AUSTRIAN GEORGIAN DEVELOPMENT LLC

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2023

Contents

Independent Auditor's Report

To the Owners and Management of Austrian Georgian Development LLC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Austrian Georgian Development LLC (the "Company") as at 31 December 2023, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Materiality	• Overall Company materiality is GEL 640 thousand, which represents 1% of total assets.
Key audit matters	• No key audit matters to communicate in our report.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We have tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	GEL 640 thousand
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets of the Company as the benchmark because, in our view, it is the most relevant indicator for asset-based entities and is one of the generally accepted benchmarks. We have determined lower specific materiality level of GEL 220 thousand for the following FSLIs: ● Other income, ● Employee benefits expense, ● Transmission expenses, ● Foreign exchange gain, net (except foreign exchange gain on borrowings), and ● Other operating expenses, for which misstatement of lesser amounts than the overall materiality could influence the user’s economic decisions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

We have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 and paragraph 7 (c), (g) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing;
- the information given in the Management Report includes the information required by paragraph 7 (a), (b), (d) – (f) of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lasha Janelidze.

PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

19 April 2024
Tbilisi, Georgia

AUSTRIAN GEORGIAN DEVELOPMENT LLC
Statement of Financial Position

In thousands of Georgian Lari	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	7	58,032	59,754
Right-of-use assets	13	639	653
Intangible assets		3	3
Prepayments for non-current assets		264	-
Loans issued		134	-
Total non-current assets		**59,072**	**60,410**
Current assets			
Inventories		36	44
Trade and other receivables	8	1,079	450
Cash and cash equivalents	9	4,003	4,032
Total current assets		**5,118**	**4,526**
TOTAL ASSETS		**64,190**	**64,936**
EQUITY			
Charter capital	10	27,607	27,607
Paid in capital	10	2,515	2,515
Accumulated deficit		(16,918)	(19,250)
TOTAL EQUITY		**13,204**	**10,872**
LIABILITIES			
Non-current liabilities			
Borrowings	11	47,101	48,627
Lease liabilities	13	604	605
Total non-current liabilities		**47,705**	**49,232**
Current liabilities			
Borrowings	11	2,853	3,710
Lease liabilities	13	74	74
Trade and other payables		354	307
Other current liabilities		-	741
Total current liabilities		**3,281**	**4,832**
TOTAL LIABILITIES		**50,986**	**54,064**
TOTAL LIABILITIES AND EQUITY		**64,190**	**64,936**

Approved for issue and signed on behalf of Management on 19 April 2024 by:

Giorgi Abramishvili
General Director

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

In thousands of Georgian Lari	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	7	58,032	59,754
Right-of-use assets	13	639	653
Intangible assets		3	3
Prepayments for non-current assets		264	-
Loans issued		134	-
Total non-current assets		**59,072**	**60,410**
Current assets			
Inventories		36	44
Trade and other receivables	8	1,079	450
Cash and cash equivalents	9	4,003	4,032
Total current assets		**5,118**	**4,526**
TOTAL ASSETS		**64,190**	**64,936**
EQUITY			
Charter capital	10	27,607	27,607
Paid in capital	10	2,515	2,515
Accumulated deficit		(16,918)	(19,250)
TOTAL EQUITY		**13,204**	**10,872**
LIABILITIES			
Non-current liabilities			
Borrowings	11	47,101	48,627
Lease liabilities	13	604	605
Total non-current liabilities		**47,705**	**49,232**
Current liabilities			
Borrowings	11	2,853	3,710
Lease liabilities	13	74	74
Trade and other payables		354	307
Other current liabilities		-	741
Total current liabilities		**3,281**	**4,832**
TOTAL LIABILITIES		**50,986**	**54,064**
TOTAL LIABILITIES AND EQUITY		**64,190**	**64,936**

Approved for issue and signed on behalf of Management on 19 April 2024 by:

Giorgi Abramishvili
General Director

In thousands of Georgian Lari	Note	2023	2022
Revenue	14	**10,969**	**10,790**
Other income		216	44
Employee benefits expense		(763)	(770)
Transmission expenses	14	(46)	(566)
Foreign exchange (loss)/gain, net		(118)	35
Interest income		200	31
Other operating expenses	15	(1,461)	(1,799)
EBITDA		**8,997**	**7,765**
Depreciation and amortisation	7	(2,098)	(2,149)
Operating profit		**6,899**	**5,616**
Finance costs	16	(4,859)	(5,504)
Foreign exchange gain, net on financing activities	12,16	292	7,476
Profit before income tax		**2,332**	**7,588**
Income tax expense		-	-
PROFIT FOR THE YEAR		**2,332**	**7,588**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,332**	**7,588**

