Fiscal Risk Analysis

2019-2023

Contents

1. Macroeconomic Risks

1.1. Introduction

Ongoing events? In the country and abroad can have a significant impact on the country's macroeconomic development, which in turn affects the country's fiscal condition. Such events present fiscal risks. The purpose of the document is to identify macroeconomic risks and assess their fiscal implications so that fiscal policy responses can be predicted in case of both negative and positive deviations. The macroeconomic risk assessment process identifies all the possible positive or negative economic and political factors that, according to the Ministry of Finance of Georgia, will have an impact on macroeconomic indicators.

Based on the identified risk analysis, three scenarios of macroeconomic development are discussed in the following document: basic, optimistic and pessimistic. The basic scenario is the expected path of economic development that is most likely to occur in the medium term. Accordingly, based on the above-mentioned scenario the project of the state budget is drafted. The pessimistic scenario is designed to slow down economic growth, while the optimistic one is to accelerate it. In order to effectively manage macroeconomic risks, it is important to determine in advance what fiscal responses the government will have in case of the deviation from the basic scenario. For this purpose, this document contains government policy responses to optimistic and pessimistic scenarios.

1.2. Economic Review

1.2.1. GDP dynamics

In 2018, real GDP growth was 4.8 %. The nominal figure stood at GEL 44,599 million, up 9.4 % from a year earlier. The economic growth rate in the region has slowed since 2018 and relatively to that, Georgia's economic growth rate is quite high. In the first half of 2019, economic growth is estimated to be 4.7 %.

The National Statistics Office has implemented a new methodology for the National Accounts System. As a result of the methodology implementation, it became necessary to recalculate the GDP data. At this stage, recalculated GDP data from 2010 to 2018 is published. Adjustments were made in accordance with the nominal GDP growth. Naturally, the change in the statistical data has had an impact on the GDP forecasts as well. GDP data by expenditure is not yet published for the current period. After publishing the data, the actual data and forecasts of the relevant indicators will be adjusted. The change in GDP data has had an impact on the various economic indicators given in the tables of macroeconomic forecasts.

1.2.2. Prices

The National Bank of Georgia implements an inflation targeting policy that takes into consideration a moderate and predictable inflation rate and achievement of the mentioned indicator, which is a necessary factor for long-term economic growth. According to the Resolution of the Parliament of Georgia of 2016, the inflation target for the key directions of Georgia's 2017-2019 monetary and credit policy will amount to 3 % from 2018.

The inflation rate for October 2019 was 6.9 % compared to the previous month (annual inflation rate), which is higher than the target. On the one hand, the aforementioned figure was influenced by one-off factors, such as the increase in the excise tax rate in January, as well as the change in international prices. Since January, core inflation has remained relatively low at the exclusion of tobacco, averaging 1.7 % in January-October. Nevertheless, nominal effective exchange rate pressures on prices have been observed since the second half of the year. Core inflation also increased relatively. In response to inflation, the monetary policy rate increased by 2 percentage points. It should be noted that the inflation rate decreased in October compared to the previous month and decreased from 1.7 % to 0.8 %. In other equal terms, further tightening of monetary policy is not expected.

Further inflation is unlikely to continue at the end of 2019 and the annual inflation rate will gradually return to its target level on the one hand, with the base effect of tobacco prices expiring in January and the end of the core inflation effect in the second half of the year.

1.2.3. GEL exchange rate

From the beginning of 2019 to May, the GEL was stabilized around 2.7, but due to the geopolitical situation around the country (including Russia's ban on direct flights), the GEL depreciated against the USD and was around 2.97 as of November 28. A similar trend is observed with respect to the euro, which has been depreciating in the international market, similar to the past year.
Since January 1, 2019, in 11 months, the GEL depreciated 10.2 % against the USD and 6.6 % against the EUR. The nominal effective exchange rate depreciated by 9.0 % in October. The real effective exchange rate has also depreciated, and the depreciation is 8.0 % as of October.

1.2.4. The role of the private sector in economic growth

In 2019, as in the previous year, the growing trend of the entrepreneurial sector continues. Production in the business sector increased with 10.7 % in the first half of the year, and the number of employees increased by 31,000 people. In the first half of this year, the private sector had an obvious leading role in economic growth.

1.2.5. Foreign trade

Foreign trade turnover of goods in January-October 2019 amounted to 10,367 mln. USD that is 0.5% higher than the previous year; of this, exports amounted to 3,036 million. USD (10.4% higher), while imports - 7,331 million. USD (3.1% lower).

Among the largest trading partner countries of Georgia is Turkey, with a share of 14.2% of total turnover as of January-October 2019. It is followed by Russia with 11.4%, China with 8.4% and Azerbaijan with 8.0%.
In January-October 2019, Georgia's foreign trade turnover with the EU countries amounted to USD 2,574 million, which is 3.8 % less than the same period of the previous year. Exports stood at USD 685 million (up 14.2%), while imports - USD 1,889 million. USD (9.0% lower). Exports stood at USD 685 million (up 14.2%), while imports - USD 1,889 million. USD (9.0% lower).
Foreign trade turnover with the CIS countries (without Russia) amounted to USD 2,354 million in January-October 2019 (1.5% lower compared to the same period in 2018).
Of this, exports amounted to 1,201 million. USD (24.7% higher), while imports amounted to 1.153 million USD (19.1% percent lower).

1.2.6. Current Report

In the first and second quarters of 2019, according to preliminary data, the deficit stood at 5.6 and 2.9 %, respectively. It should be noted that in comparison with the similar period of 2018, there is an improvement in the articles of goods and primary income. In the medium term, the country's economic policies and structural reforms are aimed at increasing savings in the economy, leading to a reduction in the current account deficit to a sustainable level. By the end of the year, a current account deficit of 4.1 percent is expected.

The high current account deficit has historically been one of the major sources of vulnerability for the Georgian economy, it should be noted, however, that since 2016, the deficit with respect to GDP has been steadily declining and is at almost a third level by 2019.

1.2.7. Budgetary policy

Budgetary policy remains a guarantee of fiscal stability. The low budget deficit remains. By 2019, the ratio of budget deficit to GDP forecast is 2.4 %.

By 2020, as a result of the announced education reform, the budget deficit will increase slightly to 2.5% in 2020 and to 2.6 and 2.7 % in 2021-2022, respectively, after which there will be a downward trend again.

1.2.8. State debt

As of December 31, 2018, government debt stood at 38.9 % of GDP level. Respectively, external debt accounted for 31.6 % of GDP and domestic debt - 7.3 %. This figure does not exceed the threshold set by the Economic Freedom Act (60% of GDP). Changes in the GEL exchange rate in the past period have significantly increased the volume of government external debt denominated in GEL, though the government debt portfolio maintains favorable financial parameters and does not reach a critical threshold in the medium term, as shown by the results of the analysis of government debt sustainability. However, in order to reduce foreign vulnerability, the growth of the share of internal governmental debt, in the long term, remains the government's main policy.

1.2.9. Foreign Direct Investment

In 2018, FDI in Georgia decreased by 35.5 % to USD 1,265 million.The amount of FDI in Georgia in the first half of 2019 totaled 473 million USD. which is 34.9 % lower than in the corresponding period of 2018. However, it should be noted that FDI in the first two quarters of 2019 continues to fully cover the current account deficit.

On the one hand, the decline in FDI has had a major impact on the completion of the main Miladen project, and on the other hand, it is largely related to the change in ownership of individual companies.
According to the first two quarters of 2019, the largest direct investor countries are Ireland (28.1%) and Turkey (22.0%). It should be noted that in 2018, Azerbaijan (19.5%) and the Netherlands (16.5%) were on the first and second places.

As for the sectors of the economy, foreign direct investment has increased significantly in the hospitality, restaurants and energy sectors, while in other sectors there has been a decrease.

1.2.10. International Monetary Fund program

The IMF program continues successfully, which was approved by the IMF Executive Board on April 12, 2017.The Fund endorses and welcomes the economic policy of the Government of Georgia, which ensures sustainable economic growth in the country. Importantly, the program is entirely based on the government's reform plan. Within the framework of the program, the IMF is our partner in carrying out the economic policy of our country.

Since 2017, the budget, as well as the government's mid-term budgetary plans, is a qualitatively transformed fiscal policy that includes:

- Reducing administrative costs;
- Creating a friendly tax system for economic growth;

- Increase the effectiveness of budget programs and;
- Increase investment in infrastructure projects.

The country's road infrastructure backbone will be completed in the coming years that will enable us to fully utilize our logistics and tourism potential. The most important outcome of infrastructure development will be to improve connectivity between regions, which will increase their involvement in the country's economic development.

Within the framework of the program approved by the IMF Executive Board, the Government of Georgia has implemented and continues a number of structural reforms that have a positive impact on the country's economic growth:

- In July 2017, LEPL Deposit Insurance Agency was established. The system of deposit insurance in Georgia was introduced with the support of the World Bank and based on the basic principles of "Effective Deposit Insurance System" developed by the International Association of Deposit Insurance and Basel Committee on Banking Supervision. It is noteworthy that in 2018 the first insurance case successfully managed by the agency;
- The Law of Georgia on Public and Private Partnership entered into force in May 2018,determining the legal basis for public and private partnership, including the rules and procedures for developing and implementing a public and private partnership project. The objectives of public and private partnership are: Increasing the effectiveness of projects, attracting private funding, risk sharing between the public and private sectors, increasing the efficiency of public finance spending. On September 5, 2018, by the Government Decree N452 the term of LEPL "Public and private partnership Agency" was approved. The Agency exercises the powers set out in the Law of Georgia on Public and Private Partnerships, which mainly imply a coordinating role in this area in compliance with the principles of independence, non-discrimination, impartiality, transparency and accountability. The upper limit of the public liability under public and private partnerships is set by the state financial regulatory legislation, for the determination and reflection of which to the state finance legislation until December 31, 2018, Ministry of Finance of Georgia ensures to prepare proposals.
- The Statute/Ordinance of Public and private partnership Agency
  The agency implements the authority defined by the Georgian law about “Public and private partnership” considering the coordination function based on the principles of independence, impartiality, transparency and accountability. Under the public and private partnership the upper bound of the state responsibility is defined based on the financial regulating law and the Ministry of Finances of Georgia will ensure preparation of the proposal in order to include it in the State finances regulating law till December 31, 2018.
- In January 2019, the accumulative pension system came into operation, with the main aim of improving the Georgian social system. The accumulated pension scheme will allow citizens to make savings with the maximum replacement rate of wages earned over the years. With the positive impact of the pension reform on the economy, Georgia will gain increased access to resources, which will in turn be a step towards capital market development. The accumulative pension reform mechanism will address the key long-term challenge - providing decent retirement to people of retirement age, unlike the current system, which has significant flaws in terms of fairness, efficiency and fiscal sustainability;

- At the moment, relevant ministries and agencies with high involvement of international partners are actively working on the creation of the legal framework for insolvency, land reform, capital market reform, insurance system reform, public finance management refinement and more.

1.3. Analysis of risks identified in the previous document

1.3.1. Risk materialization analysis

In the previous paper, 5 positive and 3 negative macroeconomic risks were identified. One positive and one negative risk was implemented this year:

As a result of the gradual implementation of government Larization measures, the tendency to decline has been reflected in dollarization. The stability of the financial sector still remains high.

When analyzing the negative risks identified in 2018, it should be noted that the geopolitical situation in the region has remained steadily difficult. Russia's ban on direct flights has had a negative impact on the tourism sector. Low economic activity continues in the region. In the first half of 2019, the average economic growth of Georgia's neighboring countries is 0.4 %. However, Georgia's economy has maintained solid economic growth under these conditions, and by January-September 2019 it has grown by an average of 5.0 % according to preliminary data. It should be noted that Georgia was able to maintain high economic growth as a result of the reduction of external vulnerability. The current account deficit is expected to be 4.1 % in 2019. The rating agencies also reported a decrease in the dependence on the external shocks of the Georgian economy. The decline in dependence on the region was the reason Fitch's credit rating improved earlier this year.

1.3.2. Analysis of policy responses

The Georgian economy was characterized by a high growth rate in relation to the countries of the region, which slightly increased the forecast value under the baseline scenario and by 2019 economic growth is expected to be at the level of 4.8 %. Excessive tax revenues are used to reduce deficits and refund overpayments.

1.4. Macroeconomic risk factors

In identifying macroeconomic risks, factors that may influence the dynamics of economic development are identified.

1.4.1. Positive Shocks

<u>Increasing global economic activity and expanding trade area</u>

Free trade helps the country get closer to its trading partners in terms of economic development. Georgia has signed free trade agreements with many other countries around the world. The faster realization of free trade agreements with DCFTA and China will lead to the rapid growth of the Georgian economy.

<u>Renewal of direct air traffic with Russia</u>

The ban on direct air traffic with Russia has reduced the number of tourists arriving by air from Russia. Tourism is a growing sector and is one of the main directions of the Georgian economy. Renewal of direct flights to Russia will have a chain effect on the number of tourists arriving by other means of transportation, further enhancing the sector.

FDI growth

Foreign direct investment is an important part of Georgia's total domestic investment. Foreign investment, on the one hand, increases the potential output, and on the other hand is an important source of new technology inflows to the economy. Accordingly, foreign investment for developing countries is a significant source of economic growth potential. This year the rating agency Fitch upgraded from BB-positive to BB stable. Significant progress has also been made in reducing the country's external vulnerabilities. The dollarization rate is declining rapidly, with the success of the IMF program. All of the above will positively impact investor's trust in the economy, which increases the likelihood of FDI.

Decline of dollarization

De-dollarization (larization) measures have been launched since 2017, resulting in an increase in the larization rate by more than 10 percentage points. Events are continuing in this direction. High dollarization is considered one of the major weaknesses of the Georgian economy (as evidenced by the reports of international organizations and rating agencies). Increasing larization (reducing dollarization) will reduce the transmission of shocks from the external sector, increase monetary policy flexibility and strengthen transmission channels, which are crucial for economic growth and reducing inefficiencies caused by price fluctuations.

A sharper increase in savings as a result of pension reform

In 2018, the pension system reform was implemented. The second pillar was added to the existing basic pension and a pension agency was created and an investment board was formed. The introduction of the second pillar of the pension system will increase the level of savings in the economy, which on the one hand will reduce the degree of external vulnerability, and on the other, increase potential GDP. The rapid increase in savings expected as a result of the pension system will, in addition, lead to higher and more stable economic growth.

Improvement of business and customer's trust

Since 2017, the economy is characterized by fast growth. There are also positive trends on a global scale. In 2018, tax reforms were continued to promote business. For businesses with up to 500,000 annual turnovers, the relationship related to payment system issues has been simplified. These enterprises are taxed with the rate of 1% of turnover tax. In February 2019, a system of automatic VAT refunds was introduced. All of this will have a positive impact on business confidence, which could potentially encourage investment and increase potential output in the long-term period.

1.4.2. Negative Shocks:

Slowing economic activity in the region

The region is facing a complex geopolitical situation and risks of destabilization, which on one hand poses a direct threat to economic relations, foreign trade, and economic growth, and on the other hand affects expectations. This year, economic activity in the region continued to slow down. According to current estimates, the region's economy is already at a minimum and further worsening in economic activity is not expected. However, the continuation of recessionary processes in our major trading partners may also affect our economic growth.

Continued nominal effective exchange rate pressures on inflation

From the second half of this year, both the nominal and real effective exchange rates of the GEL

depreciated, reflecting the dynamics of consumer prices. In order to avoid inflationary processes, the National Bank of Georgia increased monetary policy by one percentage point.
Based on current estimates, in the basic scenario, inflation is expected to normalize by the end of the year and, with the expiration of basis effect, a gradual decline in the annual inflation rate to the target.
If the exchange rate depreciation expectations have exacerbated the expected inflationary pressure, the National Bank is expected to continue tightening its monetary policy, which will ultimately reflect a decline in aggregate demand and economic growth.

Insufficient acceleration of infrastructure projects

In the 2020 budget, as well as in the preceding 3 years, the infrastructure acceleration program plays a central role. This program involves the implementation of large infrastructure projects, which are linked to many uncontrolled factors. Failure to timely complete planned infrastructure projects and allocate funds will have a negative impact on both current and potential economic growth.

1.5. Analysis of macroeconomic scenarios

Macroeconomic scenarios are formulated to quantify deviations from the projected value of budget indices in the event of various, unpredictable events, in order to assess the fiscal sector's stability to random events. Scenarios are formulated to reflect changes that have a direct impact on the budget. However, a realistic assessment of the magnitude of the change is important. Too little or too much of an expected shock can create a false impression of the risks involved. The “standard error” statistic is used to determine the magnitude of the shock, as it is used to estimate the historical fluctuation of economic characteristics. The standard error is calculated from the data of the past 10 years, as the 10-year period is most commonly used in international practice.
The following table provides statistics showing the fluctuations of important macroeconomic indicators.
Table 1.

Names of variables	10 years average	Standad error
GDP growth (%)	3.9 %	0.9%
Inflation (%)	4.0%	1.1%
Percentage rate (%)	3.5%	0.1%
Currency Rate (USD-GEL)	1.9	0.10

Baseline Scenario

The baseline scenario is based on the assumption of 4.5 % economic growth and 3.0 % inflation. According to the baseline scenario, it is planned to mobilize revenues of GEL 13,612 million by 2020, of which GEL 12,305 million will be tax revenues, GEL 2,202 million, non-financial asset growth GEL 3.689 million, and budget deficit (according to IMF methodology) GEL 1,319 million.

Positive Scenario

The positive scenario is based on the assumption of 5.4 per cent economic growth in 2019 and a 4.1 % rise in price levels, leading to an increase in tax revenues and therefore growth of total revenues with GEL 190 million compared to baseline scenario. If a positive scenario develops, the government will not increase current spending. Capital expenditures may partly increase. And to reduce the budget deficit with the remainder of excess revenue.

Negative Scenario

This scenario is based on the assumption of 2.7 %t economic growth and 1.9% growth of prices. Under such conditions, tax revenues are expected to decrease by GEL 277 million. In the event of a negative scenario, the fiscal policy response would be: to maintain the nominal value of the budget deficit in 2019. Basically, the growth of non-financial assets will decrease.

Table 2.

	Baseline	Positive	Negative	Baseline	Positive	Negative
	Mln. Gel			% to GDP		
Incomes	13,612.0	13,802.0	13,335.0	25.6%	25.5%	25.8%
Expenses	11,410.0	11,410.0	11,410.0	21.5%	21.1%	22.1%
Operational Balance	2,202.0	2,392.0	1,925.0	4.1%	4.4%	3.7%
Growth of non-financial assets	3,689.0	3,689.0	3,412.0	6.9%	6.8%	6.6%
Deficit	-1,257.0	-1,067.0	-1,257.0	-2.4%	-2.0%	-2.4%
Deficit according to another program	-1,319.0	-1,129.0	-1,319.0	-2.5%	-2.1%	-2.6%

	Baseline	Positive	Negative	Baseline	Positive	Negative
	Mln. Gel			% to GDP		
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Deficit according to another program	-1,319.0	-1,129.0	-1,319.0	-2.5%	-2.1%	-2.6%

1.6. Impact of macroeconomic indicators on fiscal position

The assessment of the impact on the fiscal sector of macroeconomic risks is based on the determination of the magnitude of impact on their costs, revenues and deficits. As noted above the main macroeconomic indicators for the fiscal sector are: Economic growth, inflation, exchange rates and interest rates, and the magnitude of the positive and negative deviation from the forecast, are determined by the magnitude of their historical fluctuations. The table below shows the magnitude of the impact of the deviation from the underlying macroeconomic indicators on the fiscal sector.

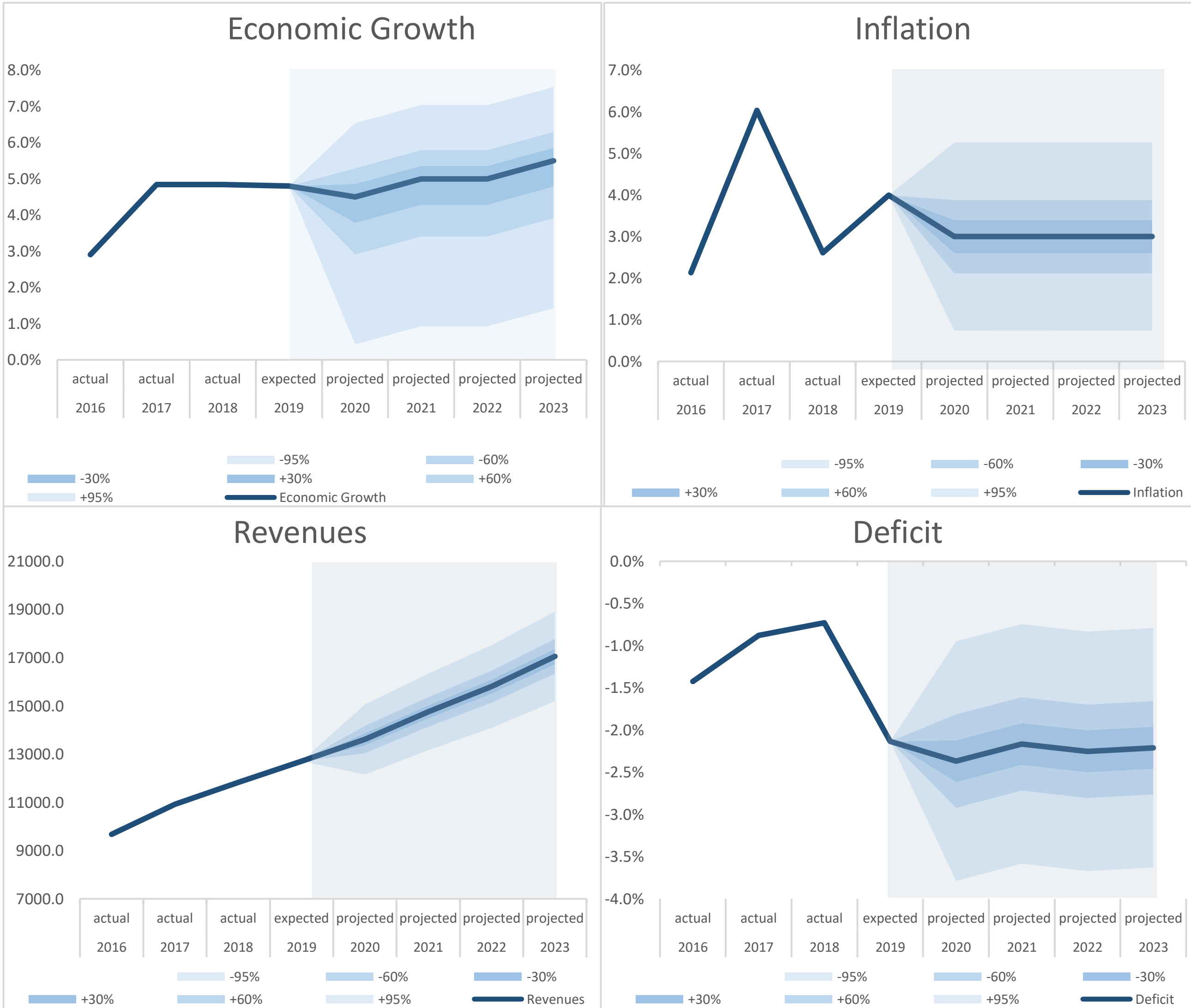
Table 3. Economic Growth[1]; Inflation[2]; Percentage rate[3]; GEL exchange rate[4]

Scenarios			Deviation from baseline							
			GEL (mln)				% to GDP			
			Incomes	Expenses	Deficit	Sources of Funding	Incomes	Expenses	Deficit	Sources of Funding
GDP Growth	Positive	5.4%	85.2		85.2		0.18%		0.18%	
	Negative	2.7%	-170.3		-170.3		-0.35%		-0.35%	
Inflation	Positive	4.1%	94.5	54.5	40.0		0.19%	0.11%	0.08%	
	Negative	1.9%	-94.5	-54.5	-40.0		-0.19%	-0.11%	-0.08%	
Percentage Rate	Positive	3.4%		-32.4	32.4			-0.07%	0.07%	
	Negative	3.7%		32.4	-32.4			0.07%	-0.07%	
Exchange rate	Positive	2.85	-16.4	-17.7	1.4	-35.2	-0.03%	-0.04%	0.00%	-0.07%
	Negative	3.09	16.4	17.7	-1.4	35.2	0.03%	0.04%	0.00%	0.07%

The above analysis shows that the important parameters operating in the fiscal sector are economic growth and overall price levels. On the other hand, the interest rate and the exchange rate have little impact on the state of the fiscal sector, so macroeconomic scenarios are calculated only taking into account economic growth and inflation shocks.

[1] The positive growth scenario is calculated as a 2020 forecast plus one standard error of the economic growth rate for 2009-2018, and the negative scenario - minus two standard errors;
[2] For inflation rate, one standard error of forecast plus (minus) of the last 10 years is considered;
[3] The nominal effective interest rate is the standard interest rate plus (minus) the effective interest rate of the forecast domestic government and foreign debt for the last 10 years;

[4] The upper and lower limit of the average annual nominal exchange rate of the GEL is one standard error of the forecast rate plus (minus) the last 10 years.



2. PUBLIC SECTOR BALANCE SHEET

Public Sector Balance Sheets (PSBS) provide the most comprehensive picture of public wealth. By consolidating the entirety of what the public sector owns and owes, they offer a broader fiscal picture than that provided by debt and deficits alone. They bring together all the accumulated assets and liabilities that the government controls. Producing PSBSs provide the basis for improved fiscal management, highlighting opportunities to increase revenues, reduce risks, and improve fiscal policy making. Evidence shows that countries with stronger balance sheets are better able to weather economic crises. Experience from a wide range of countries points to the importance of considering the impact of policy on both assets and non-debt liabilities, in addition to debt.

It brings together and consolidates the balance sheets of the central government, local governments, central bank and, most importantly, the non-financial state owned enterprise (SOE) sectors, to give a full picture of the public finances.

Table 2.1. Georgia's 2018 Public Sector Balance Sheet

(Percent of GDP)

	Central Govt	General Govt	Non-Fin Public Corps	Fin Public Corps	Consolidated Public Sector	Consolidation
Total assets	**78.6**	**116.1**	**29.1**	**27.9**	**149.3**	**-23.8**
Nonfinancial assets	**41.4**	**78.5**	**22.8**	**0.2**	**101.5**	**0.0**
Fixed assets	26.6	44.1	22.8	0.2	67.1	0.0
Land and minerals	8.2	27.8	0.0	0.0	27.8	0.0
Other nonfinancial assets	6.5	6.5	0.0	0.0	6.6	0.0
Financial assets	**37.2**	**37.6**	**6.3**	**27.7**	**47.8**	**-23.9**
Currency, deposits, SDRs	4.7	5.1	3.8	4.4	11.5	-1.9
Debt securities	6.2	6.2	0.3	23.3	23.1	-6.8
Equity/invest fund shares	15.2	15.2	0.0	0.0	0.0	-15.2
Other financial assets	11.1	11.1	2.2	0.0	13.3	0.0
Liabilities	**47.5**	**48.2**	**29.1**	**27.9**	**81.3**	**-23.9**
Currency, deposits, SDRs	NA	0.0	0.0	22.4	20.5	-1.9
Debt securities and loans	42.2	42.9	16.2	1.3	53.6	-6.8
Equity/invest fund shares	NA	0.0	11.0	4.2	0.0	-15.2
Insurance, pension, and standardized guarantee schemes	3.6	3.6	0.0	0.0	3.6	0.0
Other accounts payable	1.6	1.6	2.0	0.0	3.6	0.0
Net financial worth	**-10.3**	**-10.6**	**-22.8**	**-0.2**	**-33.5**	**0.0**
Net worth	**31.1**	**67.9**	**0.0**	**0.0**	**68.0**	**0.0**
Revenue	29.8	28.3	6.6	0.7	33.3	-2.4
Expense	28.0	25.5	5.7	0.3	29.1	-2.4
Net lending/borrowing	**-1.5**	**-1.2**	**0.2**	**0.5**	**-0.5**	**0.0**

Source: Staff Estimates

Georgia's Public Sector has an estimated net worth of 68 percent of GDP. Public Sector Assets are estimated to be worth 149 percent of GDP, and liabilities at 81 percent of GDP (Table 2.1). The main components are:

- **Non-Financial Assets** of 102 percent of GDP, which include infrastructure, buildings, public land holdings, as well as the fixed assets and equipment of SOEs, such as railways, powerplants and the water network.

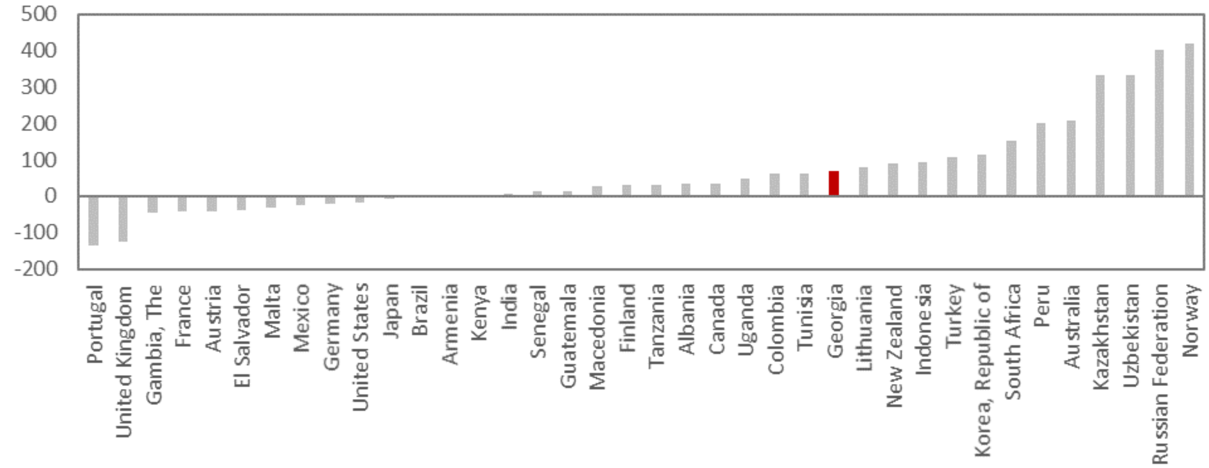
- **Financial Assets** of 48 percent of GDP, this includes cash deposits, as well as well as foreign exchange reserves of the National Bank of Georgia (NBG).

- **Liabilities** of 81 percent of GDP, primarily composed of debt securities, cash in circulation, and SOE borrowing.

Georgia's balance sheet appears to be in a relatively sound position relative to many other countries. Net worth of 68 percent of GDP is in the top third of countries (Figure 2.1.).

