



**Georgian Oil and Gas Corporation JSC**

**Consolidated Financial Statements  
for 2023**

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# Independent Auditors' Report

## To the Supervisory board of Georgian Oil and Gas Corporation JSC

### Opinion

We have audited the consolidated financial statements of Georgian Oil and Gas Corporation JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

### 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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Statement on Management Report

Management is responsible for the Management Report. Our opinion on the consolidated financial statements does not cover the Management Report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

- is consistent with the consolidated financial statements and does not contain material misstatement;
- contains the information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion



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

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

Nikoloz Chochua

  
KMPG Georgia LLC  
04 July 2024



**Georgian Oil and Gas Corporation JSC**  
Consolidated Statement of Financial Position as at 31 December 2023

<b>'000 GEL</b>	<b>Note</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Assets</b>			
Property, plant and equipment	12	1,124,841	1,176,155
Prepayments for non-current assets	13	17,708	2,391
Intangible assets		42	48
Finance lease receivable	14	91,757	86,157
Loans given		195	177
Trade and other receivables	15	3,751	7,459
Exploration and evaluation asset	1	11,916	10,836
Equity accounted investees	7	1,541	2,253
<b>Non-current assets</b>		<b>1,251,751</b>	<b>1,285,476</b>
Loans given	15	13	12
Inventories		25,696	23,261
Prepayments	13	140,298	134,421
Trade and other receivables	15	244,930	434,343
Cash and cash equivalents	16	376,975	386,170
<b>Current assets</b>		<b>787,912</b>	<b>978,207</b>
<b>Total assets</b>		<b>2,039,663</b>	<b>2,263,683</b>
<b>Equity</b>	17		
Share capital		695,055	694,656
Additional paid in capital		75,230	67,627
Other equity reserve		55,195	55,195
Fair value reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		591,873	543,051
<b>Total equity</b>		<b>1,135,172</b>	<b>1,078,348</b>
<b>Liabilities</b>			
Loans and borrowings	19	126,831	57,454
<b>Non-current liabilities</b>		<b>126,831</b>	<b>57,454</b>
Loans and borrowings	19	613,133	796,871
Trade and other payables	20	157,037	311,869
Current tax liabilities		7,490	17,076
Provisions		-	2,065
<b>Current liabilities</b>		<b>777,660</b>	<b>1,127,881</b>
<b>Total liabilities</b>		<b>904,491</b>	<b>1,185,335</b>
<b>Total equity and liabilities</b>		<b>2,039,663</b>	<b>2,263,683</b>


**Georgian Oil and Gas Corporation JSC**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2023*

'000 GEL	Note	2023	2022
Revenue	5	1,404,908	1,353,481
Cost of gas and oil	6	(1,201,992)	(1,225,365)
Depreciation		(63,641)	(62,938)
Personnel costs		(40,293)	(33,643)
Taxes, other than on income		(14,445)	(15,446)
Reversal of impairment loss /(impairment loss) on trade receivables	21(b)	699	(9,420)
Other expenses	8	(18,170)	(23,789)
Other income	9	11,757	6,230
<b>Profit/(loss) from operating activities</b>		<b>78,823</b>	<b>(10,890)</b>
Finance income	10	34,774	151,475
Finance costs	10	(63,537)	(31,472)
<b>Net finance (costs)/income</b>		<b>(28,763)</b>	<b>120,003</b>
<b>Profit before income tax</b>		<b>50,060</b>	<b>109,113</b>
Income tax expense	11	-	-
<b>Profit and total comprehensive income for the year</b>		<b>50,060</b>	<b>109,113</b>
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Group		50,060	70,663
Non-controlling interests		-	38,450
		<b>50,060</b>	<b>109,113</b>

These consolidated financial statements were approved by management on 4 July 2024 and were signed on its behalf by:

  
 Giorgi Chikovani

General Director

  
 Ekaterine Sisauri

Financial and Property  
 Management Director

'000 GEL	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Additional paid in capital	Other equity reserve	Fair value reserve for non-cash owner contributions	Retained earnings		
<b>Balance at 1 January 2022</b>	<b>646,260</b>	<b>59,797</b>	-	(282,181)	<b>503,408</b>	<b>117,764</b>	<b>1,045,048</b>
Profit and total comprehensive income for the year	-	-	-	-	70,663	38,450	109,113
<b>Transactions with owners of the Company</b>							
<b>Contributions and distributions</b>							
Dividends (see note 17(c))	-	-	-	-	(60,169)	-	(60,169)
Acquisition of non-controlling interests without a change in control (see note 22)	-	-	55,195	-	32,982	(156,214)	(68,037)
Other changes	-	7,830	-	-	(3,833)	-	3,997
Increase in share capital (see note 17(a))	48,396	-	-	-	-	-	48,396
<b>Total contributions and distributions</b>	<b>48,396</b>	<b>7,830</b>	<b>55,195</b>	-	<b>(31,020)</b>	<b>(156,214)</b>	<b>(75,813)</b>
<b>Balance at 31 December 2023</b>	<b>694,656</b>	<b>67,627</b>	<b>55,195</b>	<b>(282,181)</b>	<b>543,051</b>	-	<b>1,078,348</b>
<b>Balance at 1 January 2023</b>	<b>694,656</b>	<b>67,627</b>	<b>55,195</b>	<b>(282,181)</b>	<b>543,051</b>	-	<b>1,078,348</b>
Profit and total comprehensive income for the year	-	-	-	-	50,060	-	50,060
<b>Transactions with owners of the Company</b>							
<b>Contributions and distributions</b>							
Increase in share capital (see note 17(a))	399	-	-	-	-	-	399
Other changes	-	7,603	-	-	(1,238)	-	6,365
<b>Total contributions and distributions</b>	<b>399</b>	<b>7,603</b>	-	-	<b>(1,238)</b>	-	<b>6,764</b>
<b>Balance at 31 December 2023</b>	<b>695,055</b>	<b>75,230</b>	<b>55,195</b>	<b>(282,181)</b>	<b>591,873</b>	-	<b>1,135,172</b>



*Georgian Oil and Gas Corporation JSC*  
*Consolidated Statement of Cash Flows for 2023*

'000 GEL	Note	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		1,804,557	1,458,712
Cash paid to suppliers and employees		(1,688,784)	(1,363,468)
Value added tax refund from the State		53,100	38,002
<b>Cash from operations before income taxes and interest</b>		<u><b>168,873</b></u>	<u><b>133,246</b></u>
Interest paid	19	(30,470)	(26,225)
Interest received		27,977	8,956
<b>Net cash from operating activities</b>		<u><b>166,380</b></u>	<u><b>115,977</b></u>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment, including advances paid		(26,239)	(8,017)
Acquisition of exploration and evaluation asset		(961)	-
Contribution to equity-accounted investee		(101)	(98)
<b>Net cash used in investing activities</b>		<u><b>(27,301)</b></u>	<u><b>(8,115)</b></u>
<b>Cash flows from financing activities</b>			
Dividends paid		(2,828)	(9,000)
Proceeds from borrowings	19	-	435,819
Repayment of borrowings	19	(144,095)	(155,127)
Acquisition of non-controlling interests		-	(48,428)
<b>Net cash (used in)/from financing activities</b>		<u><b>(146,923)</b></u>	<u><b>223,264</b></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u><b>(7,844)</b></u>	<u><b>331,126</b></u>
Cash and cash equivalents at 1 January		386,170	56,280
Effect of exchange rate fluctuations on cash and cash equivalents		(1,351)	(1,236)
<b>Cash and cash equivalents at 31 December</b>	16	<u><b>376,975</b></u>	<u><b>386,170</b></u>

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## **1. Reporting entity**

### **(a) Organisation and operations**

Georgian Oil and Gas Corporation JSC (the “Company”) and its subsidiaries (the “Group”) comprise Georgian Joint Stock and Limited Liability Companies as defined in the Law of Georgia on Entrepreneurs. The Company was established on 6 April 2006 as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006. Upon its incorporation, the Company became the sole shareholder of two Georgian state-owned companies: Georgian International Oil Corporation JSC and Georgian Gas International Corporation JSC, which were subsequently merged into the Company in October 2006 and May 2007, respectively. Upon its incorporation, the Company also became the sole shareholder of JSC “Teleti Oil Company”, though its shares in JSC “Teleti Oil Company” were later transferred back to the State in November 2007. Nevertheless, substantial part of its assets (including oil and gas wells and associated infrastructure) was conveyed to the Company.

The Company’s registered office is 21 Kakheti Highway, Tbilisi 0190, Georgia. The Company has been registered by Tbilisi Tax Inspection and the registration number is # 4346/007.

