

**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 PREPERATION AND APPROVAL  
OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024**

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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 Pitshelauri  
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 access the risks of material misstatement of the special purposes 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.

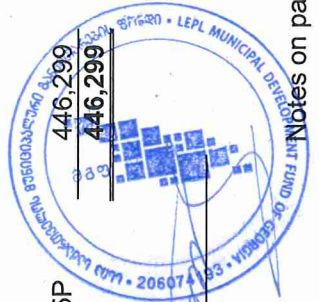
*Moore Azerbaijan*

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                |                             | Planned                         |                                       | Variance                        |                                       | Project appraisal document |
|---|-----------------------|-----------------------------|---------------------------------|---------------------------------------|---------------------------------|---------------------------------------|----------------------------|
|   | Year ended 31.12.2024 | Cumulative as at 31.12.2024 | Year ended 31.12.2024 Unaudited | Cumulative as at 31.12.2024 Unaudited | Year ended 31.12.2024 Unaudited | Cumulative as at 31.12.2024 Unaudited |                            |
| <b>Opening Working Capital</b>  |                       |                             |                                 |                                       |                                 |                                       |                            |
| Loan NEFCO-2018-149   | 148,634               |                             |                                 |                                       |                                 |                                       |                            |
| <b>Total</b>  | <b>148,634</b>        |                             |                                 |                                       |                                 |                                       |                            |
| <b>Sources of Funds</b>   |                       |                             |                                 |                                       |                                 |                                       |                            |
| Loan NEFCO-2018-149 E5P *   | 1,399,990             | 1,599,990                   |                                 |                                       |                                 |                                       | 3,900,000                  |
| Grant NEFCO-2020-149 E5P  | -                     |                             |                                 |                                       |                                 |                                       | 2,600,000                  |
| Government of Georgia   | 197,385               | 206,783                     |                                 |                                       |                                 |                                       | 1,170,000                  |
| <b>Total sources of funds</b>   | <b>1,597,375</b>      | <b>1,806,773</b>            |                                 |                                       |                                 |                                       | <b>7,670,000</b>           |
| <b>(LESS): EXPENDITURE</b>  |                       |                             |                                 |                                       |                                 |                                       |                            |
| <b>Loan NEFCO-2018-149 E5P</b>  |                       |                             |                                 |                                       |                                 |                                       |                            |
| Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency | 1,103,915             | 1,155,922                   | 1,400,000                       | 1,600,000                             | 296,085                         | 444,078                               |                            |
| <b>Sub-total</b>  | <b>1,103,915</b>      | <b>1,155,922</b>            | <b>1,400,000</b>                | <b>1,600,000</b>                      | <b>296,085</b>                  | <b>444,078</b>                        |                            |
| <b>Government of Georgia</b>  |                       |                             |                                 |                                       |                                 |                                       |                            |
| Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency | 200,434               | 209,103                     | 252,000                         | 288,000                               | 51,566                          | 78,897                                |                            |
| <b>Sub-total</b>  | <b>200,434</b>        | <b>209,103</b>              | <b>252,000</b>                  | <b>288,000</b>                        | <b>51,566</b>                   | <b>78,897</b>                         |                            |
| <b>Total expenditures</b>   | <b>1,304,349</b>      | <b>1,365,025</b>            | <b>1,652,000</b>                | <b>1,888,000</b>                      | <b>347,651</b>                  | <b>522,975</b>                        |                            |
| Foreign exchange loss, net  | 4,639                 | 4,551                       |                                 |                                       |                                 |                                       |                            |



**Closing Working Capital**  
Loan NEFCO-2018-149 E5P  
**Total**

**On behalf of Management:**

Bekar Urushadze  
Executive Director

*(Signature)*

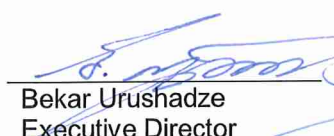
Tamar Pitshkelauri  
Deputy Executive Director – Chief Financial Officer

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

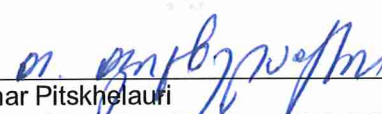
**MUNICIPAL DEVELOPMENT FUND  
NORDIC ENVIRONMENT FINANCE CORPORATION  
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2024  
(In EURO)**

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

**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<br>31.12.2024 | Cumulative as<br>at 31.12.2024 | Year ended<br>31.12.2024 | Cumulative as<br>at 31.12.2024 | Year ended<br>31.12.2024 | Cumulative as<br>at 31.12.2024 |
| Project activities  |                          |                                |                          |                                |                          |                                |
| Rehabilitation of public<br>schools in mountainous<br>regions of Georgia and<br>improvement of energy<br>efficiency | 1,304,349                | 1,365,025                      | 1,652,000                | 1,888,000                      | 347,651                  | 522,975                        |
| <b>TOTAL EXPENDITURE</b>  | <b>1,304,349</b>         | <b>1,365,025</b>               | <b>1,652,000</b>         | <b>1,888,000</b>               | <b>347,651</b>           | <b>522,975</b>                 |

|   | Actual                   |                                | Planned                  |                                | Variance                 |                                |
|---|--------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
|   | Year ended<br>31.12.2023 | Cumulative as<br>at 31.12.2023 | Year ended<br>31.12.2023 | Cumulative as<br>at 31.12.2023 | Year ended<br>31.12.2023 | Cumulative as<br>at 31.12.2023 |
| Project activities  |                          |                                |                          |                                |                          |                                |
| Rehabilitation of public<br>schools in mountainous<br>regions of Georgia and<br>improvement of energy<br>efficiency | 60,676                   | 60,676                         | 236,000                  | 236,000                        | 175,324                  | 175,324                        |
| <b>TOTAL EXPENDITURE</b>  | <b>60,676</b>            | <b>60,676</b>                  | <b>236,000</b>           | <b>236,000</b>                 | <b>175,324</b>           | <b>175,324</b>                 |

**On behalf of Management:**

  
Bekar Urushadze  
Executive Director



  
Tamar Pitshkelauri  
Deputy Executive Director – Chief Financial Officer



**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)**

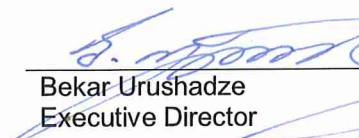
**Withdrawal applications for Loan No. NEFCO-2018-149**

| <u>Withdrawal No.</u> | <u>Withdrawal Application Date</u> | <u>Total<br/>Application<br/>Amount</u> | <u>Advance</u>   |
|-----------------------|------------------------------------|---|------------------|
| Tranche No. 2         | 25.11.2024                         | 1,400,000*                              | 1,400,000*       |
| <b>Total:</b>         |                                    | <b>1,400,000</b>                        | <b>1,400,000</b> |

\* 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.

| <u>Withdrawal No.</u> | <u>Withdrawal Application Date</u> | <u>Total<br/>Application<br/>Amount</u> | <u>Advance</u> |
|-----------------------|------------------------------------|---|----------------|
| Tranche No. 1         | 06.02.2023                         | 200,000                                 | 200,000        |
| <b>Total:</b>         |                                    | <b>200,000</b>                          | <b>200,000</b> |

**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 Pitsheladze  
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)**

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**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)**

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**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**

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

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)**

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**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.