

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

**GRANT NEFCO-2020-149 E5P
LOAN NO. NEFCO-2018-149 E5P**

**(REHABILITATION & ENERGY EFFICIENCY IMPROVEMENTS IN PUBLIC SCHOOLS IN
MOUNTAINOUS REGIONS IN GEORGIA)**

SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2024

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MUNICIPAL DEVELOPMENT FUND OF GEORGIA
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL
OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

Management of "Rehabilitation & Energy Efficiency Improvements in Public Schools in Mountainous Regions in Georgia" (the "Project") implemented by the Municipal Development Fund of Georgia (MDF) is responsible for the preparation of the special purpose project financial statements that present fairly the Project's statement of financial position as at 31 December 2024, the summary of sources and uses of funds, summary of expenditure by activity, Statement of Disbursement Requests and statements of designated account, in compliance with the basis of accounting described in Note 2 the accompanying special purpose project financial statements.

In preparing the special purpose project financial statements, management is responsible for:

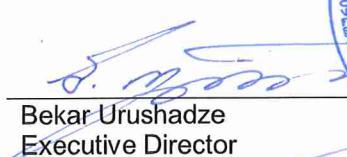
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2024 were authorized for issue on 30 June 2025 by the Management.

On behalf of Management:


Bekar Urushadze
Executive Director




Tamar Pitskhelauri
Deputy Executive Director – Chief
Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia

Opinion

We have audited the accompanying special purpose project financial statements of the Rehabilitation & Energy Efficiency Improvements in Public Schools in Mountainous Regions in Georgia (the "Project") financed under the Loan NEFCO-2018-149 E5P and Grant NEFCO-2020-149 E5P Agreements dated 4 May 2022 (the "Agreements"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2024, statement of financial position as at 31 December 2024, summary of expenditure by activity, statement of Disbursement Requests and statements of Special account for the year ended 31 December 2024 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2024 are prepared, in all material respects, in accordance with Loan and Grant Agreements No. NEFCO-2018-149 dated 4 May 2022, as further detailed in Note 2.

Basis for opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the 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.

Other matter

Data included on pages 6 to 14 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

Emphasis of matter

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreements. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and Nordic Environment Finance Corporation (NEFCO). This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Responsibility of management and those charged with governance for the special purpose project financial statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the financial reporting provisions of the Agreement and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the special purpose project financial statements

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

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

- Identify and assess the risks of material misstatement of the special purpose project 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 Fund's internal control; and
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.

Moore Azerbaijan

30 June 2025



**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EUR)**

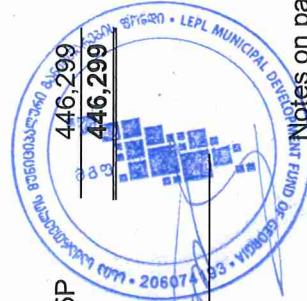
	Actual	Year ended	Year ended	Planned	Year ended	Year ended	Cumulative as at 31.12.2024	Year ended	Cumulative as at 31.12.2024	Variance	Project appraisal document
		31.12.2024	31.12.2024		31.12.2024	31.12.2024		31.12.2024	31.12.2024		
Opening Working Capital											
Loan NEFCO-2018-149											
Total	148,634										
Total	148,634										

Sources of Funds											
Loan NEFCO-2018-149 E5P *		1,399,990					1,599,990				
Grant NEFCO-2020-149 E5P			-								
Government of Georgia		197,385					206,783				
Total sources of funds		1,597,375					1,806,773				

(LESS): EXPENDITURE											
Loan NEFCO-2018-149 E5P											
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency		1,103,915					1,155,922				
Sub-total		1,103,915					1,155,922				
Government of Georgia											
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency		200,434					209,103				
Sub-total		200,434					209,103				
Total expenditures		1,304,349					1,365,025				
Foreign exchange loss, net							4,639				
Closing Working Capital											
Loan NEFCO-2018-149 E5P											
Total	446,299										

On behalf of Management:

Bekar Urushadze
Executive Director



T. Pitskhela
Tamar Pitskhela
Deputy Executive Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

	Note	31 December 2024	31 December 2023
ASSETS			
Loan NEFCO-2018-149 E5P –			
Cash	3	446,299	148,634
Total assets		446,299	148,634
NET ASSETS		446,299	148,634
Funds received:			
Loan NEFCO-2018-149 E5P		1,599,990	200,000
Government of Georgia		206,783	9,398
Total funds received		1,806,773	209,398
Expenditure:			
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency		1,365,025	60,676
Total Expenditures		1,365,025	60,676
Foreign exchange loss, net		4,551	(88)
TOTAL NET ASSETS		446,299	148,634

On behalf of Management:

Bekar Urushadze
Executive Director



Tamar Pitskhelauri
Deputy Executive Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

	Actual		Planned		Variance Year ended 31.12.2024
	Year ended 31.12.2024	Cumulative as at 31.12.2024	Year ended 31.12.2024	Cumulative as at 31.12.2024	
Project activities					
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	1,304,349	1,365,025	1,652,000	1,888,000	347,651
TOTAL EXPENDITURE	1,304,349	1,365,025	1,652,000	1,888,000	522,975
Project activities					
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	60,676	60,676	236,000	236,000	175,324
TOTAL EXPENDITURE	60,676	60,676	236,000	236,000	175,324

On behalf of Management:


Bekar Urushadze
Executive Director




Tamar Pitskhelauri
Deputy Executive Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
STATEMENT OF DISBURSEMENT REQUESTS (SoDR)
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

Withdrawal applications for Loan No. NEFCO-2018-149

Withdrawal No.	Withdrawal Application Date	Total Application Amount	Advance
Tranche No. 2	25.11.2024	1,400,000*	1,400,000*
Total:		1,400,000	1,400,000

* The application was submitted for EUR 1,400,000; however, EUR 1,399,990 was credited to the State Treasury Account. The EUR 10 difference represents a transaction fee charged by the intermediary bank.

Withdrawal No.	Withdrawal Application Date	Total Application Amount	Advance
Tranche No. 1	06.02.2023	200,000	200,000
Total:		200,000	200,000

On behalf of Management:

Bekar Urushadze
Executive Director

Tamar Pitskhelauri
Deputy Executive Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
STATEMENTS OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

Account No.
Depository Bank
Address

299259954
State Treasury
16 V. Gorgasali street
Tbilisi, 0114 Georgia

	Note	31 December 2024	31 December 2023
Opening balance		147,993	-
Fund received from Loan NEFCO-2018-149 E5P		1,399,990	200,000
Present outstanding amount advanced to Designated Account ("DA")		1,547,983	200,000
DA closing balance		444,068	147,993
Add: Amount of eligible expenditures paid		1,103,915	52,007
Total advance accounted for		1,547,983	200,000



On behalf of Management:


Bekar Urushadze
Executive Director



Tamar Pitskhelauri
Deputy Executive Director – Chief Financial Officer

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

1. BACKGROUND

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree No. 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program.

The founder and governing body of the Fund is the Government of Georgia. The Fund is cooperating with majority of large investment banks and financial institutions operating in Georgia.

The Nordic Environment Finance Corporation Loan No. NEFCO-2018-149 E5P and Grant NEFCO-2020-149 E5P Agreements (the "Agreements") in the amount of 3.9 and 2.6 million EUR was signed between the Government of Georgia ("GoG") and the Nordic Environment Finance Corporation ("NEFCO") on 4 May 2022 ("inception").

The main objectives of the project are: The full rehabilitation and /or reconstruction of existing schools will consist of two components – a structural component and an energy efficiency component to be implemented in all the selected school buildings. Depending on the specific need of each particular building. The structural component may, in addition to works in the building's envelope, also include issues such as landscaping and similar measures at adjacent areas. The aim of energy efficiency measures to be included in all buildings is to obtain a min 30% calculated energy efficiency (reduction in energy demand) as measured in KWh and compared to the building's baseline.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of the Loan No. NEFCO-2018-149 E5P and Grant No. NEFCO-2020-149 E5P Agreements dated 4 May 2022 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and the Nordic Environment Finance Corporation (NEFCO).

The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and the Nordic Environment Finance Corporation (NEFCO). As a result, these special purpose project financial statements may not be suitable for another purpose.

Sources of funds – Project financing is recognized as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition, current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

Expenditure - is recognized on an accruals basis as a use of project funds when liabilities are incurred. The accumulated project expenditures are disclosed under "Expenditure" in the statement of financial position.