The Group’s principal activities are natural gas import and wholesale, electricity generation and supply, rent of gas pipelines and oil and gas exploration and extraction in Georgia. Following the completion of the Gardabani Combined-Cycle Power Plant (CCPP) construction in July 2015, electricity generation was added to the Group’s principal activities. On 7 September 2015, Gardabani CCPP obtained a license on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia (“GoG”) resolution # 475 dated 14 September 2015 Gardabani CCPP was granted the status of guaranteed capacity operator until 1 October 2040.

In 2017 the Company started construction of Gardabani 2 Combined-Cycle Thermal Power Plant (TPP). The major construction works of the Thermal Power Plant (TPP) were finalized on 12 February 2020 and taking over certificate was signed by Gardabani 2 TPP and the counterparty responsible for the construction of TPP on 28 February 2020. On 25 March 2020, Gardabani 2 TPP obtained a license on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia.

From December 2006, when the Company was granted the status of National Oil Company on behalf of the State of Georgia, the Company receives and sells the State’s share of extracted oil and gas in Georgia in accordance with Production Sharing Agreements signed between the State and investors.

On 16 March 2018 the Company and investors, participating in Production Sharing Agreements, executed the "Loan and Pledge Agreement" according to which, in exchange for the loan borrowed by investors from the Company, Georgian Oil and Gas Corporation JSC was granted an option to acquire a 22% interest in Production Sharing Agreements for a net payment of USD 3,500,000 in aggregate. On 23 July 2021, investors and the Company entered into a non-binding Memorandum of understanding, according to which investors expressed their willingness to transfer to the Company 22% of the Contractor's participating interest in Production Sharing Agreements covering specified license areas. On 6 December 2021 the Government of Georgia issued order # 2147 and consented to exercise the option by the Company to acquire 22% of the investor’s participating interest in the mentioned Production Sharing Agreements. The transaction of acquisition of the participating interest was conducted on 29 December 2021, when the Company and investors entered into a joint operation agreement on the specified license areas.

The New law of Georgia on Energy and Water Supply (“the Law”) was introduced and entered in force on 27 December 2019. The Law requires adoption of a number of by-laws, such as electricity market concept design (“EMCD”) and natural gas market concept design (“NGMCD”), accompanied by certain institutional developments. The Group will follow the schedule set forth by the Law, which was not intended to have immediate effect on the Georgian electricity and gas markets and their participants (including the Group).

The Government of Georgia by its resolution #239 of 29 June 2023 amending certain provisions of the concept of electricity market model postponed commencement of day-ahead, balancing and auxiliary market operations as well as coming into effect into operation of associated provisions of new energy legislation governing structure and operations of electricity market to 1 July 2024.

Natural gas market concept design (NGMCD) was approved in September 2021. The regulation obliged the Company and Georgian Gas Transportation Company LLC (GGTC) to establish a natural gas market operator, with the purpose to form a liquid competitive market for natural gas. However, NGMCD do not restrict the Company from selling natural gas through two-way agreements signed directly with customers.

On 15 October 2021, the Company together with the Georgian Gas Transportation Company LLC (GGTC), with the participating interest of 50% each, established natural gas market operator “Georgian Gas Exchange LLC” according to the requirements of the NGMCD. The commencement of the operations of the natural gas market operator is planned in July 2024 year.

Therefore, from the Group’s perspective, the latter will not have effect on the Group’s operations till July 2024.

### **Electricity operations**

The management of the Group believes that operations of Gardabani TPP LLC and Gardabani TPP 2 LLC will not be significantly affected by the adoption of the Law under discussion, such as EMCD, as their activities and performance results are backed by the respective implementation agreements entered into by the Company, its respective subsidiaries, the Government of Georgia and JSC Electricity System Commercial Operator (“ESCO”) and power purchase agreements (“PPAs”) concluded with the latter.

### **Main gas pipelines system of Georgia**

Based on the Law and governmental resolution No. 129 of 25 March 2021 “On approval of the action plan for unbundling of Georgian transmission system operator” an independent system operator model was selected. Pursuant to the said model, the Company remains indirect owner of the main gas pipeline system of Georgia (“MGPS”). MGPS was transferred to a wholly owned subsidiary of the Company, Georgian Natural Gas Transmission Network Owner LLC, which was assigned the Company’s rights and interests to MGPS in the rent agreement with Georgian Gas Transportation Company LLC (GGTC).

Unbundling does not have an effect on the Group’s operations (on the Group level), as the company to which MGPS is transferred is a 100% subsidiary of the Georgian Oil and Gas Corporation JSC. For more information about the Company’s significant subsidiaries, see note 22.

As at 31 December 2023 and 31 December 2022 the Group is wholly owned by National Agency of State Property Agency (Ministry of Economy and Sustainable Development of Georgia – management rights). The ultimate controlling party of the Group as at 31 December 2023 and 2022 is the Government of Georgia. Related party transactions are disclosed in note 25.

**(b) Business environment**

The Group's operations are primarily located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

In February 2022, because of war between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry. Georgia's economy was also affected by the mentioned events and is subject to future uncertainties in economy as described; on the other hand, single digit growth of Georgian economy is forecasted in 2024, driven by higher export and tourism revenues and strong private consumption.

The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2. Basis of accounting**

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with Accounting Standards Board ("IFRS Accounting Standards").

**(b) Going Concern**

Reduction of the financial burden for the populace of Georgia, by maintaining low gas sale prices, have impacted the Company, resulting in a breach of financial covenant in relation to the loan from EBRD, allowing the lender to request repayment of the loan on demand. Notwithstanding the above, these consolidated financial statements have been prepared on a going concern basis, which the management considers to be appropriate due to the following reasons:

As the Group has been generating enough cash inflows to repay the loan in accordance with the agreed schedule, management believes that it is reasonably certain for the lender not to exercise its right of early repayment of the whole amount of the outstanding loan.

Additionally, GoG has issued a support letter, stating that it is willing to provide, for the foreseeable future, financial support as is necessary to allow the Group to continue its operational existence in case the lender exercises its right for early loan repayment due to covenant breach. During 2022 GoG issued loan to the Group with the amount of GEL 230,000 thousand. During 2023 the maturity of the loan was prolonged till the end of 2025 (see note 19). As the Group is of a strategic importance to the GoG, Management believes that in case of early repayment of the loan, GoG will support the Group until another source of financing is obtained.

Based on the above, the management of the Group concluded that there is no material uncertainty that may cast significant doubt on the Groups' ability to continue as a going concern.

### **3. Functional and presentation currency**

The national currency of Georgia is the Georgian Lari (“GEL”), which is the Company’s and its subsidiaries’ functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

### **4. Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements and carry a significant risk of resulting in a material adjustment within the next financial year is included in Note 21 – measurement of ECL allowance for financial assets,

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- Note 14 – impairment of finance lease receivable;
- Note 21 - measurement of ECL allowance for financial assets,

#### **Measurement of fair values**

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in following notes:

- Note 14 – impairment of finance lease receivable;
- Note 21 (a) – accounting classifications and fair values.

## 5. Revenue

### (a) Revenue streams

The Group's principal activities are natural gas import, electricity generation and supply, rent of gas pipelines and oil and gas exploration and extraction in Georgia.

'000 GEL	2023	2022
<b>Revenue from contracts with customers:</b>		
Sale of natural gas	1,018,147	912,070
Income from electricity generation and supply	321,604	361,373
Income from crude oil sales	19,767	29,226
<b>Total revenue from contracts with customers</b>	<b>1,359,518</b>	<b>1,302,669</b>
 Income from rent of gas pipelines	 44,501	 44,532
Oil transportation fee under finance lease (note 14)	889	6,280
<b>Total other revenue</b>	<b>45,390</b>	<b>50,812</b>
<b>Total revenues</b>	<b>1,404,908</b>	<b>1,353,481</b>

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 108,329 thousand (2022: GEL 114,273 thousand) and income from electricity generation of GEL 213,275 thousand (2022: GEL 247,100 thousand).

Income from crude oil sales includes sale of oil from production-sharing arrangements and sales of oil extracted by the Group.

Oil transportation fee is received for the oil transit from Azerbaijan to east European black sea countries through the Baku-Supsa pipeline, since the beginning of 2022 due to the war in Ukraine, transportation of oil through Baku-Supsa oil pipeline was ceased, although it was partially restored in 2023.

The Group rents its main gas pipeline system and related infrastructure to Georgian Gas Transportation Company LLC (GGTC).

The rent agreement with GGTC is prolonged and is valid until 1 January 2025. From 1 January 2021 the fixed rent fee equals to GEL 44,501 thousand per annum (excluding VAT) and which remained unchanged in 2023 year. GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Group is responsible for capital expenditures only. Transactions with related parties are disclosed in note 25.

### (b) Contract balances

The following table provides information about receivables from contracts with customers.

