

JSC Georgian Energy Development Fund

# Financial Management Policy

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## *Financial Management Policy*

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### GENERAL PROVISIONS

#### ABOUT THIS POLICY

- The document (“Financial Management Policy”, hereinafter the “Policy”) sets out JSC Georgian Energy Development Fund’s (hereinafter the “Company”, or the “GEDF” or the “Fund”) policy for financial management related processes, respective responsibilities as well as control and monitoring activities within the Fund.
- The purpose of this policy is to set out how the finances are managed, provides efficient financial management guidelines, ensures risk mitigation and the alignment of financial operations with the overall mission of the Fund. By following the Policy, the Fund ensures that it is financially responsible, accountable, prudent and has segregation of duties in place between the Finance Unit members.
- The Chief Financial Officer (hereinafter the “CFO”) along with the Finance Unit has ultimate responsibility for ensuring effective day-to-day implementation of this policy.
- The Audit Committee, according to its responsibilities and duties outlined in the Terms of Reference of the Audit Committee, is responsible for overall coordination, control and monitoring activities to ensure effective implementation of the Financial Management Policy.
- The Audit Committee has ultimate responsibility for reviewing this policy and is directly responsible for agreeing any amendments to the policy. The Audit Committee has direct ultimate responsibility for ensuring that this policy is reviewed and any amendments are properly implemented.

#### WHO DOES THIS POLICY APPLY TO?

- This Policy applies to all persons associated with the GEDF (“**Associated Person**”), including:
  - **Management and Employees:** Directors, members of the supervisory board, all individuals working at all levels and grades, including officers, seconded workers, volunteers and interns. This Policy is an integral part of the Company’s Internal Regulations and therefore in mandatory for all employees and management team.

- **Subsidiaries:** legal entities in which the Company has controlling interest<sup>1</sup> should comply with the main principles of this document and adopt similar Policy.
- The person who is subject to this Policy shall read it carefully and comply all its provisions. Everyone who has questions or concerns regarding the Policy should immediately refer to the Compliance Officer and seek for his/her advise.
- If you believe that the Policy is being violated, please immediately contact the Compliance Officer.

## Financial Management Related Processes

### Accounting

#### Basic principles of accounting

The Fund applies accrual basis of accounting to create more accurate view of Fund's financial information by recording accounting records when they are incurred to effectively match generated revenue with expenses.

#### Day-to-day accounting, accounting system and procedures

The Chief Accountant should be responsible for the day-to-day bookkeeping process and recording company's financial transactions into organized accounts in the accounting system. The access to the accounting system should be limited to the Finance Unit members within the Fund to ensure the correctness and reliability of accounting transactions and financial records.

Chief Accountant's responsibilities should include selection of the accounting system within the Fund, day-to-day bookkeeping transactions as well as month-end accounting process. The Chief Accountant makes record of accounting transactions on a daily basis, collecting the information from various departments: Procurement Unit, Project Management Unit and other departments involved in the day-to-day operations of the Fund.

#### Month-end accounting

On a monthly basis, in scope of the month-end closing process of Fund's accounts, the Chief Accountant should collect relevant information from the various departments and posts accounting transactions and performs month-end closure related procedures, including

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<sup>1</sup> When a Company owns more than 50% of the voting shares and/or has deciding voice in shareholder meetings and/or control over business direction.

preparation of tax declarations for the statutory tax reporting purposes in accordance with the Tax Code of Georgia.

To ensure the segregation of duties within the Company and smooth and effective accounting process, the Chief Accountant should provide tax declarations to the Head of Budgeting and Reporting Unit and Tax Consultant. As a result of the process, Tax Consultant should provide recommendations or approve the month-end closure and tax declaration preparation process. Based on this information, Chief Accountant should submit tax declarations to the tax authority.

Tax Consultant should also be responsible for the mitigation of tax risks and Company's overall compliance with the tax authority.

## Budgeting

### Budget planning and preparation

In line with the Charter of the Fund, the annual budget preparation process is subject to approval by the Ministry of Economy and Sustainable Development of Georgia.

The Head of Budgeting and Reporting Unit should be directly responsible for the annual budget planning and preparation. There are two main budget components: administrative and subsidiary budgets.