Figure 2.1. Net Worth international comparisons

(percent of GDP)



Returns to government are mixed across asset classes, but also particularly within the Public Corporations sector.

- Return on holdings of cash were 5.6 percent in 2018. Excess funds from financing activities are held in long term deposits held in commercial banks. This is a reasonable return as the cost of holding liquidity, against the borrowing costs for government.

- The returns on SOE assets was 2.4 percent in 2018, and averaged 2.5 percent per annum between 2012 and 2018. However, this is before impairments and depreciation effects. Returns on equity averaged 5.1 percent per annum, although it should be borne in mind that this is also before the substantial impairments.

- The government's on-lending portfolio provided a return of 1.7 These returns are directly transferred to cover the external financing costs of the original loans.

3. Sectorization of SOEs

The Ministry of Finance of Georgia is working on the sectorization of state owned enterprises (SOE), which aims to classify SOEs as public corporations or general government units. This is an important step forward in terms of fiscal transparency in the country, in particular by reflecting SOEs in public finance statistics, which in turn will affect public finance revenues, expenditures and liabilities. An important criterion in the classification of SOEs is 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. Based on our analysis we can show the impact of sectorization on fiscal parameters, which may be further specified:

Table 1. The impact of sectorization on the country's fiscal parameters (relative to GDP)

Impact on State Debt	+1.2
Impact on Deficit	-0.3
Impact on Incomes	+2.1
Impact on Expenses	+2.4

According to the preliminary results of the sectorization of SOEs, 196 SOEs belong to the state government sector, 44 enterprises are classified as public corporations. State administrated enterprises are those (68 enterprises) that do not sell goods and services at economically significant prices. This category mainly includes health care providers that are funded under the state health care program and receive funding not based on services provided but on the number of registered patients. Several large SOEs were also included in this category: "Mountain Resorts Development Company", "Mechanic", "Batumi Auto Transport", "Rukhi Trading Center".

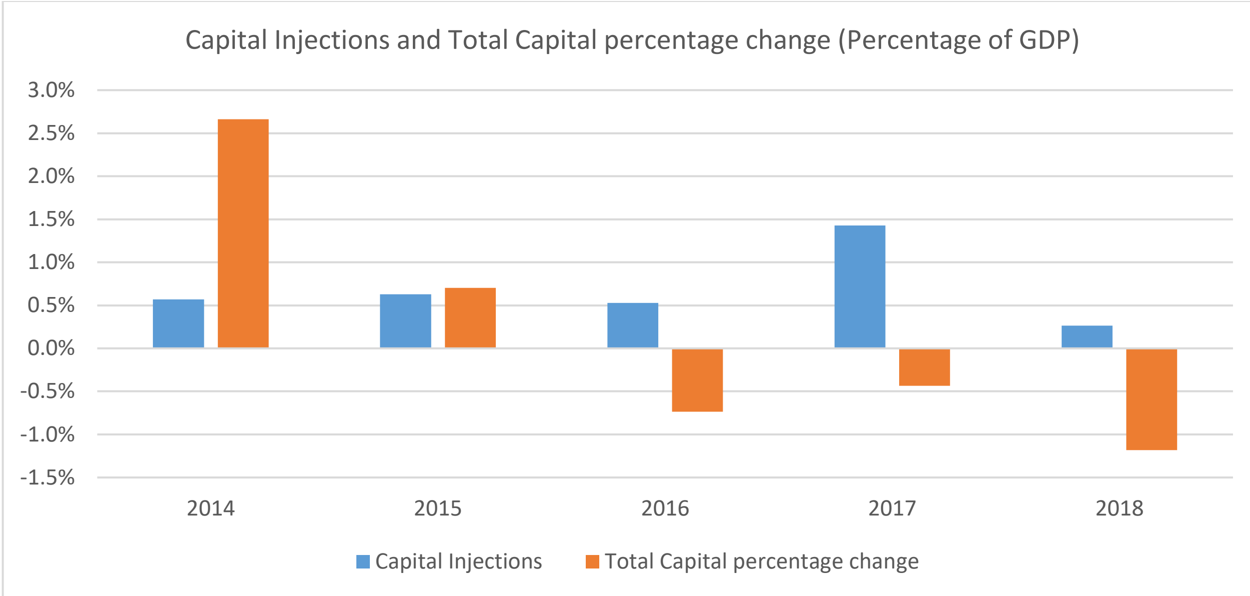
According to the primary results of the sectorization, the state government sector also included those enterprises (16 enterprises), which depend on regular financial assistance from the government. These enterprises do not have the capacity to do business with their own resources and are heavily dependent on government financial assistance, which is expressed in the form of subsidies, capital transfers and capital contributions. The latter is not considered to be an investment at this stage, as equity contributions do not bring dividends to the budget. For example, the United Water Supply Company, Black Sea Arena Georgia, were merged into this category. Ministry of Finance of Georgia continues to work in the field of SOEs sector. Upon completion of the analysis, the status and impact of the companies discussed above on the main fiscal parameters will be clarified.

4. Analysis of SOEs

4.1. Summary

SOEs have the potential to play a leading role in the development of certain sectors of the economy, in defending the strategic interests of the state. SOE, on the other hand, are one of the major sources of fiscal risk. This may be due to the unhealthy financial position of the enterprises, with the increase in capital investments by the local government of central government in enterprises and subsequently the risks of converting the accumulated loss of enterprises into government debt. SOEs do not represent a risk for the revenue part of the budget, as the share of dividends paid by enterprises to the state budget in recent years is not fundamental and therefore is not taken into account in forecast revenues. On the other hand, there is the potential to significantly increase the dividends paid by enterprises to the state budget.

During the past five years, capital injections amounted to GEL 1,347.56 million, while the accumulated capital of enterprises declined by GEL 678,946,000 during the same period, mainly due to asset impairment, which is a macro critical indicator. SOEs are still actively involved in quasi-fiscal (non-commercial) activities, which in most cases distorts enterprise financial statements, since commercial activities are not clearly separated from non-commercial activities. The total amount of quasi-fiscal activities of enterprises by 2018 amounted to more than half a billion GEL.



Of the enterprises discussed in the document, the 12 enterprises are particularly important in terms of scale, assets and liabilities, and annual turnover, as follows:

- Marabda Kartsakhi Railway Ltd (MKR);
- JSC Partnership Fund;
- JSC Georgian State Electricity System (GSES);
- Energotrans Ltd;
- JSC Georgian Oil and Gas Corporation (GOGC) ;
- United Water Supply Company Ltd (UWSC);
- Enguri HPP Ltd;
- JSC Electricity System Commercial Operator (ESCO);
- Georgian Gas Transportation Company Ltd;
- State Construction Company Ltd ;
- JSC Georgian Railway;
- Mechanic Ltd.

The SOE losses for 2018 amounted to approximately GEL 800 million (including the Marabda-Kartsakhi Railway), at the same time, capital investments and other transfers from enterprises from the state budget amounted to GEL 168.9 million by 2018. It should be noted that the purpose of these contributions was not to cover losses. Up to 90% of enterprise loss accounts for asset depreciation, which means that the projected amount of revenue expected to be received by these assets in the coming years has been reduced and reflected in the current value of assets.

4.2. Legal Basis of SOEs

Georgian law does not define the term State Owned Enterprise, therefore there is possibility to define individually the term "State Owned Enterprise" for different analytical purposes. According to the definition of the Ministry of Finance, the enterprise is a State-Owned Enterprise if central government, local government or other state-owned enterprise owns more than 25 percent of the share and in the case of the enterprises created by the local government, if the annual turnover of the enterprise exceeds GEL 200,000 or annual salaries issued GEL 15,000. Therefore, the analyses of the SOEs is conducted according

to above mentioned criteria.
SOEs operating in Georgia act as joint stock companies and limited liability companies and are governed by the Law of Georgia on Entrepreneurs. For those enterprises that are governed by Property Management Agency, the State Property Law acts as an additional regulation.
Generally, at this stage there is no framework that defines the principles of corporate governance and control of the SOEs.
The issue of distribution of Dividends of SOE is discussed by the "Commission for Reviewing and Deciding Proposals on the Distribution and Use of Dividends of Enterprises Operating at MOF", set by Resolution N174 of the Government of Georgia dated April 12, 2011. The scope of this Commission's powers is limited to decisions on the distribution and use of enterprise profits. The dividend distribution issue is initiated by the managing body of the enterprise and the role of the Ministry of Finance is limited only to discuss the dividend distribution issue of certain enterprise within competencies of the commission.

4.3. Registry of SOEs

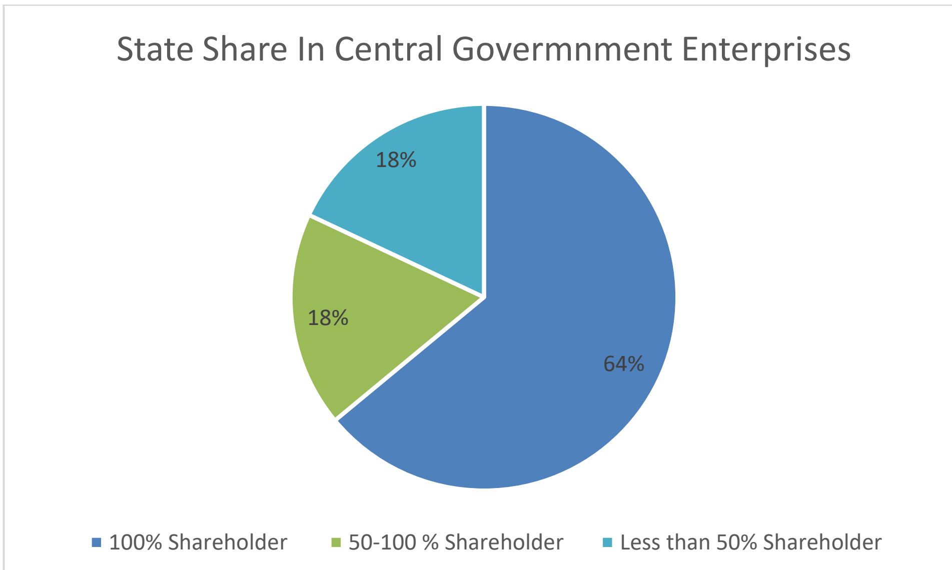
Georgia is in the process of strengthening the oversight and management of SOEs, with significant emphasis on assessing and managing future fiscal risks.
SOEs in Georgia are acting as joint stock companies and limited liability companies and regulated by the Law on Entrepreneurs of Georgia and, in some cases, by the state property law (in particular, according to the State Property Law, Property Management Agency helps with the management those enterprises, that are founded by the state and / or in which the state owns some shares / assets). The law requires company executives to prepare an annual report on the company's future earnings and future distribution to the Supervisory Board and shareholders at its annual meeting.
The unified register of SOE was prepared on the basis of information provided by state agencies, the National Statistics Office of Georgia and other administrative sources. The Registry includes enterprises founded by the central government and local governments that are classified as important enterprises for fiscal risk analysis. The following are considered as such enterprises: (a) All enterprises of the Central Government; B) Municipal enterprises with a share of more than 25% of the state and whose annual turnover exceeds GEL 200,000 or annual salaries issued exceeds GEL 15,000. Financial data obtained from various administrative sources were used to assess the performance of these enterprises. On the basis of these data, a financial database for 2018 has been created for these enterprises.

Based on the above criteria, the number of enterprises with significant fiscal risk is 288, comprising 52 subsidiaries of a number of enterprises. Thus, the consolidated financial data analysis relies on data from 236 SOEs, and data from 52 subsidiaries is presented as confidential information.
Of the 236 SOEs, 159 are owned by the central government and 77 by the local government.

Table 2.

<table>
<tr><td colspan="3">Total Number of SOE
236</td></tr>
<tr><td rowspan="3">Owned by the Local Government</td><td colspan="2">Owned by the central government 159</td></tr>
<tr><td>Among them:</td><td></td></tr>
<tr><td>111</td><td>Managed by the Ministry of Economy and Sustainable Development of Georgia</td></tr>
</table>

77	26	Founded with equity participation of the partnership fund
	7	Managed by the Ministry of Environment Protection and Agriculture of Georgia
	5	Managed by the Ministry of Defense of Georgia
	3	Managed by the Ministry of Regional Development and Infrastructure of Georgia
	3	Managed by Legal Entities
	2	Managed by the Ministry of Education, Science, Culture and Sports
	1	Managed by the Ministry of Justice



As for the SOE owned by the municipalities, 34 companies are owned by the municipalities of Tbilisi and Batumi and their share is more than 96% of the total turnover of the enterprises owned by municipalities. Detailed information is given in the Table 3. Below

Table 3. Data of SOEs by municipalities

	Quantity of Enterprises	Share in total	Share of municipal enterprises In the total number of enterprises	2018 united total income (thousand GEL)	Share in united total income	Share of municipal enterprises In united total income of enterprises
Total	**236**	**100%**		**3,142,692.0**	**100%**	
Among them :						
By	**77**	**32.6%**	**100.0%**	**277,772.0**	**8.8%**	**100.0%**

municipalities						
Tbilisi Municipality	14	5.9%	18.2%	225,222.7	7.2%	81.1%
Rustavi Municipality	1	0.4%	1.3%	-	0.0%	0.0%
Batumi Municipality	20	8.5%	26.0%	42,050.9	1.3%	15.1%
Zugdidi Municipality	2	0.8%	2.6%	18.5	0.0%	0.0%
Poti Municipality	1	0.4%	1.3%	-	0.0%	0.0%
Telavi Municipality	3	1.3%	3.9%	1,434.5	0.0%	0.5%
Other municipalities	36	15.3%	46.8%	9,045.5	0.3%	3.3%

Table 4. Analysis of SOEs by Sectors

Sector		Number of Enterprises			2018 united total income (thousand GEL)	Share of sectoral enterprises	
		Total	Gross Income of the Central Government	Gross Income of the Local Government		Total number of enterprises	Total Gross Income
A	Agriculture, Hunting and Forestry	12	10	2	35,565.9	5.1%	1.1%
B	Mining industry	2	2	-	588.1	0.8%	0.0%
C	Processing industry	18	17	1	37,405.6	7.6%	1.2%
D	Production and distribution of electricity, gas and water	15	9	6	1,381,907.4	6.4%	44.0%
E	Construction	18	11	7	69,419.3	7.6%	2.2%
F	Trade	10	10	-	475,155.1	4.2%	15.1%
G	Hotels and Restaurants	12	10	2	45,599.0	5.1%	1.5%
H	Transport and Communications	16	8	8	951,698.9	6.8%	30.3%
I	Financial activities	7	7	-	0.0	3.0%	0.0%
K	Real estate transactions, leases and customer service	40	30	10	24,503.1	16.9%	0.8%
N	Health care and social assistance	53	37	16	27,587.9	22.5%	0.9%
O	Providing utility, social and personal services	33	8	25	93,261.7	14.0%	3.0%
	Total	**236**	**159**	**77**	**3,142,692.0**	**100.0%**	**100%**

4.4. Relations between central government and SOE

The Government of Georgia may enter into financial relationships with SOE. A similar type of transaction is a capital transfer, loan, subsidy, grant or guarantee allocated to the above-mentioned enterprises from the state budget. SOEs, for their part, may direct dividends in the budget.
Table 5. State budget funds directed on SOEs and dividends received.

Million GEL

Name	2015 Year	2016 Year	2017 Year	2018 Year
Capital Injections	232	210	596	143
Loans		2		
Subsidies	12	15	34	25
Less Dividends	-0.4	-0.7	-1.4	-0.4
Total Net Flows to SOEs	243.6	226.3	628.6	167.6

In the recent years, the amount of dividends paid by SOEs has been little and we can say that their role in forecasting budget revenues is non-existent. So at this point, dividends are not a source of the fiscal risk. Given that SOEs have been reporting losses for the most recent reporting period, there is a high likelihood that the accumulated losses will all into government debt, which is a fiscal risk. It should be noted that in recent years, the contributions made to SOEs have been mainly directed to the implementation of projects/activities specified by the government. While this may not be the best practice for enterprise management on one hand, these contributions have not been implemented due to the realization of fiscal risk.

4.4.1. Financial Transfers

Government transfers to SOEs are made in the form of subsidies or equity contributions. The subsidy is a government-issued, non-refundable transfer that is not linked to an increase in the company's liabilities. And capital investment is a transfer made to increase the value of an enterprise's assets. Investments can be made both as a contribution to the capital and as a loan. However, the SOEs can borrow the loan from the budget only on the basis of a decree of the Government of Georgia.

The total amount of financial transfers and the number of beneficiaries varies from year to year. In 2018, the total amount of funds transferred from state budget to various SOEs amounted to GEL 168.9 million and decreased several times compared to the previous year; (In 2017: GEL 630 mln). Of this amount, GEL 143.5 million was identified as capital investment and the main beneficiaries were United Water Supply Company of Georgia Ltd, Mountain Resorts Development Company Ltd, Mechanic Ltd. Assistance was provided for the development of irrigation and water systems, the mountain resort. Reclamation of Georgia LLC received a subsidy of GEL 14.5 million for the provision of irrigation systems. Detailed information on state financial support to SOEs over the past four years is given in Table 6.

Table 6. State financial support to SOEs (GEL thousand)

	Enterprise	2015	2016	2017	2018

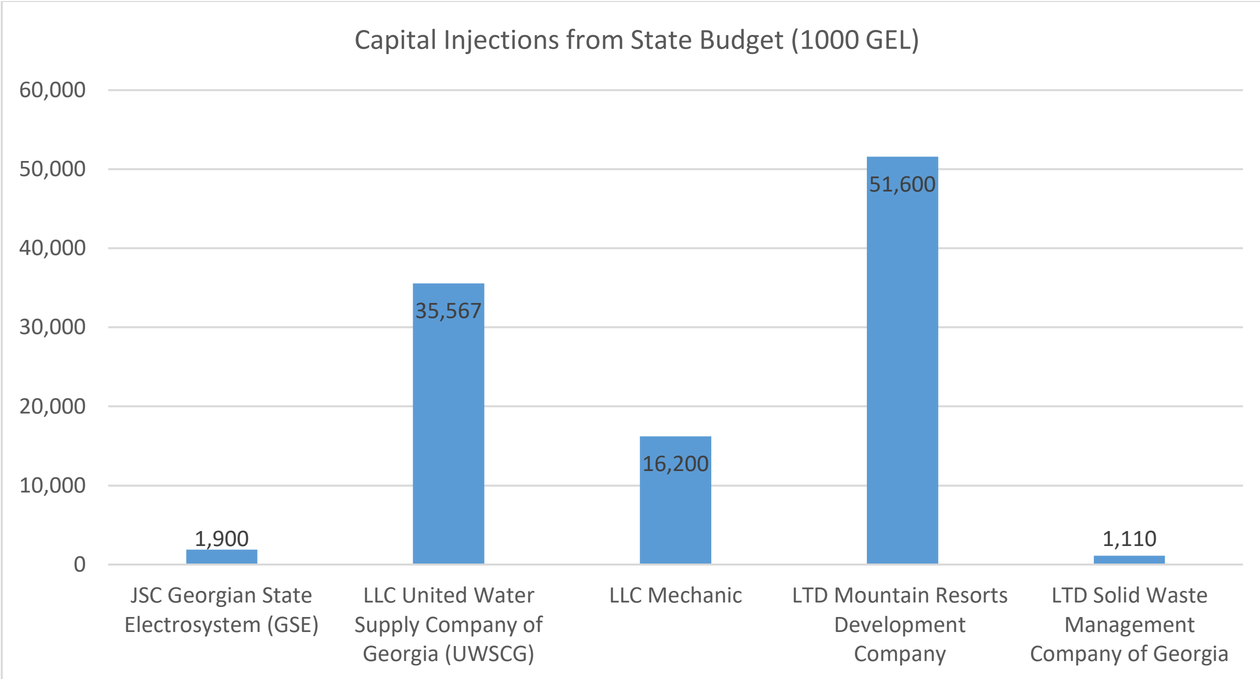
	Name	Subsidy	Capital Investment	Subsidy	Loan	Capital Investment	Subsidy	Capital Investment	Subsidy	Capital Investment
1	JSC “Akura”		24,567			19,000	800			
2	JSC Georgian State Electrosystem		4,000					28,540		1,900
3	"United Water Supply Company of Georgia" Ltd	55	26,580	55		36,700	66	56,521	69	35,567
4	Adam Beridze Soil and Food Diagnostics Center		570			1,150				530
5	Georgian Gas Transportation Company Ltd		20,000			20,000		70,000		
6	Mechanic Ltd	1	34,000	2		25,500		41,917		16,200
7	Contstruction Company – Mshenebeli 2011 Ltd		818			285		10,819		20,113
8	State Construction Company Ltd		12,466			1,500		5,000		
9	Sportmshenservisi Ltd		9,000					10,000		300
10	Mountain Resorts Development Company Ltd		33,152			26,984	800	70,265	640	51,600
11	Georgian Solid Waste Management Company Ltd.		17,438			7,000		20,000		1,110
12	JSC Partnership Fund							70,000		

13	Enguri HPP Ltd	1		2	2,000			910		
14	Black Sea Arena Georgia Ltd						14,945	7,092	4,756	
15	Grain Logistics Company Ltd							190	500	
16	Georgian Television and Radio Center			3			4	120	6	
17	Ltd State Service Bureau							20,000		
18	United Airports of Georgia LLC	1,881		2,646			2,768	71,700	4,900	
20	Capitel Ltd									484
21	Reclamation of Georgia Ltd.	10,000	17,000	11,700		41,874	13,000	67,080	14,500.00	536
	Others	190	32,163	288	0	30,025	1,603	45,981	32	15,120
	Total	**12,128**	**231,754**	**14,696**	**2,000**	**210,018**	**33,985**	**596,135**	**25,403**	**143,461**

4.4.2. Contributions to capital by budgetary funds

Loans are not allocated to SOEs from state budget resources.[5] Contributions to SOEs by the state budget for 2018, as in previous years, are driven by planned capital projects, and resources from 2018 did not address the resources required to finance the company's operating expenses.

[5] The exception was allowed in 2016, when heavy rains damaged the Vardnil-1 Dam deep water reservoir. Negotiations were held with the donor organization to provide additional funds for the completion of construction related technical safety rehabilitation works at Vardnilhez-1 dam and waterway structures.



Projects Financed from State Budget in 2018 (Thousand GEL)
Table 7.

	Enterprise Name	Subsidy 2018	Capital Investment 2018	Description
1	Mountain Resorts Development Company Ltd	640	51,600	Three new ropeways were constructed in Gudauri, one was reconstructed, one ropeway was constructed in Mestia, construction of a ropeway in Bakuriani was completed, and checkpoints were arranged. The company purchased snowmobiling equipment and began the construction of the second phase of the milling system
2	United Water Supply Company of Georgia Ltd	69	35,567	Contributions to the capital were directed to the completion of construction of an artificial water reservoir in Gudauri, completion of construction / repair works of Kutaisi Service Centers, metering and related works of the Company's subscribers in Manglisi, Purchase of works for the first phase of rehabilitation of the drinking water supply and water supply network, Procurement of project services

				needed for rehabilitation of water supply and sewage system in Kvareli municipality, Kharagauli municipality, Kharagauli municipality and Dusheti municipality, Pasanauri, Agmashenebeli Street Water Supply System Installation Works in Senaki, Procurement of Agar Water Supply Rehabilitation Works
3	Contstruction Company – Mshenebeli 2011 Ltd		20,113	Funds were allocated for the implementation of infrastructure projects and equipment for the MoD system
4	Mechanic Ltd		16,200	Crop harvesting techniques and techniques for anti-Asian larvae were acquired
5	JSC Georgian State Electrosystem		1,900	Akhaltsikhe-Batumi, Ksani Stepantsminda and Jvari-Khorga were built. The budget allocation is used to repurchase land and pay taxes on the above-mentioned international projects.
6	Georgian Solid Waste Management Company Ltd.		1,110	Arrangement of waste handling station in Borjomi city, Borjomi landfill closure, Bakuriani landfill closure, Poti landfill rehabilitation, Creation of Mestia waste dumping station, Improvement of Tkibuli landfill, Manglisi Waste dumping Station Arrangement, Rehabilitation and Improvement of Sachkhere Landfill, Improvement of Tusheti (D. Omalo) Landfill, Purchase of 10 846 plastic garbage containers for municipalities, Purchase of waste collection vehicles and bins for Akhmeta Municipality, Acquisition of waste dumping station for Borjomi-Bakuriani, Tsalka-Manglıыш and Mestia Transfer Stations and more
7	Reclamation of Georgia Ltd.		536	Provision of reclamation infrastructure (irrigation, drying and two-way adjustment systems, reservoirs, pumping stations, independent hydraulic structures and other supply
8	Adam Beridze Soil and Food Diagnostics Center		530	Integrated Plant Protection Laboratory was set up, reconstruction and repair works were carried out and equipment was

				purchased
9	Sportmshenservisi Ltd		300	Design and construction works of multifunctional two-sectioned sports halls in Batumi and Telavi

4.4.3. Contributions to Equity with Donor Loan Financing

The central government is borrowing from loans from foreign credit resources to finance energy, water, utilities, agricultural and other projects. Fiscal risk may arise where SOEs fail to service the loan and the central government has to provide the loan, and the amount paid therefore becomes a public enterprise debt to the central government. Each loan is approved by the Ministry of Finance, which assesses debt sustainability.

As of December 31, 2018, the amount of funds agreed in foreign currency from foreign credit resources in the form of agreements with the national currency amounted to GEL 4,065 million, of which GEL 2,098 million was utilized. The principal portion of the paid debt is GEL 356.0 million. The re-borrowing was carried out on 6 SOEs (JSC Georgian State Electro system, United Water Supply Company of Georgia, Enguri HPP Ltd, Energotrans Ltd, Georgia Solid Waste Management Company Ltd, Sakaeronavigatsia Ltd).

Table 8. Amounts reborrowed to SOEs (Million)

Company Name	Loan Currency	Agreed amount of money (Contract)	Agreed amount of money (Contract – in Gel)	Agreed amount of money - exact	The amount used	Paid part of the basic debt	Paid part of the basic debt (in GEL)	Paid part of accrued percent	Debt balance in credit currency	Debt balance in GEL
Georgian State Electrosystem	USD	96	257	96	83	28	75	22	55	148
	EUR	225	692	225	94	31	94	11	62	192
	SDR	30	111	31	31	0	0	1	31	115
EnergoTrans	EUR	242	743	219	219	42	129	13	176	542
United Water Supply Company	SDR	153	569	162	112	0	0	0	112	418
	EUR	187	574	187	78	8	24	4	70	216
	USD	250	669	250	56	0	0	0	56	151
Enguri HPP	USD	10	27	10	10	10	27	1	0	0
	EUR	66	201	69	42	0	1	1	42	128
	GEL	37	37	37	37	0	0	2	37	37
Sakaeronavigation	EUR	5	14	5	5	1	4	0	3	10
Waste Management Company	EUR	55	170	55	4	0	1	1	3	10
Total			**4,065**				**356**			**1,967**

State guarantees are not given to enterprises. There are only certain cases of so called Issuing comfort and support letters that are quite limited. These letters do not imply service obligations by the state and therefore there are no fiscal risks arising therefrom.

4.4.4. Dividends paid by SOEs

Review of proposals on the distribution and use of net profits of SOE and determination of the composition and rules of operation of the Commission pursuant to Resolution No. 174 of the Government of Georgia dated 12 April 2011, proposals on the distribution and use of net profits of SOE created by the Ministry of Finance of Georgia and the decision-making commission will consider the issue of net profit distribution of SOEs. Proposals on the above shall be forwarded by the appropriate authorized institution to the Ministry of Finance in agreement with the enterprise operating in its management. The proposals are discussed at the above-mentioned Commission meeting.
The meeting of the Commission on Review and Proposals on the Distribution and Use of Net Profits of SOEs was not held in 2018-2019.
At present, a number of agencies are concerned with the distribution of the net profits of the enterprises they manage. In particular, the Ministry of Finance has received proposals from three state agencies to request a net allocation of GEL 34.8 million for the 17 operating companies operating under their management.

Consideration of proposals for net profit distribution is scheduled for the end of 2019. Appropriate arrangements should be made in accordance with the decisions of the commission.

Such a source of budget revenue dividend is mainly due to the fact that part of the SOEs manages the Partnership Fund and uses their dividends independently for investment and loan services.

4.4.5. Loans between SOEs

Borrowing between the SOE and borrowing them together to finance various projects creates the risk of a risk transfer to the government. The practice of such lending in Georgia is not widespread and in 2018 such lending has not taken place among SOE.

4.4.6. Non-financial transfers

In addition to financial transfers, there are also transfers of assets, including gas, land, machinery, inventory and other fixed assets, between the Georgian government and SOE. Such transfers are mainly intended to enable SOEs to become asset owners and to carry out their functions and projects efficiently. This does not entail fiscal risks.

No substantial non-financial transfers based on information provided by enterprises for 2017-2018.

4.5. Quasi-fiscal activities

Quasi-fiscal are nonprofit activities carried out by SOEs in the public interest, as a result of which companies suffer losses or earn less than the market revenue. Unless such compensation is provided to SOEs in such cases, SOEs themselves have to bear the burden of quasi-fiscal activities. This reduces their profitability and increases the likelihood of public finances needing budget support, which is expressed as capital contributions and / or subsidies. In order to effectively manage the fiscal risks arising from quasi-fiscal activities, it is important for the state to develop policies that mitigate or eliminate the burden associated with quasi-fiscal activities for enterprises, and avoid any further emergence of such burdens on public enterprises.

Enabling SOEs to independently set tariff policies (especially for energy and utilities sectors), implementing corporate governance mechanisms is the best international practice to mitigate fiscal risks arising from quasi-fiscal activities. In response, work has begun to develop a legal framework for defining corporate governance principles, establishing their mandate, governance and reporting requirements.

According to current practice, in some cases, the pricing of goods and services supplied by SOEs by the regulatory authority limits firms to achieving sufficient efficiency, which is subsequently reflected in their annual operating loss, For example, United Water Supply Company Ltd has completed an each year from 2012 to 2018 showing an operating loss. The reason for this should be to sell the service provided by the company at a non-commercial price.