'000 GEL	Note	31 December 2023	31 December 2022
Receivables, which are included in 'trade and other receivables'	15	236,011	425,340

### (c) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

<b>Type of product/service</b>	<b>Nature and timing of satisfaction of performance obligations, including significant payment terms</b>	<b>Revenue recognition policies</b>
<b>Sale of natural gas</b>	<p>Customers obtain control of gas when it's transferred by pipelines to the customer. Invoices are generated no later than 15<sup>th</sup> of the following reporting month. There are two main types of payment terms. In the first case, per contractual terms, part of payments are made in advance (no later than 28<sup>th</sup> of each month) and the remaining amount is paid by the end of the month following the reporting month</p> <p>Per agreement, late payment penalties are accrued on outstanding balances starting from the day following the payment due date.</p> <p>In the second type, payment terms vary for each customer but in most cases, payments should be made in arrears, no later than the 28th day following the reporting month. During 2023 year mostly the second type of payment terms were in place.</p>	<p>Revenue is recognised when the gas is delivered to the delivery points (pre-determined in the agreements with each customer) i.e. performance obligation on delivery of gas is satisfied.</p> <p>The transaction price includes cost of gas and late payment penalties as variable consideration.</p>
<b>Income from crude oil sales</b>	<p>Performance obligation is satisfied when the Group makes oil available to the customer at its premises (EXW – Incoterms).</p> <p>Invoice is issued on the sale of oil and payment is contractually agreed with individual customer.</p>	<p>Revenue from sales of oil is recognized when oil is transferred/ shipped from the Group's facilities to the customer.</p>
<b>Income from electricity generation and supply</b>	<p>Performance obligation is satisfied when electricity is provided to and consumed by the wholesaler.</p> <p>Invoice is issued on a monthly basis. Payment for consumed electricity is made by the end of the month following reporting month.</p>	<p>Revenue is recognised on a monthly basis based on volume of electricity consumed by customers and tariffs approved by Georgian National Energy and Water Supply Regulatory Commission. The consumed electricity is measured by meters.</p> <p>Guaranteed Capacity fees are determined by resolution of GNERC and fixed daily payment is being made during 303 days in 2023 (289 days in 2022).</p>

**(d) Geographical information**

All of the Group's revenues are generated in Georgia.

**(e) Major customers**

In 2023 sales to two customers in the sale of natural gas amounted to GEL 952,093 thousand which represents approximately 68% of the Group's total revenue (2022: GEL 860,197 thousand, 64%).

In 2023 sales to one customer in the income from electricity generation and supply amounted to GEL 226,969 thousand which represents approximately 16% of the Group's total revenue (2022: GEL 259,597 thousand, 19%).



## 6. Cost of gas and oil

'000 GEL	2023	2022
Cost of gas supply	1,049,627	1,047,406
Cost of gas used for electricity generation and supply	148,544	176,834
Cost of oil used in crude oil sales	3,821	1,125
	<b>1,201,992</b>	<b>1,225,365</b>

	Gas supply		Electricity generation and supply		Crude oil sales		Total	
'000 GEL	2023	2022	2023	2022	2023	2022	2023	2022
Revenue from contracts with customers	1,018,147	912,070	321,604	361,373	19,767	29,226	1,359,518	1,302,669
Cost of gas and oil	(1,049,627)	(1,047,406)	(148,544)	(176,834)	(3,821)	(1,125)	(1,201,992)	(1,225,365)
	<b>(31,480)</b>	<b>(135,336)</b>	<b>173,060</b>	<b>184,539</b>	<b>15,946</b>	<b>28,101</b>	<b>157,526</b>	<b>77,304</b>

## 7. Equity accounted investees

'000 GEL	31 December 2023	31 December 2022
<i>Interests in associates:</i>		
Enguri Pumped-Storage Power Plant LLC (EPSPP) – 40%	-	813
International Pipeline Company Sarmatia LLC – 16.1%	907	806
Other investments	634	634
<b>Total</b>	<b>1,541</b>	<b>2,253</b>

Movement of the equity-accounted investees during the year:

'000 GEL	2023	2022
<b>Balance at 1 January</b>	<b>2,253</b>	<b>2,155</b>
Transfer to the State	(813)	-
Contributions made during the year	101	98
<b>Balance at 31 December</b>	<b>1,541</b>	<b>2,253</b>

On 11 June 2018 Enguri Pumped-Storage Power Plant LLC (EPSPP) was founded by the Group, Engurhesi LLC and JSC Georgian Energy Development Fund with 40%, 40% and 20% shareholding, respectively. EPSPP was founded for research of the feasibility of the Pumped-Storage Power Plant project and in case of positive results of the feasibility analysis EPSPP should implement this project. The initial investment to EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by the founders according to their shareholding. In March 2023, group handed over the 40% share of Enguri Pumped-Storage Power Plant LLC to the National State Property Agency free of charge.

Additionally, Georgian Oil and Gas Corporation JSC owns an interest in International Pipeline Company Sarmatia LLC and an interest in AGRI LNG Project Company LLC, both constituting significant influence. Based on the order #775 of the Government of Georgia on 13 April 2017, Georgian Oil and Gas Corporation JSC can participate in the implementation of White Stream and Trans-Caspian Gas Pipeline projects. Based on the annual Partnership Meeting held on 9 July 2017, Partners of Sarmatia made the decision to increase the charter capital of Sarmatia LLC. Based on the above-mentioned decision, cash paid for the acquisition of equity accounted investees equaled to GEL 740 thousand. As the result of an annual Partnership Meeting held on 29 of June 2023, Partners of Sarmatia made the decision to increase the charter capital of Sarmatia LLC. Consequently, Georgian Oil and Gas Corporation JSC made cash contribution of GEL 101 thousand.

None of the Group's equity accounted investees are publicly listed entities and consequently do not have published price quotation for shares.

## 8. Other expenses

'000 GEL	2023	2022
Transportation, materials, repair and maintenance	6,071	8,418
Regulatory fees	4,858	3,528
Utility costs	1,366	1,551
Office expenses and office equipment maintenance	1,235	817
Representative and business trip expenses	688	390
Professional services	645	574
Insurance costs	219	736
Consultancy service	191	719
Penalty reversal	-	3,594
Other	2,897	3,462
	<b>18,170</b>	<b>23,789</b>

The professional services above include fees to an audit firm of about GEL 442 thousand for the provision of audit and other professional services (2022: GEL 455 thousand).

## 9. Other income

'000 GEL	2023	2022
Penalty income	2,687	3,910
Reversal of write-off	2,065	-
Oil processing	874	942
Rent income	539	623
Other	5,592	755
	<b>11,757</b>	<b>6,230</b>

## 10. Finance income and finance costs

'000 GEL	2023	2022
<b>Recognised in profit or loss</b>		
Interest income under the effective interest method at amortized cost	27,882	10,716
Unwinding of discount on finance lease receivable (note 14)	5,600	5,259
Unwinding of discount on restructured receivable from related party (note 15, note 25(c)(i))	1,292	1,681
Net foreign exchange gain	-	133,819
<b>Finance income</b>	<b>34,774</b>	<b>151,475</b>
Interest expense on loans and borrowings	(57,601)	(31,472)
Net foreign exchange loss	(5,936)	-
<b>Finance costs</b>	<b>(63,537)</b>	<b>(31,472)</b>
<b>Net finance (costs)/income recognised in profit or loss</b>	<b>(28,763)</b>	<b>120,003</b>

## **11. Income tax expense**

In 2020 the Company distributed 35% of 2019 consolidated profit (2019: 35% of 2018 consolidated profit). The Tax Code of Georgia specifically excludes certain transactions from the definition of distribution of earnings, particularly, distribution of earnings (except of dividends attributable to net earned profit during 2008-2016) between Georgian entrepreneurs (except to CIT exempt entity) having the status of legal entities registered in Georgia. As distribution of these dividends related to 2019 undistributed earnings, per the Tax Code of Georgia it is not deemed as a distribution of earnings, and thus is not subject to CIT.

According to the Tax Code of Georgia, distribution of dividends attributable to net earned profit during 2008-2016 between Georgian entrepreneurs is also considered as distribution of earnings with the right to credit CIT attributable to 2008-2016 tax periods.

As at 31 December 2023 and 2022 the total tax reimbursement available for offset against CIT applicable to distribution of dividends from net earned profit during 2008-2016, amounts to GEL 47,962 thousand.

