



GEORGIA  
CAPITAL

# ESG PRINCIPLES LIE AT THE HEART OF OUR BUSINESS

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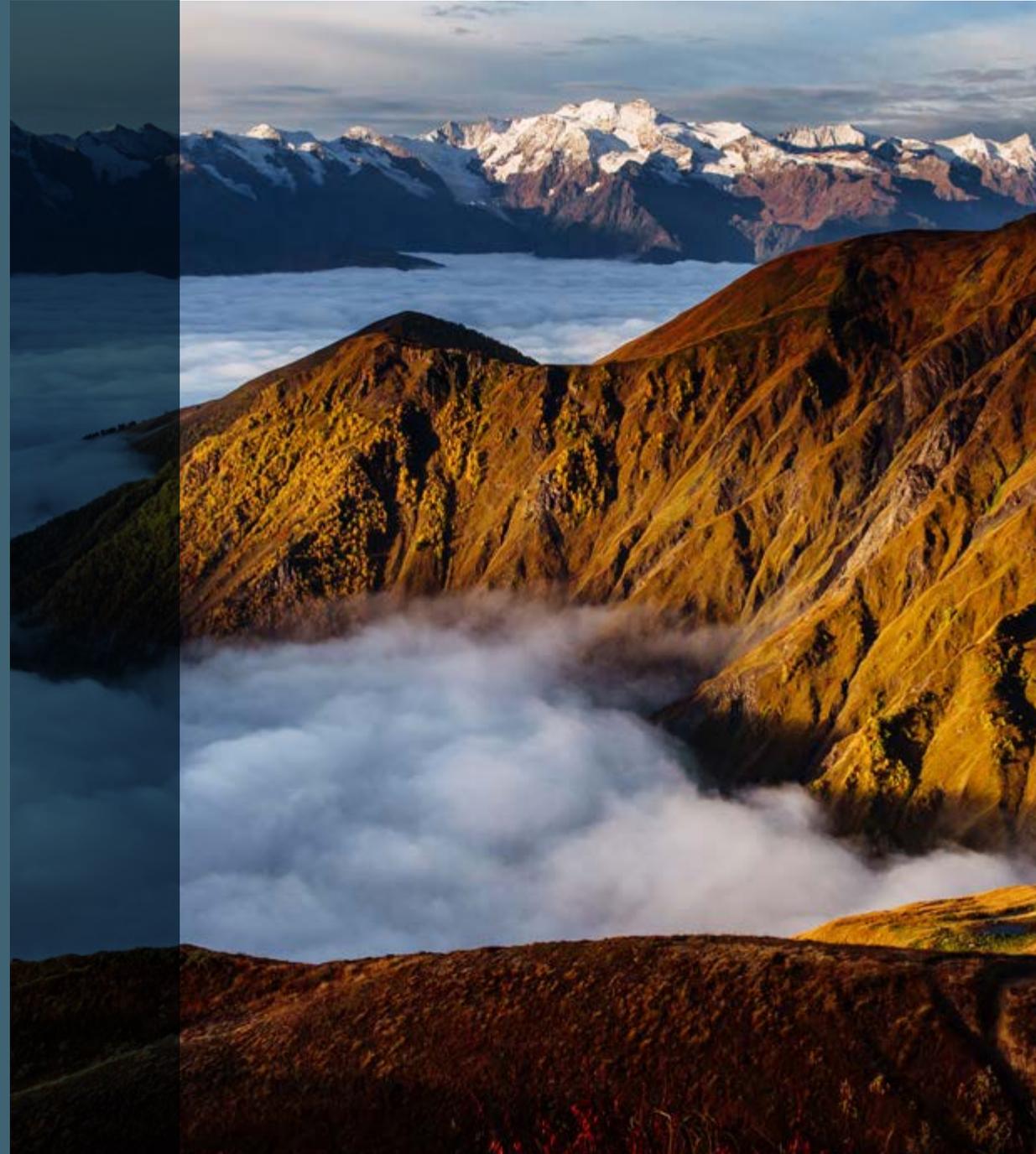
SUSTAINABILITY REPORT 2021

# INTRODUCTION

We are pioneering sustainability practices in our business activities and across our portfolio and are constantly seeking new ways to improve our performance across the Group.

This Sustainability Report aims to provide material and relevant information on the developments in Georgia Capital PLC's ("Georgia Capital" or "the Group" or "GCAP" or "the Company" – LSE: CGEO LN) environmental, social and governance (ESG) practices for the financial year ending 31 December 2021 and should be read in conjunction with our Annual Report and Accounts 2021 and the relevant policies available on the Company's website.

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors has adopted a Code of Conduct and Ethics, as well as policies concerning climate change, environmental and social matters, employees, anti-corruption and anti-bribery. We invite you to read more about our policies, practices and initiatives in the sections below.