In thousands of Georgian Lari	**Charter capital**	**Paid in capital**	**Accumulated deficit**	**Total**
Balance at 1 January 2022	**27,607**	**2,515**	**(26,838)**	**3,284**
Profit for the year	-	-	7,588	7,588
Total comprehensive income for the year	**-**	**-**	**7,588**	**7,588**
Balance at 31 December 2022	**27,607**	**2,515**	**(19,250)**	**10,872**
Profit for the year	-	-	2,332	2,332
Total comprehensive income for the year	**-**	**-**	**2,332**	**2,332**
Balance at 31 December 2023	**27,607**	**2,515**	**(16,918)**	**13,204**

In thousands of Georgian Lari	Note	2023	2022
Cash flows from operating activities			
Profit before income tax		2,332	7,588
Adjustments for:			
Depreciation and amortisation	7	2,098	2,149
Interest income	16	(200)	(31)
Finance costs	16	4,859	5,504
Net gain from sales of fixed assets		(147)	(16)
Foreign exchange gain, net		(174)	(7,511)
Operating cash flows before working capital changes		**8,768**	**7,683**
(Increase)/decrease in trade and other receivables		(638)	504
Decrease in inventories		7	65
Increase/(decrease) in trade and other payables		34	(175)
Decrease in other current liabilities		(781)	-
Changes in working capital		**(1,378)**	**394**
Net cash from operating activities		**7,390**	**8,077**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(547)	(138)
Proceeds from the sale of property, plant and equipment		82	110
Loans issued		(131)	-
Interest received		200	31
Net cash from/(used in) investing activities		**(396)**	**3**
Cash flows from financing activities			
Proceeds from borrowings	12	40,476	60,515
Repayment of borrowings	12	(41,752)	(62,490)
Transaction costs incurred on bonds issuance	12	(612)	-
Interest paid	12	(5,020)	(2,538)
Other bank service fees paid		-	(277)
Repayment of lease liabilities - principal	12;13	(1)	(1)
Net cash used in financing activities		**(6,909)**	**(4,791)**
Effect of exchange rate changes on cash and cash equivalents, net		(114)	(221)
Net (decrease)/ increase in cash and cash equivalents		**(29)**	**3,068**
Cash and cash equivalents at the beginning of the year	9	**4,032**	**964**
Cash and cash equivalents at the end of the year	9	**4,003**	**4,032**

1 General Information

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2023 for Austrian Georgian Development LLC (the "Company" or "AGD") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

The Company was incorporated and is domiciled in Georgia. The Company is a limited liability company and was set up by National Agency of Public Registry in accordance with Georgian regulations on 18 June 2013. The Company's identification number is 404997232.

The following owners owned issued shares of the Company:

	31 December 2023	31 December 2022
CCEH Hydro III LLC	82%	82%
Geo Hydro Capital Group LLC	13%	13%
Energy Solutions LLC	5%	5%

CCEH Hydro III LLC is the majority owner of the Company and Caucasus Clean Energy Fund I, L.P. ("CCEF") is the ultimate controlling party of the Company. CCEF is a partnership which focuses on providing equity capital to small and medium hydropower plants ("HPP") in Georgia. The Fund comprises of leading development finance institutions, family offices, and institutional investors. Geo Hydro Capital Group LLC and Energy Solution LLC are local companies owning 13% and 5% of the shares, respectively.

The Fund's investment, and thus ownership, into its hydropower plants is bundled through holding company, Caucasus Clean Energy Holding Pte Limited ("CCEH"), which is registered in Singapore and wholly owned by the partnership.

Principal activity. The principal business activity of the Company is ownership and operation of Lakhami hydro power plant ("Lakhami") in Georgia. For that purpose, the Company signed the Memorandum of Understanding ("MoU") with the Government of Georgia on 19 October 2016. MoU was further amended on 3 December 2019. Lakhami cascade consist of two HPPs: the upper stage Lakhami 1 and the lower stage Lakhami 2 HPPs. Construction works started in 2018 and successfully completed in 2020. Lakhami 2 HPP began operations on 19 August 2020, Lakhami 1 HPP became operational on 17 October 2020. Power Purchase Agreement' ("PPA") is signed with Electricity System Commercial Operator ("ESCO"), Under the PPA, during the first 10 years of operation, the Company has the option to sell electricity exclusively to ESCO for 8 months (September-April) at a maximum price of 6.00 US cents/kWh, or to sell electricity to any party in Georgia. Within the framework of MoU, the Company also has the right to export electricity to Turkey during the remaining 4 months (May-August).

Fees in the amount of GEL 152 thousand (2022: GEL 42 thousand) incurred for audit and other services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

Registered address and place of business. The Company's legal address is #5 S. Euli / # 10 Jikia Street, Tbilisi, Georgia. The Company's operating HPPs are based in Svaneti region.

Presentation currency. These financial statements are presented in Georgian Lari ("GEL"), unless otherwise stated.

2 Operating Environment of the Company

The Company's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high interest rates, volatility of the foreign exchange rates domestic currency etc. Georgian tax legislation is subject to varying interpretations. The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory and political developments.