## 12. Property, plant and equipment

'000 GEL	Gas and oil pipelines	Land and buildings	Electricity generating unit	Oil wells	Plant and equipment	Other	Under construction and uninstalled equipment	Total
<b>Cost/deemed cost</b>								
<b>Balance at 1 January 2022</b>	<b>430,955</b>	<b>72,138</b>	<b>923,136</b>	<b>29,839</b>	<b>26,504</b>	<b>11,517</b>	<b>160,734</b>	<b>1,654,823</b>
Additions	-	387	1,132	-	27	1,833	5,238	8,617
Capitalized borrowing costs	-	-	-	-	-	-	1,842	1,842
Transfers	20,092	-	958	-	-	-	(21,050)	-
Disposals	(69)	-	-	-	-	(96)	(4,087)	(4,252)
<b>Balance at 31 December 2022</b>	<b>450,978</b>	<b>72,525</b>	<b>925,226</b>	<b>29,839</b>	<b>26,531</b>	<b>13,254</b>	<b>142,677</b>	<b>1,661,030</b>
<b>Balance at 1 January 2023</b>	<b>450,978</b>	<b>72,525</b>	<b>925,226</b>	<b>29,839</b>	<b>26,531</b>	<b>13,254</b>	<b>142,677</b>	<b>1,661,030</b>
Additions	-	19	2,023	-	477	1,440	10,547	14,506
Capitalized borrowing costs	-	-	-	-	-	-	2,468	2,468
Transfers	3,278	-	2,037	249	265	(178)	(5,651)	-
Disposals	(748)	-	(229)	-	(264)	(154)	(4,331)	(5,726)
<b>Balance at 31 December 2023</b>	<b>453,508</b>	<b>72,544</b>	<b>929,057</b>	<b>30,088</b>	<b>27,009</b>	<b>14,362</b>	<b>145,710</b>	<b>1,672,278</b>
<b>Depreciation and impairment losses</b>								
<b>Balance at 1 January 2022</b>	<b>188,513</b>	<b>11,009</b>	<b>161,524</b>	<b>28,049</b>	<b>17,706</b>	<b>9,922</b>	<b>5,319</b>	<b>422,042</b>
Depreciation for the year	13,536	1,470	44,240	386	2,011	1,295	-	62,938
Disposals	(30)	-	-	-	-	(75)	-	(105)
<b>Balance at 31 December 2022</b>	<b>202,019</b>	<b>12,479</b>	<b>205,764</b>	<b>28,435</b>	<b>19,717</b>	<b>11,142</b>	<b>5,319</b>	<b>484,875</b>
<b>Balance at 1 January 2023</b>	<b>202,019</b>	<b>12,479</b>	<b>205,764</b>	<b>28,435</b>	<b>19,717</b>	<b>11,142</b>	<b>5,319</b>	<b>484,875</b>
Depreciation for the year	13,202	1,443	45,522	365	1,671	1,439	-	63,642
Disposals	(652)	-	(228)	-	(114)	(86)	-	(1,080)
<b>Balance at 31 December 2023</b>	<b>214,569</b>	<b>13,922</b>	<b>251,058</b>	<b>28,800</b>	<b>21,274</b>	<b>12,495</b>	<b>5,319</b>	<b>547,437</b>
<b>Carrying amounts</b>								
<b>At 1 January 2022</b>	<b>242,442</b>	<b>61,129</b>	<b>761,612</b>	<b>1,790</b>	<b>8,798</b>	<b>1,595</b>	<b>155,415</b>	<b>1,232,781</b>
<b>At 31 December 2022</b>	<b>248,959</b>	<b>60,046</b>	<b>719,462</b>	<b>1,404</b>	<b>6,814</b>	<b>2,112</b>	<b>137,358</b>	<b>1,176,155</b>
<b>At 31 December 2023</b>	<b>238,939</b>	<b>58,622</b>	<b>677,999</b>	<b>1,288</b>	<b>5,735</b>	<b>1,867</b>	<b>140,391</b>	<b>1,124,841</b>

From the total balance of assets under construction and uninstalled equipment of GEL 140,391 thousand (2022: GEL 137,358 thousand thousand), uninstalled equipment represents GEL 100,082 thousand (2022: GEL 102,088 thousand). Most of the uninstalled equipment consists of gas pipelines and critical buffer stock for Thermal Power Plants not yet put into use. Since the Georgian market is not developed, it is exceedingly difficult to procure parts for thermal power plants promptly in urgent situations, so the Group maintains additional stock.

During 2023 the National Agency of State Property Agency contributed land plots of GEL 399 thousand (2022: land plots of GEL 248 thousand) in the form of an increase in share capital of the Group. Cost of the contributed land plots and pipelines approximates to their fair values.

No indicators of impairment or reversal previously recognized losses were identified as at 31 December 2023 and 31 December 2022.

### 13. Prepayments

'000 GEL	<u>31 December 2023</u>	<u>31 December 2022</u>
<b>Non-current assets</b>		
Prepayments for non-current assets	<u>17,708</u>	<u>2,391</u>
<b>Current assets</b>		
Prepayments	<u>140,298</u>	<u>134,421</u>
	<b><u>158,007</u></b>	<b><u>136,812</u></b>

Current portion of the prepayments balance were made mainly to South Caucasus Pipeline Option Gas Company Limited of GEL 122,405 thousand (2022: GEL 118,206 thousand) and to Azerbaijan Gas Supply Company Limited (AGSC) of GEL 13,193 thousand (2022: GEL 12,771 thousand) for the supply of gas.

### 14. Finance lease receivable

In 1996, the Government of Georgia entered into a 30-year arrangement with a consortium of oil companies that undertook the construction and development of an oil pipeline system from the Georgian-Azerbaijan state border to the Supsa oil terminal on the Georgian Black Sea coast. The arrangement granted the oil companies the right to transport oil across the territory of Georgia through a pipeline system that became the property of the Government of Georgia. The ownership of this pipeline was transferred to the Company in June-July 2010 as a contribution to the share capital of the Company at a nominal value of GEL 269,299 thousand. In exchange for the oil companies using the pipeline, the Group receives a transit fee for each barrel of oil transported. Management has determined that the initial arrangement contained a finance lease at the inception date, as the lease agreement transferred substantially all of the risks and rewards incidental to ownership to the lessee.

The Group has recognized the finance lease receivable of GEL 39,229 thousand at the date when the title of the pipelines was transferred to the Group. The finance lease receivable is the present value of the net investment in the lease comprising the present value of the assets' unguaranteed residual value at the end of the lease term discounted at the interest rate implicit in the lease. The difference of GEL 230,070 thousand between the nominal and the present value of the net investment in the lease has been recognised in equity as a fair value adjustment for non-cash owner contributions.

<b>'000 GEL</b>	<b>2023</b>	<b>2022</b>
Finance lease receivable at 1 January	86,157	80,898
Unwinding of discount on finance lease receivable	5,600	5,259
<b>Finance lease receivable at 31 December</b>	<b>91,757</b>	<b>86,157</b>

Variable lease payments depending on usage related to oil transportation are recognized in the consolidated statement of profit or loss and other comprehensive income during 2023 amounted to GEL 889 thousand (2022: GEL 6,280 thousand).

### **Impairment**

As at 31 December 2023, the Management analyzed impairment indicators (external and internal) according to IAS 36 and concluded that there is a need to perform an impairment test for unguaranteed residual value due to significant reduction in volume of transported oil through pipeline. The Management conducted an impairment test as at 31 December 2023, as a result recoverable amount of the asset exceeded its carrying amount, hence no impairment loss was recognized.

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

- Volumes are projected based on the reduced budgeted quantities during period from 2024 till 2029 and historical average quantities from 2029 onwards.
- Historical EBITDA margin is used in projected period.
- An after-tax discount rate of 11.8% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD.

Reasonable possible change in discount rate would not result in recoverable amount to fall below its carrying value.

## **15. Trade and other receivables**

<b>'000 GEL</b>	<b>31 December 2023</b>	<b>31 December 2022</b>
<b>Non-current assets</b>		
Restructured receivables*	3,751	7,459
<b>Total non-current</b>	<b>3,751</b>	<b>7,459</b>
<b>Current assets</b>		
Trade receivables**	240,391	429,692
Restructured receivables*	4,510	4,510
Other receivables	29	141
<b>Total current</b>	<b>244,930</b>	<b>434,343</b>
	<b>248,681</b>	<b>441,802</b>

\* On 16 November 2017 the Company and Georgian Gas Transportation Company LLC (a state-owned entity) signed an agreement on restructuring the receivable related to the rent of the main gas pipeline. The counterparties agreed on a payment schedule, based on which the total amount will be repaid by the end of 2025. The restructuring of the receivable signified a substantial modification of terms, therefore, at the date of the restructuring, the Company derecognized the existing receivable and recognised a new asset according to the new terms. The fair value of the new asset at initial recognition in 2017 was calculated based on the present value of the future payments discounted at the interest rate of 10.86% per annum, which was considered to be at market rate (note 10). In 2023 Georgian Gas Transportation Company LLC has made GEL 5,000 thousand (2022: GEL 5,000 thousand) payment in accordance with above mentioned payment schedule.