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# GEORGIA CAPITAL AT A GLANCE

Georgia Capital is a platform for buying, building and developing businesses in Georgia with holdings in sectors that are expected to benefit from the continued growth and further diversification of the Georgian economy.

The Group’s focus is typically on larger-scale investment opportunities in Georgia, which have the potential to reach at least GEL 0.5 billion equity value over 3-5 years from the initial investment and to monetise them through exits, as investments mature. Georgia Capital currently has the following portfolio businesses:

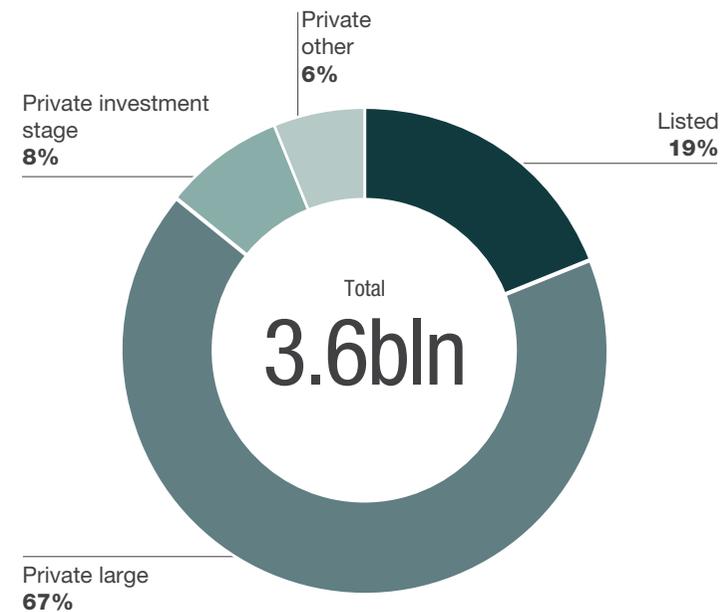
- a healthcare services business;
- a retail (pharmacy) business;
- a water utility business<sup>1</sup>;
- an insurance business (P&C and medical insurance);
- a renewable energy business; and
- an education business.

Georgia Capital also holds other small private businesses across different industries in Georgia and a 19.9% equity stake in LSE premium-listed Bank of Georgia Group PLC (BoG), a leading universal bank in Georgia.

As a Group, we are committed to a long-term investment strategy and building effective relationships with those businesses in which we invest. We maintain close relationships with the management of our private portfolio companies and as a consequence of our involved investment style, we manage our portfolio companies in the best interests of our shareholders and other stakeholders, fostering long-term relationships

by providing high returns on investment. Additionally, we seek to contribute to wider society by encouraging the continuous development of our employees and contributing to the economic and social welfare of local communities while taking into account our environmental footprint. With a portfolio of GEL 3.6 billion, we recognise that our decisions as a Group potentially impact a broad range of stakeholders, particularly within Georgia. As an investment holding company with c.40 employees, Georgia Capital has a limited direct impact on the environment and the community in which it operates. However, we understand that the indirect impact of our investment undertakings might also be an important consideration for our stakeholders. To ensure the Group’s commitment to sustainable finance, as an integral component of responsible corporate governance, we follow our Environmental and Social Policy. The Group is committed to conducting its business in an environmentally, socially responsible and sustainable manner in order to reduce the environmental impact of its operations, while at the same time improving social performance to enhance long-term returns to its shareholders. Georgia Capital is also dedicated to achieving its strategic and investment objectives while behaving responsibly as an employer and as an international corporate citizen.

## PORTFOLIO VALUE AT 31 DECEMBER 2021 (GEL)



## PORTFOLIO BREAKDOWN

As of 31-Dec-21		Value in GEL millions	% of share in total portfolio
<b>LISTED PORTFOLIO COMPANIES</b>		<b>681</b>	<b>19%</b>
<b>BANK OF GEORGIA (BOG)</b>		<b>681</b>	<b>19%</b>
<b>PRIVATE PORTFOLIO COMPANIES</b>		<b>2,935</b>	<b>81%</b>
<b>LARGE PORTFOLIO COMPANIES</b>		<b>2,407</b>	<b>67%</b>
<b>HEALTHCARE SERVICES</b>		<b>732</b>	<b>20%</b>
<b>RETAIL (PHARMACY)</b>		<b>710</b>	<b>20%</b>
<b>WATER UTILITY</b>		<b>697</b>	<b>19%</b>
<b>INSURANCE (P&amp;C AND MEDICAL)</b>		<b>268</b>	<b>7%</b>
<b>INVESTMENT STAGE PORTFOLIO COMPANIES</b>		<b>303</b>	<b>8%</b>
<b>RENEWABLE ENERGY</b>		<b>173</b>	<b>5%</b>
<b>EDUCATION</b>		<b>130</b>	<b>4%</b>
<b>OTHER PORTFOLIO COMPANIES</b>		<b>225</b>	<b>6%</b>
<b>TOTAL PORTFOLIO</b>		<b>3,616</b>	<b>100%</b>

<sup>1</sup> As of the report publication date, Georgia Capital holds a 20% equity interest in the water utility business.