2 Operating Environment of the Company (continued)

War between Russia and Ukraine. The Russian-Ukrainian military conflict, started in February 2022, has had a negative impact on global economy; The partial list of the consequential externalities includes: military activities, refugee crisis, destruction of supply chain, inflation hikes, food and commodity price increases and other adverse effects for the global economy.

Large inflows of Ukrainians, Belarusians and Russians in 2022 continued in 2023 had a spill over effect on Georgia’s economy, evidenced by strong appreciation of the local currency as well as high economy growth, resulting in GDP being advanced by 7.5% year over year based as 2023. Annual inflation in 2023 advanced by 2.5% in comparison with 2022.

The Company has no direct exposure to Ukraine, Russia and Belarus. Although management is unable to predict all developments which could have an impact on the Georgian economy and consequently on the future financial position of the Company, the management is prudently taking all the necessary measures to support the sustainability and development of the Company’s business.

3 Material Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The national currency of Georgia is Georgian Lari (“GEL”), which represents the functional currency of the Company and currency in which these financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

Transactions and balances. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Georgian Lari at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss and other comprehensive income within ‘Foreign exchange gain, net on financing activities’. All other foreign exchange gains and losses are separately presented in the operating results within the statement of profit or loss and other comprehensive income as Foreign exchange gain, net.

At present, Georgian Lari is not a freely convertible currency outside of Georgia.

	31 December 2023	**31 December 2022**
GEL/USD	2.6894	2.7020
GEL/EUR	2.9753	2.8844

Property, plant and equipment. Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

3 Material Accounting Policies (Continued)

The estimated useful lives areas follows:

	Useful life
HPP buildings and structures	40 years
Electromechanical and Hydromechanical equipment	25 years
Vehicles	5 years
Machinery and equipment	5 years
Office equipment, fixtures and fittings	5 years

At the and of financial year ended 31 December 2023 and 31 December 2022 residual values are assessed to be nil.

Right-of-use assets. Under right to build agreements, the Company leases lands on which Lakhami 1 and Lakhami 2 HPPs are located.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the leases. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over the lease term as follows:

	Depreciation period
Land	39 years

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets as measured at AC.

Financial assets – classification and subsequent measurement – business model. The Company manages the assets solely to collect the contractual cash flows (“hold to collect contractual cash flows”).

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC.

Cash and cash equivalents. Cash and cash equivalents include current accounts at banks with original maturities of three months or less.

Trade receivables. Trade receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method less the loss allowance determined applying the expected credit losses model (see further policy in this respect in the Note 19).

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at AC using the effective interest method.

Charter capital. The amount of authorized charter capital is defined by the Company’s charter. The changes in the Company’s charter shall be made only based on the decision of the Company’s owners. The authorized capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company. All other cash or in-kind capital contributions, made by the Company’s owners that increased the Company’s capital but were not reflected in the Company’s Charter as at balance sheet date, are recognised as paid-in capital.

Revenue recognition.

Revenue is income arising in the course of the Company’s ordinary activities.

3 Material Accounting Policies (Continued)

Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is shown net of value-added tax and discounts. Revenue from sale of energy is recognised over the period.

Electricity generation and sale

Revenues are recognised based on the actual amount of electricity sold by the Company's power plants.

Electricity sales tariffs are determined based on PPA, local and export agreements signed with legal entities (big consumer, wholesale supplier (trader)).

Sales of electricity are recognised based on readings of metering devices on a monthly basis. These devices installed at connection point of the Company's power plant to the transmission/distribution networks.

A receivable is recognised when electricity is delivered at the connection point of the Company's power plant to the transmission/distribution networks, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Actual volume of electricity transmitted for the accounting period is supported by the delivery/acceptance act of electricity generation and supply. Invoices are issued to customers on a monthly basis.

Electricity transmission and distribution

The Company provides services under fixed-price contracts per 1 kWh of transmitted and distributed power based on the contract tariffs.

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual volume of electricity generated and delivered to the transmission/distribution network over the reporting period because the customer receives and uses the benefits simultaneously.

The actual volume of electricity generated and transmitted for the reporting period is supported by relevant reconciliation reports to be monthly executed and signed with customers based on readings of metering devices. Customers are billed on a monthly basis on the last day of each month, and consideration is payable not later than 25^{th} day of the consecutive month in case of PPA.

A receivable is recognised when an invoice is issued, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Interest income is recognised on a time-proportion basis using the effective interest method.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

On 13 May 2016, the Government of Georgia enacted the changes in the Tax Code of Georgia whereby companies (other than banks, credit unions, insurance companies, microfinance organizations and pawn shops) do not have to pay income tax on their profit earned since 1 January 2017, until that profit is distributed or deemed distributed in a form of dividend. Income tax at 15% is payable on gross up value (i.e. net dividends shall be grossed up by withholding tax 5%, if applicable, and divided by 0.85) when the dividend payments to individuals or to non-resident legal entities is made. Dividends paid to resident legal entities from the profits earned since 1 January 2017 are tax exempted.