Table 9. Quasi-fiscal activities (thousand GEL)

	Company	**Description of Activities**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	2018
1	JSC Georgian Oil & Gas Gas Corporation ”	Gas sale - Since March 2013, the company has been subsidizing the tariff for the gas sector in the household sector, reducing the company's annual profit by the amount that is the difference between the commercial tariff and the actual income	237,250	326,060	401,829	591,932	429,541	429,551	389,725
2	Enguri HPP Ltd	Power supply on the territory of Abkhazia - The company supplies a large share of its generated electricity on the territory of Abkhazia. Consequently, the company is reducing its revenue from	14,462	17,259	16,677	18,374	19,487	25,489	29,062

		free electricity supplied to Abkhazia.							
		Additional electricity purchased for Abkhazia					349	2,545	
		Kodori hydroelectric stations	473	480	430	465	479	431	
3	JSC Georgian Railway	Passenger transportation, limestone shipping and more. The company costs an average of GEL 30 million per year for passenger transport. The company serves passenger transportation within Georgia and internationally, such as Azerbaijan and Armenia.	25,420	20,260	26,380	36,770	39,125	41,682	38,027
4	JSC SakRusEnergo	Electrification works of Mananauri, Tskhumaldi, Bavari and Khacheshi villages of Lentekhi Municipality					254		
5	Tbilisi Transport Company Ltd	Subsidies received for the carriage of passengers at preferential rates						57,000	60,000
6	Ltd United Water Supply Company	The Company's operating loss expresses those Unacceptable income that would have led	3,353	1,841	32,288	27,363	31,882	26,888	32,091

		the company to zero (operating) profit							
Total			**280,958**	**365,900**	**477,604**	**674,904**	**521,117**	**583,589**	**548,905**

Quasi-fiscal activities are also activities carried out by SOEs in conditions that are better than the market conditions for the consumer. If a SOE competes with a private enterprise, this puts them on an unequal conditions. With it, market distortions when a SOE supplies goods or services at a lower cost because of the cheap resources available to them, leads to inefficient allocation of resources in the economy and impedes economic development.

Given the fiscal transparency reforms designed to improve public finance management and bring it closer to EU standards, state-owned companies should be compensated from the budget for these types of activities. The Ministry of Finance collects information from SOEs for the purpose of assessing the feasibility of these types of activities and developing an action plan to address them.

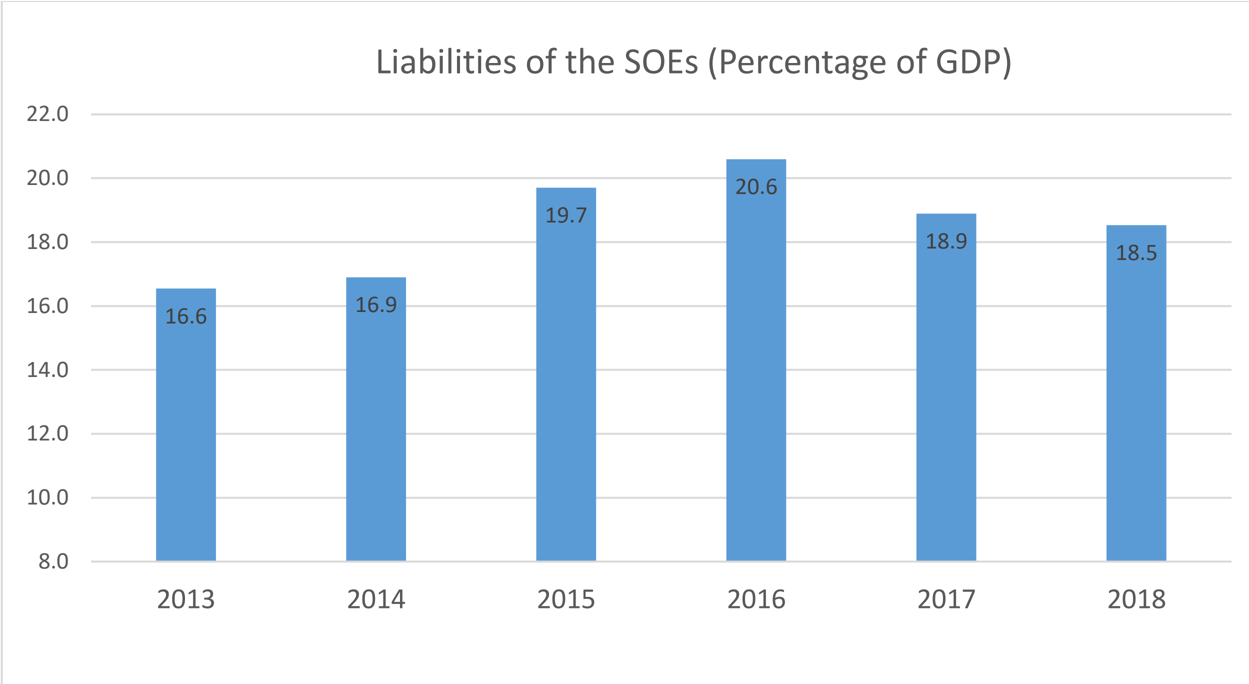
4.6. Financial Indicators of SOEs

The Ministry of Finance of Georgia developed questionnaires that were sent to central and municipal government enterprises to assess the financial status of SOEs. Central government enterprises were required to have audited financial statements prepared in accordance with international standards. In addition to the financial statements, companies were also required to provide information on other contingent liabilities to assess probable fiscal risks. The financial statements were presented by 68 enterprises. Information is provided by all major companies including: JSC Georgian Railway, Georgian Gas Transportation Company, JSC Georgian State Electrosystem, JSC Georgian Oil and Gas Corporation and others. The financial indicators of these 68 enterprises account for a high percentage of the total volume of SOEs. In particular, their full turnover in 2018 was 78.7% of the turnover of SOEs (236). However, 62 of these 68 enterprises are central government enterprises whose total turnover is more than 99% of the turnover of central government enterprises (159).

The results of the analysis based on the information obtained are as follows:
In 2018, the total liabilities of these 68 companies accounted for 18.5 % of GDP. In 2017, the ratio of total liabilities of the same 68 companies to GDP was 18.9%. [6]

Share of SOE liabilities with GDP

[6] Differences with the analysis of SOEs released in 2017 are caused by the change in coverage.



In 2018, state companies reported no growth in gross revenue, while spending was up 5 %, compared with 10 % in 2017. The aggregate loss for 2018 is GEL 805.3 million (without Marabda-Kartsakhi Railway - GEL 703 million) and in 2017 - GEL 644.5 million. Accordingly, the loss increased to 160 million GEL. Compared to 2017 Indicator, Increased Share of Asset impairment in 2018 loss.

Most of the losses for 2018 come from companies like Georgian Railway, EnergoTrans, Reclamation of Georgia, United Water Supply Company of Georgia, Marabda-Kartsakhi Railway. In addition, the Georgian Oil and Gas Corporation, Georgian State Electricity System, Enguri dam completed the 2018 accounting year with profits. Information on the financial performance of these companies is discussed in detail below.

At the aggregate level, in 2018 the repercussion of the capital of companies was negative and amounted to -18%.

The value of assets of SOEs decreased by 2% by 2018, Equity decreased by 14%, while liabilities increased by 8%. It should be noted that the share of Marabda-Kartsakhi Railway liabilities accounts for 28% of the total liabilities of the 68 enterprises considered in the analysis. Accordingly, the aforementioned company significantly outperforms the rest of the SOEs in terms of liabilities and liabilities-related ratios. The ratio of government debt to equity increased from 135 % in 2017 to 166 % in 2018. If we take into account the Marabda-Kartsakhi Railway Index, the figure is 105%, which is normal and manageable.

Table 10. Total financial results of 68 SOE (including Marabda-Kartsakhi Railway Ltd)

68 SOEs Financial Performance Indicators (LLC "Marabda-Kartsakhi Railway" Included)	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	1,112,921.4	1,819,122.1	1,949,777.2	2,378,436.0	2,596,038.8	2,807,633.2	2,811,366.4
Expenses	1,049,478.4	1,789,912.2	2,033,230.2	3,176,783.7	3,133,817.8	3,446,325.3	3,608,557.6
Net Profit	59,953.2	-41,624.7	-98,122.0	-795,752.2	-540,647.4	-642,362.1	-799,268.3

Rentability							
% change in Revenue		63%	7%	22%	9%	8%	0%
% change in Expenses		71%	14%	56%	-1%	10%	5%
Operating Margin	8%	10%	4%	6%	-1%	-20%	-23%
Efficiency Ratio	94%	98%	104%	134%	121%	123%	128%
ROA	1%	0%	-1%	-7%	-4%	-5%	-6%
ROE	1%	-1%	-2%	-14%	-10%	-12%	-17%
Balance Sheet							
Equity	4,311,074.3	5,105,376.3	5,791,134.8	5,681,702.2	5,225,605.9	5,282,691.6	4,697,801.0
Liabilities	3,782,882.2	4,183,794.7	4,635,581.2	6,315,658.7	7,088,995.1	7,164,655.0	7,645,093.5
liquidity							
Current Ratio	329%	356%	295%	310%	253%	223%	156%
Solvency							
Debt to Equity	88%	82%	80%	111%	136%	136%	163%
Interest Coverage	176%	-59%	-115%	-3430%	-2231%	-4404%	-5124%

Table 11. Total financial results of 67 SOEs (including Marabda-Kartsakhi Railway Ltd)

67 SOEs Financial Performance Indicators (LLC "Marabda-Kartsakhi Railway" excluded)	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	1,109,529.36	1,818,790.15	1,940,956.14	2,378,412.02	2,549,775.52	2,741,662.15	2,783,931.41
Expenses	1,038,148.38	1,737,901.17	1,936,319.10	2,844,430.48	2,885,715.15	3,393,998.29	3,475,842.57
Net Profit	67,846.2	10,010.3	-10,142.1	-463,448.0	-338,808.0	-655,644.1	-693,538.3
Rentability							
% change in Revenue		64%	7%	23%	7%	8%	2%
% change in Expenses		67%	11%	47%	1%	18%	2%
Operating Margin	9%	11%	4%	6%	0%	-19%	-22%
Efficiency Ratio	94%	96%	100%	120%	113%	124%	125%
ROA	1%	0%	0%	-4%	-3%	-6%	-6%
ROE	2%	0%	0%	-8%	-6%	-12%	-13%
Balance Sheet							
Equity	4,250,995.3	5,097,073.4	5,873,072.2	6,095,878.7	5,845,119.6	5,679,946.6	5,194,126.0
Liabilities	3,036,748.2	3,322,027.8	3,543,745.5	4,731,690.0	5,184,007.9	5,193,235.7	5,506,244.6
liquidity							
Current Ratio	250%	293%	248%	280%	231%	205%	142%
Solvency							
Debt to Equity	71%	65%	60%	78%	89%	91%	106%
Interest Coverage	211%	15%	-13%	-2729%	-2082%	-9700%	-15332%

68 state companies were divided into different risk categories based on several criteria. Companies that have already received financial assistance fall into the high risk category. Also, the riskiness of the companies was assessed by net value, namely equity. The high risk category included enterprises with negative equity (only one company failed to meet this criterion, with negative equity excluded); However, companies that do not meet two or three of the three criteria listed below are in the high risk category.

- Solvency: Determined by the ratio of total liabilities to assets (9 companies fail to meet the above criteria, their ratio above the threshold of more than 0.5);
- Profitability: is determined by the ratio of return on equity, that is, assesses how profitable an enterprise is (64 companies fail to meet the criteria, have a margin below 10 percent);

- Liquidity: is determined by the current ratio that measures the ratio of current assets and current liabilities. Criterion threshold is 2 (20 companies do not meet this criterion, their ratio is lower than 2).

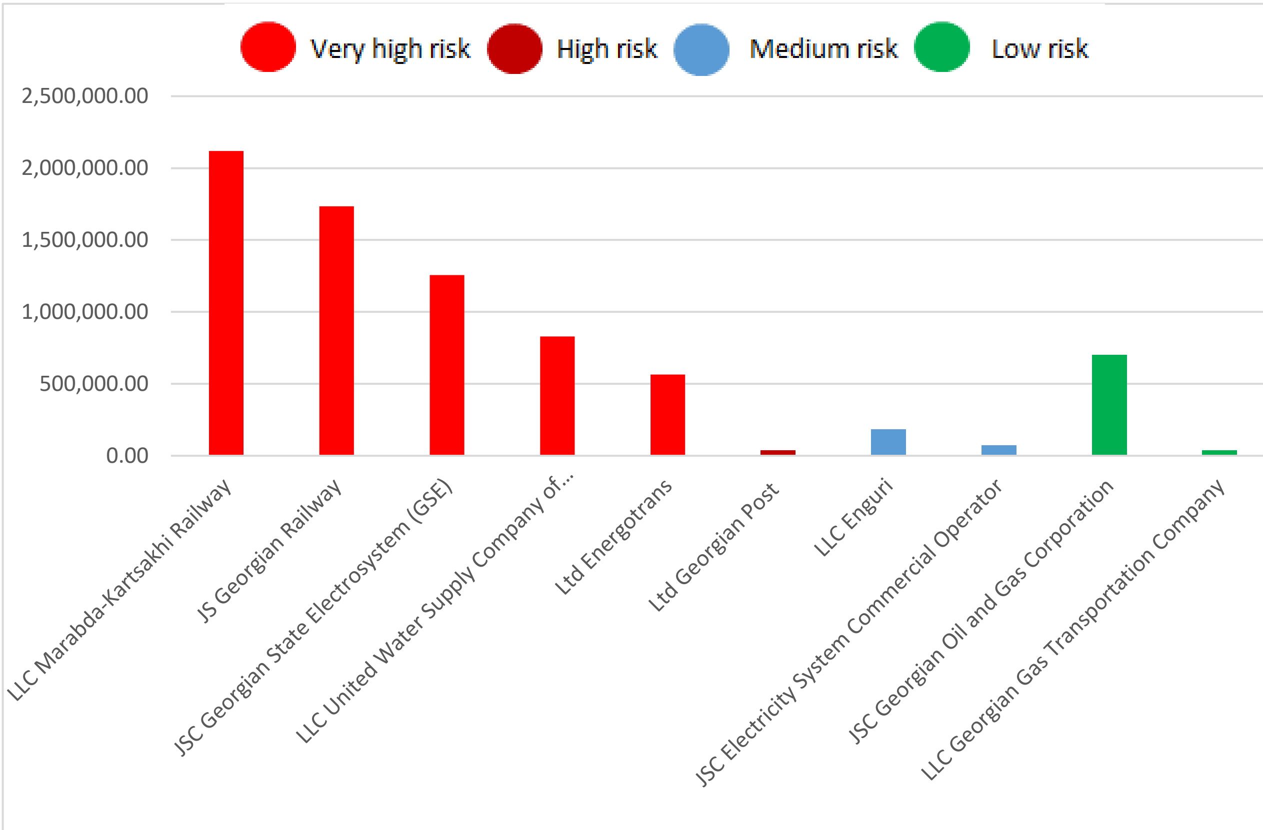
According to the analysis, 43 percent of state companies (29 companies) were assessed as high-risk and their total liabilities (excluding Marabda-Kartsakhi Railway) at the end of 2018 amounted to GEL 4,971.2 million (12.1 percent of GDP). According to the the Marabda-Kartsakhi Railway Loan Agreement, the Government of Georgia has no obligations with respect to its Marabda-Kartsakhi obligations. 35 percent of these high-risk companies' liabilities (excluding Marabda-Kartsakhi) come from the Georgian Railways, 25 percent from the electricity system, and 17 percent from the United Water Supply Company of Georgia. In terms of liabilities, the share of high-risk companies in the list of the 10 largest companies is 84.3 percent of total high-risk companies.

The liabilities of 26 medium risk companies make up 1 percent of GDP. These companies failed to meet one of the above criteria. If the financial situation of these companies deteriorates, they will be at high risk, and if improved, move to a lower risk category.

If the indicators of state companies are negative, it is supervised by the National Agency of State Property, which begins operations to liquidate, reorganize, privatize or merge. Based on such decisions, the number of state companies decreased from 1315 to 106 in 2009-2017.

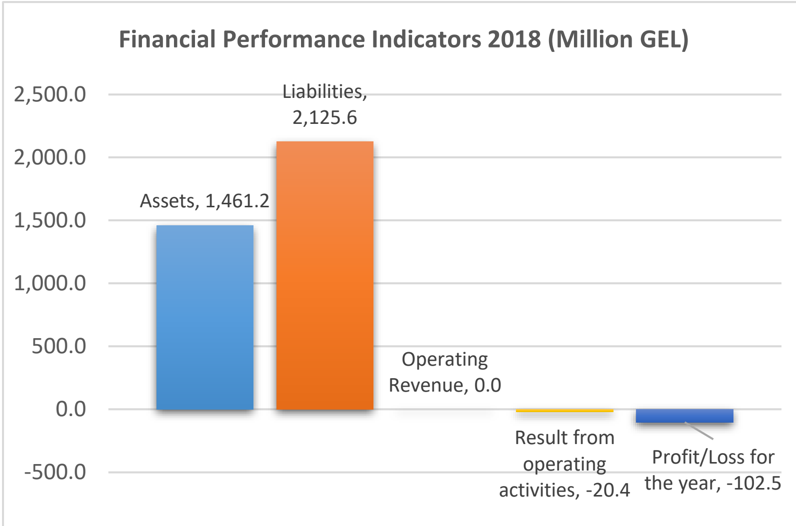
In the longer term, the Ministry of Finance will work with other relevant ministries to reform the legal basis of SOEs to strengthen fiscal risk management.

Risk rating for the 12 enterprises reviewed in the analysis							
Name	2012	2013	2014	2015	2016	2017	2018
Marabda-Kartsakhi		High	High	High	High	High	High
Partnership Fund	High	High	High	High	High	High	High
Georgian Rail	Medium	Medium	Medium	Medium	Medium	Medium	High
State electrical system	High	High	High	High	High	High	High
Energotrans	High	High	High	High	High	High	High
Georgian Oil and Gas Corporation	Medium	Low	Low	Medium	Medium	Medium	Low
Enguri HPP	Medium	High	High	High	High	High	High
Commercial Electricity System Operator	High	High	High	High	High	High	Medium
Georgian Gas Transportation Company	Low	High	High	High	High	High	Low
State Construction Company	High	High	High	High	High	High	Medium
Mechanic	High	High	High	High	High	High	High



Marabda-Kartsakhi Railway Ltd

The Marabda-Kartsakhi Railway is constructing the last part of the Georgian section of the Silk Road project. The project aims to connect Asia with the Middle East, Central Asia and Europe to facilitate trade. After project launch, the projected turnover at the initial stage after project launch is 5 million tonnes, the second phase is expected to increase freight turnover to 15 million. The project includes Construction of new, 29.2 km, railway track in Georgia, ss well as the rehabilitation of the existing 157km track, the construction of new stations and the upgrading of other infrastructure, - The Soviet-era railway will be replaced by a standardized one used to replace carriages in China and Europe and reduce travel times.



The main business of the company is the construction of the railway and related infrastructure, hence the company does not have its own operating income, which makes it a loss.

The project is financed by the Azerbaijani side with a loan granted by the Republic of Azerbaijan. The total loan amount was US $ 775 million and it was issued in two tranches: the first tranche - US $ 200 million and annual interest rate was 1 percent, and the second tranche - US $ 575 million - annual interest rate was 5 percent. It is expected that the total cost of the project will not exceed the loan amount allocated and no additional financial assistance will be required.

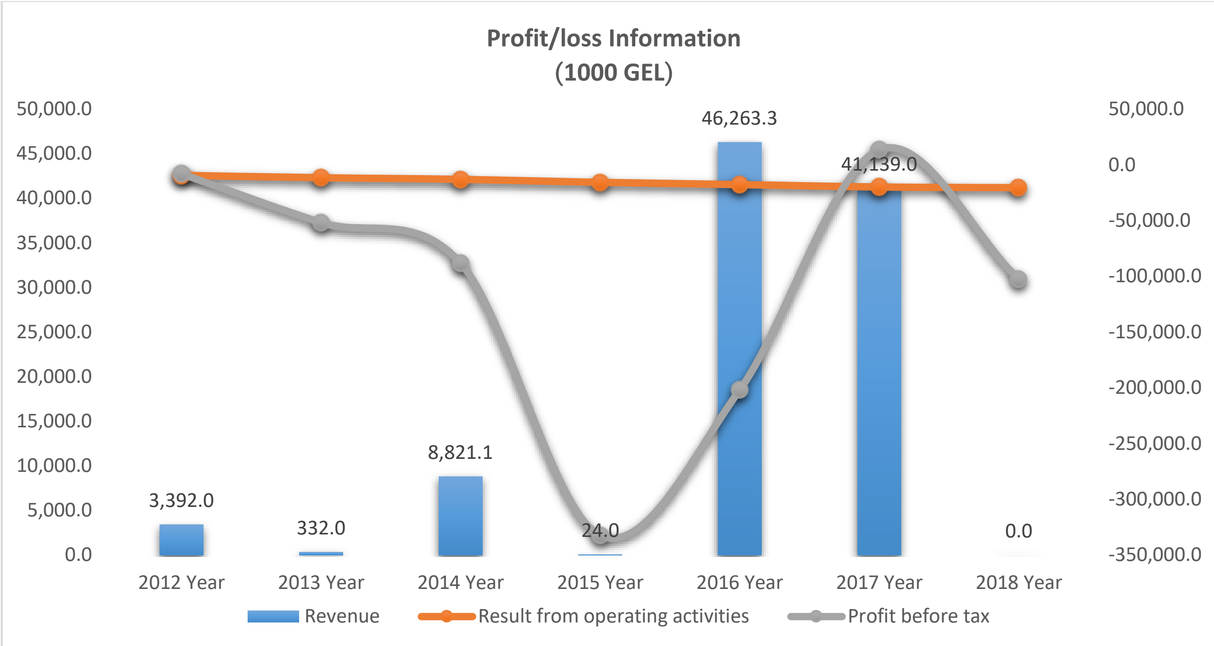
The principal payment of the loan and the interest accrued on it shall commence upon the completion of the project and shall be repaid within 25 years. Within the framework of the agreements, the deadline may be extended. Repayments should be made every half year, with "free cash" remaining after all operating expenses are covered and determined by the Project Coordination Board. The Coordination Council consists of the Deputy Minister of Economy and Sustainable Development and the heads of the Azerbaijani Railways. Future details of the railway operation, including its governance structure and tariffs, are still under negotiation and must be agreed between the Georgian and Azerbaijani governments.

By the end of 2018, the company has assets of 1.4 billion and liabilities of 2.1 billion. The company is insolvent and its liabilities exceed assets by GEL 703.3 million. However, it is expected that after the completion of the construction phase, another company will continue to operate the railway and accordingly, the accumulated liabilities will be transferred to the said company. Realized net loss of Marabda-Kvatsarakhi Railway LLC for 2018 is GEL 102.5 million.

The Company is classified as high-risk, however, under the Loan Agreement the Government of Georgia does not issue any guarantees and does not show any commitment from the Government.
Consequently, the fiscal risk arising from the aforementioned company is non-significant despite negative financial performance.

The company has no operating income. The income from 2016-2017 is the earnings from the inter-course difference.

By 2018, the company has a 19% share of salaries in operating expenses, taxes - 70%, depreciation and amortization - 8%, other expenses - 3%.



Left Axis - Revenue, Right Axis - Operating Profit & Loss, Profit Before Tax

Table 12. Overview of Main Financial Indicators of Marabda-Kvatsarakhi Railway (GEL, Percent)

LLC "Marabda-Kartsakhi Railway"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	3,392.0	332.0	8,821.1	24.0	46,263.3	41,139.0	0.0
Expenses	11,330.0	52,011.0	96,911.1	332,353.2	248,102.7	27,589.0	102,536.0
Net Profit	-7,893.0	-51,635.0	-87,979.9	-332,304.2	-201,839.4	13,550.0	-102,536.0
Rentability							
% change in Revenue		-90%	2557%	-100%	193040%	-11%	-100%
% change in Expenses		359%	86%	243%	-25%	-89%	272%
Operating Margin	-	-	-	-65090%	-	-	-
Efficiency Ratio	334%	15666%	1099%	1387511%	536%	67%	-
ROA	-1%	-6%	-9%	-28%	-16%	1%	-7%
ROE	-13%	-622%	107%	80%ს	33%	-2%	15%
Balance Sheet							
Equity	60,079.0	8,303.0	-81,937.5	-414,176.5	-619,513.7	-565,389.0	-664,420.0
Liabilities	746,134.0	861,766.9	1,091,835.7	1,583,968.7	1,904,987.2	1,958,747.3	2,125,594.8
liquidity							
Current Ratio	4759%	4917%	3942%	1353%	2587%	2071%	1365%
Solvency							
Debt to Equity	1242%	10379%	-1333%	-382%	-307%	-346%	-320%
Interest Coverage	-410%	-2007%	-1736%	-5341%	-2537%	173%	-935%

JSC Partnership Fund

The Partnership Fund was established with the consolidation of the largest SOEs in Georgia. JSC Georgia Partnership Fund is an investment fund that operates in accordance with the laws of Georgia on Entrepreneurs and JSC Partnership Fund. Supervisory board is headed by the Prime Minister of Georgia. The Supervisory Board is composed of representatives of the Government of Georgia and persons invited from the private sector. The Fund holds 100% of the shares of such large companies as JSC Georgian Railway, JSC Georgian Oil and Gas Corporation, JSC Georgian State Electricity System and JSC Electricity System Commercial Operator. The Partnership Fund also owns 24% of JSC Telasi.

The main functions of the Fund are to attract and invest in private and public companies operating in Georgia through equity and debt financing and guarantees. Priority is given to projects implemented in the energy, agricultural, industrial and real estate sectors.

The partnership fund is rated by Fitch as a BB-rated company. Ratings and reports of the Partnership Fund are publicly available. The main cause of the loss in 2018 (GEL 609 million) is the negative results reported by the Fund's subsidiaries (see Georgian Railway data).

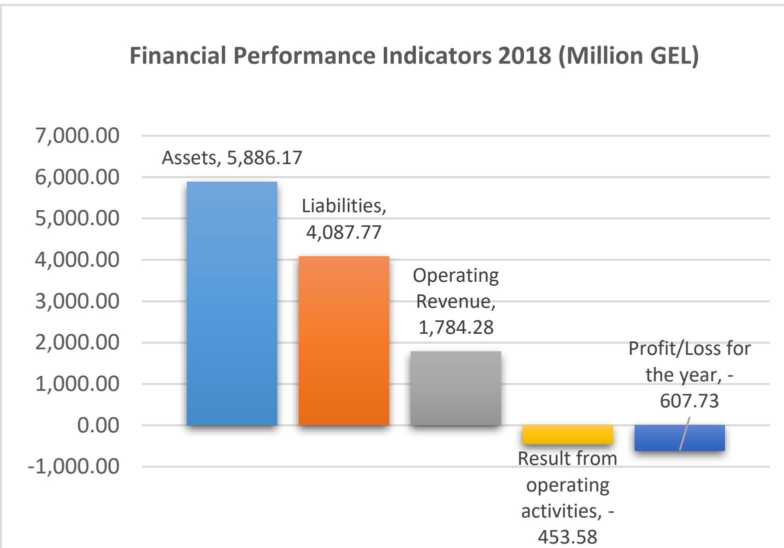
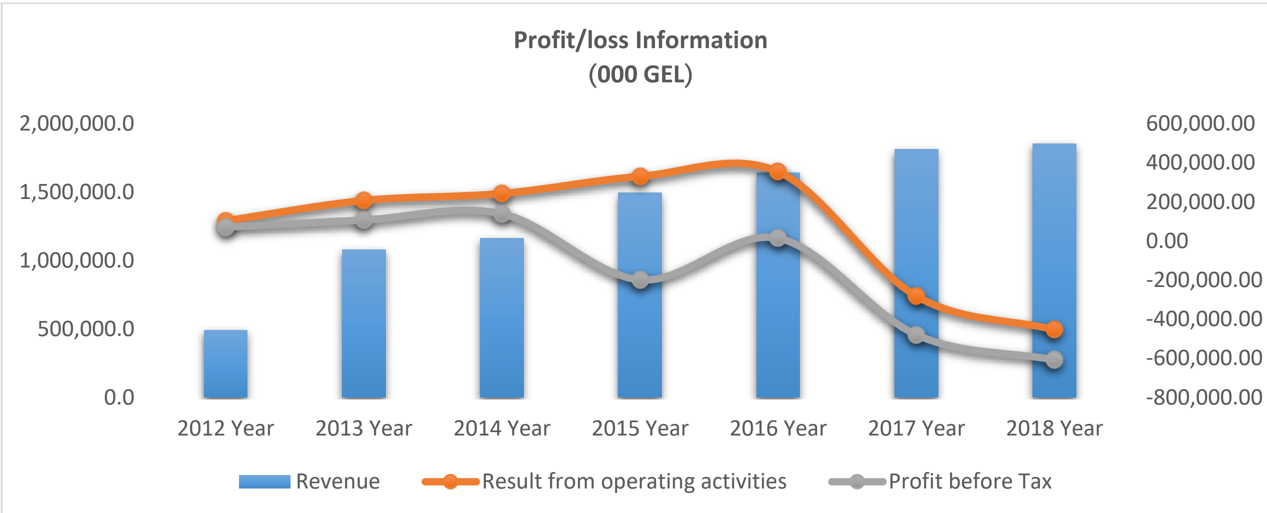


Table 13. Overview of Partnership Fund's Key Financial Indicators (Thousands GEL, Percent)

JSC Partnership Fund	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018[7] Year
Revenue	492,443.0	1,079,532.0	1,162,746.0	1,494,417.0	1,642,896.0	1,815,174.0	1,855,643.0
Expenses	421,405.0	971,759.0	1,022,869.0	1,692,492.0	1,628,381.0	2,294,453.0	2,463,371.0
Net Profit	68,395.0	73,569.0	124,660.0	-189,467.0	24,224.0	-481,982.0	-609,010.0
Rentability							
% change in Revenue		119%	8%	29%	10%	10%	2%
% change in Expenses		131%	5%	65%	-4%	41%	7%
Operating Margin	22%	20%	21%	23%	23%	-16%	-25%
Efficiency Ratio	86%	90%	88%	113%	99%	126%	133%
ROA	1%	1%	2%	-3%	0%	-8%	-10%
ROE	3%	3%	5%	-7%	1%	-21%	-34%

[7] 2018 წლის მონაცემი არააუდირებულია. მაჩვენებლები წარმოდგენილია კონსოლიდირებული სახით.

Balance Sheet							
Equity	2,348,936.0	2,419,284.0	2,641,972.0	2,561,882.0	2,731,310.0	2,292,105.0	1,798,404.0
Liabilities	2,561,432.0	2,640,504.0	2,809,631.0	3,724,826.0	4,135,225.0	4,044,715.0	4,087,769.0
liquidity							
Current Ratio	228%	331%	222%	312%	224%	152%	91%
Solvency							
Debt to Equity	109%	109%	106%	145%	151%	176%	227%
Interest Coverage	330%	151%	188%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!



