municipality	GG	Transport and communication	-
204	JSC Autotrans	36.4	Ministry of Economy and Sustainable Development of Georgia	GG	Transport and communication	3.3
205	LTD Tskaltubo Resort Development Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
206	JSC Khashuri glass container	23.1	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	29.8
207	LTD Mzia Nikolaishvili Surami Polyclinic	100	Khashuri Municipality	GG	Human health and social work activities	1.1
208	LTD Khashuri Disinfection, Disinsection, Deratization and Sterilization Service	100	Khashuri Municipality	GG	Communal, social and personal services	-
209	JSC Khobi Petroleum Product	51	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-

210	LTD Khobi Polyclinic for IDPs from Abkhazia	100	State body Autonomous Republic of Abkhazia	GG	Human health and social work activities	2.9
211	LTD Khobi Cleaning and Lighting	100	Khobi Municipality	GG	Communal, social and personal services	39.6
212	LTD Abkhazia	100	Khobi Municipality	GG	Communal, social and personal services	-
213	LTD Acad. B. Naneishvili National Center for Mental Health	5	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	6,187.2
214	LTD Batumi Seaport	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	51,902.8
215	LTD Adjara Asset Management Company	100	Batumi Municipality	GG	Real Estate transactions, leasing and customer service	-
216	LTD Batumi Oil Refinery	100	Batumi Municipality	PC	Real Estate transactions, leasing and customer service	498.0
217	JSC Batumi Autostation	30	Batumi Municipality	GG	Real Estate transactions, leasing and customer service	198.6
218	LTD Batumi Regional Center for Infectious Diseases, AIDS and Tuberculosis	100	Batumi Municipality	GG	Human health and social work activities	614.7
219	LTD Adjara Regional Center for Skin and Venereal Diseases	100	Batumi Municipality	GG	Human health and social work activities	61.2
220	LTD Adjara Technical Specialists Training Center	100	Batumi Municipality	GG	Human health and social work activities	26.1
221	LTD Batumi №1 Policlinic	100	Batumi Municipality	GG	Human health and social work activities	406.0
222	LTD Batumi Airport	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	3,683.7
223	LTD Newspaper Adjara and Adjara	100	Batumi Municipality	GG	Communal, social and personal services	-
224	LTD Batumi Republican Clinical Hospital	100	Batumi Municipality	GG	Human health and social work activities	1,634.0
225	LTD Marine Texservice	100	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	200.7
226	LTD Batumi Autotransport	100	Batumi Municipality	GG	Transport and communication	5,991.0
227	LTD Sanitation	100	Batumi Municipality	GG	Communal, social and personal services	11,253.2
228	LTD Batumi Water	100	Batumi Municipality	PC	Manufacturing	14,053.6
229	LTD Dinamo Batumi	100	Batumi Municipality	PC	Communal, social and personal services	415.5

230	LTD Black Sea Flora and Fauna Research Center	100	Batumi Municipality	PC	Real Estate transactions, leasing and customer service	1,244.2
231	LTD Adjara Waste Management Company	100	Batumi Municipality	GG	Real Estate transactions, leasing and customer service	7.9
232	LTD Shopping Center 2009	100	Batumi Municipality	PC	Real Estate transactions, leasing and customer service	1,508.8
233	LTD Goderdzi Resorts	100	Batumi Municipality	GG	Hotels and Restaurants	21.8
234	LTD Keda AutoTransport Enterprise	100	Keda Municipality	GG	Transport and communication	-
235	LTD Keda Communal Service	100	Keda Municipality	GG	Communal, social and personal services	547.8
236	LTD Kobuleti Transregulation	100	Kobuleti Municipality	GG	Transport and communication	418.4
237	JSC Kobuleti Resort Polyclinic	98	Kobuleti Municipality	GG	Human health and social work activities	281.9
238	LTD Kobuleti Preventive Disinfection Station	100	Kobuleti Municipality	GG	Communal, social and personal services	-
239	LTD Kobuleti Water	100	Kobuleti Municipality	GG	Manufacturing	616.2
240	LTD Engurhesi	100	Ministry of Economy and Sustainable Development of Georgia	PC	Electricity, gas and water production and distribution	39,516.2
241	LTD Autoparking 2011	100	Tbilisi Municipality	GG	Real Estate transactions, leasing and customer service	473.4
242	JSC Georgian Film Development Center	100	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	-
243	LTD Georgian Food Company	100	Ministry of Defense of Georgia	GG	Hotels and Restaurants	-
244	LTD Delta International	100	Ministry of Defense of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	362.3
245	LTD Construction Company - Builder 2011	100	Ministry of Defense of Georgia	GG	Construction	56,476.1
246	LTD Chkhorotsku Samegrelo	100	Chkhorotsku Municipality	GG	Communal, social and personal services	-
247	LTD Infrastructure Development Partner Company	100	JSC Partnership Fund	GG	Financial activities	-
248	NNLE Georgian Medical Holding	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
249	LTD Tolia 2020	100	Ministry of Justice of Georgia	GG	Communal, social and personal services	-
250	LTD Delta Textile	100	Ministry of Defense of Georgia	GG	Manufacturing	195.3