Functional currency – The functional currency of the project and its presentational currency is Euro ("EUR").

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

2. ACCOUNTING POLICIES (CONTINUED)

Transactions in other currencies – Transactions in currencies other than the reporting currency are converted to Euro at the exchange rate prevailing at the date of the transaction. Monetary items are translated into Euro at the National Bank of Georgia (NBG) official exchange rate at the reporting date.

Cash – Cash comprises of balances with State Treasury.

3. DESIGNATED ACCOUNT

Designated account is a special disbursement account of the Project maintained in Euro at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from NEFCO in accordance with the Agreement.

4. BASIS OF FUNDING

The total investment sum of the Project is budgeted for EUR 6,500,000. The sources of financing are as follows: a loan from NEFCO up to EUR 3,900,000 and an investment grant from E5P of up to EUR 2,600,000. VAT and Project overrun costs, if any, are to be borne by the Ministry of Finance as the Borrower/Grantee.

5 METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2024 were as follows:

(a) Designated account

Municipal Development Fund withdraws the eligible amounts from the special account and prepares and sends Disbursement requests for next tranche to the Nordic Environment Finance Corporation with authorized signatures. The Disbursement requests and respective documentation are reviewed by the NIRAS (and Nordic Environment Finance Corporation and an approved amount is transferred to the Special account.

(b) GoG current account

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

6. Disbursement Requests

Withdrawals are to be made on the basis of Disbursement Requests based on tranches received from the Nordic Environment Finance Corporation.

MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	1,103,915	1,155,922
Total Loan NEFCO-2018-149 E5P	1,103,915	1,155,922
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	200,434	209,103
Total GoG	200,434	209,103
TOTAL PROJECT EXPENDITURE	1,304,349	1,365,025

The Project consists of the following main component:

Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency - The full rehabilitation and/or reconstruction of existing schools will consist of two components - a structural component and an energy efficiency component to be implemented in all the selected school buildings, depending on the specific need of each particular building. The structural component may, in addition to works on the building's envelope, also include issues such as landscaping and similar measures at adjacent areas. The aim of the energy efficiency measures to be included in all buildings is to obtain a min of 30% calculated energy efficiency (reduction in energy demand) as measured in KWh and compared to the building's baseline.

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2024 and on the funds received and disbursed during the year then ended.

9. OPERATING ENVIRONMENT

During 2024, Georgia continued to exhibit the characteristic volatility of an emerging market, with economic, political and social, and legal and legislative risks all remaining prominent. The fiscal and monetary policies enacted by the Government of Georgia shaped the pace of economic growth and inflation, while evolving tax and regulatory frameworks—driven in large part by Georgia's European Union accession action plan—remained subject to diverse interpretations by businesses and regulators alike. Throughout the year, further legislative amendments designed to align Georgia's legal system with EU standards were adopted, and additional regulations were introduced as the accession roadmap advanced.

In support of sustained business development, the Government indicated that it would extend various stimulus measures into 2024. These included targeted tax incentives for priority sectors, continued loan restructuring schemes for enterprises facing liquidity pressures, and subsidized interest-payment support to reduce financing costs. Such initiatives aimed to free up corporate resources for reinvestment in expansion, innovation and job creation.

Management continually assessed the impact of these dynamic economic and regulatory changes on the Project's operations. Although unforeseen developments could have affected Georgia's macroeconomic environment and, consequently, the Project's financial position, Management remained proactive—engaging with stakeholders, monitoring policy shifts, and implementing mitigation strategies—to safeguard the sustainability and growth of the Project's activities.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024
(In EURO)**

10. SUBSEQUENT EVENTS

Based on preliminary estimates, the total cost of construction and installation work, including strengthening the building structure, implementing energy-efficient measures and renovating the interiors of all 12 school buildings, is approximately 13,240,726 EUR (excl. VAT), which is above the funds available for project implementation. The provision of the additional financing from Government (Co-participation Funds) was agreed between Parties. The Funds reflected in the State Budget 2025.

The Extension of Final Availability Day of the Loan and Grant was requested by the Government of Georgia. The above-mentioned extension was granted till the December 31, 2027 on May 9, 2025.