Partnership Fund - Profit and Loss Information for Past Years (000 GEL, consolidated)
/Chart/
Left Axis - Revenue, Right Axis - Operating Profit & Loss, Profit Before Tax[8]

JSC Georgian State Electro system

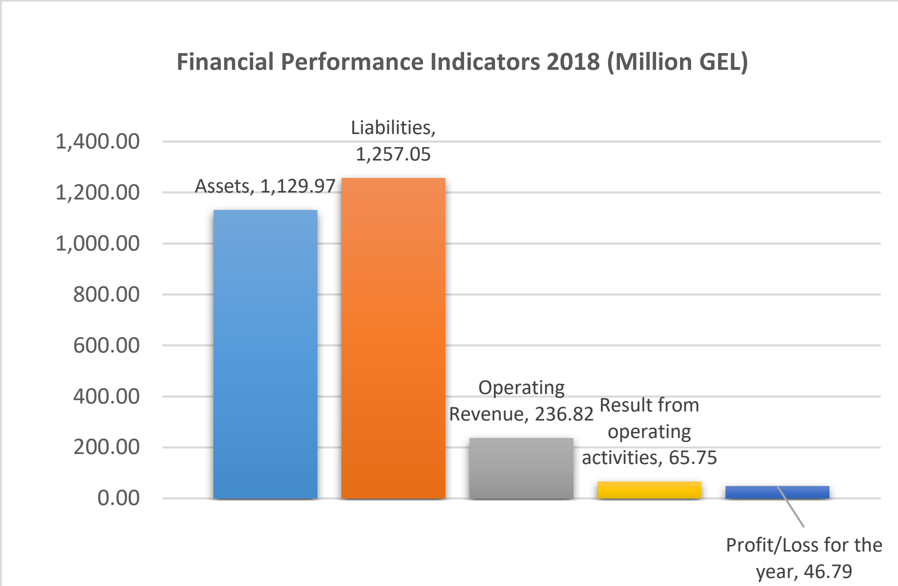
The Georgian State Electricity System is responsible for the transmission and scheduling of electricity, conducts technical control of the entire power system to ensure uninterrupted and reliable power supply. The State Electricity System of Georgia is responsible for the transmission of both imported and exported electricity within Georgia. The company has two subsidiaries: Energotrans Ltd, which is responsible for operating high voltage transmission lines with Turkey, and JSC Karcal Energy, which facilitates electricity exchange operations between Georgia and Turkey. JSC Georgian State Electricity System is fully owned by the Partnership Fund.

Three companies are licensed to transfer power in the Georgian energy sector: JSC Georgian State Electrosystem (GSE), JSC Sakrusenergo and Energotrans Ltd. GSE simultaneously carries out the functions of Transmission System Operator, Dispatch Licensee, Transmission License Holder and Metering Operator.

According to the new tariff methodology approved by the Georgian National Energy and Water Supply Regulatory Commission, the Georgian State Electrosystem will receive an updated tariff annually for transmission and dispatch services. The tariff is calculated by the formula: Company operating expense + Company adjustable assets * WACC / tariff forecast electricity consumption. For the 2014-2017 tariff years, the weighted average cost of capital - WACC was set at 13.54 percent, and its 2018 rate increased to 16.40

[8] 2018 is unaudited. The figures are presented in consolidated form.

[9]percent for the next tariff period(3 years), allowing the company to earn additional income. The company's capital is still negative, but unlike previous years, the company ended 2018 with significant earnings, largely due to the refinement of its tariff methodology.



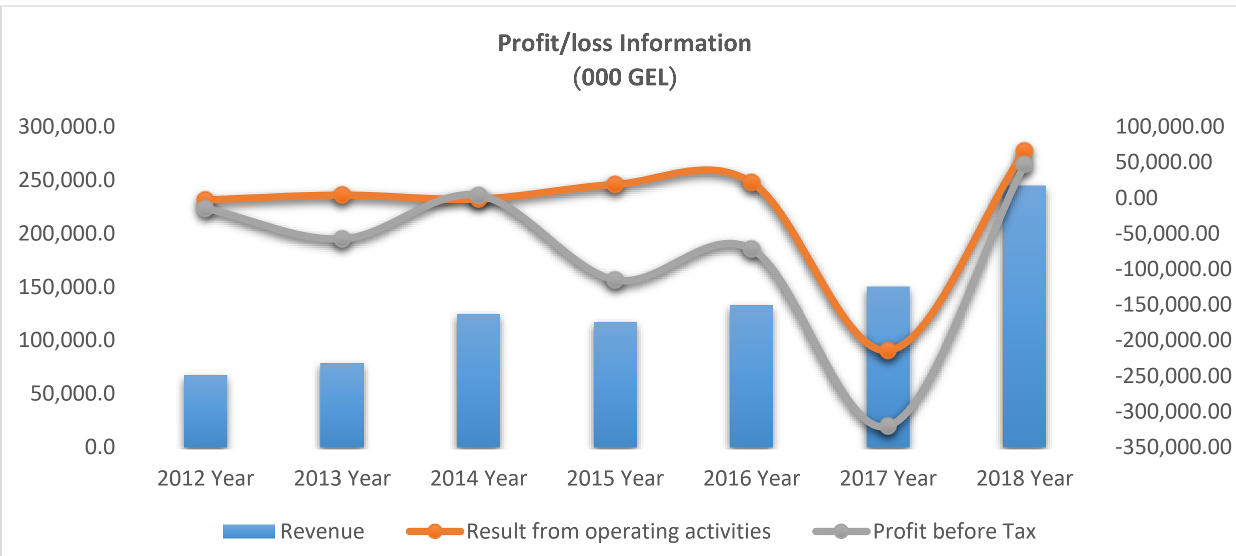


Table 14. Review of the Consolidated Financial Statements of the JSC Georgian State Electricity System (together with the Group's subsidiaries) (GEL thousand, percent)

JSC "Georgian State Electrosystem"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	67,403.0	78,715.0	124,607.0	117,051.0	132,826.0	150,144.0	244,596.0
Expenses	81,956.0	136,240.0	120,953.0	232,220.0	204,599.0	470,468.0	197,811.0
Net Profit	-10,862.0	-63,035.0	3,572.0	-113,332.0	-79,737.0	-320,364.0	46,743.0

[9] http://gnerc.org/files/wliuri%20angariSi/ANNUAL%20REPORT%202017_opt.pdf

Rentability							
% change in Revenue		17%	58%	-6%	13%	13%	63%
% change in Expenses		66%	-11%	92%	-12%	130%	-58%
Operating Margin	-5%	5%	-2%	17%	17%	-145%	28%
Efficiency Ratio	122%	173%	97%	198%	154%	313%	81%
ROA	-1%	-6%	0%	-10%	-6%	-29%	4%
ROE	-4%	-29%	1%	-74%	-77%	181%	-37%
Balance Sheet							
Equity	282,437.0	219,806.0	259,843.0	153,021.0	103,846.0	-177,450.0	-127,082.0
Liabilities	741,922.0	803,464.0	818,548.0	991,476.0	1,168,499.0	1,278,990.0	1,257,047.0
liquidity							
Current Ratio	38%	73%	53%	43%	48%	16%	18%
Solvency							
Debt to Equity	263%	366%	315%	648%	1125%	-721%	-989%
Interest Coverage	-237%	-1279%	17%	-534%	-400%	-1505%	223%

EnergoTrans Ltd

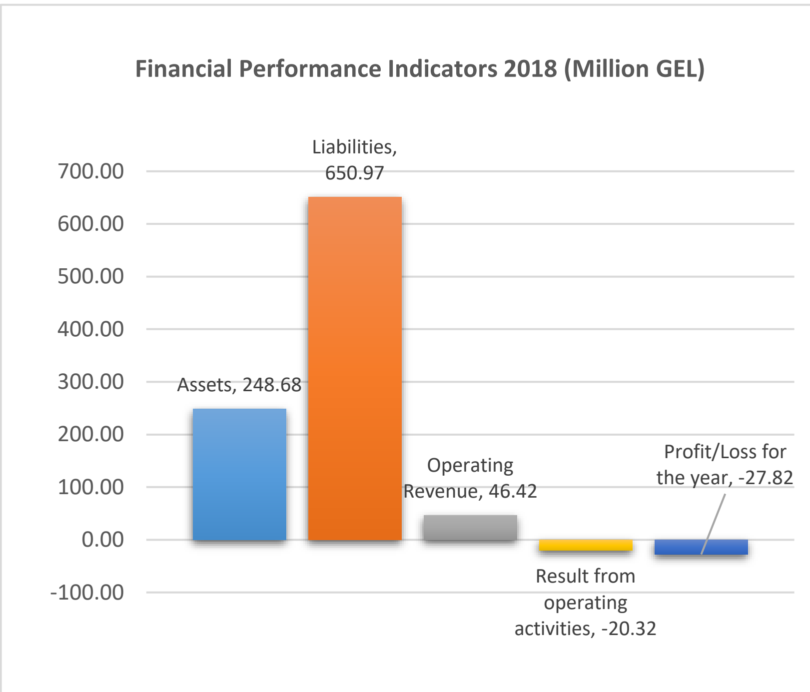
Energotrans Ltd. (hereinafter "the Company") was established in 2002. Since 2009, 100% of Energotrans LLC has been owned by JSC Georgian State Electrosystem (JSC).
Energy Transmission Ltd activity is regulated by Georgian legislation, by the regulatory body and by the normative acts issued by the Government of Georgia under the aforementioned legislation. Including Law of Georgia on Electricity and Natural Gas, Approval of Electricity (Capacity) Market Rules by Decree of the Minister of Energy of Georgia # 77 dated August 30, 2006, On Approval of Network Rules by Resolution # 10 of April 17, 2014 of the Georgian National Energy and Water Supply Regulatory Commission, Resolution # 366 of the Government of Georgia of 24 December 2013 on the Procedure for the Protection of Linear Facilities of Electric Networks and their Protection Zones, 57 Decree # 57 of the Government of Georgia on Issuance of Construction Permit and Permit Conditions. The company owns quality control Certificate, ISO 9001.

The main business of Energotrans Ltd is electricity transmission, electricity export and transit. Energotrans Ltd owns: 500 kV or Vardzia-Zekari transmission lines, 400 sq.m Meskheti transmission line and 500/44/220 sq.m transmission line. Substation Akhaltsikhe. The total length of power transmission lines in the territory of Georgia is 290 km. It covers the territory of 10 municipalities of Georgia and connects the Gardabani 500 and Didi Zestafoni substations on the south side of the 10 municipalities of Georgia through the 500/400/220 sq.m substation Akhaltsikhe. In addition to the above, the Akhaltsikhe substation is connected to the Turkish substation "Borchkha" via the 400 sq.m transmission line Meskheti. It is unique in its meaning in the Caucasus region, since the first ever HVDC was installed here. The project, known as the Black Sea Transmission Network Construction Project, was funded by the German Bank for Reconstruction (KFW), the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The project cost € 250 million (including € 25,000) is a financial contribution from KfW under the Black Sea Power Transmission Network Project (BSTN) related to the construction of the new transmission lines. The financial contribution will not be reimbursed except in cases where the company is not using properly the funds or a significant threat to the implementation of the project), which provides additional protection of the transmission line, as an additional 500 sq.m connection by means of creating electricity exports to Turkey. The Black Sea Transmission Network Construction Project was completed in 2013.

Since the commissioning of the power lines since 2013, the company's revenue has grown annually, but export and transit capacity has been low, and the income from this activity is not sufficient to offset the company's cost and currency depreciation losses. The exchange rate depreciation has adversely affected the financial position of the Company as its liabilities are denominated in foreign currencies, especially in 2015-2017. In 2017, the company reported losses of 315 million, 2016 - 33 million GEL, and 2015 - 92.5 million GEL. The impact of the tax reform on the tax system on the company was not significant and its tax benefit amounted to GEL 1.6 million.

As a result of the impairment, the Company's long-term assets decreased from 583 million in 2017 to 358 million, with long-term impairment continuing in 2018. Impairment amounted to GEL 42.7 million.

The company ended 2018 with losses, but it is expected that the increase in the rate of electricity transmission and scheduling by the Georgian National Energy and Water Supply Regulatory Commission in May 2018 will have a positive effect in subsequent years and the company will end the reporting year with profits.



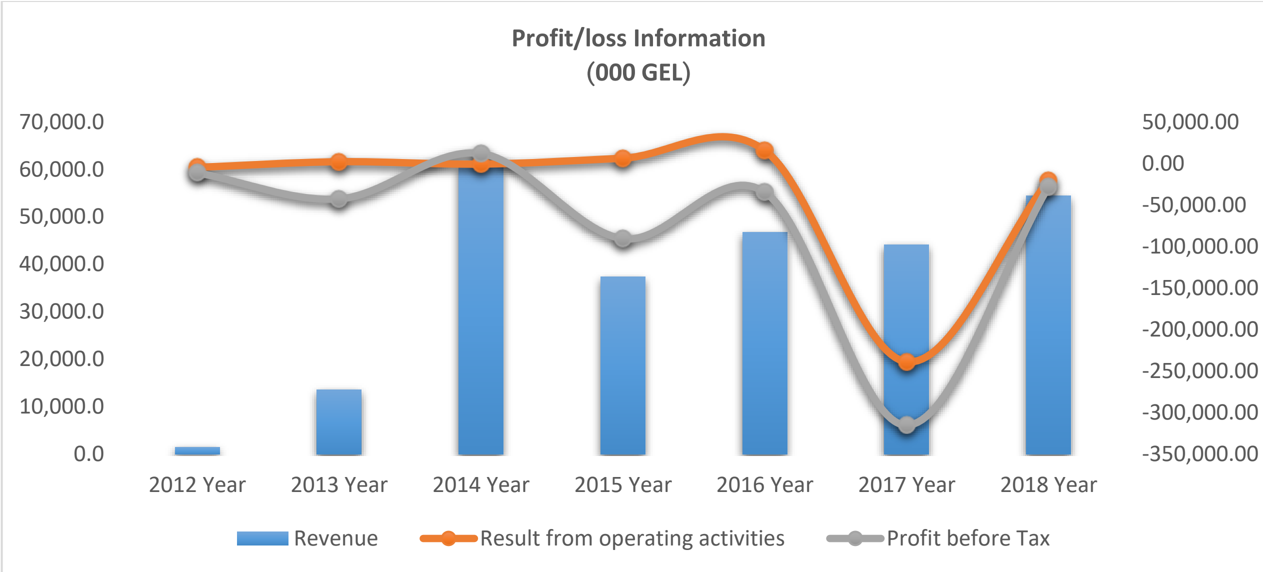


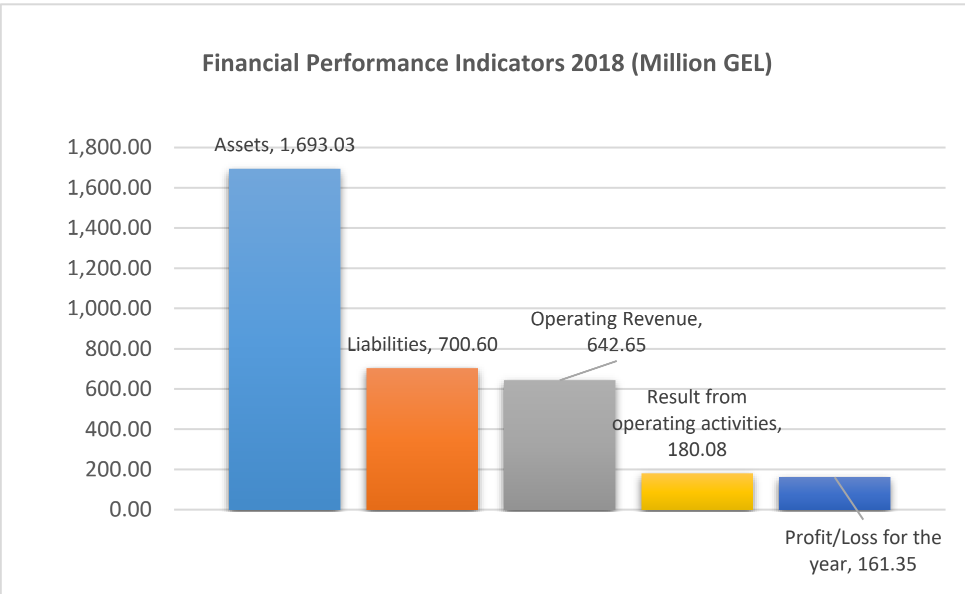
Table 15. Overview of Key Financial Indicators of Energotrans Ltd (Thousands GEL, Percent)

"Energotrans" Ltd	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	1,486.0	13,569.0	60,792.0	37,416.0	46,776.0	44,122.0	54,466.0
Expenses	12,676.0	56,133.0	48,738.0	127,928.0	81,363.0	359,263.0	82,281.0
Net Profit	-6,540.0	-44,734.0	12,762.0	-96,886.0	-50,277.0	-315,141.0	-27,815.0
Rentability							
% change in Revenue		813%	348%	-38%	25%	-6%	23%
% change in Expenses		343%	-13%	162%	-36%	342%	-77%
Operating Margin	-66429%	18%	-2%	18%	34%	-549%	-44%
Efficiency Ratio	853%	414%	80%	342%	174%	814%	151%
ROA	-1%	-6%	2%	-16%	-9%	-102%	-11%
ROE	-5%	-63%	16%	561%	88%	84%	7%
Balance Sheet							
Equity	120,779.0	71,246.0	79,826.0	-17,257.0	-57,222.0	-374,495.0	-402,291.0
Liabilities	564,282.0	629,692.0	590,293.0	642,206.0	648,448.0	681,966.0	650,969.0
liquidity							
Current Ratio	18%	54%	41%	33%	33%	5%	3%
Solvency							
Debt to Equity	467%	884%	739%	-3721%	-1133%	-182%	-162%
Interest Coverage	#DIV/0!	#DIV/0!	75%	-575%	-324%	#DIV/0!	#DIV/0!

JSC Georgian Oil and Gas Corporation

JSC Georgian Oil and Gas Corporation has historically been responsible for managing four business segments of the business, including: gas supply (gas purchase and sale to the social sector), leasing of pipelines (including lease income derived from a leased gas pipeline to Georgia Gas Company); Oil extraction (incl had the oil sales from production sharing agreements), oil (including oil transportation through the territory of the western route export pipeline). Since 2015, the corporation's activities have also included power generation and supply. Gas procurement activities are based on four long-term gas purchase agreements, mainly with fixed prices and a long-term structure. In 2017, the company started construction of the Gardabani Thermal Power Plant Combined Cycle 230 MW in Gardabani, the construction of which is expected to be completed by the end of 2019. The investment made by the corporation in Gardabani in 2017-2018 amounted to approximately GEL 165 million.

In 2018, 53% of the company’s sales were in the gas supply segment, while revenues from the electricity generation and supply segment accounted for 18% of the company’s gross revenue. The Company's operating profit for 2018 amounted to GEL 182 million and net profit - GEL 161 million. Compared to operating profit, net profit was reduced due to financial expenses, by 2018 interest income amounted to GEL 34 million, interest expense - GEL 42 million, inter-company loss - GEL 21 million. The Oil and Gas Corporation is one of the most financially healthy companies. Fiscal risk from the company is low, however, it should be noted that the company is vulnerable to currency risk because its loans are denominated in foreign currency.



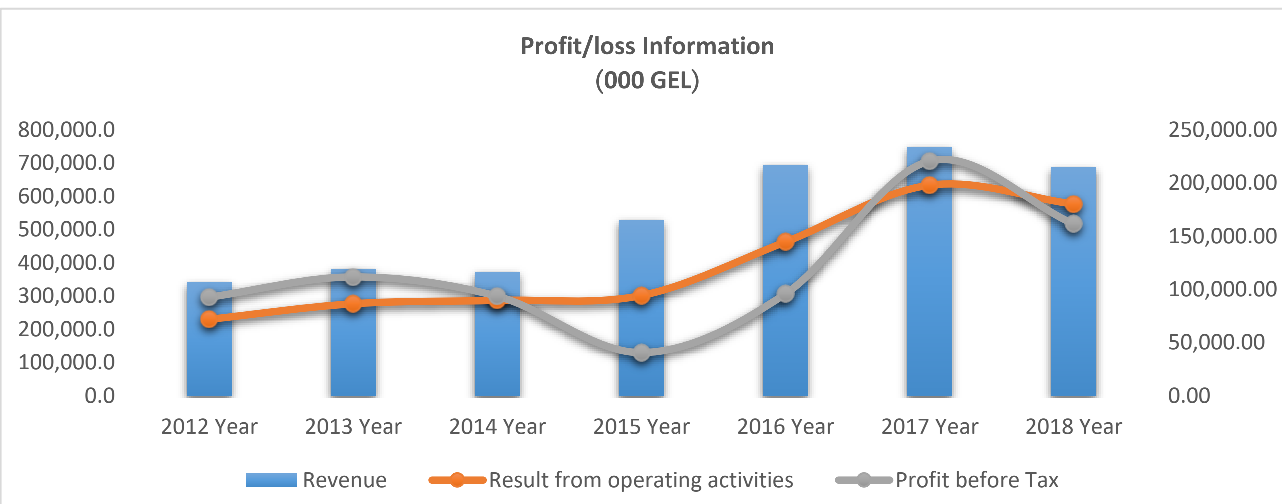


Table 16. JSC "Georgian Oil and Gas Corporation" - Financial Performance Indicators (Thousand GEL, %)

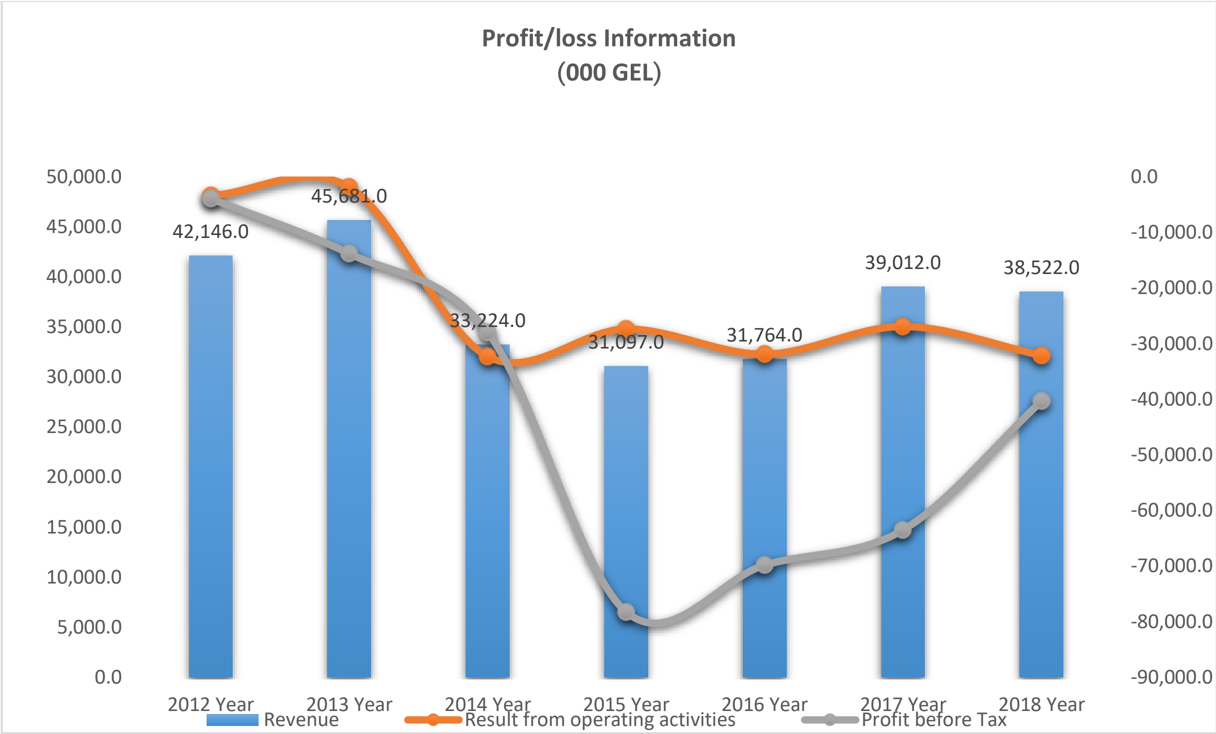
JSC "Georgian Oil and Gas Corporation"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	339,685.9	380,393.7	372,189.6	528,761.7	692,433.8	748,045.5	687,084.3
Expenses	247,082.0	268,790.6	278,724.8	488,205.5	596,629.3	527,680.8	527,074.5
Net Profit	81,025.9	94,293.1	83,888.7	36,214.2	74,459.5	220,405.7	161,344.8
Rentability							
% change in Revenue		12%	-2%	42%	31%	8%	-8%
% change in Expenses		9%	4%	75%	22%	-12%	0%
Operating Margin	24%	27%	25%	19%	23%	29%	28%
Efficiency Ratio	73%	71%	75%	92%	86%	71%	77%
ROA	9%	9%	7%	3%	5%	13%	10%
ROE	20%	17%	12%	5%	10%	24%	16%
Balance Sheet							
Equity	398,759.0	568,923.0	675,964.0	714,859.0	711,594.0	912,510.3	992,426.0
Liabilities	479,551.0	485,970.0	554,944.0	689,185.0	869,676.0	747,331.9	700,604.0
liquidity							
Current Ratio	562%	930%	365%	507%	325%	645%	1299%
Solvency							
Debt to Equity	120%	85%	82%	96%	122%	82%	71%
Interest Coverage	429%	325%	67869%	166%	122%	457%	378%

United Water Supply Company Ltd

United Water Supply Company provides water supply and sewage services throughout Georgia for urban settlements, except Tbilisi, Mtskheta, Rustavi, Gardabani Municipality and Adjara Autonomous Republic. The main activities of the company include: Water extraction, treatment and supply; Design, construction, installation, repair and operation of water supply and sewage networks; Manufacture and rehabilitation of constituent elements of water supply and sewage systems. The company serves more than 306,000 household and 19,000 non-residential customers. The company was founded in 2010 to centralize services. The state owns 100 percent of the company's shares and is managed through the Ministry of Regional Development and Infrastructure.

In 2018, the state invested GEL 35.6 million in the company and a subsidy of GEL 69,000. The following amounts were directed to:

- Completion of construction of artificial water reservoir in Gudauri;
- Completion of construction / repair works of Kutaisi service centers;
- Purchase of metering and related works of company subscribers in Manglisi, as well as the first phase of rehabilitation of drinking water supply head and water supply network;
- Procurement of project services needed for rehabilitation of water supply and sewage system in Kvareli municipality, Kharagauli municipality, Kharagauli municipality and Dusheti municipality, Pasanauri municipality.
- Senaki Agmashenebeli Street Water Supply System Installation Works;
- Purchase of agar water supply rehabilitation works;
- 41 390 GEL was transferred within the framework of Kutaisi Wastewater Project (EIB, EPTATF) to cover the salaries of Kutaisi Wastewater Consultants



The price setting for a service provided by a regulatory authority limits it to achieving sufficient efficiency. According to the financial statements, the company has completed operating loss each year during 2012-2018. It is also worth noting that the cost structure of the company during the analysis period does not change significantly. For example, in 2018, company payrolls increased 4% in nominal terms compared to 2017, with only 22% coming from administrative staff. From this, we must conclude that the company sells its services at a quasi-fiscal (non-commercial) price, which has been reflected in operating loss for years.

As can be seen from the table, the Company also suffered losses from financial activities, which represent interest expenses and losses arising from inter-company differences.

Table 17. LLC "United Water Supply Company of Georgia" (UWSCG) - Financial Performance Indicators (Thousand GEL, %)

LLC "United Water Supply Company of Georgia" (UWSCG)	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	42,146.0	45,681.0	33,224.0	31,097.0	31,764.0	39,012.0	38,522.0
Expenses	46,017.0	59,456.0	61,178.0	109,330.0	101,584.0	102,489.0	78,831.0
Net Profit	-3,871.0	-13,775.0	-27,954.0	-78,233.0	-69,820.0	-63,477.0	-40,309.0
Rentability							
% change in Revenue		8%	-27%	-6%	2%	23%	-1%
% change in Expenses		29%	3%	79%	-7%	1%	-23%
Operating Margin	-8%	-4%	-97%	-88%	-100%	-69%	-83%
Efficiency Ratio	109%	130%	184%	352%	320%	263%	205%

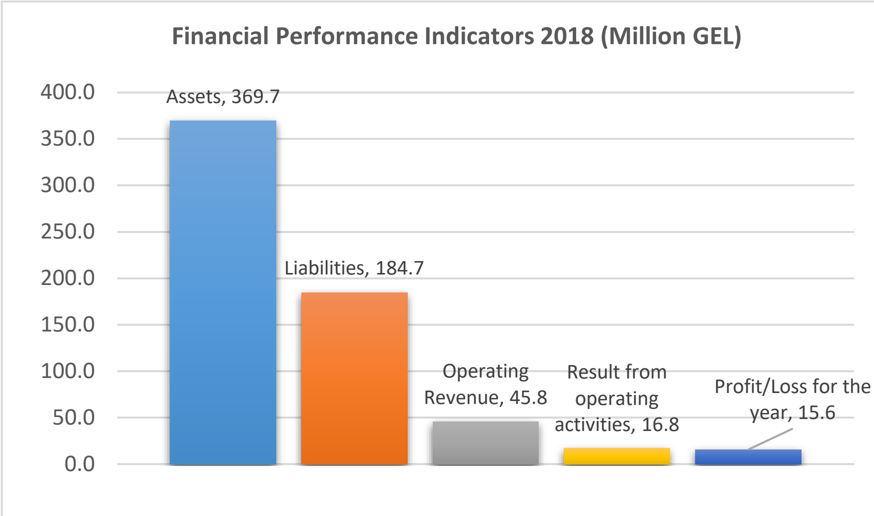
ROA	-1%	-3%	-5%	-12%	-9%	-9%	-5%
ROE	-1%	-5%	-9%	-31%	-31%	-434%	-250%
Balance Sheet							
Equity	285,291.0	296,313.0	296,935.0	256,153.0	224,035.8	14,641.0	16,152.0
Liabilities	120,781.0	158,734.0	256,538.0	379,817.0	535,986.6	697,276.0	836,804.0
liquidity							
Current Ratio	469%	359%	410%	295%	213%	231%	102%
Solvency							
Debt to Equity	42%	54%	86%	148%	239%	4762%	5181%
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Enguri HPP

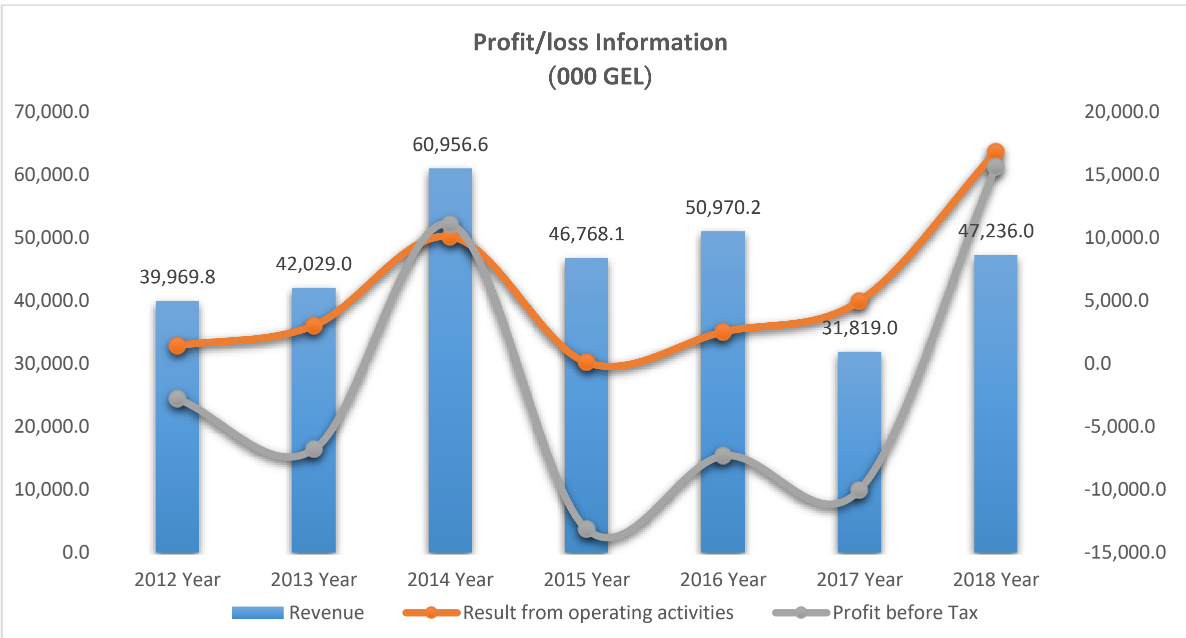
The state owns 100% of Enguri Dam Ltd. The company is managed by the Ministry of Economy and Sustainable Development of Georgia.