251	LTD Regional Hospital	100	Ministry of Economy and Sustainable Development of Georgia	GG	Human health and social work activities	-
252	LTD Imereti Greener	49.9	JSC Partnership Fund/ შპს "Georgian Fresh Holding B.V."	GG	Agriculture, hunting and forestry	1,452.8
253	LTD Georgian Airports Association	100	Ministry of Economy and Sustainable Development of Georgia	PC	Trade; Repair of automobiles, household goods and personal items	27,106.0
254	JSC Georgian Energy Development Fund	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	11,975.1
255	LTD Ilia Garden	100	Tbilisi Municipality	PC	Real Estate transactions, leasing and customer service	227.1
256	JSC Partnership Fund	100	State Body	GG	Financial activities	742.2
257	JSC Borjomi Likani International	100	JSC Partnership Fund	GG	Hotels and Restaurants	4,284.2
258	LTD Borjomi Likani	100	JSC Partnership Fund	GG	Hotels and Restaurants	-
259	LTD New Technology Impex	100	JSC Partnership Fund	GG	Manufacturing	-
260	LTD Thermal Waters	100	Ministry of Economy and Sustainable Development of Georgia	PC	Manufacturing	168.7
261	LTD Lagodekhi Trade Center	100	JSC Partnership Fund	GG	Construction	-
262	LTD Georgian Black Sea Port	100	JSC Partnership Fund	GG	Real Estate transactions, leasing and customer service	0.0
263	LTD Anaklia Development Consortium	0	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	46.1
264	LTD State Food Provision	100	Ministry of Economy and Sustainable Development of Georgia	GG	Hotels and Restaurants	40,045.2
265	LTD Academy of the Georgian Chamber of Commerce and Industry	30	Georgian Chamber of Commerce and Industry	GG	Education	-
266	LTD Rukhi Shopping Center	100	JSC Partnership Fund	GG	Real Estate transactions, leasing and customer service	444.7
267	JSC Aerostructure Technologies	33	JSC Partnership Fund/LTD Project (33%), Elbit Systems Cyclone (34%)	GG	Manufacturing	26,307.3
268	LTD Startup Georgia	100	JSC Partnership Fund	GG	Financial activities	0.0
269	LTD Ecoservice Group	100	Tbilisi Municipality	GG	Real Estate transactions, leasing and customer service	7,107.3
270	NNLE Peace Fund for a better future	100	JSC Partnership Fund	GG	Financial activities	-