\*\* In July 2018, the Company and the State Agency of Oil and Gas (“SAOG”) submitted their statement of claim in arbitration proceedings initiated against Frontera Resources Georgia Corporation (“FRGC”). SAOG and the Company asserted *inter alia* that FRGC materially breached certain provisions of the Production Sharing contract and refinery study of 25 June 1997 (“PSA”) including but not limited to the relinquishment of approximately 99% of the Contract Area.

In September 2018 Frontera and Frontera Resources US LLC (“FRUS”) made a counterclaim, claiming USD 3.5 billion as lost profits for the period from 2012 through 2027 for certain alleged breaches of the PSA by the Company and SAOG. In addition to the claim for the lost profits, FRGC and FRUS asserted a claim for taxes (VAT and excise tax) in the amount of USD 3.5 million and claimed for legal costs allegedly incurred in obtaining land access to Block XII in the amount of USD 74 thousand. In 2019, FRUS withdrew the counterclaims.

On 17 April 2020, arbitration tribunal rendered its final award (the “Arbitral Award”) as to the matters in dispute. The arbitration tribunal upheld the Company’s and SAOG’s interpretation of the PSA as it defines the parties’ respective rights and obligations. The arbitration tribunal ruled that the respondent - Frontera committed a material breach of the PSA by its refusal to relinquish and return to the State the exploration area. According to the Arbitral Award, FRC and FRUS were imposed with obligations to pay to the Company certain amounts (the mineral usage tax paid by the Company on behalf of Frontera and an interest accrued on it up to the date of payment as well as the costs incurred by the Company in the arbitration proceedings).

On 3 December 2020 Frontera was placed under voluntary liquidation procedure based on the respective shareholder’s decision and Mr. Andrew Morrison and Mr. David Griffin of FTI Consulting were appointed on the same day as joint voluntary liquidators (“JVLs”) of FRGC. However, On 13 January 2021 an order was made by the Grand Court of Cayman Island pursuant to which the liquidation of Frontera has been brought under supervision of the Grand Cayman Court and JVLs were appointed as joint official liquidators (“JOLs”) of Frontera.

On 10 February 2021 JOLs made a declaration of FRGC’s insolvency.

The JOLs entered on behalf of Frontera into the letter agreements (the “Letter Agreements”) with the Company and SAOG dated 25 June 2021 and 25 August 2021. The Letter Agreements set forth express agreement of the parties that the Company and SAOG take over with the immediate effect the Contract Area (as this term defined in the PSA), all Petroleum Operations (as this term defined in the PSA), and the production therein (including disposal of the Petroleum (as this term defined in the PSA)).

By way of the Consent Letter dated 11 November 2022, SAOG and the Company approved the assignment (“Assignment”) of all interests, rights and obligations of Frontera under the PSA to FRUS, subject to certain conditions including a full and final release of Frontera by SAOG and GOGC from any and all of their claims in the liquidation of the Company arising out and/or in connection with the PSA, which claims (including obligations and liabilities) have been assumed by FRUS.

On 14 November 2022 SAOG and GOGC, acting on behalf of the Government of Georgia, on the one part, and Frontera Resources Corporation (“FRC”), a Houston, Texas USA international oil and gas exploration company and FRUS (wholly owned subsidiary of FRC) signed a memorandum of understanding (“MoU”) setting forth their mutual agreement regarding the assignment of the rights, interests and obligations of Frontera to FRUS. According to the MoU, the FRC and FRUS are imposed with several and joint obligation to pay to the Company all sums ordered to be paid by FRGC and FRUS to the claimants under the Arbitral Award (the “Payment Obligations”) and reimburse damages arising out of non-sharing by FRGC of the Petroleum produced from the Contract Area (together with the Payment Obligations hereinafter referred to as the “Aggregate Payment Obligations”).

Based on the MoU, FRUS was acknowledged as a party to the PSA and FRUS, on the one part, and the Company and SAOG, on the other part, entered into the respective amendments to the PSA. Subsequently, FRUS was granted by SAOG a license for the use of oil and gas resources. Nevertheless, according to the MoU and the PSA prior to settlement by FRC and FRUS of their Payment Obligations the Company will continue operations on respective Contract Area.

The term for the payment has been extended several times.

On 7 February 2024 SAOG and the Company were informed that pursuant to an Order of the Grand Court of the Cayman Islands made on 16 January 2024 Mr. Grant Hiley and Mr. Michael Green of Deloitte & Touche LLP, Cayman Islands, have been appointed as Joint Official Liquidators of the Company (the “FRC’s JOLs”) with effect from 16 January 2024.

With effect from 16 January 2024 and pursuant to section 110 of the Companies Act and Order 3, Rule 22 of the Cayman Islands Companies Winding Up Rules (2023 Consolidation), all powers of FRC’s directors have ceased, and FRC’s JOLs now control the company.

By the most recent amendments to the MoU and the PSC FRC (represented by FRC’s JOLs) and FRUS, on the one part, and the company and SAOG, on the other part, agreed to postpone the deadline provided for performance of the Payment Obligations to 31 May 2024 (see note 26). Failure by FRC and/or FRUS to comply with their Payment Obligations will result in automatic terminations of MoU and the PSC, except the provisions thereof intended to survive such termination.

According to the MoU and the PSC, Company has right to claim the Payment Obligations equal to GEL 15,399 thousand from FRC and FRUS and damages arising out of non-sharing by FRGC of the Petroleum produced from the Contract Area (the amount of such damages shall be calculated and agreed by the parties based before 15 July 2024 on the principles provided in the PSC). The receivable is treated as originated credit impaired accounts for balance at nil.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 21.

## 16. Cash and cash equivalents

<b>’000 GEL</b>	<b><u>31 December 2023</u></b>	<b><u>31 December 2022</u></b>
Bank balances	221,985	281,947
Call deposits	154,990	104,223
<b>Cash and cash equivalents</b>	<b><u>376,975</u></b>	<b><u>386,170</u></b>

Call deposits represent term deposits with banks, with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring penalties or significant loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group’s exposure to credit risk, interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 21.



## 17. Equity

### (a) Share capital

Number of shares unless otherwise stated

	Ordinary shares	
	2023	2022
Par value	GEL 20	GEL 20
On issue at 1 January	34,732,874	32,313,000
Issue of shares in exchange for non-cash assets contributed	19,966	2,419,874
<b>On issue at 31 December</b>	<b>34,752,840</b>	<b>34,732,874</b>

#### *Ordinary shares*

During 2023, the Parent of the Company made decisions to contribute into the Company's share capital property, plant and equipment (land plots) with a nominal amount of GEL 399 thousand (2022: land plots and pipelines of GEL 248 thousand), which approximated the fair value of contributed property, plant and equipment at the contribution date.

### (b) Additional paid in capital

Additional paid in capital represents benefits provided to the Group by the Government of Georgia acting in its role of the shareholder.

When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as additional paid in capital.

### (c) Dividends

In 2023 no dividends were declared by the Group. Dividends payable of GEL 2,828 thousand, included in trade and other payables as at 31 December 2022, was paid during 2023 year.

During 2022 the Group declared dividends to Development fund of Georgia JSC (former: "Partnership Fund JSC") of GEL 60,169 thousand, out of which GEL 48,148 thousand was converted into share capital of the Company (see note 17(a)), GEL 9,000 thousand was paid in cash.

### (d) Other equity reserve

According to GoG decree issued on 7<sup>th</sup> of December 2022 in case GOGC did not sell 100% of shares in Gardabani TPP LLC during 2023, 21.716% shares of Gardabani TPP LLC has to be returned to Development Fund of Georgia JSC. As a result, the Group recognised GEL 55,195 thousand to "other equity reserve". Management estimates that as at 31 December 2023 this amount approximates the fair value of 21.716% shares of Garbadani TPP LLC.

## 18. Capital management

The Group has no formal policy for capital management, but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows and debt. With these measures the Group aims for steady profits growth.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

## 19. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

'000 GEL	<u>31 December 2023</u>	<u>31 December 2022</u>
<b>Non-current liabilities</b>		
Related party loan	126,831	57,454
	<b>126,831</b>	<b>57,454</b>
<b>Current liabilities</b>		
Loans from local banks	-	95,029
Related party loan	113,706	164,948
Loan from international bank	499,427	536,894
	<b>613,133</b>	<b>796,871</b>

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL	Currency	Nominal interest rate	31 December 2023			31 December 2022		
			Year of maturity	Face value	Carrying amount	Year of maturity	Face value	Carrying amount
Loan from international bank	EUR	6 months EURIBOR + 3.3%	2031	499,427	499,427	2031	536,894	536,894
Loan from local	USD	8.00%	2023	-	-	2023	66,473	66,473
Loan from local	USD	6.5%-8%	2023	-	-	2023	17,683	17,683
Loan from local	USD	7.30%	2023	-	-	2023	10,873	10,873
Related party loan	GEL	9.30%	2025	255,972	240,537	2024	230,000	222,402
<b>Total interest-bearing liabilities</b>				<b>755,399</b>	<b>739,964</b>		<b>861,923</b>	<b>854,325</b>

#### *Loan from international bank*

As a result of extensive negotiations with the EBRD, the Company signed a EUR 217 million 10-year unsecured loan agreement in September 2020 to refinance the amount payable on outstanding USD 250 million corporate Eurobond debt and accrued coupon.