The company is responsible for the operation of several small hydropower plants in the Kodori Gorge on the Enguri dam, Vardnil dam Cascade and the Autonomous Republic of Abkhazia.

Vardnil dam cascade is fully located in the A / R of Abkhazia, it started operating in 1971, consists of 4 (four) power plants and currently operates only one - Vardnil-I, with a capacity of 220 MW. The remaining 3 (three) dams were looted during the war in the 1990s and the remaining hydroelectric facilities are currently preserved. Engurhesi started operation in 1978 and its installed capacity is 1,300 MW. The Enguri dam and Vardnil dam cascade together generate more than 4 billion kWh of electricity annually, accounting for 35 percent of Georgia's annual electricity demand. Engurhesi is partly located in the A / R of Abkhazia. According to the Georgian Law on Electricity and Natural Gas and the Electricity (Capacity) Market Rules, the Company is obliged to supply electricity to the territory of Abkhazia. However, the company supplies Abkhazia with electricity free of charge and receives no revenue. Currently, Abkhazia's consumption accounts for about half of the electricity generated by the Enguri and Vardnili dam cascade, with demand increasing by an average of 5 percent year-on-year. Especially during the winter months, when the demand for electricity reaches its peak and supply is limited, the amount of electricity supplied to Abkhazia exceeds the electricity produced by Enguri and Vardnili dam and the company purchases additional capacity to meet this demand. The company ended 2015-2017 with losses. The main reason for the loss apart from quasi-fiscal activities was the loss of inter-company differences, as the company has a large amount of foreign currency liabilities, but it should be noted that in the absence of quasi-fiscal activities, the company would not incur losses in the past years.



Unlike previous years, the company ended 2018 with a net profit of $ 15.6 million. As for the quasi-fiscal activities of the company, the unaccounted income of the company amounted to 25.6 million GEL due to free electricity supply in the territory of Abkhazia.



The operation life of the dams is from 80 to 100 years, provided that the necessary updates must be made every 20 to 25 years.

Table 18. Ltd. Enguri HPP - Financial Performance Indicators (Thousand GEL, %)

Ltd. Engurhesi	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	39,969.8	42,029.0	60,956.6	46,768.1	50,970.2	31,819.0	47,236.0
Expenses	42,765.7	48,848.8	49,878.5	59,930.0	58,303.2	41,852.0	31,594.0
Net Profit	-2,795.9	-6,819.8	11,078.2	-13,161.9	-7,333.0	-10,072.0	15,626.0
Rentability							
% change in Revenue		5%	45%	-23%	9%	-38%	48%
% change in Expenses		14%	2%	20%	-3%	-28%	-25%
Operating Margin	4%	7%	19%	0%	5%	16%	37%
Efficiency Ratio	107%	116%	82%	128%	114%	132%	67%
ROA	-1%	-2%	3%	-4%	-2%	-3%	4%

ROE	-1%	-4%	6%	-7%	-4%	-6%	8%
Balance Sheet							
Equity	193,247.6	188,941.1	199,584.7	185,877.6	178,579.6	169,417.3	185,043.8
Liabilities	99,238.6	117,246.8	130,127.9	163,005.0	171,330.0	187,650.6	184,674.0
liquidity							
Current Ratio	653%	1878%	155%	233%	86%	607%	1834%
Solvency							
Debt to Equity	51%	62%	65%	88%	96%	111%	100%
Interest Coverage	-156%	-364%	2678%	-2639%	-393%	-388%	607%

JSC Electricity System Commercial Operator

JSC "Electricity System Commercial Operator" (ESCO) performs the functions specified by the Law of Georgia on Electricity and Natural Gas and "Electricity (Capacity) Market Rules" approved by the Order of the Minister of Energy of Georgia N77 of August 30, 2006, including exclusively balancing electricity. Trade, country imports and exports electricity on a seasonal basis.

In addition, in accordance with the Law of Georgia on Electricity and Natural Gas and the "Electricity (Capacity) Market Rules", the Company purchases guaranteed capacity from the thermal power plants, realizes and makes appropriate payments.

The Company acts as a direct purchaser (not as an agent) in the Balance Electricity and Guaranteed Capacity Transaction Operations and is obliged to make payments to Balancing Electricity Sellers and Guaranteed Power Sources regardless of whether or not it has received Balance Electricity sold from customers. Accordingly, the process of payment, in particular cases of non-payment of electricity and / or guaranteed capacity by customers, is related to the level of credit and liquidity risk of the company.

The Company has a credit risk within its current operations. This is a possible financial risk for the Company if the customer (the contracting party to the financial instrument) fails to comply with its contractual obligations to reimburse ESCO. Credit risk to the company arises mainly from current trade requirements.

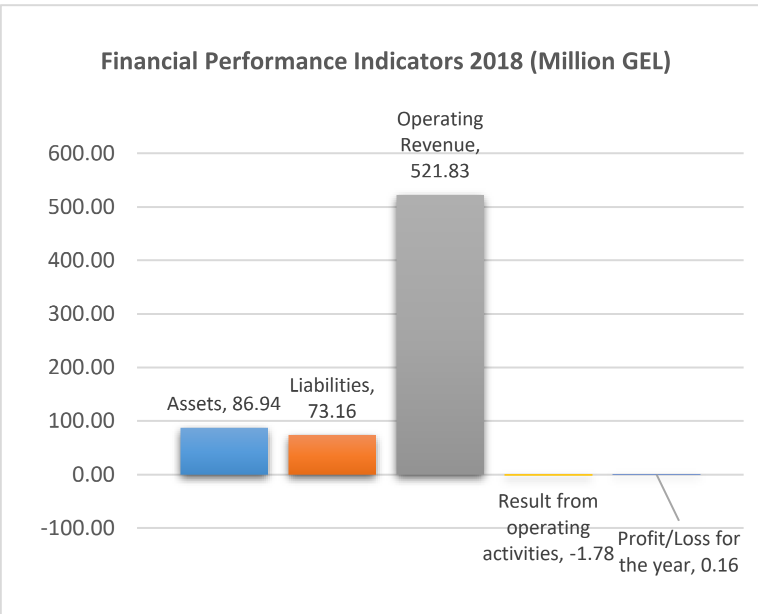
The Company, within its competence, takes measures to reduce the probability of these risks and their impact on the financial stability of the enterprise:

- Collecting, analyzing, and forecasting information on expected monthly payments from accounts receivable;
- Systematic, direct partnership with enterprises, discussing existing problems with relevant enterprise management;
- Failure to pay a penalty in case of failure to fulfill financial obligations on time;
- For exporters who are not licensees, usually use the pre-bank guarantee mechanism;
- In case of breach of contract terms, request for bank guarantees on current and future forecast payments in accordance with "electricity (capacity) market rules" and standard contract terms;
- Written warnings and use of interruptions or restrictions on power supply within 72 hours of notice (in accordance with the "Electricity (Capacity) Market Rules" and Standard Conditions)
- Lawsuit for forced payment of money.

The company is slightly capitalized. ESCO liquidity is essential for financial risk management. The Company has retained earnings in the form of financial resources, which play a buffering role in financing operating expenses at a given moment in the absence of resources. Retained earnings for 2017 amounted to GEL 16.6 million, and in 2018 - GEL 13.5 million.

In addition, on "Electricity and Natural Gas"
Pursuant to Article 23 (4) of the Georgian Law, ESCO is required to conclude a PPA with the relevant entity on the terms agreed by the Government of Georgia, ESCO and Investor. ESCO does not participate in the process of determining the price and purchase period in the MoU and its obligation includes the guaranteed purchase of electricity generated from newly constructed power plants, mainly in the fall and winter months, when electricity consumption in the country is significantly higher in Georgia. Compared to the volume of trenergy.

In the Company's view, PPA contracts do not constitute contingent liabilities as defined in IAS 37 (Accruals, Contingent Liabilities and Contingent Assets) and it is not possible to objectively assess the revenue or sales cost that the Company may derive from PPA contracts in the future.



However, the Ministry of Finance of Georgia, in the light of best practices in fiscal transparency, publishes information on contingent liabilities from the country's PPA portfolio.

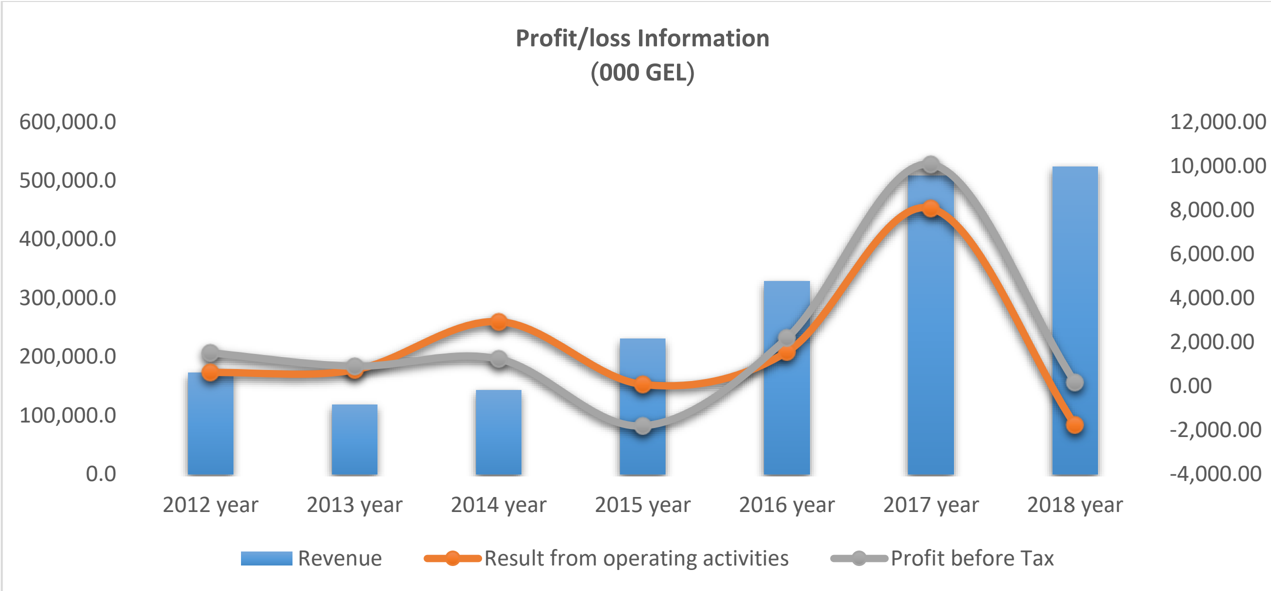


Table 19. JSC "Electricity System Commercial Operator" - Financial Performance Indicators (Thousand GEL, %)

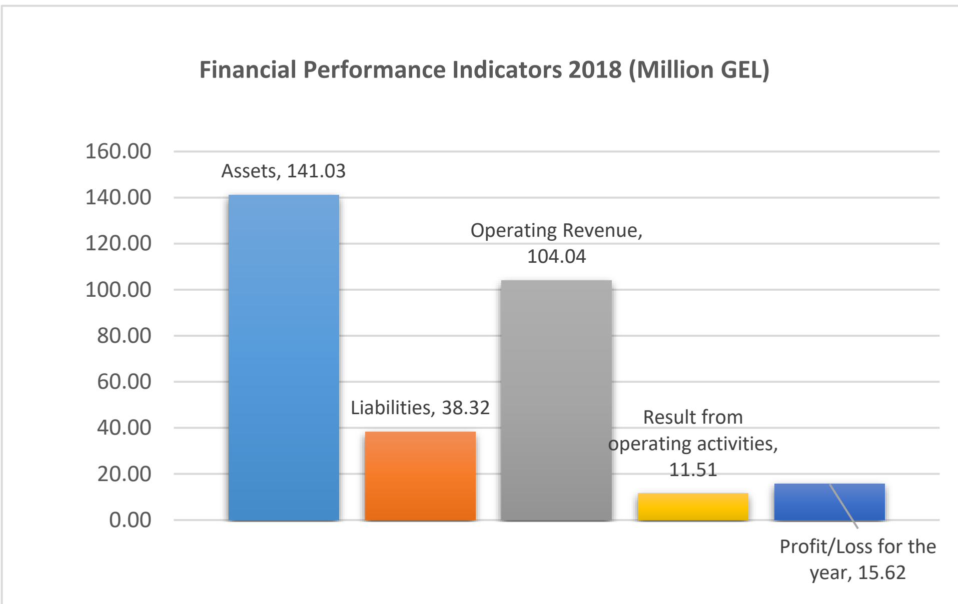
JSC "Electricity System Commercial Operator"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	172,916.4	118,032.2	142,549.1	230,713.0	328,345.6	508,456.5	523,915.7
Expenses	171,404.8	117,126.9	141,316.8	232,518.0	326,162.5	498,383.4	523,753.3
Net Profit	1,450.3	936.5	1,219.3	-1,798.0	1,809.4	10,073.2	98.5
Rentability							
% change in Revenue		-32%	21%	62%	42%	55%	3%
% change in Expenses		-32%	21%	65%	40%	53%	5%
Operating Margin	0%	1%	2%	0%	0%	2%	0%
Efficiency Ratio	99%	99%	99%	101%	99%	98%	100%
ROA	4%	3%	3%	-3%	3%	19%	0%
ROE	31%	17%	18%	-35%	26%	60%	1%
Balance Sheet							
Equity	4,716.3	5,652.8	6,872.2	5,074.4	6,859.3	16,908.5	13,772.4
Liabilities	29,170.0	28,333.0	29,523.9	52,220.0	56,435.8	35,572.2	73,164.7
liquidity							
Current Ratio	114%	118%	121%	108%	112%	147%	118%
Solvency							
Debt to Equity	618%	501%	430%	1029%	823%	210%	531%
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

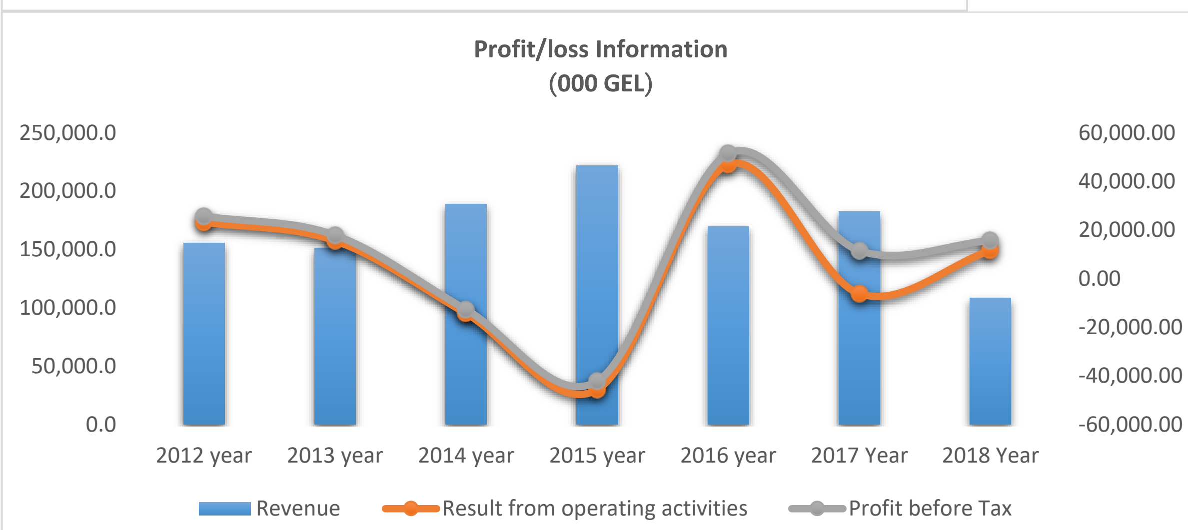
Georgian Gas Transportation Company Ltd.

Georgian Gas Transportation Company Ltd is the only licensed natural gas carrier in Georgia. The existing license has been issued for a lifetime since 2009. The main activities of the company include transportation of natural gas throughout Georgia and transit of natural gas from the Russian Federation to the Republic of Armenia. In addition, on demand, the company also supplies natural gas (until recently, until 2018, natural gas was supplied to JSC Georgian Oil and Gas Corporation). To carry out the above activities, the Company has leased operating gas pipeline system and associated infrastructure from the JSC Georgian Oil and Gas Corporation. The lease has been fixed and depreciated in GEL since September 2017 (in the past it was denominated in US dollars and depended on the volume of natural gas consumed on the highway).

The company invested GEL 70 million in 2017 for infrastructure projects, in particular for the purpose of improving Georgia's gas supply, gas distribution networks were built, totaling GEL 56 million. The remaining amount of this contribution, up to approximately GEL 16 million, will be allocated to the projects specified in the Government Decree №791 of April 5, 2019 on Measures to be Implemented in 2019-2021 to Promote Natural Gas Supply for the Population of Georgia. The net profit of the company at the end of 2018 was approximately GEL 15.6 million. However, the company's financial data for 2018 are unaudited.

Quasi-fiscal activities had a significant share of the company in the past years, but according to the company reports, by 2018 the company had not implemented such activities.





Gas Transportation Company Ltd is fully managed by the Ministry of Economy and Sustainable Development of Georgia.

Table 20. LLC "Georgian Gas Transportation Company"- Financial Performance Indicators (Thousand GEL, %)

LLC "Georgian Gas Transportation Company"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	155,560.1	151,152.0	188,670.0	221,882.0	169,418.0	182,220.0	108,160.0
Expenses	129,957.6	133,347.0	201,457.0	264,097.0	118,029.0	170,739.0	92,536.0
Net Profit	22,100.5	16,452.0	-11,147.0	-43,785.0	48,401.0	11,481.0	15,624.0
Rentability							
% change in Revenue		-3%	25%	18%	-24%	8%	-41%
% change in Expenses		3%	51%	31%	-55%	45%	-46%
Operating Margin	15%	10%	-8%	-21%	28%	-4%	11%
Efficiency Ratio	84%	88%	107%	119%	70%	94%	86%
ROA	33%	32%	-14%	-44%	45%	7%	11%
ROE	40%	35%	-26%	-1850%	85%	10%	15%
Balance Sheet							
Equity	55,436.0	47,512.0	42,275.0	2,367.0	57,147.0	116,604.0	102,711.0
Liabilities	10,662.0	4,385.0	36,144.0	97,710.0	50,572.0	51,200.0	38,318.0
liquidity							
Current Ratio	446%	787%	139%	71%	137%	443%	569%
Solvency							
Debt to Equity	19%	9%	85%	4128%	88%	44%	37%
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Ltd State Construction Company

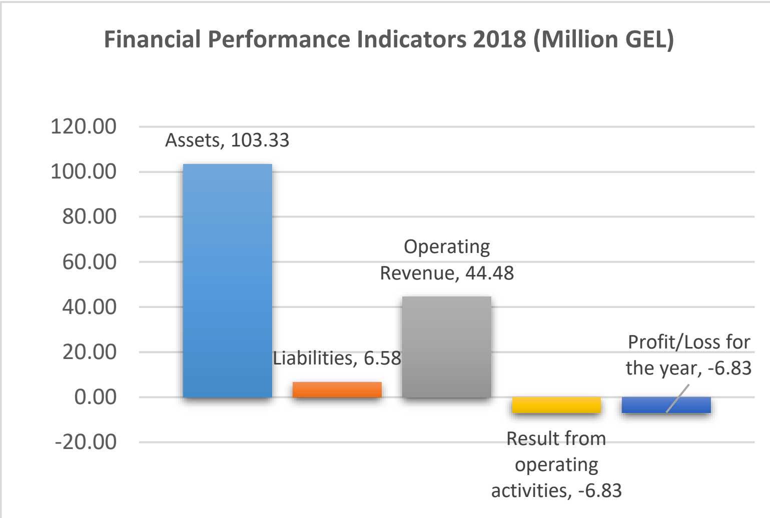
The State Construction Company carries out construction projects, in particular rehabilitation, modernization and reconstruction of state roads, bridges and tunnels, as well as other civil construction works related to state projects. The company also manufactures building materials and provides services using professional equipment.
The company was founded in 2006 by the Government of Georgia and is managed by the Ministry of Regional Development and Infrastructure.

The work carried out by the company is mainly the elimination of non-profit purposes, such as the effects of natural disasters. This type of work is not commercially interesting for the private sector, and the procurement of such services through public procurement is irrational (both in terms of time and cost required for procurement procedures). Consequently, the company relies heavily on state-funded projects.

The company derives its income from economic activity from the budget organization and does not sell its products at market price.

In addition, the agreement between the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Regional Development and Infrastructure of Georgia on November 5, 2010 on the transfer of 100% of the state-owned shares of the enterprise was annulled.

Thus, the company returned to the disposal of economy and sustainable development. According to a company spokesperson, the company is currently in a restructuring process and the audited financial statements cannot be prepared at this time. The figures for 2018 financial position are of an approximate nature.



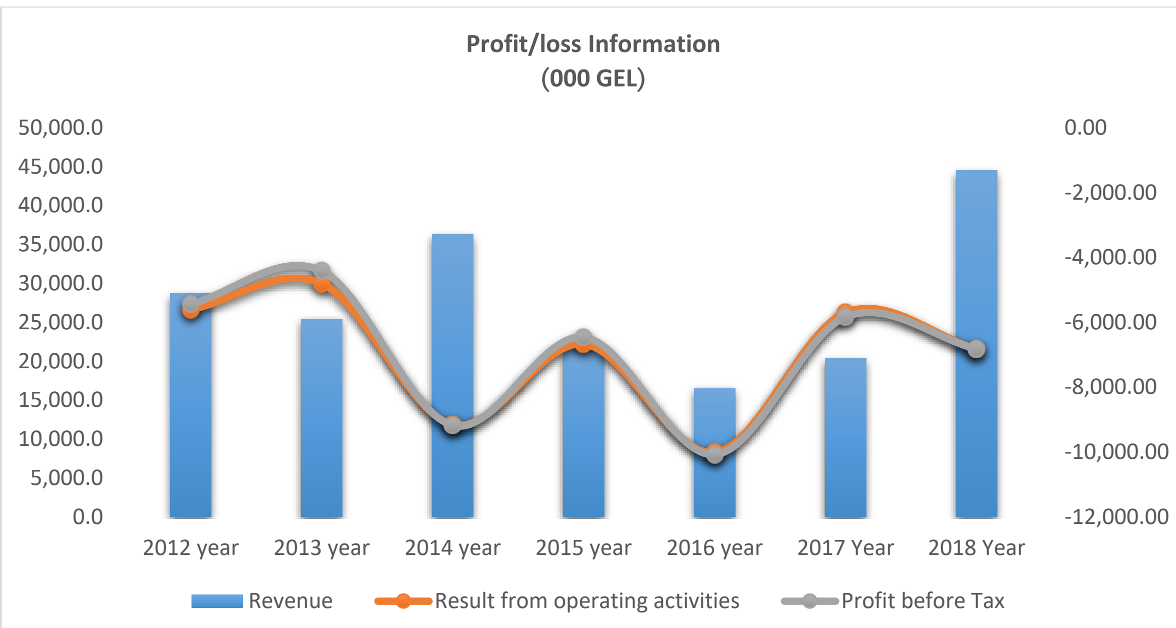


Table 21. Ltd. "State Construction Company" - Financial Performance Indicators (Thousand GEL, %)

Ltd. "State Construction Company"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	28,679.0	25,446.0	36,313.2	21,771.9	16,495.5	20,369.0	44,481.3
Expenses	34,115.2	29,865.4	45,493.3	28,234.1	26,577.0	26,207.7	51,306.8
Net Profit	-4,598.1	-4,419.4	-9,180.1	-6,462.2	-10,081.6	-5,838.6	-6,825.5
Rentability							
% change in Revenue		-11%	43%	-40%	-24%	23%	118%
% change in Expenses		-12%	52%	-38%	-6%	-1%	96%

Operating Margin	-20%	-19%	-26%	-32%	-62%	-29%	-15%
Efficiency Ratio	119%	117%	125%	130%	161%	129%	115%
ROA	-11%	-7%	-10%	-6%	-9%	-5%	-7%
ROE	-12%	-9%	-12%	-7%	-11%	-6%	-7%
Balance Sheet							
Equity	37,979.9	50,719.6	79,398.5	92,413.5	91,674.3	93,987.0	96,753.3
Liabilities	4,983.0	12,600.1	10,179.7	8,541.9	14,583.6	27,126.0	6,580.4
liquidity							
Current Ratio	583%	346%	680%	957%	610%	402%	1436%
Solvency							
Debt to Equity	13%	25%	13%	9%	16%	29%	7%
Interest Coverage	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	-70857%	#DIV/0!

JSC Georgian Railway

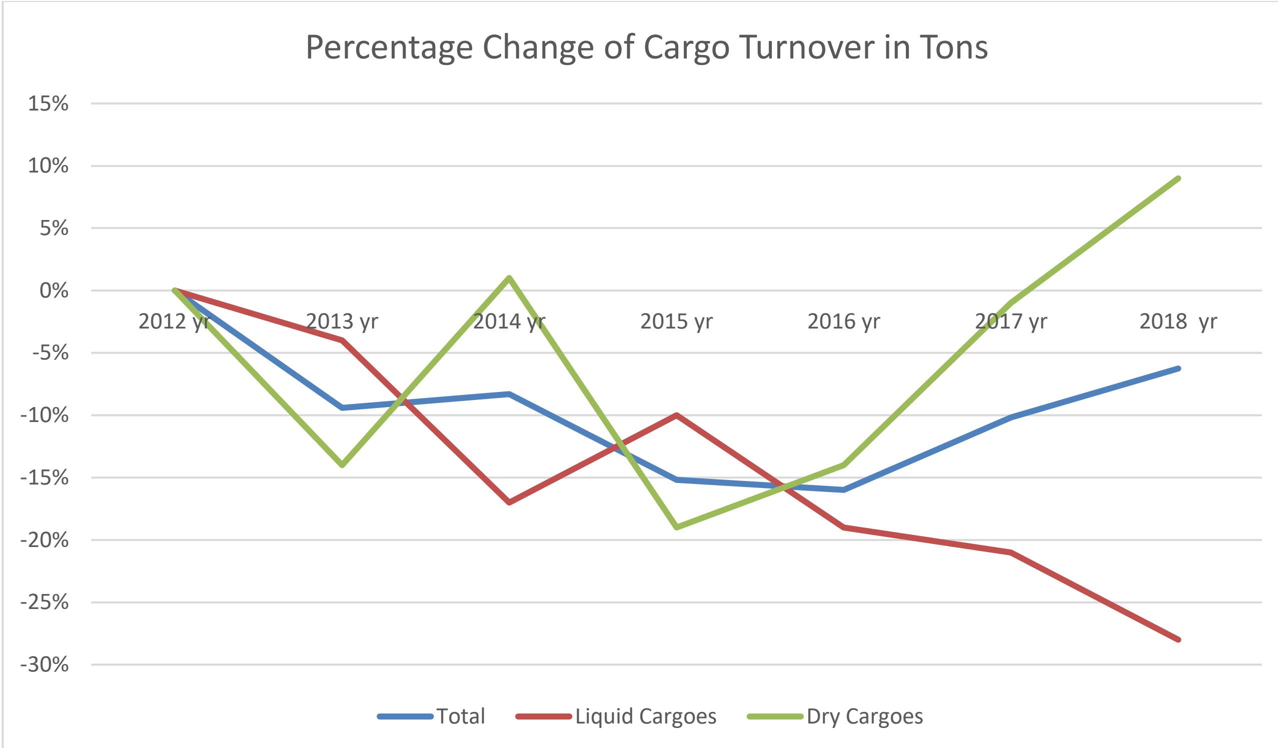
Georgian Railway is a vertically integrated railway company responsible for the operation of the nationwide rail system. Georgian Railway provides freight and passenger transportation services. It also has the function of maintaining and constructing railway infrastructure throughout Georgia. Georgian Railway is fully owned by the Partnership Fund.