- Administrative budget preparation for each department within the Fund should be a direct responsibility of the Head / Director of respective Department. Department budgets should be provided to the Head of Budgeting and Reporting Unit who consolidates department budgets in the form of the annual consolidated budget. Annual consolidated budget should be presented and discussed with the Management Board of the Fund.
- Subsidiary budgets should be prepared by the Project Management Unit and shared with the Head of Budgeting and Reporting Unit. Subsidiary budgets must be integrated with the Fund's administrative budget.

After the verbal agreement is achieved during the Management Board meeting regarding the annual budget of the Fund, annual consolidated budget should be circularized within the Directors of the Company via email seeking their approval.

Having obtained directors' approval on the annual budget, budget should be sent to the Ministry of Economy and Sustainable Development of Georgia for the final approval. An annual budget should be discussed and approved by the Shareholder of the Fund.

## Control and monitoring activities

As a part of the periodic control and monitoring activities, budget versus actual analysis should be performed on a monthly basis by the Analyst of the Fund in the form of the consultative meeting between the analyst and CFO. The deviations from the budgeted figures should be explained during the meeting and if needed, further discussed with the CEO. The main focus of periodic control and monitoring activities should be the monthly cash flow monitoring activity.

On an annual basis, the CFO during the internal reporting process with the Management Board, should present the budget versus actual analysis and provide explanations to the deviations from the approved budget, if applicable.

## Budget revisions and amendments

In case of any amendments or corrections needed, the annual budget should be discussed with the Management Board of the Fund for their approval (similar to the annual budget approval process). The initiation of the budget amendments / corrections can be discussed and approved verbally during the consultative meeting. As soon as the agreement is reached, Directors' approval must be obtained via email communication and amended / corrected budget should be sent to the Ministry of Economy and Sustainable Development of Georgia for the final approval.

## Financial Reporting

### Internal financial reporting

The Finance Unit members along with the Chief Financial Officer should be responsible for preparation of fair and correct financial information.

On an annual basis, the Fund should hold reporting meeting and discussion with the Management Board where the financial information, including the balance sheet, income statement and cash flow statements reviewed by the Chief Financial Officer should be presented and discussed.

In case of any significant deviations or events outside of ordinary course of business, the Finance Unit members along with the CFO should inform the Management Board in a timely manner.

## External reporting

### Reporting to the Shareholder

The Fund has direct reporting to the Shareholder on an annual basis to present the financial statements and discuss any deviations or mismatch between the Shareholder's expectations and actual financial results. The Chief Financial Officer along with the Finance Unit members are responsible for preparation of fair and correct financial information to the Shareholder.

### Reporting to the Donors

Considering the donor specific requirements, the Fund is responsible for compliance with the donor requirements. The Chief Financial Officer along with the Finance Unit members are responsible for preparation of fair and correct financial information to the donors.

## Statutory Reporting

According to the Law of Georgia on Accounting and Financial Audit, Georgian regulatory body "SARAS" requires certain companies to present audited financial statements as well as company related financial and non-financial data in accordance with their regulations and reporting timeline.

To be compliant with the Georgian regulations, the Fund should perform annual independent audit of the financial statements as well as should have active communication with the Georgian regulatory body. The Fund must have designated key contact person (Head of Budgeting and Reporting Unit) who should be responsible for providing accurate financial and non-financial information to the regulatory body.

According to Georgian legislation, the Fund has mandatory reporting requirements to the National Statistics Office of Georgia on a quarterly basis. The Chief Accountant should be the key contact in the information provision process and provide required financial and non-financial information within the set timeframes, as required.

## External audit / independent examination of financial information

Based on the Georgian regulatory body's ("SARAS") requirement, the Company's financial statements should be examined by the external independent auditor on an annual basis. To be compliant with the Georgian regulations, the Fund performs annual independent audit examination of the financial statements.

On an annual basis, the Fund should perform a price survey among the big players (external audit companies) on the market with active consultations with the Audit Committee. As soon

as the Fund is aware of prices declared by the external audit companies, the Management Board with active involvement of the of Audit Committee should discuss and agree on selecting an external auditor considering the price, quality, reputation of the external audit company and other relevant matters.