271	Georgia-Belarus Trade and Economic Agency	10	Ministry of Economy and Sustainable Development of Georgia	GG	Trade; Repair of automobiles, household goods and personal items	-
272	LTD Tbilisi Logistics Center	100	JSC Partnership Fund	GG	Real Estate transactions, leasing and customer service	-
273	LTD Perspective	100	Ministry of Justice of Georgia	GG	Real Estate transactions, leasing and customer service	87.4
274	LTD Food Production Company	63	Ministry of Economy and Sustainable Development of Georgia	GG	Manufacturing	112.9
275	LTD Georgian Solid Waste Management Company	100	Ministry of Regional Development and Infrastructure of Georgia	GG	Communal, social and personal services	389.9
276	LTD Asset Management and Development Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Real Estate transactions, leasing and customer service	8,952.5
277	JSC Nenskra Hydro	10	JSC Partnership Fund/K Water (Korea) 90%	GG	Construction	676.4
278	LTD Black Sea Arena Georgia	100	Ministry of Economy and Sustainable Development of Georgia	GG	Communal, social and personal services	310.1
279	LTD Global Brand	100	JSC Partnership Fund	GG	Manufacturing	463.3
280	LTD Georgian Sectoral and Regional Development Company	100	JSC Partnership Fund	PC	Financial activities	-
281	LTD Likani Residence	100	JSC Partnership Fund	GG	Hotels and Restaurants	0.1
282	KSH Caucasian Sus Heritage	50.1	JSC Partnership Fund/ LTD Native Georgia (49.90%)	GG	Agriculture, hunting and forestry	1,172.6
283	LTD East West Bridge	100	JSC Partnership Fund	GG	Financial activities	-
284	LTD Partnership Fund-Green Development	100	JSC Partnership Fund	GG	Hotels and Restaurants	-
285	LTD Crop Management Company	100	Ministry of Economy and Sustainable Development of Georgia	GG	Agriculture, hunting and forestry	-
286	LTD United Water Supply Company of Georgia	100	Ministry of Regional Development and Infrastructure of Georgia	GG	Electricity, gas and water production and distribution	45,013.1
287	LTD Basketball Club Kutaisi-2010	100	Kutaisi Municipality	GG	Communal, social and personal services	-
288	LTD Georgian Traditions 2011	100	Tbilisi Municipality	GG	Communal, social and personal services	-
289	LTD Parking Service	100	Kutaisi Municipality	GG	Transport and communication	390.6
290	LTD Football Club Kutaisi Management	100	Kutaisi Municipality	GG	Communal, social and personal services	-
291	LTD Ramaz Shengelia Stadium	100	Kutaisi Municipality	GG	Communal, social and personal services	-

292	LTD Kutaisi Transport Company	100	Kutaisi Municipality	GG	Transport and communication	5.7
293	LTD Chiatura Transport Company	100	Chiatura Municipality	GG	Transport and communication	427.7
294	LTD Chiatura Water	100	Chiatura Municipality	GG	Electricity, gas and water production and distribution	-
295	LTD Football Club Rustavi	100	Rustavi Municipality	GG	Trade; Repair of automobiles, household goods and personal items	-
296	LTD ANAKLIA-GANMUKHURI RESORTS	100	Zugdidi Municipality	GG	Construction	243.9
297	LTD Zugdidagroservice	100	Zugdidi Municipality	GG	Manufacturing	-
298	LTD Improvement of Aspindza	100	Aspindza Municipality	GG	Manufacturing	147.6
299	LTD Akhalkalaki Agrarian Market	100	Akhalkalaki Municipality	GG	Real Estate transactions, leasing and customer service	34.6
300	LTD Improvement	100	Akhaltsikhe Municipality	GG	Communal, social and personal services	1,802.3
301	LTD Bolnisi Municipal Transport Service	100	Bolnisi Municipality	GG	Transport and communication	496.4
302	LTD Ritual Service Agency	100	Bolnisi Municipality	GG	Real Estate transactions, leasing and customer service	-
303	LTD Dusheti Agro Market	100	Dusheti Municipality	GG	Real Estate transactions, leasing and customer service	31.2
304	LTD Football Club Aragvi	100	Dusheti Municipality	GG	Communal, social and personal services	-
305	LTD Municipalmsheni	100	Dusheti Municipality	GG	Construction	80.4
306	LTD Telavi Municipality Service Improvement	100	Telavi Municipality	GG	Communal, social and personal services	1,555.9
307	LTD Rural Water	100	Kaspi Municipality	GG	Construction	-
308	LTD Women's Football Club Lanchkhuti Lanchkhuti	100	Lanchkhuti Municipality	GG	Communal, social and personal services	-
309	LTD Gza 2015	100	Lentekhi Municipality	GG	Construction	-
310	LTD Marneuli Soptskali	100	Marneuli Municipality	GG	Manufacturing	530.8
311	LTD Marneuli Organic Waste Processing Enterprise	100	Marneuli Municipality	GG	Manufacturing	18.7
312	LTD Martvili Central Group	79.8	Martvili Municipality	GG	Communal, social and personal services	-
313	LTD Chuberi-Ushguli Specialized Dispansery Service	100	Mestia Municipality	GG	Human health and social work activities	-