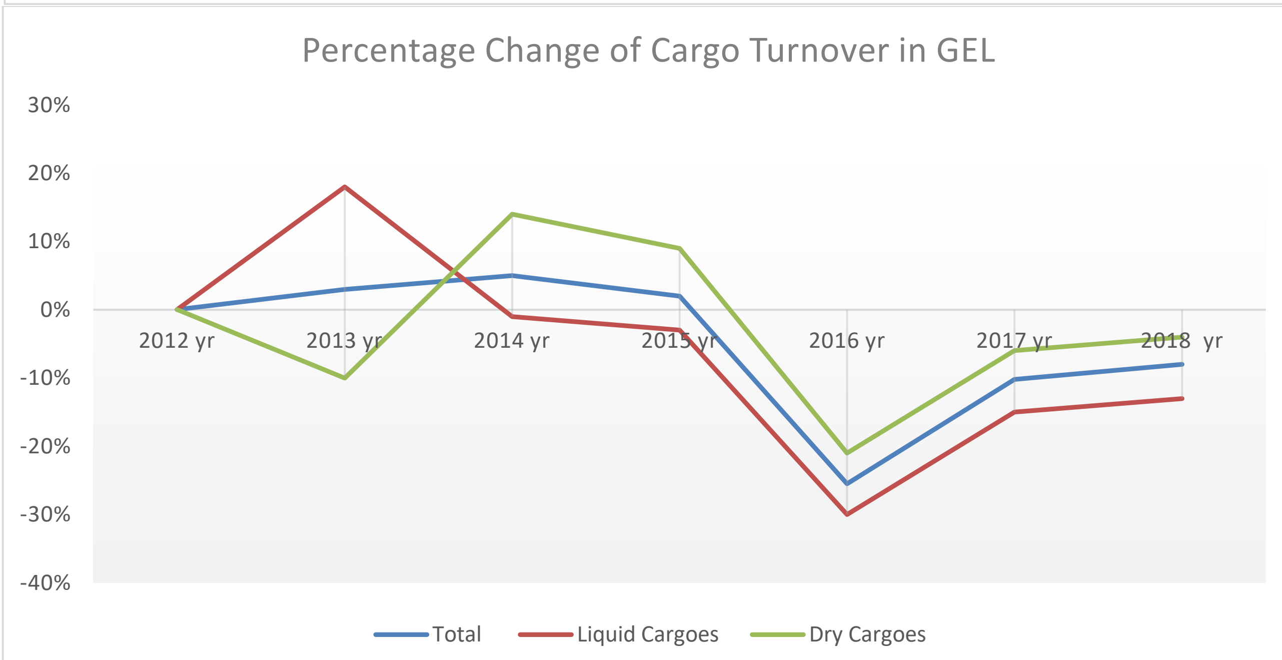
57% of JSC Georgian Railway arises from Freight Transport in 2018 (and in 2017 - 86%)

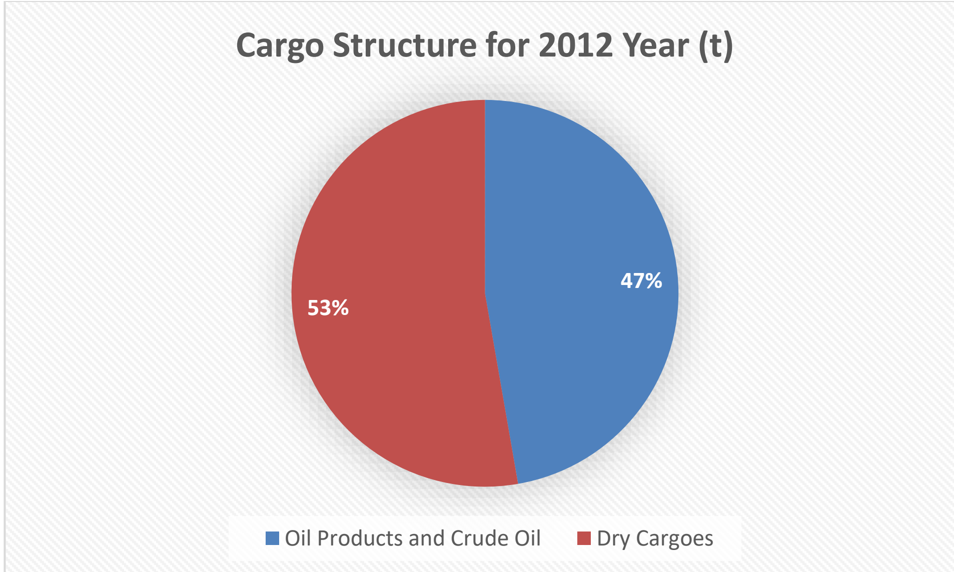
The Georgian Railway carries out the following types of freight:

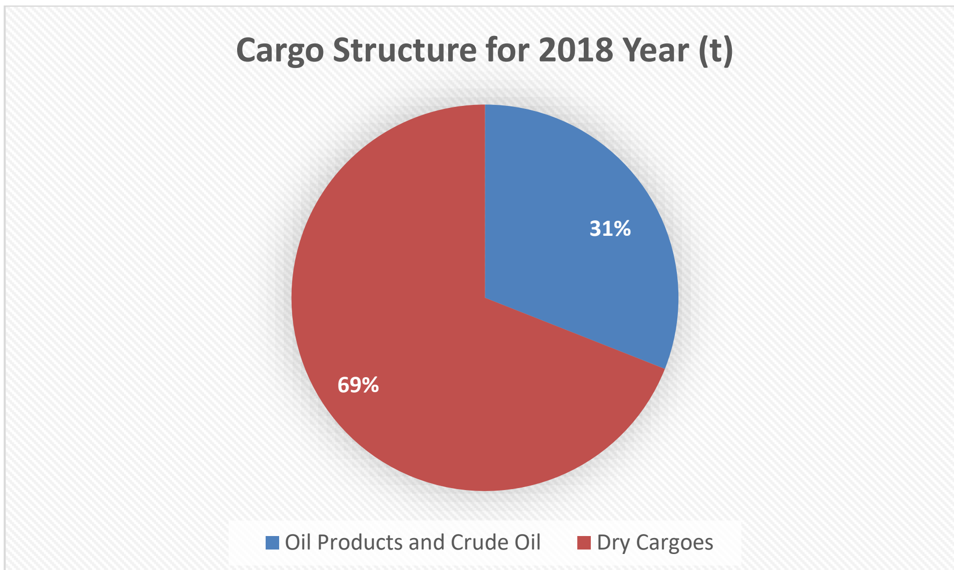
- Liquid Cargoes:
  Oil Products
  Crude Oil
- Dry Cargoes:
  Ores,
  Grain and grain products,
  Sugar,
  Chemicals and fertilizers,
  Industrial freight,
  Cement,
  Other.

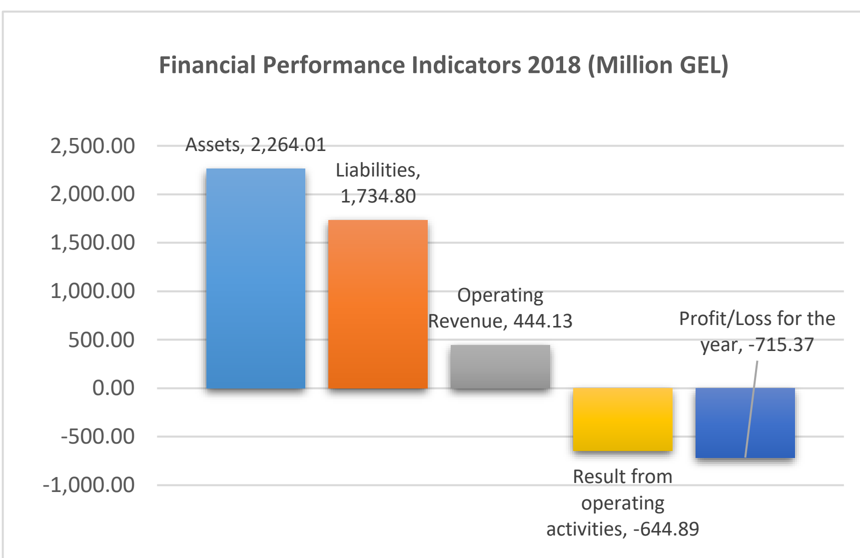
During 2012-2018, freight volume declined by about 50%, and shipping revenue by 31%, including liquid freight volume by 68% from 2012 to 2018, and liquid freight revenue by 42%. The volume of dry cargo shipments declined by 31% over the same period of the year, and revenues from their shipments by about 20%.


Percentage Change of Cargo Turnover in Tons
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
2012 yr
2013 yr
2014 yr
2015 yr
2016 yr
2017 yr
2018 yr
Total
Liquid Cargoes
Dry Cargoes


Percentage Change of Cargo Turnover in GEL
30%
20%
10%
0%
-10%
-20%
-30%
-40%
2012 yr
2013 yr
2014 yr
2015 yr
2016 yr
2017 yr
2018 yr
Total
Liquid Cargoes
Dry Cargoes







The Company's 2017 financial statements reported a loss of GEL 354.1 million. According to the audit firm's report, these losses are entirely attributable to the impairment of the Tbilisi Bypass Project.

The impairment trend continued in 2018 as well. The audit company conducted an impairment test for a significant reduction in cargo turnover, namely that 5,899 million tonnes of cargo per kilometer in 2012 fell to 2,747 million tonnes in 2018, and revenues from those activities decreased from GEL 350.7 million in 2012 to 241.6 million in 2018 It was considered as an indicator of impairment. The recoverable amount of the cash-generating unit was calculated at the cost of its use, which is determined by discounting the future earnings using the said asset. As the analysis showed that the expected return on asset use decreased, the value of the asset generating revenue decreased and depreciation amounted to GEL 691.4 million, which was reflected in the 2018 profit and loss report in accordance with International Accounting Standard.

The share of depreciation on assets amounted to 97%. That is, in the absence of impairment, the loss of the railway amounted to GEL 24 million.

Likewise, if we do not account for depreciation in railway operating activities, the Company's operating profit is GEL 46.5 million.

The Company's net financial expense amounted to GEL 70.5 million, consisting of interest expense and intercompany losses.

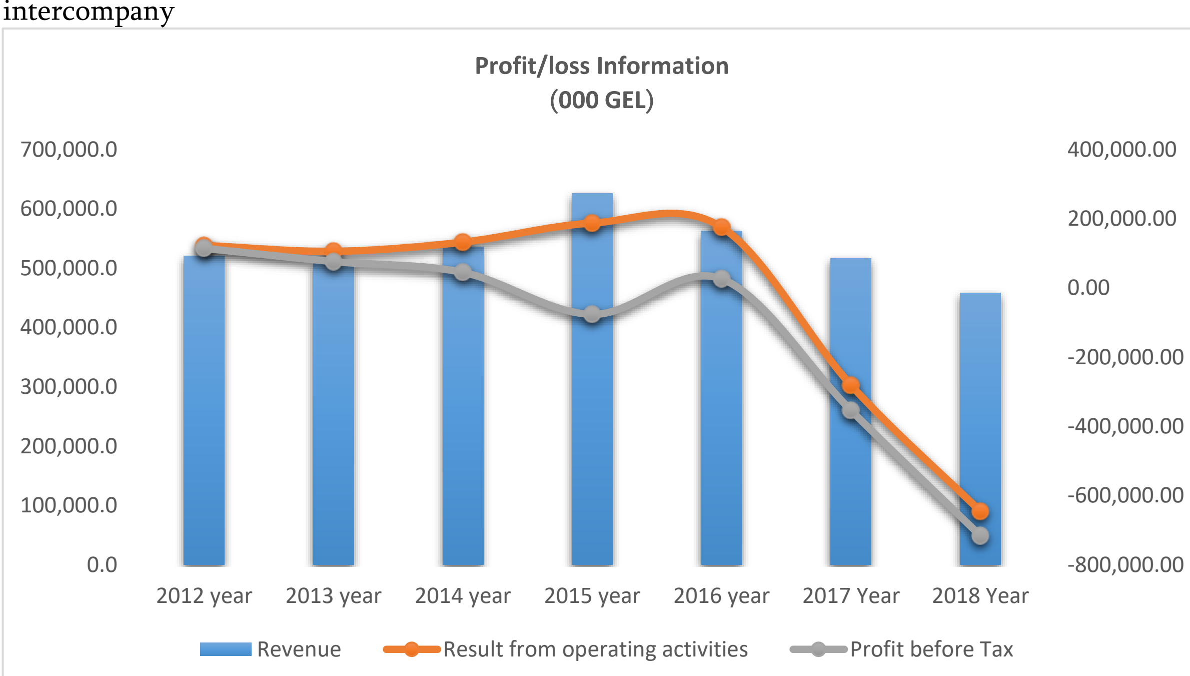


Table 13. JSC "Georgian Railway" - Financial Performance Indicators (Thousand GEL, %)

JSC "Georgian Railway"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	520,878.4	507,631.8	535,589.8	626,476.0	563,220.0	516,792.0	458,660.0
Expenses	406,278.0	431,442.0	490,420.0	702,529.9	536,952.7	870,244.0	1,174,030.0
Net Profit	97,217.4	65,229.8	39,285.8	-65,498.9	65,126.3	-354,100.0	-716,539.0
Rentability							
% change in Revenue		-3%	6%	17%	-10%	-8%	-11%

% change in Expenses		6%	14%	43%	-24%	62%	35%
Operating Margin	26%	22%	26%	33%	33%	-59%	-145%
Efficiency Ratio	78%	85%	92%	112%	95%	168%	256%
ROA	3%	2%	1%	-2%	2%	-12%	-32%
ROE	6%	4%	3%	-4%	4%	-28%	-135%
Balance Sheet							
Equity	1,530,800.2	1,569,127.0	1,562,751.0	1,471,210.0	1,599,276.0	1,244,848.0	529,216.0
Liabilities	1,300,744.6	1,316,100.0	1,405,630.0	1,622,707.0	1,626,407.0	1,617,389.0	1,734,796.0
liquidity							
Current Ratio	250%	315%	224%	282%	219%	179%	91%
Solvency							
Debt to Equity	85%	84%	90%	110%	102%	130%	328%
Interest Coverage	932%	458%	88%	-110%	123%	-663%	-1513%

Mechanic Ltd.

The state owns 100% of shares of Mechanic Ltd.
The main areas of activity of Mechanic LLC are agricultural machinery service, provision of agricultural products producers and farmers information, consulting, Introduction of modern technologies in agricultural production, soil tillage and further work.

Mechanic LLC offers services to landowners in the regions of Georgia in the care of agricultural crops, consulting on: Pesticides, varieties and high quality seeds, introduction of new technologies and new crops. Mechanic LLC has the opportunity to serve land users in agro, different regions of Georgia, timely and qualitatively perform spring, autumn and spring tillage, as well as sowing, herbicide crop cultivation, fertilization, mineral fertilization.

In 2017, the increase in the capital of Mechanic Ltd amounted to GEL 41 917 000. The following amounts were directed to:

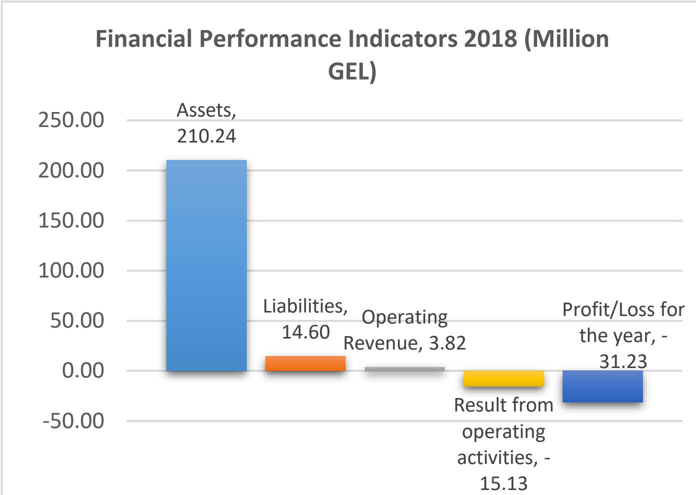
- 21 917 000 GEL for purchase of agricultural machinery;
- GEL 20 000 000 to purchase equipment needed to carry out measures against Asian parasites;

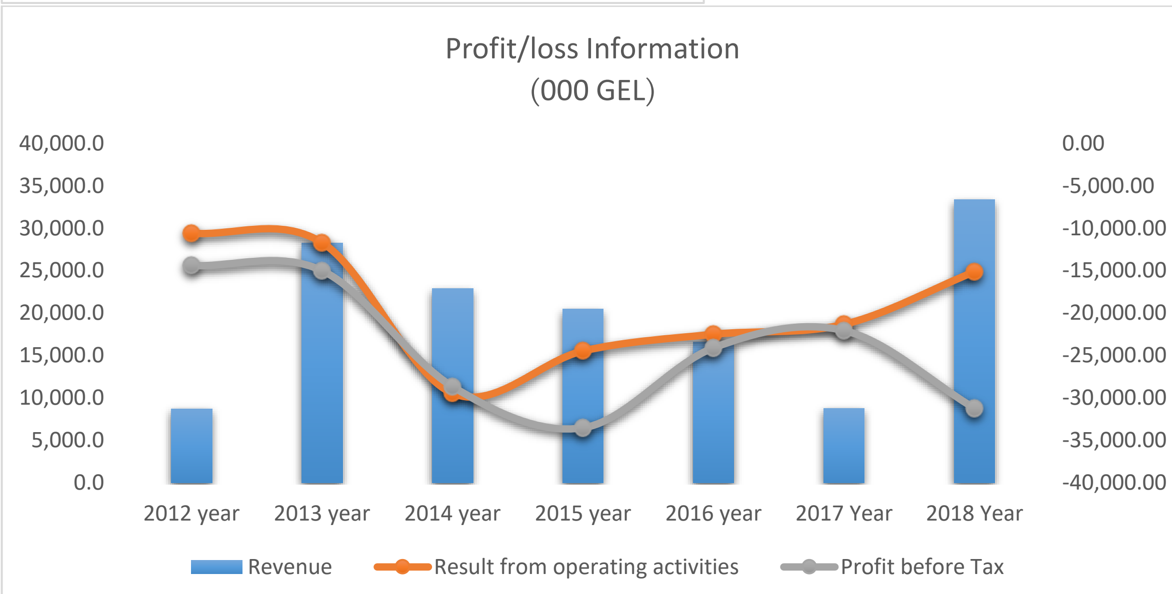
In 2018, the capital increase of Mechanic Ltd amounted to 16 200 000 GEL, out of which:

- 13 200 000 GEL was allocated for the purchase of harvesting equipment;
- GEL 3 000 000 to purchase equipment needed to carry out measures against Asian parasites.

It should be noted that there was no capital investment from Capital Resources to finance the Company's operating expenses (eg salaries, utility costs, etc.) or to cover the reporting period losses. In 2017, cash received from the Company's operating activities amounted to GEL 6.24 million and expenses - by 13.46 million GEL, operating deficit amounted to GEL 7.22 million. The deficit was financed partly by cash received from the sale of agricultural machinery (GEL 1.9 million) and the rest by short-term loans (JSC Acura - GEL 4.5 million; JSC Bank of Georgia - GEL 2 million).
In 2018, cash received from the Company's operating activities amounted to GEL 4.63 million and operating expenses - GEL 14.22 million. Cash deficit amounted to GEL 9.59 million.
The deficit was financed partly by cash received from the sale of agricultural machinery (GEL 7.74 million) and the rest by short-term loans (JSC Bank of Georgia GEL 1.85 million). Revenue from the enterprise's economic activities cannot cover the company's operating expenses and constantly require additional subsidies from the state budget. The financial result of the enterprise is unaudited. However, the

Company's benchmark loss at the end of 2018 amounted to approximately GEL 31 million.





Left Axis - Revenue, Right Axis - Operating Profit & Loss, Profit Before Tax

Table 22. LLC „Mechanic" - Financial Performance Indicators (Thousand GEL, %)

LLC "Mechanic"	2012 Year	2013 Year	2014 Year	2015 Year	2016 Year	2017 Year	2018 Year
Revenue	8,723.0	28,246.1	22,900.1	20,485.5	16,570.2	8,744.4	33,381.8
Expenses	22,932.6	43,368.2	54,614.1	56,912.0	42,802.5	30,812.0	64,608.0
Net Profit	-14,402.4	-15,000.7	-28,670.7	-33,532.9	-24,105.7	-22,067.6	-31,226.2
Rentability							
% change in Revenue		224%	-19%	-11%	-19%	-47%	282%
% change in Expenses		89%	26%	4%	-25%	-28%	110%
Operating Margin	-155%	-50%	-149%	-124%	-149%	-395%	-396%
Efficiency Ratio	263%	154%	238%	278%	258%	352%	194%

ROA	-9%	-6%	-14%	-18%	-14%	-11%	-15%
ROE	-20%	-8%	-20%	-23%	-17%	-12%	-16%
Balance Sheet							
Equity	72,947.3	177,266.3	145,552.3	143,198.1	142,490.8	188,903.7	195,642.9
Liabilities	90,366.7	75,798.5	54,360.8	42,156.4	24,696.3	12,780.5	14,601.0
liquidity							
Current Ratio	360%	4932%	593%	558%	316%	375%	165%
Solvency							
Debt to Equity	124%	43%	37%	29%	17%	7%	7%
Interest Coverage	-1034%	-295%	-765%	-998%	-1200%	-1987%	#DIV/0!

4.7. Georgian SOEs Financial Analyses according to the 6 major 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 macro-economic scenarios also key findings of risk analysis and conclusions. Appendices to the chapter provide the detailed base case financial projections and the results of the scenario analysis for the six SOEs, both consolidated and individual.
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 (UWS).

These SOEs have been chosen because of their financial significance, with the six SOEs accounting for approximately 65% of the total revenue of SOEs in Georgia. The State Construction Company and the Gas Transportation Company were supposed to be included in the analysis but these companies were unable to provide financial forecasts.

The Objectives of the scenario analyses

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 (2016-18) and five-year Pro-forma (2019-2023) 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 six 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. 2019 to 2023);

- Scenario 2 assumes an adverse GDP shock, with GDP growing by only 1.8% in 2020 and 2% in 2021 (compared with the base case assumptions of growth of 4.8% and 5% in 2020 and 2021 respectively), with all other assumptions unchanged;

- Scenario 3 assumes an adverse exchange rate shock, with the Lari depreciating by 37.4% against other currencies in 2020, before making a small partial recovery, with all other assumptions unchanged;

- Scenario 4 assumes an adverse interest rate shock, with interest rates increasing by 470 basis points (4.7% points) in 2020 and remaining at their higher level, 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 above; and

- Scenario 6 assumes a more severe initial adverse shock to GDP than Scenario 2, with GDP declining by 5% in 2020 (compared with the base-case assumption of 5% growth in GDP), with the other assumptions unchanged.

The assumptions underlying Scenarios 2 to 5 above are based on the IMF's Debt Sustainability Analysis (DSA) while the assumptions in Scenario 6 are based on the IMF's Fiscal Stress Test (FST) analysis for Georgia.
The DSA scenarios are based on an analysis of the historical volatility in Georgia's economy and assume shocks equivalent to the largest observed adverse annual change in real GDP, the exchange rate and interest rates over the previous ten years.

It should be noted that the economic assumptions underlying Scenarios 2 to 6 outlined above are not the IMF's forecasts of the most likely development of the Georgian economy over 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 if these adverse scenarios did in fact eventuate.

The quantitative economic assumptions underlying the IMF's base-case projections for the Georgian economy are provided in Table 1 below:

Base Case Assumptions	2019	2020	2021	2022	2023
Real GDP growth rate	4.6%	4.8%	5.0%	5.2%	5.2%
Exchange Rate GEL/USD	2.69	2.65	2.62	2.62	2.64
Interest Rates					
Interest rate on GEL borrowings	-8.2%	-8.2%	-7.8%	-7.7%	-7.7%
Interest rate on foreign currency borrowings (average)	-2.1%	-2.1%	-1.8%	-1.6%	-1.6%

In the base case, as indicated by the figures in Table 1 above, the Georgian economy is projected to grow by around 5% p.a. over the next five years, with the exchange rate and interest rates fluctuating somewhat but remaining relatively stable around their current levels.

The economic assumptions underlying the alternative scenarios (Scenarios 2 to 6) as described above are provided in Table 2 below:

	DSA Assumptions	2019	2020	2021	2022	2023
Scenario 2	**Real GDP growth rate**	4.6%	1.8%	2.0%	5.2%	5.2%
Scenario 3	**Exchange Rate GEL/USD**	2.69	3.62	3.57	3.58	3.59
Scenario 4	**Interest Rates - central government**					
	Interest rate on GEL borrowings (Floating)	-12.9%	-12.9%	-12.5%	-12.4%	-12.4%
	Interest rate on foreign currency borrowings (Floating) (Average)	-6.8%	-6.8%	-6.5%	-6.3%	-6.3%
Scenario 5	Combined GDP, Exchange rate and Interest rate shock					
	Stress Test Assumptions	**2019**	**2020**	**2021**	**2022**	**2023**
Scenario 6	**Real GDP growth rate**	4.6%	-5.0%	5.0%	5.2%	5.2%

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 seven 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 Engurhesi, 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 SCC, UWS and MK Rail.

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

Results of the analysis

Base-case Projections

Before presenting the results of the scenario analysis, Table 4 below provides the base-case financial projections for the seven SOEs combined. As the table indicates:

- Net profit after tax (NPAT) is projected to be 38M GEL in 2018. NPAT is then projected to decline in 2020 and to grow strongly over the subsequent three years.
- The return on assets of the SOEs in 2019 is expected to be only around -2%, well below the SOEs' cost of capital. The ROA of the SOEs is projected by the SOEs to increase steadily to approximately from 3% to 7% by 2023.
- The debt to total assets ratio for the SOEs as a group is high, at 76% in 2019. There is considerable variation in this ratio across the SOEs (with GOGC being around 45%, Engurhesi – 54%, 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

BASE CASE	2019	2020	2021	2022	2023
NPAT (GEL Million)	-38	238	180	433	466
Net Worth (GEL Million)	1,969	2,254	2,432	2,757	3,095
Return on Equity (ROE) (%)	-2%	11%	7%	16%	15%
Return on Assets (ROA) (%)	3%	4%	5%	7%	7%
Debt to Total Assets (D/(D+E)) (%)	76%	80%	73%	73%	72%
Interest Coverage	0.9	2.0	1.6	2.7	2.7
Current Ratio (CR)	2.6	3.0	2.4	2.0	2.9
Quick Ratio (QR)	2.4	2.8	2.2	1.8	2.7

The impact of the different economic shocks on the above base-case financial projections for the six SOEs is presented below. The discussion focusses 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 seven SOEs as a group.

Further details on the impact of the different economic shocks on additional financial metrics for the SOEs as a group and for each individual SOE are provided in the annexes.

Low Growth Scenario

The low economic growth scenario envisages GDP growing by only 1.8% in 2020 and 2% in 2020 (compared with the base case assumptions of growth of 4.8% and 5% in 2020 and 2021 respectively). All other assumptions are unchanged from the base case.

The results of the lower economic growth assumptions on the three key financial metrics noted above for the seven 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

Lower economic growth reduces the SOEs' projected net profit after tax (NPAT) by around 25 to 30 million GEL in this scenario.

NPAT is projected to recover in the out years.

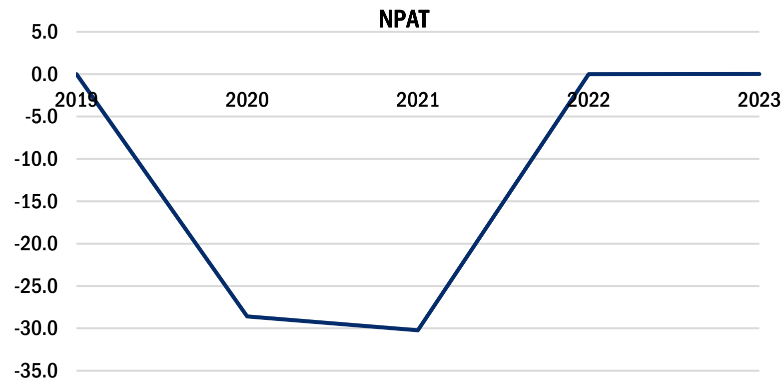


Figure 2. Decline in net worth of the SOEs in low economic growth scenario

The net worth of the SOEs declines by around 40 million GEL under the lower economic growth scenario.

The loss of net worth is permanent.

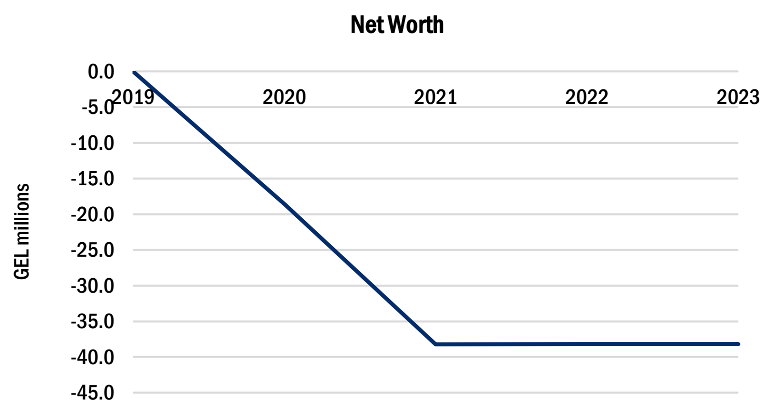
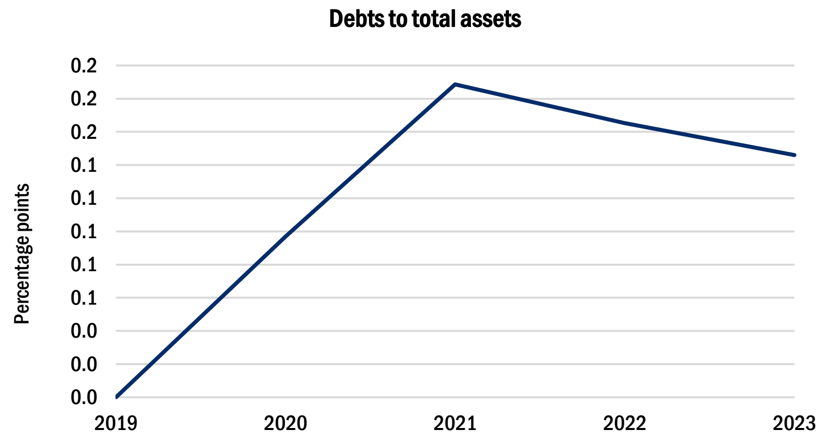


Figure 3. Increase in debt to total assets of the SOEs in low economic growth scenario

The ratio of debt to total assets for the SOEs increases only marginally in the lower economic growth scenario.