The USD 250 million corporate Eurobond debt principal and coupon due was fully repaid in April 2021 by utilizing the loan facility from EBRD amounting to GEL 853,734 thousand.

As at 31 December 2023 financial covenant related to Interest Coverage Ratio on the EBRD loan was breached, allowing the lender to request repayment on demand. The Group is in process of obtaining a waiver. Carrying value of loan from EBRD is considered to be approximation of its fair value due to covenant breach and its classification as on demand.

### ***Related party loan***

On 28 December 2022 Government of Georgia issued a subordinated, non-secured loan with the amount of GEL 230,000 thousand to the Group in order to ensure financial liquidity and stability of Group. The loan was received on preferential terms. Accordingly, at initial recognition the loan was discounted using the market rate of interest of 11.5%. The discount of GEL 7,830 thousand was recognised in additional paid in capital during 2022 year at the date of initial recognition. During 2023 the terms of loan were modified, maturity of the loan was prolonged till the end of 2025 year. Effect of modification of GEL 7,603 thousand was recognised as additional paid in capital during 2023 year at the date of modification.

### ***Unused credit lines***

In 2018 the Company signed a loan agreement of EUR 150 million with KfW for financing construction of first underground gas storage in Georgia.

In 2020, due to the financial difficulties caused by the outbreak of COVID -19 pandemic globally, the Ministry of Finance of Georgia issued a letter, dated 23 April 2020, according to which, a decision has been made to redirect the unused loan facility from KfW, designated for construction of Underground Gas Storage, in the amount of EUR 120 million out of EUR 150 million, into the State Budget of Georgia in order to support government programs aimed at prevention of the pandemic and its impact.

Therefore, as at 31 December 2020 the loan agreement between the Company and KfW was revised and reduced from EUR 150 million to EUR 30 million. As at 31 December 2023 and 2022 no tranche was withdrawn/utilized and the Company paid a commitment fee of GEL 222 thousand recognized in finance cost (2022: GEL 225 thousand).

As at 31 December 2023 the Company has unused credit lines from Georgian bank, credit line limits amounted to USD 30,000 thousand (2022: USD 24,169 thousand).

For more information about the management's assessment of Going Concern see note 2 (b).

## **(b) Reconciliation of movements of liabilities to cash flows arising from financing activities**

'000 GEL	2023	2022
<b>Balance at 1 January</b>	<b>854,325</b>	<b>711,003</b>
Proceeds from borrowings	-	435,819
Repayment of borrowings	(144,095)	(155,127)
<b>Total changes from financing cash flows</b>	<b>(144,095)</b>	<b>280,692</b>
<b>Other changes</b>		
The effect of changes in foreign exchange rates	7,738	(136,629)
Interest expense	57,601	31,472
Additional paid in capital	(7,603)	(7,830)
Borrowing cost capitalized	2,468	1,842
Interest paid	(30,470)	(26,225)
<b>Total liability-related other changes</b>	<b>29,734</b>	<b>(137,370)</b>
<b>Balance at 31 December</b>	<b>739,964</b>	<b>854,325</b>

## **20. Trade and other payables**

'000 GEL	31 December 2023	31 December 2022
Trade payables	156,414	307,648
Dividend payable	-	2,913
Payables for non-current assets	152	179
Other payables	471	1,129
	<b>157,037</b>	<b>311,869</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 21.

## **21. Fair values and risk management**

### **(a) Accounting classifications and fair values**

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

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

The carrying values of financial assets and liabilities of the Group are a reasonable approximation of their fair values.

### **(b) Financial risk management**

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

- credit risk (see (b)(ii));
- liquidity risk (see (c));
- market risk (see (d)).

#### **(i) Risk management framework**

The Supervisory Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

#### **(ii) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans given, term deposits and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was as follows:

'000 GEL	Note	Carrying amount	
		31 December 2023	31 December 2022
Trade and other receivables	15	248,681	441,802
Loans given		208	189
Cash and cash equivalents	16	376,975	386,170
		<b>625,864</b>	<b>828,161</b>

**(iii) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 5.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for corporate customers. Moreover, for some customers credit risk is managed by requesting prepayments from customers.

The Group does not require collateral in respect of trade and other receivables. The Group does not have trade receivables for which no loss allowance is recognised because of collateral.

The exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

'000 GEL	Carrying amount	
	31 December 2022	31 December 2022
Domestic	248,669	441,790
CIS countries	12	12
	<b>248,681</b>	<b>441,802</b>

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

'000 GEL	Carrying amount	
	31 December 2023	31 December 2022
Gas distributors	156,123	364,989
Electricity distributors	79,340	60,351
Gas pipeline rentals (note 15)	12,670	16,462
Others	548	-
	<b>248,681</b>	<b>441,802</b>

At 31 December 2023, the carrying amount of receivables from the Group's two most significant customers was GEL 148,067 thousand (2022: GEL 366,707 thousand).

**Expected credit loss assessment for corporate customers**

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

### Expected credit loss

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables for customers as at 31 December 2023:

'000 GEL	31 December 2023		
Customer credit risk grade	Not credit impaired	Credit impaired	Total
Low risk	235,236	-	235,236
Medium risk	8,260	4,970	13,230
High risk	-	12,609	12,609
<b>Total gross carrying amount</b>	<b>243,496</b>	<b>17,579</b>	<b>261,075</b>
Loss allowance	(633)	(11,761)	(12,394)
<b>Total net carrying amount</b>	<b>242,863</b>	<b>5,818</b>	<b>248,681</b>

'000 GEL	31 December 2022		
Customer credit risk grade	Not credit impaired	Credit impaired	Total
Low risk	422,168	-	422,168
Medium risk	11,969	-	11,969
High risk	-	20,758	20,758
<b>Total gross carrying amount</b>	<b>434,137</b>	<b>20,758</b>	<b>454,895</b>
Loss allowance	(534)	(12,559)	(13,093)
<b>Total net carrying amount</b>	<b>433,603</b>	<b>8,199</b>	<b>441,802</b>

*Low risk* - the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations. With equivalent to external credit rating of BB- to B (Fitch).

*Medium risk* – the counterparty has a restructured contractual cash flow obligation to meet in the near term and adverse changes in economic and business conditions in the longer term may likely reduce the ability of the borrower to fulfil its contractual cash flow obligations. Restructured receivables are considered to be in stage 2.

*High risk* - the counterparties have a weak capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely further decrease the ability of the counterparties to fulfil their contractual cash flow obligations.

### *Movements in the allowance for impairment in respect of trade and other receivables*

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows.

'000 GEL	2023	2022
<b>Balance at 1 January</b>	<b>13,093</b>	<b>6,213</b>
Net (recovery)/charge for the year	(699)	9,420
Write off	-	(2,540)
<b>Balance at 31 December</b>	<b>12,394</b>	<b>13,093</b>

#### (iv) *Loans given*

Per management's assessment, none of the loans issued balances are credit-impaired as at 31 December 2023. All other loans given are categorized in Stage 1 and the impairment allowance is calculated based on 12 month expected losses, ECL on other loans amounted to nil.

(v) **Cash and cash equivalents**

As at 31 December 2023 approximately 99% of bank balances are held with 4 Georgian banks (2022: 3 Georgian banks), out of which 2 banks have long-term Fitch credit rating of BB, while two others have B+ credit rating.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. All balances are categorized under Stage 1. The Group does not expect any counterparty to fail to meet its obligations.

(vi) **Finance lease receivable**

Balance of finance lease receivable represents unguaranteed residual value at the end of the lease term discounted at the interest rate implicit in the lease (see note 14). Consequently, management concluded that the latter does not bear credit risk and is outside of IFRS 9 impairment requirements, consequently no expected credit losses were recognized with respect to finance lease receivable.

(c) **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's liquidity management also involves monitoring the covenants embedded in the loan agreements.

**Exposure to liquidity risk**

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include estimated interest payments and exclude the impact of netting agreements.