Income tax arising from distribution of dividends is accounted for as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

3 Material Accounting Policies (Continued)

In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by the Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Value added tax. Output Value Added Tax ("VAT") related to sales is payable to the tax authorities at the earlier of (a) collection of receivables from customers, or, (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Electricity supply is exempted from VAT, unless the electricity is delivered to the final customer.

EBITDA. EBITDA is defined as earnings before interest, income tax, depreciation, and amortization, and foreign exchange (loss)/gain on financing activities. EBITDA is presented as a subtotal on the face of Statement of Profit or Loss and Other Comprehensive Income.

Management believes that the presentation of EBITDA provides reliable and more relevant information. EBITDA focuses on the financial outcome of operating decisions by eliminating the impact of non-operating management decisions, i.e. tax rates, interest expenses. EBITDA is an important financial measure that is used by the stakeholders for business evaluation, management performance evaluation and covenant calculation.

By the definition, EBITDA (Note 3) excludes foreign exchange (loss) / gain on financing activities. Accordingly, the line item of net foreign exchange (loss)/gain, is disaggregated into two separate line items foreign exchange (loss)/gain, net (excluding financing activities) and foreign exchange (loss)/gain, net on financing activities.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's Management who authorised these financial statements for issue.

4 Information about Key Sources of Estimation, Uncertainty and Judgements

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in this these financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Information about Key Sources of Estimation, Uncertainty and Judgements (Continued)

Useful lives of property, plant, equipment and intangible assets. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Were the estimated useful lives to differ by 5% from management's estimates, the impact on depreciation for the year ended 31 December 2023 would be to increase it by GEL 98 thousand or decrease it by GEL 109 thousand (2022: increase by GEL 101 thousand or decrease by GEL 100 thousand).

Depreciation of right-of-use assets. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of lands the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate) the lease.

Discount rates used for determination of lease liabilities. The Company uses its incremental borrowing rate as a base for calculation of the discount rate because the interest rate implicit in the lease cannot be readily determined.

The incremental borrowing rate was determined to be 12.13% which is market interest rate for GEL denominated debt, tailored to the company industry and lease contract terms (currency, maturity, purpose), published by National Bank of Georgia.

A 5% increase or decrease in discount rate at 31 December 2023 would result in an decrease or increase in lease liabilities of GEL 185 thousand and GEL 402 thousand (31 December 2022: GEL 185 thousand and GEL 405 thousand) respectively.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and the amendments became effective from 1 January 2023:

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their material accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. In accordance with IASB effective date, the companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

- ***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023)***.
- ***Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).***
- ***Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).***
- ***Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).***

The application of the amendments had no significant impact on the Company's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Company has not early adopted. The following amended standards are not expected to have a significant impact on the Company's financial statements:

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).

Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023, effective for annual periods beginning on or after 1 January 2025).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

7 Property, Plant and Equipment

Movements in the carrying amounts of property, plant and equipment were as follows:

In thousands of Georgian Lari	HPP buildings and structures	Electromechanical and hydromechanical equipment	Construction in progress and unused equipment	Machinery and equipment	Office equipment, fixtures and fittings	Vehicles	Total
Cost							
Balance at 1 January 2022	**48,300**	**14,882**	**-**	**1,119**	**282**	**337**	**64,920**
Additions	33	-	-	95	10	-	138
Disposals	-	-	-	(134)	(8)	(75)	(217)
Balance at 31 December 2022	**48,333**	**14,882**	**-**	**1,080**	**284**	**262**	**64,841**
Additions	108	-	351	4	10	74	547
Disposals	-	-	-	(683)	(5)	(72)	(760)
Balance at 31 December 2023	**48,441**	**14,882**	**351**	**401**	**289**	**264**	**64,628**
Accumulated depreciation							
Balance at 1 January 2022	**1,590**	**774**	**-**	**448**	**119**	**147**	**3,078**
Charge for the year	1,202	595	-	227	53	55	2,132
Eliminated at disposals	-	-	-	(77)	(6)	(40)	(123)
Balance at 31 December 2022	**2,792**	**1,369**	**-**	**598**	**166**	**162**	**5,087**
Charge for the year	1,208	595	-	177	52	52	2,084
Eliminated at disposals	-	-	-	(519)	(5)	(51)	(575)
Balance at 31 December 2023	**4,000**	**1,964**	**-**	**256**	**213**	**163**	**6,596**
Carrying values							
At 1 January 2022	46,710	14,108	-	671	163	190	61,842
At 31 December 2022	45,541	13,513	-	482	118	100	59,754
At 31 December 2023	**44,441**	**12,918**	**351**	**145**	**76**	**101**	**58,032**

Construction in progress relates to the rehabilitation works of Khudoni substation. Refer to Note 17 for the details of the pledged assets.

