Georgian Energy Trading Company LLC

Financial statements

for the year ended 31 December 2023
with independent auditor's report

Statement of Financial Position

As at December 31, 2023

(Amounts expressed in thousands of Georgian Lari)

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Statement of Financial Position

As at December 31, 2023

(Amounts expressed in thousands of Georgian Lari)

	Note	December 31, 2023	December 31, 2022
Assets			
Non–current assets			
Loans issued	8	-	2,000
Total non–current assets		**-**	**2,000**
Loans issued	8	2,288	22
Prepaid taxes other than income tax		16	12
Other current assets		1	1
Cash and cash equivalents	6	106	101
Total current assets		**2,411**	**136**
Total assets		**2,411**	**2,136**
Equity			
Charter capital		-	-
Retained earnings		2,386	2,082
Total equity		**2,386**	**2,082**
Liabilities			
Trade and other payables	5	25	54
Total liabilities		**25**	**54**
Total liabilities and equity		**2,411**	**2,136**

Approved for issue and signed on behalf of the Management on June 29 2023:

José Miguel Santos Gonzalez
Chief Executive Officer

Nino Tsurtsumia
Chief Financial Officer
Georgian Water and Power Company LLC.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

(Amounts expressed in thousands of Georgian Lari)

	Note	*2023*	*2022*
Revenue from electric power sales		-	14,954
	7	-	**14,954**
Electric power sale costs	7	-	(14,836)
Salaries and other employee benefits		(3)	(26)
Expected credit loss (charge)/recovery on loans issued		(10)	-
Professional fees		(25)	(7)
General and administrative expenses		-	(9)
Other operating expenses		-	(31)
		(38)	**(14,909)**
Other income		54	-
		54	**-**
EBITDA		**16**	**45**
Interest income	8	288	434
Foreign exchange gain		-	294
Profit before income tax expense		**304**	**773**
Income tax expense		-	-
Profit for the year		**304**	**773**
Other comprehensive income		-	-
Total comprehensive income for the year		**304**	**773**

The accompanying notes on pages 5 to 13 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

(Amounts expressed in thousands of Georgian Lari)

	Retained earnings	***Total***
Balance as at 1 January 2022	**1,309**	**1,309**
Profit and total comprehensive income for the year	773	**773**
Balance as at 31 December 2022	**2,082**	**2,082**
Profit and total comprehensive income for the year	304	**304**
Balance as at 31 December 2023	**2,386**	**2,386**

The accompanying notes on pages 5 to 13 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

(Amounts expressed in thousands of Georgian Lari)

	Note	2023	2022
Cash flows from operating activities			
Profit before income tax		**304**	**773**
Adjustments for:			
Expected credit loss charge/recovery on loans issued		10	-
Net foreign exchange gains		-	(294)
Finance income	8	(288)	(434)
Finance costs		-	-
Working capital changes			
Change in trade and other receivables		-	1,828
Change in prepaid taxes other than income tax		(4)	4
Change in trade and other payables		(29)	(2,025)
Change in Prepayments		-	(2,253)
Change in other tax payables		-	(52)
Net cash used in operating activities		**(7)**	**(2,465)**
Cash flows from investing activities			
Loans issued		-	(2,000)
Interest received		12	412
Net cash from /used in) investing activities		**12**	**(1,588)**
Net change in cash and cash equivalents		**5**	**(4,053)**
Cash and cash equivalents at the beginning of year		101	4,154
Cash and cash equivalents at the end of year		**106**	**101**

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Energy Trading Company LLC. (the "Company") was incorporated on April 23, 2019, as a limited liability company in accordance with legislation of Georgia.

The Company's principal business activities are purchasing electricity from the hydroelectric power plants and selling it to the customers. In 2023, the Company largely remained dormant.

The Company's registered address is at 10, Medea (Mzia) Jugheli Street, Tbilisi, 0179, Georgia.

As at 31 December 2023 and 2022, the Company was 100% owned by Georgia Global Utilities LLC (the "GGU" or the "Parent"). 80% of which is owned by FCC Aqualia S.A ("Aqualia").
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The Company's activities are managed by Georgian Water and Power LLC ("GWP" or "the Management company"), a 100% subsidiary of the Parent, according to a respective management contract.

2. Basis of preparation

These financial statements of the Company for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2023 reporting.

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

Going concern
The Company remained dormant over 2023 as its core activity, electricity trading, was executed by other entities within GGU Group. GGU Group's management is currently assessing the future business prospects and business model for the Company. Nevertheless, the management assessed that going concern basis of preparation for 2023 financial statements remains appropriate as no formal decision for Company's liquidation was made or is expected to be made in the foreseeable future and the Company has continuing operations in form of collection of outstanding loans issued to related parties.

3. Summary of material accounting policies

Adoption of new or revised standards and interpretations

Several amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Company, except as discussed below:

- *IFRS 17 Insurance Contracts*
- *Definition of Accounting Estimates – Amendments to IAS 8*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12*
- *International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12*
- *Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2*

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Company revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Company has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Company chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes

(Amounts expressed in thousands of Georgian Lari)

information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, all becoming effective for annual periods beginning on or after 1 January 2024, if applicable, when they become effective. The Company does not expect material impact from adopting these standards or amendments on its financial statements.