Exchange Rate Shock Scenario

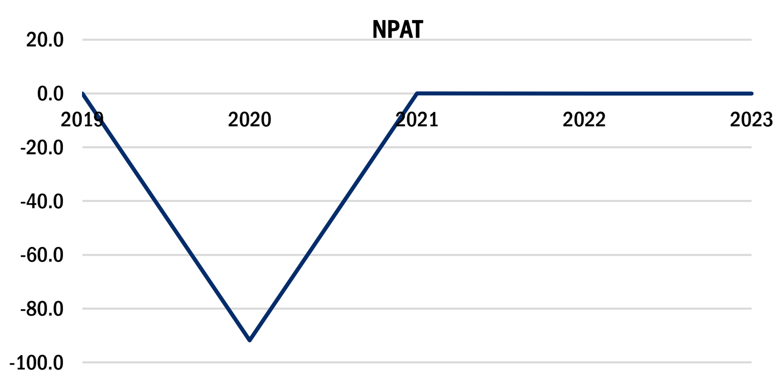
In the exchange rate shock scenario, the Georgian Lari is assumed to depreciate by 34.6% against other currencies in 2020. The Lari is assumed to then make a small but only minor recovery over the subsequent three years.

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 6,500 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 major impact on the SOEs' projected net profit after tax (NPAT). NPAT is projected to decline by around 2,000 million GEL. This is a huge impact and arises from the SOEs' large holdings of foreign currency denominated debt.



The reduction in NPAT of the

seven SOEs is equivalent to 5% 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 1,800 million GEL.

Most of the decline in net worth is permanent. A partial recovery in net worth occurs as the GEL is assumed to recover somewhat against other currencies after the initial shock.

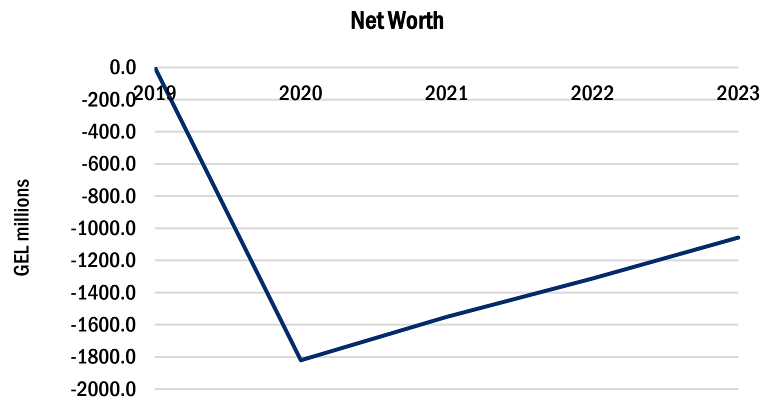
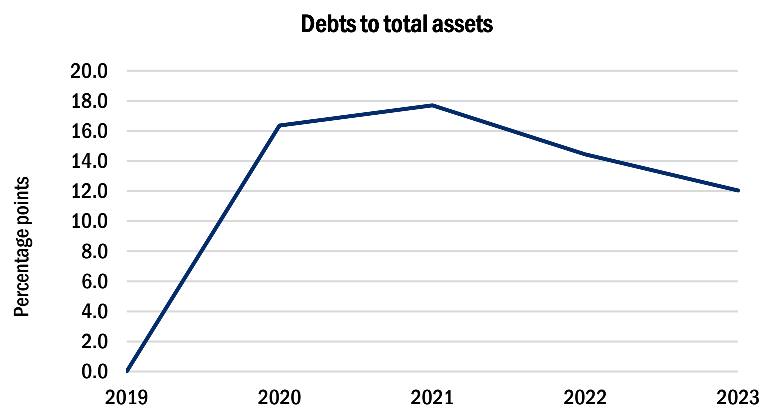


Figure 6. Increase in debt to total assets of the SOEs in exchange rate shock scenario

The ratio of debt to total assets of the SOEs combined increases by over 18 percentage points in the exchange rate shock scenario.

In the base case, the average debt to total assets ratio for the SOEs is 76% in 2020. The lower economic growth results in debt to total assets increasing to almost 100%.

The increase in debt is equivalent to 5% of GDP.



Interest Rate Shock Scenario

In the interest rate shock scenario, interest rates are assumed to increase by 4.7% points in 2020 and remain at their higher level, with all other assumptions unchanged from the base case.

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 60 to 80 million GEL p.a. over the period.

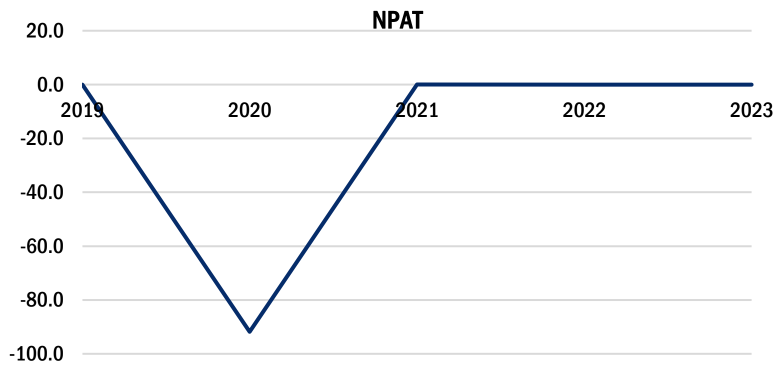


Figure 8. Decline in net worth of the SOEs in interest rate shock scenario

The net worth of the SOEs declines by around 160 million GEL under the higher interest rate scenario.

The loss of net worth is permanent.

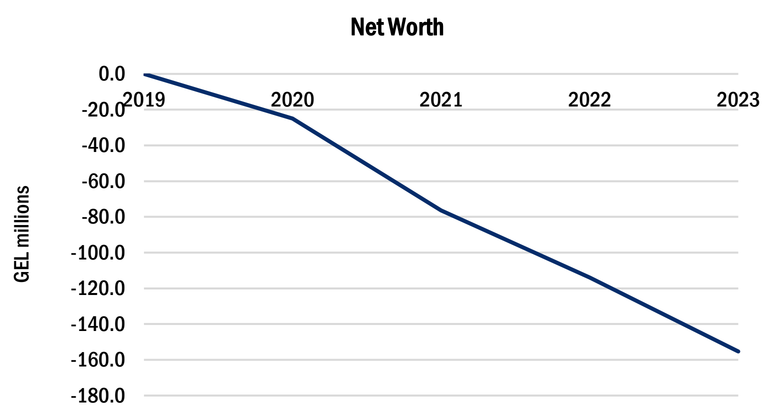
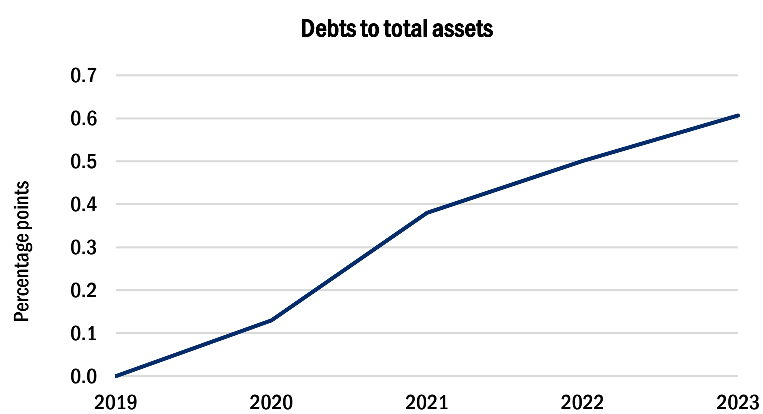


Figure 9. Increase in debt to total assets of the SOEs in interest rate shock scenario

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, a lower exchange rate and higher interest rates has a major impact on the SOEs' net profit.

NPAT is projected to decline by around 2,000 million GEL in the combined shock scenario. This decline is equivalent to 5% of GDP.

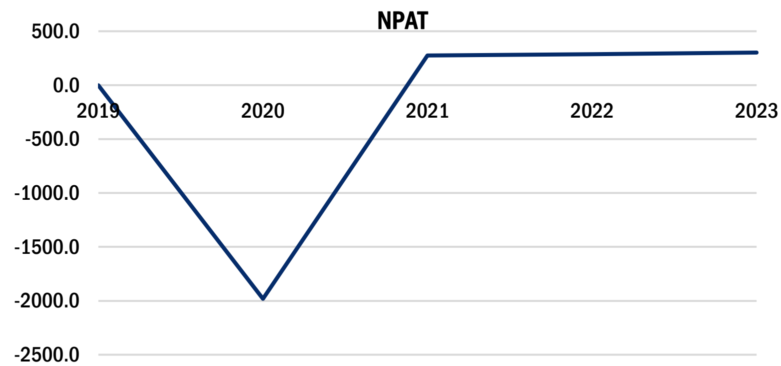


Figure 11. Decline in net worth of the SOES in combined shock scenario

The net worth of the SOEs declines by around 1 900 million GEL in the combined shock scenario.

This huge loss of net worth is partially recovered in the subsequent years as the Lari is assumed to gradually appreciate.

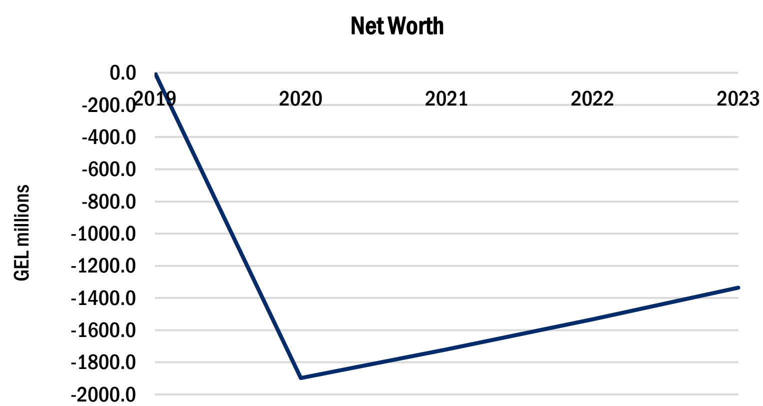
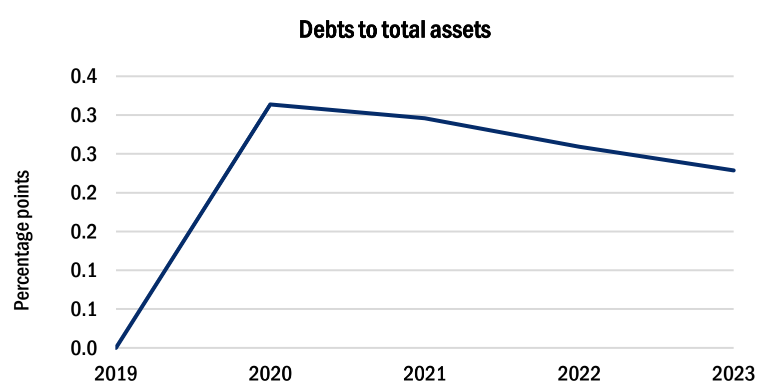


Figure 12. Increase in debt to total assets of the SOES in combined shock scenario

The ratio of debt to total assets of the SOEs combined increases by 20 percentage points in the combined shock scenario.

In the base case, the average debt to total assets ratio is 76% in 2020. The combined economic shocks result in debt to total assets increasing to 100%.



Major Economic Downturn Scenao

Finally, in the last scenario we consider the impacts of a severe adverse shock to the economy, with GDP declining by 5% in 2020 (compared with the base-case assumption of 5% growth in GDP). GDP is then assumed to recover strongly over the subsequent three years.

Figure 13. Decline in net profit after tax of SOEs in major economic downturn scenario

The major economic growth shock reduces the SOEs' projected net profit after tax (NPAT) by around 90 million GEL.

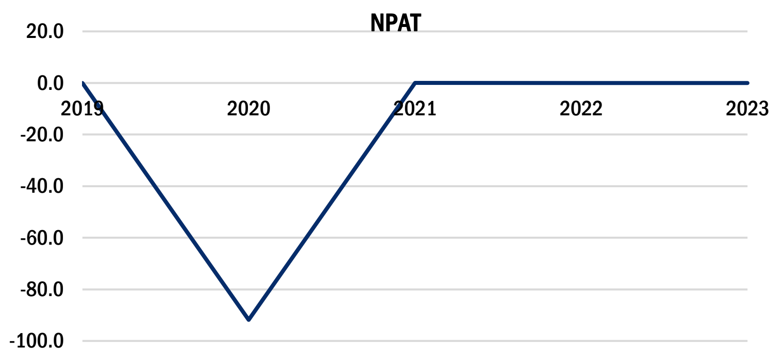


Figure 14. Decline in net worth of the SOES in major economic downturn scenario

The net worth of the SOEs declines by around 60 million GEL under the major economic growth shock scenario.

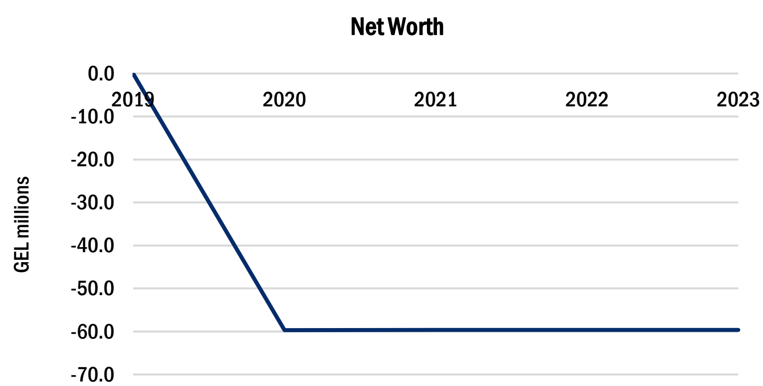
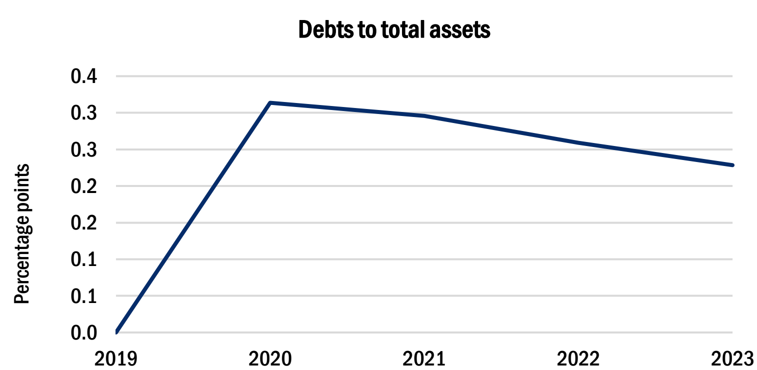


Figure 15. Increase in debt to total assets of the SOES in major economic downturn scenario

The economic shock has only a small effect on the ratio of debt to total assets of the SOEs.



Conclusions

The base case financial projections indicate the SOEs as a group are not currently achieving their cost of capital. While the SOEs project this situation to improve over the next five years, their high levels of debt to total assets (at over 75% on average) means they are highly exposed to adverse economic shocks. That most of their current 6,500 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 2,000 million GEL and the companies' average debt to total asset increases by over 20 percentage points. The impact on NPAT is equal to around 5% of Georgia's GDP.

The analysis indicates that the SOEs are much less exposed to a downturn in the economy or higher interest rates. However, the impact of higher interest rates is still material. Further, any major economic downturn or sharp 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.

Appendix One: Financial Risk Analysis for the Seven SOEs Combined

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	238	180	433	466
NET Worth (GEL million)	1,969	2,254	2,432	2,757	3,095
Return on Equity (ROE) (%)	-2%	11%	7%	16%	15%
Return on Assets (ROA) (%)	3%	4%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	76%	80%	73%	73%	72%
Interest Coverage (IC)	0.9	2.0	1.6	2.7	2.7
Current Ratio (CR)	2.6	3.0	2.4	2.0	2.9
Quick Ratio (QR)	2.4	2.8	2.2	1.8	2.7

Debt Shock Analysis Scenarios:

DSA Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	209	150	433	466
NET Worth (GEL million)	1,969	2,235	2,394	2,719	3,057
Return on Equity (ROE) (%)	-2%	9%	6%	16%	15%
Return on Assets (ROA) (%)	3%	4%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	76%	80%	73%	73%	72%
Interest Coverage (IC)	0.9	1.9	1.5	2.7	2.7
Current Ratio (CR)	2.6	2.9	2.3	1.8	2.8
Quick Ratio (QR)	2.4	2.7	2.1	1.6	2.6

DSA Exchange Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	-1,666	596	800	857
NET Worth (GEL million)	1,969	433	881	1,445	2,037
Return on Equity (ROE) (%)	-2%	-385%	68%	55%	42%
Return on Assets (ROA) (%)	3%	8%	8%	11%	10%
Debt To Total assets (D/(D+E)) (%)	76%	96%	91%	87%	84%
Interest Coverage (IC)	0.9	0.3	3.2	3.3	3.2
Current Ratio (CR)	2.6	3.4	3.7	3.9	5.9
Quick Ratio (QR)	2.4	3.2	3.4	3.7	5.7

DSA Interest Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	200	101	375	402
NET Worth (GEL million)	1,969	2,229	2,356	2,643	2,940
Return on Equity (ROE) (%)	-2%	9%	4%	14%	14%
Return on Assets (ROA) (%)	3%	4%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	76%	80%	74%	73%	73%
Interest Coverage (IC)	0.9	1.7	1.3	2.2	2.2
Current Ratio (CR)	2.6	2.9	2.2	1.6	2.3
Quick Ratio (QR)	2.4	2.7	1.9	1.4	2.1

DSA Combined Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	-1,743	455	720	768
NET Worth (GEL million)	1,969	356	712	1,224	1,758
Return on Equity (ROE) (%)	-2%	-490%	64%	59%	44%
Return on Assets (ROA) (%)	3%	7%	8%	11%	11%
Debt To Total assets (D/(D+E)) (%)	76%	97%	93%	89%	86%
Interest Coverage (IC)	0.9	0.3	2.2	2.7	2.6
Current Ratio (CR)	2.6	3.2	3.2	3.3	5.1
Quick Ratio (QR)	2.4	3.1	3.0	3.1	4.9

Stress Test Scenarios:

Stress Test Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	-38	146	180	433	466
NET Worth (GEL million)	1,969	2,194	2,372	2,697	3,035
Return on Equity (ROE) (%)	-2%	7%	8%	16%	15%
Return on Assets (ROA) (%)	3%	4%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	76%	80%	74%	73%	72%
Interest Coverage (IC)	0.9	1.6	1.6	2.7	2.7
Current Ratio (CR)	2.6	2.8	2.2	1.8	2.7
Quick Ratio (QR)	2.4	2.6	2.0	1.6	2.5

Appendix Two: Engurhesi

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	3	-16	2	2	2
NET Worth (GEL million)	179	164	165	167	168
Return on Equity (ROE) (%)	1%	-10%	1%	1%	1%
Return on Assets (ROA) (%)	2%	0%	2%	2%	2%
Debt To Total assets (D/(D+E)) (%)	54%	54%	50%	48%	45%
Interest Coverage (IC)	1.9	0.0	1.5	1.5	1.5
Current Ratio (CR)	26.2	-260.4	-347.8	-415.5	-448.2
Quick Ratio (QR)	21.5	-264.6	-351.8	-419.9	-452.6

Debt Shock Analysis Scenarios:

DSA Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	3	-16	2	2	2
NET Worth (GEL million)	179	163	164	166	167
Return on Equity (ROE) (%)	1%	-10%	1%	1%	1%
Return on Assets (ROA) (%)	2%	0%	2%	2%	2%
Debt To Total assets (D/(D+E)) (%)	54%	54%	50%	48%	45%
Interest Coverage (IC)	1.9	-0.1	1.4	1.5	1.5
Current Ratio (CR)	26.2	-262.4	-353.2	-421.5	-454.4
Quick Ratio (QR)	21.5	-266.6	-357.2	-425.9	-458.8

DSA Exchange Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	3	-69	5	1	0
NET Worth (GEL million)	179	110	113	114	114
Return on Equity (ROE) (%)	1%	-63%	4%	1%	0%
Return on Assets (ROA) (%)	2%	0%	2%	2%	2%
Debt To Total assets (D/(D+E)) (%)	54%	69%	65%	64%	62%
Interest Coverage (IC)	1.9	0.0	3.7	1.1	1.0
Current Ratio (CR)	26.2	-260.4	-347.6	-420.4	-459.3
Quick Ratio (QR)	21.5	-264.6	-351.6	-424.8	-463.7

Interest Rate Sock	2019	2020	2021	2022	2023
NPAT (GEL million)	3	-25	0	1	1
NET Worth (GEL million)	179	155	155	155	156
Return on Equity (ROE) (%)	1%	-16%	0%	0%	0%
Return on Assets (ROA) (%)	2%	0%	2%	2%	2%
Debt To Total assets (D/(D+E)) (%)	54%	55%	51%	49%	46%
Interest Coverage (IC)	1.9	0.0	1.0	1.1	1.1
Current Ratio (CR)	26.2	-295.7	-389.7	-470.8	-512.4
Quick Ratio (QR)	21.5	-299.9	-393.7	-475.2	-516.8

DSA Combined Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	84	-10	224	323	334
NET Worth (GEL million)	1,051	1,062	1,229	1,460	1,695
Return on Equity (ROE) (%)	8%	-1%	18%	22%	20%
Return on Assets (ROA) (%)	6%	13%	12%	14%	12%
Debt To Total assets (D/(D+E)) (%)	45%	55%	55%	58%	59%
Interest Coverage (IC)	6.4	1.0	4.0	4.2	3.4
Current Ratio (CR)	3.5	5.0	4.9	5.3	8.2
Quick Ratio (QR)	3.3	4.8	4.7	5.1	7.9

Stress Test Scenarios:

Stress test lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	3	-17	2	2	2
NET Worth (GEL million)	179	162	164	165	166
Return on Equity (ROE) (%)	1%	-11%	1%	1%	1%
Return on Assets (ROA) (%)	2%	-1%	2%	2%	2%
Debt To Total assets (D/(D+E)) (%)	54%	54%	50%	48%	45%
Interest Coverage (IC)	1.9	-0.1	1.5	1.5	1.5
Current Ratio (CR)	26.2	-266.8	-353.8	-422.2	-455.1
Quick Ratio (QR)	21.5	-271.0	-357.8	-426.6	-459.5

Appendix Three: Georgia Rail

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	-7	46	38	69	73
NET Worth (GEL million)	522	552	577	622	669
Return on Equity (ROE) (%)	-1%	8%	7%	11%	11%
Return on Assets (ROA) (%)	4%	5%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	77%	75%	72%	69%	65%
Interest Coverage (IC)	0.9	1.7	1.5	1.9	2.0
Current Ratio (CR)	1.1	0.7	0.0	-0.8	-1.3
Quick Ratio (QR)	1.0	0.6	-0.2	-0.9	-1.4

Debt Shock Analysis Scenarios:

DSA Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	-7	38	30	69	73
NET Worth (GEL million)	522	546	566	611	658
Return on Equity (ROE) (%)	-1%	7%	5%	11%	11%
Return on Assets (ROA) (%)	4%	5%	5%	7%	7%
Debt To Total assets (D/(D+E)) (%)	77%	75%	72%	69%	65%
Interest Coverage (IC)	0.9	1.6	1.4	1.9	2.0
Current Ratio (CR)	1.1	0.6	-0.2	-1.0	-1.5
Quick Ratio (QR)	1.0	0.5	-0.4	-1.1	-1.6

DSA Exchange Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	-7	-301	194	223	224
NET Worth (GEL million)	522	220	346	492	637
Return on Equity (ROE) (%)	-1%	-137%	56%	45%	35%
Return on Assets (ROA) (%)	4%	11%	11%	13%	12%
Debt To Total assets (D/(D+E)) (%)	77%	90%	85%	80%	76%
Interest Coverage (IC)	0.9	0.5	3.8	3.3	3.3
Current Ratio (CR)	1.1	1.3	2.4	2.9	3.9
Quick Ratio (QR)	1.0	1.2	2.2	2.8	3.8

DSA Combined Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	-7	-319	163	205	206
NET Worth (GEL million)	522	203	309	442	576
Return on Equity (ROE) (%)	-1%	-157%	53%	46%	36%
Return on Assets (ROA) (%)	4%	10%	11%	14%	13%
Debt To Total assets (D/(D+E)) (%)	77%	91%	87%	82%	77%
Interest Coverage (IC)	0.9	0.4	2.9	2.8	2.8
Current Ratio (CR)	1.1	1.2	2.0	2.3	3.1
Quick Ratio (QR)	1.0	1.1	1.7	2.2	3.0

Stress Test Scenarios:

Stress Test Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	-7	20	38	69	73
NET Worth (GEL million)	522	534	559	605	652
Return on Equity (ROE) (%)	-1%	4%	7%	11%	11%
Return on Assets (ROA) (%)	4%	4%	5%	7%	8%
Debt To Total assets (D/(D+E)) (%)	77%	75%	72%	69%	65%
Interest Coverage (IC)	0.9	1.3	1.5	1.9	2.0
Current Ratio (CR)	1.1	0.5	-0.3	-1.0	-1.6
Quick Ratio (QR)	1.0	0.4	-0.5	-1.2	-1.7

Appendix Four: Georgian Oil and Gas Corporation

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	84	150	141	206	208
NET Worth (GEL million)	1,051	1,169	1,283	1,438	1,591
Return on Equity (ROE) (%)	8%	13%	11%	14%	13%
Return on Assets (ROA) (%)	6%	9%	8%	10%	9%
Debt To Total assets (D/(D+E)) (%)	45%	50%	50%	54%	57%
Interest Coverage (IC)	6.4	4.1	3.2	3.8	3.0
Current Ratio (CR)	3.5	4.8	4.2	3.8	5.7
Quick Ratio (QR)	3.3	4.6	4.0	3.6	5.4

Debt Shock Analysis Scenarios:

DSA Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	84	141	131	207	208
NET Worth (GEL million)	1,051	1,163	1,270	1,426	1,579
Return on Equity (ROE) (%)	8%	12%	10%	14%	13%
Return on Assets (ROA) (%)	6%	9%	8%	10%	9%
Debt To Total assets (D/(D+E)) (%)	45%	50%	50%	54%	57%
Interest Coverage (IC)	6.4	3.9	3.0	3.8	3.0
Current Ratio (CR)	3.5	4.7	4.1	3.7	5.5
Quick Ratio (QR)	3.3	4.5	3.8	3.5	5.3

DSA Exchange Rate	2019	2020	2021	2022	2023
NPAT (GEL million)	84	3	248	334	350
NET Worth (GEL million)	1,051	1,074	1,257	1,496	1,741
Return on Equity (ROE) (%)	8%	0%	20%	22%	20%
Return on Assets (ROA) (%)	6%	14%	12%	13%	12%
Debt To Total assets (D/(D+E)) (%)	45%	55%	54%	57%	59%
Interest Coverage (IC)	6.4	1.0	4.9	4.8	3.8
Current Ratio (CR)	3.5	5.0	5.2	5.6	8.6
Quick Ratio (QR)	3.3	4.8	4.9	5.4	8.4

DSA Interest Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	84	150	132	196	194
NET Worth (GEL million)	1,051	1,169	1,277	1,426	1,570
Return on Equity (ROE) (%)	8%	13%	10%	14%	12%
Return on Assets (ROA) (%)	6%	9%	8%	10%	9%
Debt To Total assets (D/(D+E)) (%)	45%	50%	50%	54%	57%
Interest Coverage (IC)	6.4	4.1	2.8	3.3	2.7
Current Ratio (CR)	3.5	4.8	4.1	3.7	5.4
Quick Ratio (QR)	3.3	4.6	3.9	3.5	5.2

DSA Combined Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	84	-10	224	323	334
NET Worth (GEL million)	1,051	1,062	1,229	1,460	1,695
Return on Equity (ROE) (%)	8%	-1%	18%	22%	20%
Return on Assets (ROA) (%)	6%	13%	12%	14%	12%
Debt To Total assets (D/(D+E)) (%)	45%	55%	55%	58%	59%
Interest Coverage (IC)	6.4	1.0	4.0	4.2	3.4
Current Ratio (CR)	3.5	5.0	4.9	5.3	8.2
Quick Ratio (QR)	3.3	4.8	4.7	5.1	7.9

Stress Test Scenarios:

Stress Test Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	84	119	142	207	208
NET Worth (GEL million)	1,051	1,149	1,263	1,419	1,572
Return on Equity (ROE) (%)	8%	10%	11%	15%	13%
Return on Assets (ROA) (%)	6%	8%	9%	10%	9%
Debt To Total assets (D/(D+E)) (%)	45%	50%	50%	54%	57%
Interest Coverage (IC)	6.4	3.4	3.2	3.8	3.0
Current Ratio (CR)	3.5	4.5	4.0	3.6	5.4
Quick Ratio (QR)	3.3	4.3	3.7	3.4	5.2

Appendix Five: Georgian State Electro System

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

Debt Shock Analysis Scenarios:

DSA Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

DSA Exchange Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

DSA Interest Rate Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

DSA Combined Shock	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

Stress Test Scenarios:

Stress Test Lower Growth	2019	2020	2021	2022	2023
NPAT (GEL million)	33	18	197	217	225
NET Worth (GEL million)	-93	-73	124	341	565
Return on Equity (ROE) (%)	nmf	nmf	159%	64%	40%
Return on Assets (ROA) (%)	7%	4%	13%	12%	11%
Debt To Total assets (D/(D+E)) (%)	106%	104%	94%	85%	76%
Interest Coverage (IC)	1.6	1.4	4.6	5.7	6.3
Current Ratio (CR)	0.3	0.3	0.6	0.9	1.4
Quick Ratio (QR)	0.3	0.2	0.6	0.8	1.4

Appendix Six: Marabda-Kartsakhi Rail

Base Case	2019	2020	2021	2022	2023
NPAT (GEL million)	-172	NA	NA	NA	NA
NET Worth (GEL million)	-900	NA	NA	NA	NA
Return on Equity (ROE) (%)	nmf	NA	NA	NA	NA
Return on Assets (ROA) (%)	0%	NA	NA	NA	NA
Debt To Total assets (D/(D+E)) (%)	118%	NA	NA	NA	NA
Interest Coverage (IC)	0.0	NA	NA	NA	NA
Current Ratio (CR)	184.8	NA	NA	NA	NA
Quick Ratio (QR)	184.8	NA	NA	NA	NA

Appendix Eight: United Water Supply

Base Case	2019	2020	2021	2022	2023
Base Case	-30	-66	-46	-50	-51
NPAT (GEL million)	67	87	143	94	43
NET Worth (GEL million)	-45%	-76%	-32%	-53%	-118%
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	94%	92%	95%	98%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.6	-1.5	-1.3	-1.2
Interest Coverage (IC)	2.4	2.2	1.8	1.4	1.0
Current Ratio (CR)	2.3	2.0	1.6	1.2	0.8

Debt Shock Analysis Scenarios

DSA Lower Growth	2019	2020	2021	2022	2023
Base Case	-30	-66	-47	-50	-51
NPAT (GEL million)	67	86	142	93	42
NET Worth (GEL million)	-45%	-77%	-33%	-54%	-120%
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	94%	92%	95%	98%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.6	-1.5	-1.3	-1.2
Interest Coverage (IC)	2.4	2.2	1.8	1.4	1.0
Current Ratio (CR)	2.3	2.0	1.6	1.2	0.8

DSA Exchange Rate Shock	2019	2020	2021	2022	2023
Base Case	-30	-476	-28	-60	-65
NPAT (GEL million)	67	-324	-249	-309	-373
NET Worth (GEL million)	-45%	nmf	nmf	nmf	nmf
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	121%	114%	117%	121%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.1	140.8	-0.9	-0.8
Interest Coverage (IC)	2.4	2.2	1.7	1.3	0.8
Current Ratio (CR)	2.3	2.0	1.5	1.1	0.6

DSA Interest Rate Shock	2019	2020	2021	2022	2023
Base Case	-30	-91	-60	-66	-68
NPAT (GEL million)	67	62	105	38	-29
NET Worth (GEL million)	-45%	-147%	-57%	-172%	nmf
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	96%	94%	98%	102%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.4	-0.9	-0.7	-0.7
Interest Coverage (IC)	2.4	1.9	1.2	0.6	-0.1
Current Ratio (CR)	2.3	1.8	1.0	0.4	-0.3

DSA Combined Shock	2019	2020	2021	2022	2023
Base Case	-30	-502	-45	-80	-86
NPAT (GEL million)	67	-349	-292	-372	-458
NET Worth (GEL million)	-45%	nmf	nmf	nmf	nmf
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	124%	117%	122%	128%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.1	-1.7	-0.5	-0.5
Interest Coverage (IC)	2.4	1.9	1.1	0.3	-0.6
Current Ratio (CR)	2.3	1.8	0.9	0.1	-0.8

Stress Test Scenarios:

Stress Test Lower Growth	2019	2020	2021	2022	2023
Base Case	-30	-67	-46	-50	-51
NPAT (GEL million)	67	85	142	92	41
NET Worth (GEL million)	-45%	-79%	-33%	-54%	-122%
Return on Equity (ROE) (%)	-2%	-2%	-2%	-2%	-2%
Return on Assets (ROA) (%)	95%	94%	92%	95%	98%
Debt To Total assets (D/(D+E)) (%)	-3.3	-0.7	-1.5	-1.3	-1.2
Interest Coverage (IC)	2.4	2.2	1.8	1.4	1.0
Current Ratio (CR)	2.3	2.0	1.6	1.2	0.8

5. Public and Private Partnership projects

The Law of Georgia on Public and Private Partnership entered into force on 4 May 2018, determining the legal bases for public and private partnership, including the rules and procedures for developing and implementing a public and private partnership project, the principles of public and private partnership, and the relevant institutional system. As well as other issues related to public and private partnership.