8 Trade and Other Receivables

In thousands of Georgian Lari	31 December 2023	31 December 2022
Trade receivables	643	368
Other receivables	543	206
Less credit loss allowance	(160)	(160)
Total financial assets within trade and other receivables	**1,026**	**414**
Tax receivables	53	36
Total trade and other receivables	**1,079**	**450**

Trade receivable represents the receivable amounts from the sales of the electricity, meanwhile, other receivables represent amounts mainly from sales of fixed assets, camp and concrete.

Based on objective evidence, management estimates that the Company will not be able to fully collect receivables from sale of concrete. Credit loss allowance recognized during 2020 and no payment was received during 2023 and 2022.

Refer to Note 19 for information about credit loss allowance of trade receivables.

9 Cash and Cash Equivalents

In thousands of Georgian Lari	31 December 2023	31 December 2022
Cash at bank	4,003	4,032
Total cash and cash equivalents	**4,003**	**4,032**

Refer to Note 19 for information about credit quality of banks where the Company's cash at bank is allocated at.

10 Charter Capital

On 21 March 2018, according to the Sale and Purchase Agreements signed between Skinest Hydro JSC and CCEH Hydro III LLC, CCEH Hydro III LLC purchased 80% interest in the ownership of the Company. Furthermore, on 26 April 2018, in accordance with Ownership Interest Sale and Purchase Agreement signed between CCEH Hydro III LLC and Geo Hydro Capital Group LLC, CCEH Hydro III LLC acquired additional 2% from Geo Hydro Capital Group LLC. As a result, CCEH Hydro III LLC became the majority owner with 82% interest in the ownership if the Company.

On 31 May 2018, the charter capital of the Company was increased from original USD 1,000 thousand (equivalent to GEL 1,730 thousand) by USD 9,269 thousand (equivalent to GEL 22,926 thousand), as a result of decision of the owners. The increase was proportionally allocated to all owners according the interest in the ownership. During 2020 Charter capital was increased by USD 500 thousand (equivalent to GEL 1,536 thousand). On 24 September 2021, the capital of the Company was further increased by USD 454 thousand (equivalent to GEL 1,415 thousand).

In 2018 the owners contributed GEL 14,249 thousand. This included non-cash contribution of USD 1,269 thousand (equivalent to GEL 3,138 thousand), representing the conversion of the borrowing into the charter capital of the Company by CCEH Hydro III LLC and contribution of USD 4,286 thousand (equivalent to GEL 11,111 thousand) in cash.

10 Charter Capital (Continued)

In 2019 the owners contributed USD 1,554 thousand (equivalent to GEL 4,227 thousand) and in 2020 USD 2,410 thousand (equivalent to GEL 7,419 thousand) as a cash investment.

As of the year end 31 December 2021 authorized capital that has not been paid equalled GEL 766 thousand.

During 2021, USD 703 thousand (equivalent to GEL 2,186 thousand) cash contribution was made into the Company's capital.

Neither charter capital increase nor further cash contributions have taken place in 2023 and 2022.

Consequently, the Company's authorized charter capital that has been issued and paid totalled to USD 11,222 thousand (equivalent to GEL 27,607 thousand) as of 31 December 2023 and as of 31 December 2022.

Paid in capital of GEL 2,515 thousand as of 31 December 2023 (31 December 2022: GEL 2,515 thousand) represents difference between capital issued and paid and authorized charter capital determined due to foreign exchange rate fluctuations as a result of time gap between the capital authorization and capital contribution dates.

11 Borrowings

In thousands of Georgian Lari	**31 December 2023**	**31 December 2022**
Bank loan	9,410	52,337
Bonds	40,544	-
Total borrowings	**49,954**	**52,337**

As of 31 December 2022, the Company had an active loan agreement, signed with TBC Bank JSC with outstanding principal amount of USD 18,289 thousand and interest rate of 6.48%+6M Libor. The loan had maturity up to 1 January 2037.

On 16 October 2023, the Company issued secured bonds of USD 15,000 thousand (GEL 40,476 thousand) on the Georgian Stock Exchange (hereafter "GSE"), with an interest rate of 9.00% maturing in 2025. Interest payments are scheduled semi-annually on the 16th of April and the 16th of October each year, commencing from 16 April 2024. The proceeds from this bond issuance were utilized to refinance a portion of the existing bank loan (with USD 17,986 thousand outstanding at the time of refinancing), which was due in 2037.

The bonds are accounted at amortised cost using the effective interest rate method. In connection with the issuance of the bonds, the Company incurred expenses totalling GEL 612 thousand, inclusive of underwriting fees, legal counsel fees, listing expenses, etc. These expenses are accounted as transaction costs and are included in the calculation of the effective interest rate of the bonds. These expenses are deferred over the lifetime of the bonds.