► Amendments to IFRS 16: Lease liability in a Sale and Leaseback .

► Amendments to IAS 1: Classification of Liabilities as Current or Non−current

► Supplier Finance Arrangements − Amendments to IAS 7 and IFRS 7

Financial assets

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, FVOCI, and fair value through profit or loss ("FVPL").

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

For purposes of subsequent measurement, financial assets of the Company are classified as financial assets at amortised cost, which include loans issued, and cash and cash equivalents.

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

In respect of loans issued, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12–months (a 12–month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

(Amounts expressed in thousands of Georgian Lari)

4. Summary of material accounting policies (continued)

Financial assets (continued)

A financial asset is credit−impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence of impairment may include:

- Significant financial difficulty of the counterparty;
- A breach of agreement, such as a default or past due event;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

If, in a subsequent year, the amount of the estimated ECLs increases or decreases, the previously recognised ECLs are increased or reduced by adjusting the allowance account. If a future write−off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment.

Uncollectible assets are written off against the related ECL provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Expected credit losses on loans issued are assessed individually considering actual or implied credit rating of the borrower, availability of support from borrower's related parties and other relevant information available to the management as at the assessment date, including forward−looking information available without undue cost or effort.

Derecognition of financial instruments

Financial assets

Uncollectible assets are written off against the related ECL allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Write−off constitutes a derecognition event.

4. Summary of material accounting policies (continued)

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017. Corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non−residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008−2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia.

Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Value added tax

Value added tax ("VAT", charged at 18% in Georgia) related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which are settled at the end of the reporting period is recognised in the statement of financial position on a net basis. ECLs are recorded for the gross amount of the debtor, including VAT.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of material accounting policies (continued)

EBITDA

The Company separately presents EBITDA on the face of statement of profit or loss and other comprehensive income. EBITDA is not defined in IFRS and is defined by the Company as earnings before interest, taxes, depreciation and amortisation, and is derived as the Company's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, finance costs, net foreign exchange gains or losses.

Functional currencies and foreign currency translation

he Company's financial statements are presented in Georgian Lari, which is also the Company's functional currency.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2023 and 2022 were 2.6894 and 2.7020 GEL to 1 USD.

Income and expense recognition

Revenue is recognized when the Company satisfies a performance obligation at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods and services to a customer. The following specific principles also apply to the Company's major classes of revenues:

Revenue from electric power sales

Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the fixed price according to the agreement formed with customers. Customers are usually obliged to pay the respective balances by a following month end. If the Company fails to supply the amount provided in the electric power agreement, Company is obliged to pay compensation in order to balance the difference in own customers in market values. Compensated amount are deducted from revenue from electric power sales.

4. Summary of material accounting policies (continued)

4. Significant accounting judgements and estimates

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 the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected credit losses in respect of issued loans

(Amounts expressed in thousands of Georgian Lari)

As at 31 December 2023 and 2022, the Company had issued loans to an entity under common control. Expected credit losses on loans issued are assessed individually considering actual or implied credit rating of the borrower, availability of support from borrower's related parties and other relevant information available to the management as at the assessment date, including forward−looking information available without undue cost or effort.

The Company measures loss allowances at an amount equal to 12-month ECL when the loan is issued. Loans issued for which a 12-month ECL is recognised are referred to as 'Stage 1' or lower risk category financial instruments. Loans issued allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired. When determining whether the credit risk of loan issued has increased significantly since initial recognition and when estimating ECL, the Company considers borrower's actual or implied credit rating for each reporting date. If the internal rating is downgraded substantially, the Company identifies there is significant increase in credit risk since initial recognition and those loans issued are referred as 'Stage 2' or higher risk category financial instruments for which lifetime ELC is recognised.

If the Company has information that the borrower has significant financial difficulties or it is probable that the borrower will enter bankruptcy or other financial reorganization, the respective instrument is considered as credit-impaired and is referred as 'Stage 3 financial instrument' or credit impaired risk category.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD),
- Loss given default (LGD),
- Exposure at default (EAD).

PD for the loans issued is evaluated by an individual approach on a rating system based on a scoring questionnaire and represents the country's rating (based on Moody's rating agency) adjusted by the individual risk characteristics of each individual borrower.

LGD is magnitude of likely loss if there a default. The Company applies 54% (2022: 75%) LGD based on implied LGD in certain commonly used financing instruments pricing models.

As at 31 December 2023 and 2022, the Company determined that the loan to Entities under common control is allocated to Stage 1. As at 31 December 2023, the Company recognised ECL chanrge on loan issued of GEL 10 (2022: ECL charge of GEL nil).

(Amounts expressed in thousands of Georgian Lari)

5. Equity

In 2023 and 2022, no dividends were declared and paid to the Parent.

The Company's charter capital amounts to nil as at 31 December 2023 and 2022.

Management of capital

The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Company cost−efficient.

The Company defines capital for capital management purposes as equity recognized in the financial statements. There are no externally imposed capital requirements to which the Company is subject to.

There were no changes in the objectives, policies or processes for managing capital in 2023 and 2022.