The legal framework clearly sets out the basic principles of public-private partnerships and the criteria that the project must meet to qualify as public-private partnerships and fall within the scope of regulation provided by the draft law. The main principles of such projects under the law are transparency, foresight, non-discrimination, quality ratio, optimal risk sharing, fiscal responsibility, environmental protection and social sustainability.

The Law on Public and private partnership defines the role of the Ministry of Finance of Georgia, which participates in almost all stages of public and private partnership project implementation and performs the following assessments:

- Evaluation of access to public finances;
- Quality-for-money ratio evaluation;
- Fiscal risk assessment;
- Other types of assessment within competence.

Based on the assessments, the Ministry of Finance of Georgia submits a recommendation to the Government of Georgia on the feasibility of concluding the contract. It is noteworthy that according to the Resolution N452 of the Government of Georgia dated September 5, 2011, the statute of the LEPL - Public and Private Partnership Agency was approved. The Agency is the coordinating link at each stage of the public-private partnership project implementation. It provides the creation and management of a database of current and completed public and private collaboration projects. The recruitment process is currently underway with the Agency staff, therefore, it is expected that the database specified in Article 30 of the Law of Georgia on Public and private partnership will be created for the 2019 reporting period.

At this stage, major public and private co-operation projects with potential fiscal risk are currently underway in the energy sector, so the Fiscal Risk Analysis document provides a detailed analysis of projects implemented and planned in the energy sector.

5.1. Power Purchase Agreements

The Guaranteed Purchase Agreement in Georgia is concluded with the state company "Electricity System Commercial Operator" (ESCO), whose responsibility is to balance electricity supply and demand between the market and a private electricity producer. Under the Guaranteed Purchase Agreement, a private company will be granted a construction and operating license. In return, ESCO undertakes to purchase a specific, pre-agreed amount of electricity at a pre-agreed guaranteed price. ESCO usually sells electricity purchased.

Although ESCO is not required to disclose Power Purchase Agreements in its financial statements, the fiscal transparency standards adopted by the Ministry of Finance require disclosure of the potential fiscal costs and associated fiscal risks associated with these contracts. For this reason and also because the gradual deregulation of the electricity market may pose fiscal risks, the Ministry of Finance considers it appropriate

to disclose guaranteed purchase agreements in accordance with this standard.
Power Purchase contracts are subject to disclosure if they meet the following criteria:

- Power Purchase Agreement is signed;
- Construction permits issued;
- Funds are provided for the implementation of the project.

In the current legal system, the fiscal risk associated with guaranteed purchase agreements is low. However, this may change under deregulated market conditions. New model of electricity market is expected to be launched by 2021;

The probability of materializing the fiscal risks associated with Power Purchase Agreements arises if the guaranteed purchase price significantly exceeds the market prices available for imports into the region.
The expected total value of the guaranteed purchase agreements is estimated at US $ 2.7 billion, which is 19% of the forecast 2019 GDP.
To analyze the impact on the fiscal sector, it is important to assess the fiscal costs and fiscal risks of guaranteed purchase agreements.
Fiscal expense is calculated by multiplying the guaranteed purchase volumes by the difference between the purchase price guaranteed and the forecast base price. [10]
Fiscal risk is assessed by two scenarios.

- Risk Scenario 1. Fiscal risk is calculated by multiplying the guaranteed purchase volumes by the difference between the guaranteed purchase price and the forecast base price reduced by 10 percent. The same scenario involves the construction of two large power plants under the terms of the PPA.
- Risk Scenario 2. Fiscal risk is calculated by multiplying the guaranteed purchase volumes by the difference between the purchase price guaranteed and the forecast base price reduced by 30 percent. The same scenario involves the construction of two large power plants under the terms of the PPA.

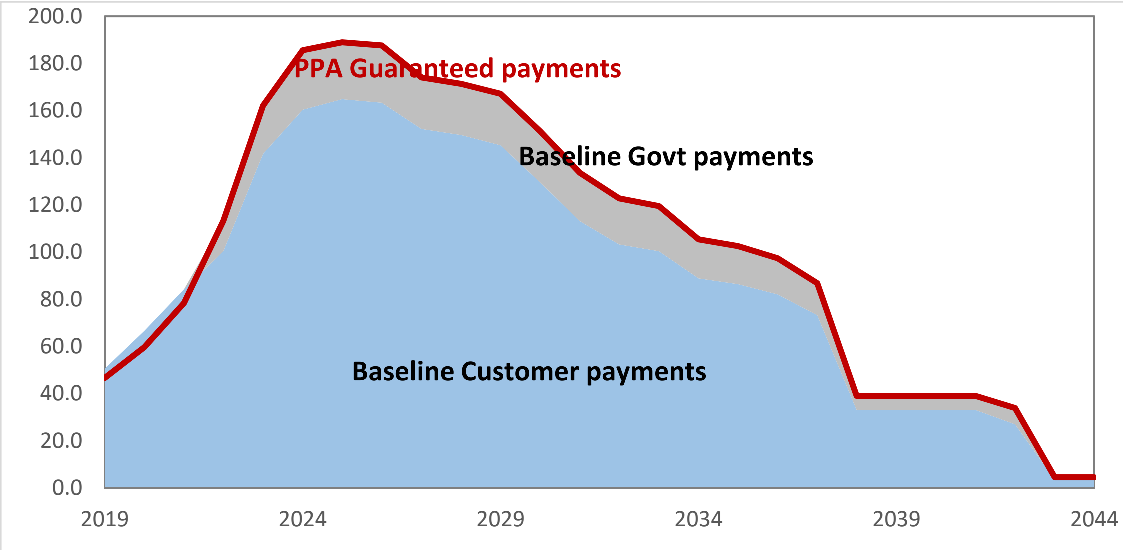
The following table summarizes the fiscal estimates and fiscal risks for the full period of guaranteed purchase agreements:
Table 23. Possible Total Fiscal Impacts of Guaranteed Purchase Agreements Over the Full Period of Guaranteed Purchase Agreements:

	Min USD		Min GEL		GDP %		
	Total	NPV	Total	NPV	Total	NPV	2024 Payment (Maximum)
Fiscal Pressure (Guaranteed Purchase Amount in Currency)	2,654	1,612	7,828	4,755	19.0	11.6	0.95
Fiscal Expense (Basic)	348	199	1,026	586	2.5	1.4	0.13
Fiscal Risk Scenario 1 (-10% Price)	3,602.4	1,693.5	10,627.2	4,995.9	25.9	12.2	0.80

[10] The base forecast price is calculated based on current prices in the region;

Fiscal Risk Scenario 2 (-30% Price)	4,821.0	2,299.1	14,221.9	6,782.3	34.6	16.5	1.09

Chart Distribution of PPA Costs to Consumers and Government (Baseline - Million USD)



The diagram below shows the amounts paid by the government in the baseline scenario to the direct electricity consumers and the government in dollars. However, this represents 100% realization of the conditional obligation of the Government. If this amount is taken into account in electricity tariffs, the cost per kilowatt hour is at least 0.01 tetri and maximum 0.47 tetri (less than 1 tetri).

Table 24. Expected nominal and discounted fiscal outlay for all projects, all major 10, 5 and 3 projects (baseline scenario)

Year	All projects		TOP 10		TOP 5		TOP 3	
	Nomin.	Discount.	Nomin.	Discount.	Nomin.	Discount.	Nomin.	Discount.
2019	0.0	0.0	0.0	3.13				
2020	0.0	0.0	3.45	3.04				
2021	0.0	0.0	3.52	2.91				
2022	12.9	10.6	3.54	2.77				
2023	20.4	16.0	3.54	8.46				
2024	25.2	18.8	11.34	11.97	14.64	10.41	14.99	10.65
2025	24.1	17.1	16.84	11.40	14.64	9.91	14.99	10.15
2026	24.3	16.4	16.84	10.70	14.41	9.29	14.76	9.51
2027	21.8	14.1	16.60	9.30	12.95	7.95	13.30	8.16
2028	21.8	13.4	15.15	8.86	12.95	7.57	13.30	7.78
2029	21.9	12.8	15.15	8.50	13.06	7.27	13.30	7.41
2030	21.8	12.1	15.26	8.22	13.30	7.05	13.30	7.05
2031	20.5	10.9	15.49	8.01	13.30	6.72	13.30	6.72
2032	19.5	9.8	15.87	7.71	13.30	6.40	13.30	6.40
2033	19.2	9.3	16.03	7.34	13.30	6.09	13.3	6.09
2034	16.5	7.5	16.03	5.89	13.30	5.80	13.30	5.80

2035	16.2	7.1	13.50	5.53	13.30	5.53	13.30	5.53
2036	15.4	6.4	13.30	5.26	13.30	5.26	13.30	5.26
2037	13.5	5.3	13.30	5.01	13.30	5.01	13.30	5.01
2038	6.0	2.3	13.30	2.03	5.65	2.03	5.65	2.03
2039	6.0	2.2	5.65	1.93	5.65	1.93	5.65	1.93
2040	6.0	2.1	5.65	1.84	5.65	1.84	5.65	1.84
2041	6.0	2.0	5.65	1.75	5.65	1.75	5.65	1.75
2042	6.9	2.1						
Total	345.9	198.3	255	141.56	211.65	107.81	213.64	109.07
Total/GDP		1.4%		1%		0.8%		0.8%

Table 25 Expected nominal and discounted fiscal outlay for all projects, all major 10, 5 and 3 projects (risk scenario - 10%):

Year	All Projects		TOP 10		TOP 5		TOP 3	
	Nomin.	Discount.	Nomin.	Discount.	Nominat.	Discount.	Nomin.	Discount.
2019	1.2	1.2						
2020	0.0	0.0						
2021	2.6	2.3						
2022	33.4	27.5						
2023	123.1	96.5	79.07	59.00	79.11	59.04	76.61	57.17
2024	135.8	101.3	78.30	55.65	78.35	55.68	93.43	66.40
2025	166.3	118.2	108.08	73.16	108.13	73.19	93.74	63.45
2026	166.4	112.6	102.29	65.94	102.33	65.97	103.92	66.99
2027	162.7	104.9	94.66	58.11	94.71	58.14	119.63	73.44
2028	162.4	99.7	127.13	74.33	127.17	74.36	117.44	68.67
2029	162.1	94.8	125.04	69.63	125.13	69.68	134.80	75.06
2030	160.4	89.3	142.69	75.67	142.82	75.74	134.80	71.49
2031	157.5	83.5	142.79	72.12	142.82	72.13	134.80	68.08
2032	155.5	78.6	142.82	68.70	142.82	68.70	134.80	64.84
2033	155.0	74.6	142.82	65.43	142.82	65.43	134.80	61.75
2034	151.1	69.2	142.82	62.31	142.82	62.31	134.80	58.81
2035	150.5	65.7	142.82	59.35	142.82	59.35	134.80	56.01
2036	149.3	62.1	142.82	56.52	142.82	56.52	134.80	53.35
2037	146.5	58.0	142.82	53.83	142.82	53.83	134.80	50.81
2038	135.0	50.9	131.23	47.10	131.23	47.10	123.21	44.23
2039	135.0	48.5	131.23	44.86	131.23	44.86	123.21	42.12
2040	135.0	46.2	131.23	42.72	131.23	42.72	123.21	40.11
2041	135.0	44.0	131.23	40.69	131.23	40.69	123.21	38.20
2042	124.8	38.7	120.26	35.51	120.26	35.51	112.45	33.21
2043	38.5	11.4	36.40	10.24	36.40	10.24	36.40	10.24
2044	38.5	10.8	36.40	9.75	36.40	9.75	36.40	9.75
2045	38.4	10.3	36.40	9.28	36.40	9.28	36.40	9.28
2046	37.1	9.5	36.40	8.84	36.40	8.84	36.40	8.84

2047	37.1	9.0	36.40	8.42	36.40	8.42	36.40	8.42
2048	37.1	8.6	36.40	8.02	36.40	8.02	36.40	8.02
2049	37.1	8.2	36.40	7.64	36.40	7.64	36.40	7.64
2050	37.1	7.8	36.40	7.27	36.40	7.27	36.40	7.27
2051	37.1	7.4	36.40	6.93	36.40	6.93	36.40	6.93
2052	37.1	7.1	36.40	6.60	36.40	6.60	36.40	6.60
2053	37.1	6.7	36.40	6.28	36.40	6.28	36.40	6.28
2054	37.1	6.4	36.40	5.99	36.40	5.99	36.40	5.99
2055	37.1	6.1	36.40	5.70	36.40	5.70	36.40	5.70
2056	37.1	5.8	36.40	5.43	36.40	5.43	36.40	5.43
2057	37.1	5.5	36.40	5.17	36.40	5.17	36.40	5.17
2058	34.4	4.9	36.4	4.9	36.40	4.9	36.40	4.9
Total	3,602.4	1,693.5	3,084.55	1,297.09	3,085.07	1,297.41	3,005.66	1,270.65
Total/GDP		12.2%		9.3%		9.3%		9.1%

Table 26. Expected nominal and discounted fiscal outlay for all projects, all major 10, 5 and 3 projects (risk scenario - 30%):

Year	All Projects		TOP 10		TOP 5		TOP 3	
	Nomin.	Discount.	Nomin.	Discount.	Nomin.	Discount.	Nomin.	Discount.
2019	11.3	10.8						
2020	13.0	11.8						
2021	19.4	16.8						
2022	55.4	45.6						
2023	167.4	131.2	101.57	75.80	99.95	74.58	96.14	71.74
2024	185.8	138.7	102.88	73.11	101.25	71.96	117.04	83.18
2025	228.0	162.0	142.01	96.12	140.38	95.02	120.05	81.26
2026	227.7	154.1	134.40	86.64	132.78	85.59	132.80	85.60
2027	221.9	143.0	124.09	76.18	122.47	75.19	152.37	93.54
2028	221.1	135.7	165.64	96.85	164.02	95.90	149.55	87.44
2029	219.9	128.6	162.60	90.54	161.32	89.83	171.95	95.75
2030	215.1	119.8	185.39	98.32	184.71	97.95	171.95	91.19
2031	208.8	110.7	184.93	93.40	184.71	93.29	171.95	86.85
2032	204.9	103.5	184.71	88.85	184.71	88.85	171.95	82.71
2033	203.8	98.0	184.71	84.62	184.71	84.62	171.95	78.77
2034	197.6	90.5	184.71	80.59	184.71	80.59	171.95	75.02
2035	196.5	85.7	184.71	76.75	184.71	76.75	171.95	71.45
2036	194.5	80.8	184.71	73.09	184.71	73.09	171.95	68.05
2037	189.9	75.1	184.71	69.61	184.71	69.61	171.95	64.81
2038	170.3	64.2	165.23	59.31	165.23	59.31	152.48	54.73
2039	170.3	61.1	165.23	56.49	165.23	56.49	152.48	52.12
2040	170.3	58.2	165.23	53.80	165.23	53.80	152.48	49.64
2041	170.3	55.5	165.23	51.23	165.23	51.23	152.48	47.28
2042	157.0	48.7	152.32	44.98	152.32	44.98	139.89	41.31

2043	51.9	15.3	49.30	13.87	49.30	13.87	49.30	13.87
2044	51.9	14.6	49.30	13.21	49.30	13.21	49.30	13.21
2045	51.9	13.9	49.30	12.58	49.30	12.58	49.30	12.58
2046	49.9	12.7	49.30	11.98	49.30	11.98	49.30	11.98
2047	49.9	12.1	49.30	11.41	49.30	11.41	49.30	11.41
2048	49.9	11.5	49.30	10.86	49.30	10.86	49.30	10.86
2049	49.9	11.0	49.30	10.35	49.30	10.35	49.30	10.35
2050	49.9	10.5	49.30	9.85	49.30	9.85	49.30	9.85
2051	49.9	10.0	49.30	9.39	49.30	9.39	49.30	9.39
2052	49.9	9.5	49.30	8.94	49.30	8.94	49.30	8.94
2053	49.9	9.0	49.30	8.51	49.30	8.51	49.30	8.51
2054	49.9	8.6	49.30	8.11	49.30	8.11	49.30	8.11
2055	49.9	8.2	49.30	7.72	49.30	7.72	49.30	7.72
2056	49.9	7.8	49.30	7.35	49.30	7.35	49.30	7.35
2057	49.9	7.4	49.30	7.00	49.30	7.00	49.30	7.00
2058	46.2	6.6	49.30	6.7	49.30	6.7	49.30	6.7
Total	4,821	2,299.1	4,013.81	1,684.11	4,001.89	1,676.46	3,854.11	1,620.27
Total/GDP		16.5%		12.1%		12.0%		11.6%

Table 27. TOP 10 PPA project

#	Project Name	Installed Power (MW)	Annual generation (million kWh)
1	Khudoni	702.00	1527.96
2	Namakhvari	433.00	1496.00
3	Nenskra	280.00	1219.00
4	Oni	122.46	441.20
5	Dariali	108.00	500.00
6	Oni	83.70	339.00
7	Pharavani	86.54	431.63
8	Tsxenistkhali	357.10	1682.60
9	Shuakhevi	178.52	455.00
10	Mtkvari 4	78.10	614.90

5.2. Assessment of PPP Obligation

According to the Organic Law of Georgia on Economic Freedom, the debt ratio of the Georgian government to GDP should not exceed 60%. The present value should take into account the present value of government commitments under the PPP.

We have assessed the relevant commitments of PPP projects currently in place in the country based on international best practice, in particular with the International Public Sector Accounting Standard – IPSAS 32.

The standard regulates accounting and reporting norms in the service concession relationship for a public sector institution (grantor). Such agreements include mandatory norms involving the private sector, including the construction, operation / maintenance and financing of assets that create public services. IPSAS 32 is a reflection of the International Accounting Standard - IFRIC 12 considering relevant issues (liabilities, income and expenses) from the perspective of the grantor.

A service concession agreement can be described as a public-private partnership that considers both an asset and a service component. IPSAS 32 defines a service concession as an agreement (contract) between the grantor and the operator where:

- A) The Operator uses the Service Concession Asset to ensure that the public service is provided to the Grantees (instead of the Grantees) at a specific time and date; And
- B) The Operator receives reimbursement for services rendered during the Concession Agreement period.

A service concession asset is an asset (usually property, plant, equipment, intangible asset) that is used in a service concession agreement as a means of providing public service and that:

A) Provided by the operator:

- I - Operator builds, develops or purchases from a third party; or
- II - represents an asset owned by the operator; Or

B) Provided by the grantor:

- I - Represents an asset owned by the grantor; Or
- II - represents the renewal of an asset owned by the grantor.

Within the scope of the standard, projects are usually considered where the operator builds or develops an asset for the purpose of subsequently providing public services and at the same time operates and maintains that asset for a certain period of time. The Operator receives remuneration for the period specified in the Agreement.

The standard applies to service concessions where the operator provides public services to the grantor under the service concession agreement. Thus, this standard does not apply to contracts that do not provide public service provision or contracts where the service provision and management component is provided, but the asset is not controlled by the grantor (eg outsourcing, service agreement, or privatization).

Projects that contain signs of public and private partnership are discussed below, by analyzing the relevant documents it has been clarified that they may be considered as PPP projects. Appropriate commitments have been calculated for IPPAS 32 methodology for specified PPP projects.

Nenskra Hydro Power Plant (JSC Nenskra Hydro). The construction of the power plant is under the contract between Korea Water Resources Corporation and JSC Partnership Fund. The non-cash contributions made by the Fund to JSC Nenskra Hydro as of January 1, 2019 totaled $ 12,625,695. In addition, the Fund has committed to making a cash deposit of $ 10,374,305. Of this amount, $ 3,000,000 was invested in 2019. The Korean side's contribution is $ 168,100,000. The audit concludes that Nenskra Hydro's long-term assets are valued at GEL 353,717,000. There is a BOT agreement signed with the operator. The project meets the criteria of the law of the public and private partnership and we can evaluate the introduction of IPSAS standards based on the principles of commitment, in particular, must be recognized by the long-term assets equal liabilities reduced by the contributions made, because the fund represents the state. Accordingly, the PPP liability of this project amounts to GEL 329,166,639.

Anaklia Black Sea deep sea port. On October 3, 2016, the Government of Georgia and the Anaklia Development Consortium LLC signed an Investment Agreement for the Construction, Operation and Transfer (BOT) of the Anaklia Black Sea Port.

Current value of long-term assets is GEL 169,705,000 based on Anaklia Port 2018 audited financial statements.

According to IPSAS methodology, the liability deriving from Anaklia Port is GEL 169,705,000.

Tbilisi Shota Rustaveli International Airport. The project involves leasing, developing, acquiring the necessary equipment and constructing facilities for the Tbilisi airport by a private partner, TAV Urban Georgia. Until 2027, a private partner will fully manage and maintain the airport. From 2027 the airport will be completely free of state ownership.

The parties to the contract are TAV Urban Georgia and Airports Union of Georgia LLC. TAV Urban Georgia is responsible for the management and development of Tbilisi Airport, and Airports of Georgia

LLC is responsible for supervising and assisting it within its competence.

The initial agreement entered into force on September 6, 2005.

TAV completed the construction and commissioning of the new terminal in February 2007.

To date, the operator's investments include: building several terminals, arranging parking lots, runways, access roads and rehabs.

According to the audited reports of TAV Urban Georgia LLC, the asset “Airport Management Right” as of January 1, 2019 is estimated at GEL 194,298,000.

The operator depreciates the asset in a straight line method. Therefore, according to IPSAS 32, we have to recognize PPP liabilities of GEL 194,298,000 (GEL 178,106,500 at the end of 2019).

Batumi International Airport. On August 9, 2007, TAV Batumi Operations LLC and the Ministry of Economic Development of Georgia transferred 100% of Batumi Airport LLC to TAV Batumi Operations LLC for 20 years. The project meets the criteria for public and private partnership. However, during these years, the operator has not made adequate investments and has not created new assets. The IPSAS 32 methodology does not imply any obligation on the part of the operator company.

Gardabani Thermal Power Plant is operated by Gardabani Thermal Power Plant, a state-owned organization: the founders are JSC Georgian Oil and Gas Corporation and JSC Partnership Fund. Accordingly, this facility is not transferred to a private operator and its consideration as a PPP project is not valid.

Batumi Sea Port. On July 22, 2006, the Ministry of Economic Development of Georgia and Batumi Port Holding Ltd signed an agreement to acquire exclusive 100% ownership interest in the Batumi Sea Trade Port (the company manages and receives annual net profit and enjoys the benefit of Georgia). According to the legislation Where the owner of all the rights) of 49-year exclusive right to manage the cost / reward of 92 million US dollars.

On December 15, 2010, a replacement party agreement was signed, namely the exclusive ownership of 100% state-owned shareholding Batumi Port Holding Limited to Batumi Petroleum Ltd for $ 84,386 million with the same rights and obligations as in December 22, 2006. It was provided by the July agreement. The term of the contract is 22 July 2055.

Currently the port is operated by Batumi Oil Terminal LLC. The state controls only the minimum cargo volume. The investor did not create any significant long-term assets.

Even in this case, the IPPAS 32 obligations of the State towards this operator are not disclosed.

Batumi International Container Terminal. Based on the lease agreement with Batumi Sea Port Ltd Batumi International Container Terminal Ltd operates Batumi Sea Port N4; N5 and N6 berths. It was also given the right to develop and operate a ferry crossing and container terminal at the Batumi Sea Port. However, it has no direct contract with the state. This project does not meet the requirements of the PPP.

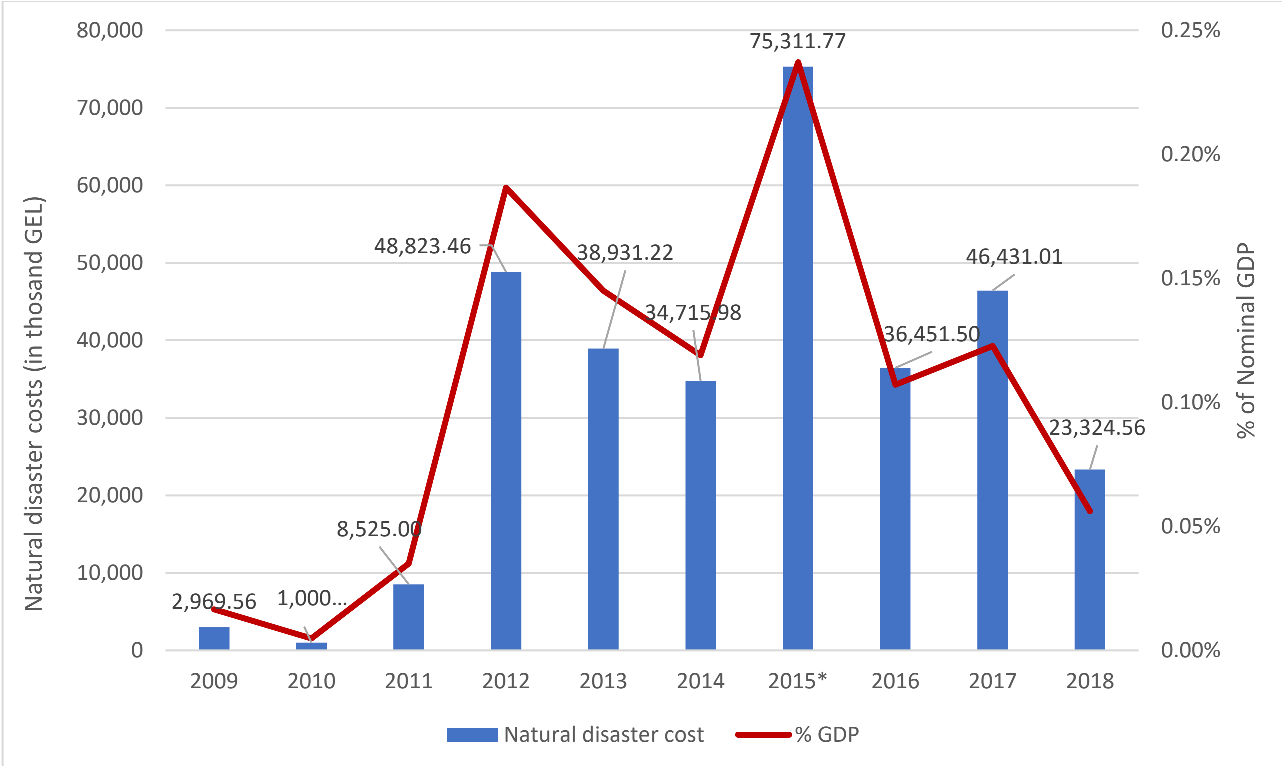
As discussed above, the amount of PPP liabilities as of January 1, 2019 is GEL 693 169 638 (329,166,639 + 169,705,000 + 194,298,000).

6. Risks from Natural Disaster

Georgia due to its location is vulnerable to the catastrophes caused by natural factors. Any resources directed to the elimination of consequences of natural disasters may have a significant fiscal impacts on the state budget and the development of economy of Georgia.

The highest figure of the state budget allocation for elimination of the damage caused by natural disasters in 2009-2018 was 75 million GEL in 2015 which in total amounted only to 0.24% of GDP (including, 33 million GEL for liquidation of consequences of Tbilisi flood). (See the diagram №1).

Diagram №1 *The finances diverted from the fund of the projects implemented in the regions of Georgia to* *elimination of the damage caused by natural disasters 2009-2018 (In thousands GEL)*



In accordance with 2009-2018 data, the finances diverted to elimination of the damage caused by natural disasters do not exceed 1% of the GDP. The fund of projects to be implemented in the regions of Georgia plays the „buffer role“, therefore such expenses do not make any significant impact on the state budget and the natural disasters cannot be deemed as a fiscal risk.