'000 GEL 31 December 2023	Carrying amount	Contractual cash flows	On demand	0-12 months	1-3 years
<b>Non-derivative financial liabilities</b>					
Loans and borrowings	739,964	776,977	499,427	120,000	157,726
Trade and other payables	157,037	157,037	-	157,037	-
	<b>897,001</b>	<b>934,014</b>	<b>499,427</b>	<b>277,037</b>	<b>157,726</b>

'000 GEL 31 December 2022	Carrying amount	Contractual cash flows	On demand	0-12 months	1-3 years
<b>Non-derivative financial liabilities</b>					
Loans and borrowings	854,325	894,544	540,145	267,472	86,927
Trade and other payables	311,869	311,869	-	311,869	-
	<b>1,166,194</b>	<b>1,206,413</b>	<b>540,145</b>	<b>579,341</b>	<b>86,927</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

As disclosed in note 19, the Group has a loan for which there was a breach of financial covenant as at 31 December 2023 resulting in classification of the loan as current liability. However, considering that the Group is in process of negotiation to obtain waiver letter from the lender, the management expects that the repayment of the secured loan will follow the contractual schedule.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities. The currencies in which these transactions primarily are denominated are USD and EUR.

The Group's exposure to foreign currency risk was as follows:

**Exposure to currency risk**

'000 GEL	USD- denominated 31 December 2023	USD- denominated 31 December 2022	EUR- denominated 31 December 2023	EUR- denominated 31 December 2022
Trade and other receivables	12	12	-	-
Loans given	-	-	208	188
Cash and cash equivalents	29,702	19,035	-	-
Trade and other payables	(56,114)	(144,662)	-	-
Loans and borrowings	-	(95,031)	(499,427)	(536,894)
<b>Net exposure</b>	<b>(26,400)</b>	<b>(220,646)</b>	<b>(499,219)</b>	<b>(536,706)</b>

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

in GEL	Average rate		Reporting date spot rate	
	2023	2022	2023	2022
USD	2.6279	2.9156	2.6894	2.7020
EUR	2.8416	3.0792	2.9753	2.8844

**Sensitivity analysis**

A reasonably possible 10% (2022: 10%) weakening of the GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and effected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	Profit or (loss)
<b>31 December 2023</b>	
USD (10% movement)	(2,640)
EUR (10% movement)	(49,922)
<b>31 December 2022</b>	
USD (10% movement)	(22,065)
EUR (10% movement)	(53,671)

A strengthening of the GEL against USD and EUR would have the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.



(ii) **Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

**Exposure to interest rate risk**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

'000 GEL	Carrying amount	
	31 December 2023	31 December 2022
<b>Fixed rate instruments</b>		
Loans given	208	189
Cash and cash equivalents	376,975	386,170
Loans and borrowings	(240,537)	(317,431)
	<b>136,646</b>	<b>68,928</b>

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed-rate financial instruments at FVTPL or FVOCI. Therefore, a change in interest rates at the reporting date would not have an effect on profit or loss or on equity.

'000 GEL	Carrying amount	
	31 December 2023	31 December 2022
<b>Variable rate instruments</b>		
Loans and borrowings	(499,427)	(536,894)

## 22. Significant subsidiaries and non-controlling interest

Subsidiary	Ownership 2023	Ownership 2022
Gardabani TPP LLC	100%	100%
Gardabani 2 TPP LLC	100%	100%
Gardabani 3 TPP LLC	100%	100%
GOGC Trading S. A	100%	100%
Georgian Gas Storage Company LLC	100%	100%
Georgian Natural Gas Transmission Network Owner LLC	100%	100%
Georgian Gas Exchange LLC	50%	50%

**Gardabani TPP LLC**

In October 2013 a new subsidiary, Gardabani TPP LLC, was created by the Company and Partnership Fund JSC with 51% and 49% interest, respectively. In December 2022 GOGC has purchased 49% of Gardabani TPP shares from JSC Partnership Fund. The charter capital was defined at USD 100,000 thousand. The paid-in charter capital as at 31 December 2023 amounted to GEL 175,185 thousand (2022: GEL 175,185 thousand).

Based on GoG decision dated 29 November 2022 and 7 December 2022, GOGC JSC was requested to purchase remaining 49.092% of Gardabani TPP LLC. The price of Partnership Fund JSC's share in Gardabani TPP was determined based on valuation of Gardabani TPP LLC. Based on decision, purchase of NCI share with value of EUR 43,259 thousand occurred in the following way: EUR 17,000 thousand which represented value of 19.292% of shares was paid in cash by the Group. Loan given to Partnership Fund JSC amounting to EUR 7,123 thousand was set-off with the price for 8.084% of the shares. Remaining amount EUR 19,136 thousand should have been paid by GOGC JSC when Gardabani TPP would have been sold by GOGC JSC. Gardabani TPP LLC was not sold during 2023 year, therefore the Group has to return 21.716% of shares in Gardabani TPP LLC to Partnership Fund JSC. See note 17 (d).

#### ***Gardabani 2 TPP LLC***

In August 2016 a new subsidiary, Gardabani 2 TPP LLC, with charter capital of GEL 10,000 thousand, was founded in which the Company holds a 100% interest. During 2017 and 2018 the Group made additional investments in the capital of Gardabani 2 TPP LLC and as at 31 December 2018 the charter capital of the new subsidiary amounts to GEL 350,193 thousand. In February 2019 the Company made the decision to reduce the charter capital of Gardabani 2 TPP LLC to GEL 266,909 thousand. In 2021 year, the Company increased its investment in Gardabani 2 TPP LLC by GEL 70 thousand. The charter capital of Gardabani 2 TPP LLC as at 31 December 2023 amounted to GEL 266,979 thousand.

#### ***Gardabani 3 TPP LLC***

In February 2021 the Company established a new subsidiary, Gardabani TPP 3 LLC, with 100% ownership. The goal of the new subsidiary is the construction and subsequent operation of a third power plant in Gardabani. During 2023 the Company's investment to Gardabani TPP 3 LLC amounted to GEL 1,221 thousand cash contributions and 4,384 non-cash contributions. Construction of Gardabani TPP 3 has not commenced yet.

#### ***GOGC Trading S. A***

In August 2017 a new subsidiary GOGC Trading SA was incorporated with its registered office situated in Geneva, Switzerland. The Group's purpose is to trade crude oil, petroleum products, petrochemicals, and other commodities as well as logistics through this subsidiary. The Company holds a 100% interest in the subsidiary with share capital fixed in the amount of 100,000 Swiss francs.

In 2020 and 2019 additional amounts of 450 thousand and 450 thousand Swiss francs, respectively, were contributed into the capital of GOGC Trading SA. There was no contributions in GOGC Trading S.A during 2023.

#### ***Georgian Gas Storage Company LLC***

In October 2018 a new subsidiary, Georgian Gas Storage Company LLC (GGSC) was founded with its registered office in Tbilisi, Georgia, in which the Company holds a 100% interest. The initial capital of GGSC per charter documentation is GEL 100 thousand. GGSC was founded for construction and operation of the first Underground Gas Storage in Georgia. By the end of 2023 construction of the Underground Gas Storage had not commenced.

#### ***Georgian Gas Exchange LLC***

In October 2021, the Company together with the Georgian Gas Transportation Company LLC (GGTC), with a participating interest of 50% each, established natural gas market operator "Georgian Gas Exchange LLC" according to the requirements of the NGMCD. Charter capital of the entity was defined as GEL 2 thousand. The commencement of the operations of natural gas market operator is planned in 2024.

### ***Georgian Natural Gas Transmission Network Owner LLC***

In April 2021 the Company established and registered a new subsidiary “Georgian Natural Gas Transmission Network Owner LLC” (GNGTNO) according to the laws of Georgia, which serves as a transmission system owner. During 2021 the Company contributed in the charter capital of the Subsidiary Main Gas Pipeline System and a cash consideration of GEL 651 thousand.

## **23. Capital and other commitments**

On 11 June 2018 Enguri Pumped-Storage Power Plant LLC (EPSPP) was founded by the Group, Engurhesi LLC and JSC Georgian Energy Development Fund with 40%, 40% and 20% shareholding, respectively. EPSPP was founded for research of the feasibility of Pumped-Storage Power Plant project and in case of positive results of the feasibility analysis EPSPP should implement this project. The initial investment into EPSPP per charter of the investee is USD 1,500 thousand, which should be paid by shareholders according to their shareholding. During 2023 the Group made no contribution (2022: nil) to the charter capital of EPSPP. In March 2023, group transferred the 40% share of Enguri Pumped-Storage Power Plant LLC to the National State Property Agency free of charge.

The Group is a party to a Supplemental Gas purchase agreement effective until 2026 in accordance with which the Group shall take and pay for or pay for, if not taken, certain quantities of gas and at predetermined prices, which are significantly below the current market price of natural gas. As at 31 December 2023 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 320,629 thousand (2022: GEL 428,363 thousand).