6. Trade and other payables

As at 31 December 2023 The Company has payables for the financial audit service provided, amounting to GEL 25.

Trade and other payables are non−interest bearing and are normally settled within 60 days.

7. Revenue from electric power sales

In 2022, the company purchased and sold electricity from companies consolidated under the parent company. In 2023, the company's electricity trading operations ceased, as electricity generating companies began trading directly with consumers without company intermediaries.

The table below shows Revenue from electric power sales and Cost of electric power sales in 2023 and 2022:

	2023	***2022***
Revenue from electric power sales	-	14,954
Cost of electric power sales	-	(14,836)
Net sales	**-**	**118**

8. Financial instruments

Financial instruments overview

Cash and cash equivalents

Cash and cash equivalents as of 31 December 2022 and 2023 includes the funds placed on current accounts in Georgian commercial banks. All cash and cash equivalents balances are classified as current and not impaired.

As of 31 December 2022, and 2023, the Company did not have any significant financial assets that are past due.

Credit risk

As of 31 December 2022 and 2023 the Company has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents and restricted cash: as of 31 December 2023 out of total cash and cash equivalents GEL 106 (2022: GEL 101) was kept with banks having ratings of "BB/bb" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB/bb" from Fitch Ratings;
- Long term and short term loans issued to the entity under common control

(Amounts expressed in thousands of Georgian Lari)

ECLs on loans issued are assessed individually considering actual or implied credit rating of the borrower, availability of support from borrower's related parties and other relevant information available to the management as at the assessment date, including forward-looking information available without undue cost or effort.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated for exposures in Stage 2 by summing up the ECLs separately calculated for each remaining year until the loan maturity. ECLs for each year are calculated by multiplying the relevant year PD by LGD and NPV of relevant year EAD discounted by the original effective interest rate. ECL for exposures in stage 3 is calculated by multiplying PD of 100% by LGD and EAD.

The Company does not have own history of defaults and recoveries and therefore applies market benchmarks for credit ratings and corresponding PD and LGD for the purpose of ECL measurement in respect of loans issued to related parties. The Parent has a credit rating of BB− as at 31 December 2023 (B+ in 2022) (by Fitch Ratings), which is equivalent of Ba3 (B1 in 2022) (by Moody's) while its subsidiaries do not have external credit ratings. The Parent company determines internal credit ratings of subsidiaries by comparing the financial standing of subsidiaries (analysed with reference to certain financial ratios) to that of the Company itself (determined on consolidated basis). Internal credit rating of subsidiaries is then determined, by applying professional judgment, by upgrading or downgrading the Parent Company's external credit rating depending on the magnitude of the difference in the financial standing of subsidiary relative to the Parent Company. For the purpose of credit quality disclosures, Standard rating corresponds to external credit ratings (by Moody's) from B3 to Ba1, and Substandard from Ca-C to Caa1.

In December 2023, two companies under common control, Rustavi Water Company (RWC) and Georgian Water and Power (GWP), announced their merger. As a result of RWC merging with GWP, the, ECL calculation for the loan issued to RWC (Stage 1) was based on the credit rating of GWP, which, in turn, was determined by the external credit rating of the Parent company

As at 31 December 2023 there was no loan issued transferred in stage 2. There were no loans issued that were past due, or considered credit impaired, this is because of the loan contractual term − loan together with accrued interest are payable in November 2024.

The credit quality of all financial assets is constantly monitored in order to identify any potential adverse changes in the credit quality. In respect of trade and other receivables, the management monitors credit quality based on days past due information. As at 31 December 2023 and 2022, carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated when they fall due under normal or stress circumstances. Management monitors rolling forecasts of the Company's cash flows on a monthly basis.

As of December 31, 2023 and 2022 the available financial obligations on the basis of non-discounted payment obligation provided with the agreement was represented with trade and other payables in the amount of GEL 74 and 54, respectively, with the payment period of less than one year. The Company expects to be able to discharge its obligations under these and other upcoming liabilities by applying proceeds from loans issued.

9. Related parties disclosures

In accordance with IAS 24, *Related Party Disclosures*, parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

11. Related parties disclosures (continued)

(Amounts expressed in thousands of Georgian Lari)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	December 31, 2023			December 31, 2022		
	The Parent	Entities under common control	Other related parties	The Parent	Entities under common control	Other related parties
Loans issued [1]	-	2,288	-	-	2,022	-

	2023			2022		
	The Parent	Entities under common control	Other related parties	The Parent	Entities under common control	Other related parties
Income and expenses						
Revenue from electric power sales	-	-	-	-	802	-
Finance income	-	276	-	-	22	-
Cost of electric power sales	-	-	-	-	(13,531)	(1,285)
Finance cost	-	-	-	-	-	-

[1]*In 2022, Company issued loan to Rustavi Water LLC, sister company amounting GEL 2,000 with fixed interest rate of 14,58%. Loan matures in 2 years. Rustavi Water Company LLC was merged to GWP in 2023. Expected credit losses in respect with this loan and trade and other receivables due from related parties were assessed as GEL 10 as of 31 December 2023 (2022 Nill).*