Consequently, as of 31 December 2023, the Company holds bonds with outstanding principal of USD 15,000 thousand (GEL 40,341 thousand) and a bank loan with outstanding principal of USD 2,777 thousand (GEL 7,470 thousand).

All assets (movable as well as immovable) as well as 95% of the shares of the Company are pledged in favour of the bank and bondholders.

12 Reconciliation of Liabilities arising from Financing Activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

In thousands of Georgian Lari	Borrowings	Lease Liabilities	Total
Liabilities from financing activities at 1 January 2023	**52,337**	**679**	**53,016**
Cash flows			
Proceeds from bond issue	40,476	-	40,476
Repayment of borrowings	(41,752)	-	(41,752)
Transaction costs incurred on bonds issuance	(612)	-	(612)
Interest paid	(4,942)	(78)	(5,020)
Repayment of lease liabilities - principal	-	(1)	(1)
Total cash flows	**(6,830)**	**(79)**	**(6,909)**
Non-cash changes			
The effect of changes in foreign exchange rates	(284)	-	(284)
Losses less gains on restructuring of borrowings	(489)	-	(489)
Interest accrued	5,220	78	5,298
Total non-cash changes	**4,447**	**78**	**4,525**
Liabilities from financing activities at 31 December 2023	**49,954**	**678**	**50,632**

In thousands of Georgian Lari	Borrowings	Lease Liabilities	Total
Liabilities from financing activities at 1 January 2022	**59,099**	**680**	**59,779**
Cash flows			
Proceeds from borrowings	60,515	-	60,515
Repayment of borrowings	(62,490)	-	(62,490)
Interest paid	(2,460)	(78)	(2,538)
Repayment of lease liabilities - principal	-	(1)	(1)
Total cash flows	**(4,435)**	**(79)**	**(4,514)**
Non-cash changes			
The effect of changes in foreign exchange rates	(7,476)	-	(7,476)
Interest accrued	5,149	78	5,227
Total non-cash changes	**(2,327)**	**78**	**(2,249)**
Liabilities from financing activities at 31 December 2022	**52,337**	**679**	**53,016**

The Company is subject to certain covenants related primarily to its borrowings from TBC Bank JSC (Note 17).

13 Right-of-use Assets and Lease Liabilities

Under right to build agreements, the Company leases lands on which Lakhami 1 and Lakhami 2 HPPs are located. These contracts are made for fixed periods of 39 years.

When measuring lease liabilities for leases, the Company, discounts lease payments using its incremental borrowing rate at the date of lease recognition. Cash flows of the lease contracts of the Company are denominated in GEL. The rate applied in 2023 and 2022 was approximately 12%.

In thousands of Georgian Lari	2023	2022
Carrying amount of right-of-use asset at 1 January	**653**	**667**
Amortization Charge	(14)	(14)
Gross balance of right-of-use asset at 31 December	**681**	**681**
Accumulated amortization at 31 December	**(42)**	**(28)**
Carrying amount of right-of-use asset at 31 December	**639**	**653**

The Company recognised lease liabilities as follows:

In thousands of Georgian Lari	31 December 2023	31 December 2022
Long-term lease liabilities	604	605
Short-term lease liabilities	74	74
Total lease liabilities	**678**	**679**

Interest expense included in finance costs of 2023 was GEL 78 thousand (2022: GEL 78 thousand).

Expenses relating to short-term leases are included in other operating expenses under ‘Expenses relating to short-term leases’ (Note 15).

14 Revenues

In thousands of Georgian Lari	2023	2022
Sale of electricity	10,969	10,790
Total revenues	**10,969**	**10,790**

Revenues represent sales of the electricity from contracts with customers. In 2022, the Company started export sales of electricity produced in the months of May, June and July and generated GEL 3,289 thousand from export, while revenues from domestic sales amounted to GEL 7,501 thousand. In 2023 (May, June, July and August) of 2023, the Company generated GEL 4,770 revenue from the electricity sold to local traders for the export purposes to Turkey.

In 2022, transmission expenses related to the export sales of electricity amounted to GEL 545.

15 Other Operating Expenses

In thousands of Georgian Lari	2023	2022
Taxes expense other than on income	615	635
Insurance expense	207	307
Professional service fees	199	144
Environmental, social and governance expenditure*	111	78
Repair and maintenance expenses	96	67
Expenses relating to short-term leases	92	170
Transportation expense	48	133
Office supplies	11	63
Utility expenses	8	12
Communication expenses	5	6
Other	69	184
Total other operating expenses	**1,461**	**1,799**

*Environmental, social and governance expenditure includes research and development fees of GEL 47 thousand (2022: GEL 46 thousand) related to water analyses, biodiversity and ichthyofauna monitoring research.