The Group is also a party to a gas sale agreement based on which its customer must take and pay for or pay for, if not taken, the whole quantity of gas purchased by the Group including the whole amount of the Supplemental Gas. As a result, the Group considers that their commitment in respect of the purchase of Supplemental Gas is set off by the commitment of the Group’s customer to buy that amount of gas and represents an effective back-to-back contractual arrangement whereby the Group passes its obligations towards the customer of the Group.

## **24. Contingencies**

### **(a) Insurance**

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

### **(b) Litigations**

#### *GGTC case:*

In October 2017 the Company has filed a case against GGTC (the defendant) seeking compensation for the loss of approximately USD 3,747 thousand incurred by the Company due to the defendant's failure to provide the Company with the contractually required quantity of natural gas.

Additionally, the Company seeks restitution amounting to GEL 706 thousand for the repair of damages incurred to the pipeline system, leased out to the defendant by the Company, during the period when it was operated by the latter. Tbilisi City Court, which is the court of first instance rejected the claim. The Company lodged an appeal before the Appellate Court. The Appellate Court also did not uphold GOGC's claims and latter decided to lodge an appeal before the Supreme Court of Georgia. The appeal is pending before the Supreme Court of Georgia as of the reporting date.

As at 31 December 2023 and subsequent to the reporting date management estimates that the outcome of the litigation remains uncertain, as a result the Group has not recorded any receivable in respect of the above.

**(c) Taxation contingencies**

The taxation system in Georgia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. 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 more significant than in other countries with more developed taxation systems. 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

**(d) Environmental matters**

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

## **25. Related party transactions**

**(a) Control relationships**

As at 31 December 2023 Georgian Oil and Gas Corporation JSC is wholly owned by National Agency of State property agency (Ministry of Economy and Sustainable Development of Georgi – Management rights). The ultimate controlling party of the Group as at 31 December 2023 and as at 31 December 2022 was the Government of Georgia.

**(b) Transactions with key management personnel**

**Key management remuneration**

Key management received the following remuneration during the year, which is included in personnel costs:

<b>'000 GEL</b>	<b>2023</b>	<b>2022</b>
Salaries and bonuses	3,613	3,141

**(c) Other related party transactions**

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

Management estimates that the aggregate amounts of other income and expenses and the related balances with Government-related entities, except as disclosed below, are not significant.

The Group's significant related party transactions are disclosed below. Transactions with the Government of Georgia are disclosed in notes 5, 11, 15, and 16 of these consolidated financial statements.

**(i) Revenue**

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2023	2022	2023	2022
State controlled entities:				
Income from rent of gas pipelines*	44,501	44,501	12,670	16,345
Income from gas sale	20,944	13,977	5,395	888
Income from electricity generation and supply	227,029	259,608	60,169	39,260
	<b>292,474</b>	<b>318,086</b>	<b>78,234</b>	<b>56,493</b>

\* Outstanding balance of the rent of pipeline includes the restructured receivable from GGTC (see note 15).

'000 GEL	
Net present value of GGTC receivables as at 1 January 2023	11,969
Repayment of receivable of GGTC	(5,000)
Unwinding of discount (note 10)	1,292
Net present value of GGTC receivables as at 31 December 2023	<b>8,261</b>

Outstanding balances related to the income from electricity generation and supply are to be settled in cash within three months at the end of the reporting period. None of the balances are secured.

**(ii) Expenses**

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2023	2022	2023	2022
State controlled entities:				
Purchase of goods and services	7,137	9,485	4,335	1,522
	<b>7,137</b>	<b>9,485</b>	<b>4,335</b>	<b>1,522</b>

Outstanding balances are to be settled in cash within three months at the end of the reporting period.

**(iii) Loans**

'000 GEL	Interest accrued		Outstanding balance as at 31 December	
	2023	2022	2023	2022
Loans given:				
Partnership Fund JSC	-	1,734	-	-

(iv) **Prepayments**

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2023	2022	2023	2022
State controlled entities:				
Purchase of goods and services	-	-	2,391	2,391

(v) **Loans and borrowings**

'000 GEL	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2023	2022	2023	2022
State controlled entities:				
Interest expense	25,738	234	240,537	222,402

## 26. Subsequent events

In February 2024, Group acquired 25% of JSC Georgian Energy Exchange shares. Consideration transferred amounted to GEL 1,759 thousand.

As at date of issuance of those consolidated financial statements no cash payment has been made from FRC and FRUS. See note 15.

## 27. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

## 28. Material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

The Company adopted the Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of “material”, rather than “significant”, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in certain instances.

(a) **Basis of consolidation**

(i) **Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**(ii) *Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**(iii) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) *Revenue***

Information about the Group's accounting policies relating to contracts with customers is provided in Note 5(c).

**(i) *Rent of pipelines***

Operating lease:

The Company rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC. The rent agreement is non-cancellable and is valid until 1 January 2023.

Revenue from rent of gas pipelines represents fixed rent payment and is recognized in profit or loss on a monthly basis (please see note 5).

**(ii) *Oil transportation***

Oil transportation fees comprise contingent rent received under finance lease arrangement. Revenue is recognized on the basis of the metered oil transferred through the pipelines at the contract rate for barrels of oil.

**(c) *Finance income and costs***

The Group's finance income and finance costs include:

- interest income;
- unwinding of discount on finance lease receivable;
- unwinding of discount on restructured receivable
- interest expense;
- customer late payment penalties;
- the foreign currency gain or loss on financial assets and financial liabilities

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

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

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

Foreign currency gain losses are reported on a net basis as either finance income or finance cost, depending on whether foreign currency movements are in a net gain or net losses position.

**(d) Foreign currency transactions**

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss.

**(e) Employee benefits**

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

**(f) Income tax**

Generally, Income tax expense comprises current tax.



**(i) Current tax**

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

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

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

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

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

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Group considers the taxation of such transaction as outside of the scope of IAS 12 Income Taxes and accounts for the tax on such items as taxes other than on income.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Exploration and evaluation assets**

Exploration and evaluation activity involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity include:

- Researching and analysing historical exploration data;
- Gathering exploration data through geophysical studies;
- Exploratory drilling and sampling;
- Determining and examining the volume and grade of the resource; Surveying transportation and infrastructure requirements;
- Conducting market and finance studies.

Expenditures related to the exploration and evaluation activity above are capitalized as exploration and evaluation assets.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate an impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units of production fields that are located in the same geographical region.

**(i) Property, plant and equipment**

**(i) *Recognition and measurement***

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment contributed by the shareholder are initially measured at fair value. The cost of property, plant and equipment at the date of adopting IFRS Accounting Standards, 1 January 2008, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Major overhaul related to gas turbine wings, presented in the electricity generating unit, expected to be performed in every 5-8 years are accounted as a separate overhaul component and depreciated separately from the main asset.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

**(ii) *Subsequent expenditure***

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) *Depreciation***

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

– gas and oil pipelines	30-35 years;
– buildings	50 years;
– electricity generating unit	25 years;
– oil wells	4-9 years;
– major overhaul expenditure for electricity generating unit	5-8 years;
– plant and equipment	2-14 years;
– other	1-6 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(j) Financial instruments**

**(i) *Recognition and initial measurement***

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

**(ii) *Classification and subsequent measurement***

**Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

### **Financial liabilities – Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### **(iii) *Modification of financial assets and financial liabilities***

##### **Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

### **Financial liabilities**

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

#### **(iv) Derecognition**

### **Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

### **Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non -cash assets transferred or liabilities assumed) is recognised in profit or loss.

#### **(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### **(k) Share capital**

##### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

##### *Increase of share capital*

Share capital increase is affected through issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate components of equity as fair value adjustment reserve for non-cash owner contributions or additional paid in capital.

#### **(l) Impairment**

##### **(i) Non-derivative financial assets**

##### *Financial instruments and contract assets*

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

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

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

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

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

#### *Measurement of ECLs*

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

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

#### *Credit-impaired financial assets*

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

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

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

## **Presentation of allowance for ECL in the consolidated statement of financial position**

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

### **(ii) Non-financial assets**

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

### **(m) Joint operations**

A joint operation is an arrangement in which the Group has contractual arrangements with other parties to perform specific activity. In a joint operation, the Group has rights to the assets and obligations for the liabilities relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading.

In relation to the Group's interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share in any revenue generated from the sale of the output by the joint operation; and its share of expenses. All such amounts are measured in accordance with the terms of the arrangement, which is usually in proportion to the Group's interest in the joint operation.

### **(n) Leases**

At inception of a contract, the Group assesses whether a contract is or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.



**(i) As a lessor**

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

## **29. New standards and interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).*
- *Lack of Exchangeability (Amendments to IAS 21).*