The Management Board meeting regarding the external audit related processes should take place on an annual basis unless otherwise required by the circumstances. Any amendments to the decision are also subject to the Management Board's approval.

The minutes of the Management Board meeting should be documented.

The Audit Committee is responsible for overall coordination and monitoring of the external auditor selection process and should be informed accordingly during the selection, remuneration, scope definition and other external audit related processes as well.

Financial statements should be prepared and presented in accordance with International Financial Reporting Standards (IFRSs).

## Financial controls

### Bank accounts and cash management

The Company does not have petty cash balance.

Opening and closing bank accounts should be the sole responsibility of the CEO. No other employees within the Fund should have access to opening / closing bank accounts, unless otherwise decided by the CEO in agreement with the Management Board of the Fund.

Company representatives or employees should not have access and right to withdraw cash from the Company's bank accounts.

### Electronic disbursements for purchased goods/services from the suppliers

Electronic disbursements should be structured in a way that proper authorization of payments is ensured. Electronic funds should be disbursed only for valid business purposes within the approved budget and should be recorded properly. Prior to signing the agreement with suppliers on purchasing goods/services, Head of Budgeting and Reporting Department should ensure that goods/services subject to purchase are within the cost item and limits of the Fund's annual budget.

Prior to initiation of the payment by the Head of Budgeting and Reporting Department, supporting documentation which should be a basis for the payment must be collected and verified.



The Head of Budgeting and Reporting Department should have access to the online banking system to initiate the payments, however, the transaction approval and processing responsibility should be granted to the CEO/CFO.

The supporting documentation for local purchases should be collected by the Head of Budgeting and Reporting Department from the tax authority portal (to obtain supporting documentation, VAT invoice). Additional supporting documentation (signed act of acceptance, signed agreement and agreement terms) should be double-checked with the Procurement Unit to mitigate the risk of errors.

After the document verification procedure, the Head of Budgeting and Reporting Unit should upload the payments into the internet banking system and send the payment list via email to the CFO and CEO for their approval.

The CFO should be responsible for the transaction approval in the internet banking system, while CFO should not have right to create, upload or edit transactions into the system. After the approval, the Chief Accountant records transactions in the accounting system.

The process should be structured in the same way for the purchases from foreign suppliers, however, obtaining the VAT invoice is not applicable for this process. The double-check should be performed with the Project Management Unit in terms of the supporting documentation prior to the payment as well as with the Procurement Unit.

On a monthly basis, the Head of Budgeting and Reporting Unit extracts the full list of bank transactions, sends the full list to the Tax Consultant to make sure that segregation of duties is in place within the Fund.

There should not be any limit on the transaction approval. Each transaction should be approved and verified by the CFO and CEO disregarding the transaction amount or nature of the disbursement.

## Payroll control

The Head of Budgeting and Reporting Unit is responsible for maintaining the payroll register with proper and accurate up-to-date data.

Based on the information provided by the Legal unit regarding the hired / dismissed staff, or any amendments to the remuneration of the staff, the Head of Budgeting and Reporting, should maintain the accurate monthly payroll register, which should be the basis for the payroll disbursements at the end of the month.

The monthly payroll register is sent to the Chief Executive Officer (hereinafter the “CEO”) and Legal unit seeking for their approval. Prior to uploading the payment information into the electronic system by the Head of Budgeting and Reporting Unit, the payroll information should be approved via email communication. As soon the as the approval is obtained, Head of Budgeting and Reporting Unit uploads relevant payroll information into the electronic banking

system. Chief Financial Officer is reviewing the uploaded information into the system and approves the transaction prior to the payment.

Payroll related accounting transactions are posted into the accounting system by the Head of Accounting Unit.

## Placement of funds

Based on the approved annual budget and consultations between the Chief Executive Officer, the CFO initiates the process of placement of free funds into the financial instruments.

The Analyst of the Fund should perform market study and price survey to analyse the market situation in terms of commercial bank offers. As a result of the analysis and price survey performed, summary of analysis and bank offers should be presented to the Chief Financial Officer and Chief Executive Officer for approval. The best offer should be selected and approved on the basis of the discussion and evaluation. After approvals are obtained, contract negotiation process should be initiated with local banks prior to placing the funds in certificate deposits or other financial instruments.