16 Finance Income/(Costs), net

In thousands of Georgian Lari	2023	2022
Finance costs	**(4,859)**	**(5,504)**
Interest expense	(5,348)	(5,227)
Other bank service fees	-	(277)
Gains less losses on restructuring of borrowings	489	-
Foreign exchange gain, net on financing activities	292	7,476
Finance income/(costs), net	**(4,567)**	**1,972**

During 2023, the Company early settled USD 15,000 thousand (GEL 40,476 thousand) of the Company's bank loan. The difference between the carrying amount of the borrowing and the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate - i.e. of the original debt instrument is recognised in profit or loss as losses on restructuring of borrowings.

17 Contingencies and Commitments

Tax legislation. The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however, under certain circumstances a tax year may remain open longer. These circumstances may create tax risks in Georgia that are substantially more significant than in many other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their own interpretations, could be significant.

Assets pledged and restricted. According to the borrowing agreements with TBC Bank JSC and prospectus of the bonds issued on GSE, all movable and immovable properties as well as 95% of shareholding of the Company are pledged with the bank and bondholders. There are no contingent allowances in relation to the pledged and restricted assets.

Commitment with Government of Georgia. Based on the Memorandum of Understanding (MoU) signed with the Government of Georgia on 19 October 2016 and amended on 3 December 2019, the Company has an option to sell the electricity exclusively to ESCO for 8 months (September through April) at a ceiling price of USD 6.00 cents/kWh during the first 10 years of operation or to any party in Georgia.

The ten-year guaranteed power purchase agreement (“PPA”) with ESCO came into effect on 17 October 2020.

Environmental matters. Environmental, Social and Governance (ESG) aspects are of utmost importance for the Company and the full process of project development are being assessed and developed in line with the world recognised ESG standards (EIB, IFC).

Consideration of climate change. The Company’s management has taken note of global awareness and concerns about the potential impact of climate change. Currently, this matter has had no significant impact on the financial statements, as for the future effects on the Company’s activities and business plans are difficult to predict. Management continues to monitor developments in this area and will respond as necessary to ensure the Company’s viability and will adopt all government guidelines if and when these are issued in the markets in which the Company operates.

Social matters. Alongside with the construction activities the Company actively financed various social programs which would have a long-term impact on the local community. Company does not hold any legal or constructive obligation regarding this matter, instead it is solely Company's intention to support the local communities.

Compliance with covenants. The Company is subject to various financial as well as non-financial covenants related primarily to its borrowings from TBC Bank JSC. Violation of covenants may have serious consequences ranging from monetary penalties, increase of cost of borrowing and even result in declaration of default. Due to external/internal factors, the Company was non-compliant with some financial covenants during and as of 31 December 2023, however, this did not trigger any negative consequences as the debt provider has issued the waiver during 2023, as a result borrowings were not classified as current.

The Company is subject to various financial as well as non-financial covenants related primarily to its bonds issued on GSE. The Company was compliant with covenants during and as of 31 December 2023.

18 Balances and Transactions with Related Parties

The income and expense items with related parties were as follows:

In thousands of Georgian Lari	**2023**	**2022**
Finance cost on payable to the Parent company - CCEH Hydro III LLC	43	62
Finance cost on bank guarantee - CCEH Hydro III LLC	5	7
Loan issued to the Parent company – CCEH Hydro III LCC	131	-
Sales of fixed assets to entities under common control	324	-
Total	**503**	**69**

The outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**31 December 2023**	**31 December 2022**
Payable to Parent company - CCEH Hydro III LLC	-	665
Payable on bank guarantee provided by CCEH Hydro III LLC	-	76
Loan receivable from Parent company – CCEH Hydro III LCC	134	-
Receivable from entities under common control	346	-
Total	**480**	**741**

Key management includes directors of the Company. Compensation paid to key management for the services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Company and other compensation in the form of reimbursement of rent, transportation, communication and other expenses.

Total key management compensation is presented below:

In thousands of Georgian Lari	**2023**	**2022**
Salaries and benefits	170	229

2023 Salary and benefits include GEL 3 thousand (2022: GEL 3 thousand) the Company's mandatory contributions to the Pension Agency of Georgia.

19 Financial Risk Management

The risk management function within the Company is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Company exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises from trade receivables and cash and cash equivalents and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

19 Financial Risk Management (Continued)

The Company's maximum exposure to credit risk reflected in the carrying amounts of financial assets in the statement of financial position at the reporting date was as follows:

In thousands of Georgian Lari	31 December 2023	31 December 2022
Bank balances	4,003	4,032
Trade and other receivables	1,079	450
Loans Issued	134	-
Recognized financial assets	**5,216**	**4,482**

Bank balances. The cash and cash equivalents of the Company are held with TBC Bank JSC, which has a short-term issuer default rating of BB, based on Fitch Rating (2022: BB-). These balances are not past due and are in Stage 1. Respectively, the Company does not expect the counterparty to fail to meet its obligations.