314	LTD Mestia Hospital-Dispansery Association	100	Mestia Municipality	GG	Human health and social work activities	37.8
315	LTD Mtskheta Soptskali	100	Mtskheta Municipality	GG	Construction	-
316	LTD Satisi	100	Ozurgeti Municipality	GG	Manufacturing	-
317	LTD Ozurgeti Municipality Football Club-Swallow	100	Ozurgeti Municipality	GG	Real Estate transactions, leasing and customer service	-
318	LTD Oni Service Group	100	Oni Municipality	GG	Real Estate transactions, leasing and customer service	844.0
319	LTD Sagarejo Municipality Information Newspaper Gareji Matsne	100	Sagarejo Municipality	GG	Communal, social and personal services	-
320	LTD Sagarejo	100	Sagarejo Municipality	GG	Communal, social and personal services	-
321	LTD Football Club Sagarejo Gareji	40	Sagarejo Municipality	GG	Communal, social and personal services	1,723.7
322	LTD Clean Municipality 2018	100	Sagarejo Municipality	GG	Communal, social and personal services	-
323	LTD Chokhatauri Auto Service Center	100	Chokhatauri Municipality	GG	Real Estate transactions, leasing and customer service	17.5
324	LTD Chokhatauri Agro Market	100	Chokhatauri Municipality	GG	Real Estate transactions, leasing and customer service	32.1
325	LTD Kimbact	100	Chkhorotsku Municipality	GG	Communal, social and personal services	-
326	LTD Chkhortskali	100	Chkhorotsku Municipality	GG	Electricity, gas and water production and distribution	-
327	LTD Khobi Municipality Water Supply	100	Khobi Municipality	GG	Manufacturing	-
328	LTD Handball Club Batumi	100	Batumi Municipality	GG	Communal, social and personal services	-
329	LTD Basketball Club Batumi - 2010	100	Batumi Municipality	GG	Communal, social and personal services	-
330	LTD Volleyball Club Batumi	100	Batumi Municipality	GG	Communal, social and personal services	-
331	LTD Rugby Club Batumi	100	Batumi Municipality	GG	Communal, social and personal services	-
332	LTD Water Polo Club Batumi	100	Batumi Municipality	GG	Communal, social and personal services	-
333	LTD Adjara Project Management Company	100	Batumi Municipality	GG	Construction	147,649.2
334	JSC Adjara Water Alliance	26	Batumi Municipality	GG	Electricity, gas and water production and distribution	-
335	LTD Football Club Bethlehem	100	Keda Municipality	GG	Communal, social and personal services	-
336	LTD Kedi Water Channel	100	Keda Municipality	GG	Manufacturing	-

337	LTD Rugby Club Firals	100	Keda Municipality	GG	Communal, social and personal services	-
338	LTD Keda Tourism Development Support Center	100	Keda Municipality	GG	Hotels and Restaurants	5.1
339	LTD Football Club Shukura	100	Kobuleti Municipality	GG	Communal, social and personal services	-
340	LTD Rugby Club Ponto	100	Kobuleti Municipality	GG	Communal, social and personal services	-
341	LTD Khelvachauri Water Canal	100	Khelvachauri Municipality	GG	Manufacturing	-
342	LTD Machakhela Football Club	100	Khelvachauri Municipality	GG	Communal, social and personal services	-
343	LLC Georgian Natural Products	100	JSC Partnership Fund	GG	Trade; Repair of automobiles, household goods and personal items	-
344	LLP Caucasus Clean Energy I	10	JSC Partnership Fund/other international shareholders (90%)	GG	Financial activities	-
345	Gazelle Fund LP	29	JSC Partnership Fund/other international shareholders (70.90%)	GG	Financial activities	-
346	LTD Imereti Agro Zone	100	Ministry of Environmental Protection and Agriculture of Georgia	GG	Agriculture, hunting and forestry	-