Trade and other receivables. Credit risk is managed by individual customer level. ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. Trade and other receivable loss allowance is based on lifetime ECLs.

Trade receivables are fully current (not overdue) and usually covered within 25 days.

Management estimates that the Company will not be able to fully collect receivables from sales of concrete. Other receivables from latter sales have been credit impaired and respective credit loss allowance of GEL 160 thousand had been recognized during 2020. No payment was received during 2022 and 2023.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rates, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency, which are monitored daily. The Company's exposure to currency risk is mainly attributable to USD-denominated Bank Loan.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Georgian Lari	USD-Denominated 31 December 2023	USD-Denominated 31 December 2022
Bank balances	2,237	3,153
Trade and other receivables	12	12
Loans issued	134	-
Trade and other payables	(11)	(10)
Other current liabilities	-	(741)
Bonds and loans	(49,954)	(52,337)
Net exposure	**(47,582)**	**(49,923)**

19 Financial Risk Management (Continued)

In thousands of Georgian Lari	EUR-Denominated 31 December 2023	EUR-Denominated 31 December 2022
Trade and other payables	(338)	(298)
Net exposure	**(338)**	**(298)**

The official rate of exchange, as determined by the National Bank of Georgia, were as follows:

	Average rate		Reporting date spot rate	
In Georgian Lari	Year ended 2023	Year ended 2022	31 December 2023	31 December 2022
USD 1	2.6279	2.9156	2.6894	2.7020
EUR 1	2.8416	3.0792	2.9753	2.8844

Sensitivity analyses. The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company, with all other variables held constant:

	Strengthening		Weakening	
In thousands of Georgian Lari	Equity	Profit or (loss)	Equity	Profit or (loss)
31 December 2023				
USD (10% movement)	-	4,758	-	(4,758)
EUR (10% movement)	-	34	-	(34)
31 December 2022				
USD (10% movement)	-	4,992	-	(4,992)
EUR (10% movement)	-	30	-	(30)

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial liabilities at carrying amounts:

	Carrying Amount	
In thousands of Georgian Lari	31 December 2023	31 December 2022
Fixed rate instruments	41,576	1,727
Financial liabilities	**41,576**	**1,727**
Variable rate instruments	9,411	52,337
Financial liabilities	**9,411**	**52,337**

19 Financial Risk Management (Continued)

At 31 December 2023, if interest rates at that date had been 200 basis points lower (2022: 200 basis points lower) with all other variables held constant, profit for the year would have been GEL 718 thousand (2022: GEL 5,333 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. If interest rates had been 200 basis points higher (2022: 200 basis points higher), with all other variables held constant, profit would have been GEL 619 thousand (2022: GEL 4,533 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Management monitors monthly rolling forecasts of the Company's cash flows. The Company seeks to maintain a stable funding base primarily consisting of borrowings, leases, trade and other payables and other current/non-current liabilities. The Company's liquidity portfolio comprises cash and cash equivalents (Note 9). Management estimates that the liquidity portfolio cash, can be realised in cash within a day in order to meet unforeseen liquidity requirements. The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed.

The table below shows liabilities at 31 December 2023 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2023 is as follows:

In thousands of Georgian Lari	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Borrowings (Note 11)	49,954	63,771	-	2,001	4,225	49,883	7,662
Lease liabilities (Note 13)	678	3,417	-	20	59	314	3,024
Trade and other payables	354	354	-	354	-	-	-
Total future payments, including future principal and interest payments	**50,986**	**67,542**	**-**	**2,375**	**4,284**	**50,197**	**10,686**

Refer to Note 17 for information on compliance with borrowing covenant.

The maturity analysis of financial liabilities at 31 December 2022 is as follows:

In thousands of Georgian Lari	Carrying amount	Total	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years
Non-derivative financial liabilities							
Borrowings (Note 11)	52,337	96,159	-	3,148	3,140	27,725	62,146
Lease liabilities (Note 13)	679	3,495	-	20	59	314	3,102
Trade and other payables	307	307	-	307	-	-	-
Other Current Liabilities	741	741	-	-	741	-	-
Total future payments, including future principal and interest payments	**54,064**	**100,702**	**-**	**3,475**	**3,940**	**28,039**	**65,248**

20 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Even though, the Company has no formal policy for capital management, management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs. Latter is achieved with efficient cash management and monitoring of the Company's revenues and profits.

21 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets carried at amortised cost. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities

Liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying amounts. All financial assets are assigned to level 2 under fair value hierarchy.

22 Events after the reporting period

On 25 January 2024, the Company modified the terms of its outstanding loan agreement with bank, by changing the floating interest rate to fixed interest rate and shortening the debt maturity from 1 January 2037 to 1 July 2033.

On 16 April 2024 the Company made the first coupon payment of USD 686 thousand (GEL 1,832 thousand) in respect with issued bonds.