# CHAIRMAN AND CEO STATEMENT

Our portfolio is concentrated across structurally important industries in Georgia, connecting us to the country's sustainable development.



**Irakli Gilauri**  
Chairman and Chief Executive Officer

As the largest employer in the Georgian private sector, our Group is trusted with improving the future of our community by building the sustainable businesses of tomorrow. We have a strong track record of investing and managing our portfolio responsibly, facilitated by operating according to our clear and proven governance model and an extensive network of top-quality talent. Our approach to ESG matters is reflected in the strategy and management principles of our portfolio companies, all of which adhere to sound ESG standards, as well as local policies and regulations.

We have supported investments in socially and environmentally-oriented businesses since 2008, when we first entered the healthcare market. At this time, Georgia's healthcare was in need of significant investment, with a vast network of decaying hospital infrastructures, an oversupply of depreciated hospitals, beds and doctors and a critical undersupply of nursing staff. To support the industry's overhaul, the Georgian Government launched a "privatisation initiative". The Group decided to participate in the programme, with the aim of modernising healthcare infrastructure, closing service gaps in the country that forced patients to seek treatment abroad and increasing the overall quality of care. Georgia Healthcare Group (GHG) opened its first hospital in 2008 and over the last ten+ years, the businesses of GHG have spent nearly GEL 794 million (US\$ 310 million) on upgrading the Soviet-era facilities from their former decrepit state and building new hospitals and clinics outfitted with modern equipment. As a result, we have contributed to the development of the Georgian healthcare system and our society as a whole. Today GHG is the largest and only

fully-integrated healthcare provider in the fast-growing, predominantly privately-owned Georgian healthcare system. The GHG businesses are the market leaders in the country in each operating segment – Healthcare Services, accounting for 20% of the county's total hospital bed capacity; Retail (pharmacy), with 35% market share by revenue; and Medical Insurance, with 23% market share based on 9M21 net insurance premiums.

## “AT GCAP, ESG IS NOT ONLY A PROMISE ABOUT THE FUTURE – OUR INVESTMENTS TODAY PROMOTE GEORGIA'S SUSTAINABLE DEVELOPMENT.”

In addition to healthcare, a number of our other businesses highlight our position as a responsible investment holding company. These include our investments in education which support the development of the younger generations and in renewable energy, increasing green energy production which reduce Georgia's environmental footprint. Our work in these and other sectors will further enhance our community's well-being.

Through its green projects, our renewable energy business, owned by Georgia Global Utilities (GGU), supports climate change mitigation, natural resources conservation and pollution prevention, thereby

contributing to the transition towards a more sustainable and lower-carbon economy in Georgia. Over the years, Georgia Capital has invested GEL 150 million in its renewable energy business, which operates three wholly-owned commissioned renewable assets. In addition to the existing production capacity of 71MW, the business has a pipeline of up to 172MW renewable energy projects in advanced stages of development. Going forward, the launch of the pipeline hydro and wind power plants will enhance our renewable energy business' contribution to green energy production development.

Our education business has made a significant contribution to the country's education system and society as we acknowledge the positive impact of educational opportunities. With total investments of GEL 70 million to date, we deliver high quality education at every price point across our partner schools. We are aiming to make education available for a wider group of learners and support the development of younger generations. From the currently available capacity of c.5,060 learners, the Group has set targets to scale up the business to 21,000 learners by 2025, with the majority of the scale-up to be attributable to the affordable segment. Since 2020, the capacity offered to affordable segment learners has grown by c.2,250 learners. One of our priorities is to create a safe and comfortable learning environment for our learners, and we are actively involved in infrastructure improvement through campus renovations and updated facilities.

# CHAIRMAN AND CEO STATEMENT CONTINUED

**“WE HAVE RECENTLY ADOPTED A RESPONSIBLE INVESTMENT POLICY, WHICH HAS BEEN EMBEDDED INTO OUR INVESTMENT AND PORTFOLIO MANAGEMENT PROCESSES.”**

Despite forming a small share of our total portfolio, our subscale, “other” portfolio companies have a substantial positive impact on ESG matters. Our PTI business represents the largest network of mandatory periodic technical inspections throughout Georgia, accounting for 36% of the existing market. The business is directly engaged in the reduction of greenhouse gas emissions and road accidents in Georgia. In 2021, the business conducted more than 265,000 primary technical inspections, while the failure rate stood at 35%, compared to a 52% failure rate in 2019. Approximately half of the failed cases during inspections were attributable to the excess exhaust emissions of the vehicles. The declining failure rates underline positive developments in relation to greenhouse gas emissions reduction and contribute to the improved ecological environment.

Georgia Capital Group is the largest employer in the Georgian private sector. As of December 2021, the Group is comprised of more than 21,500 individuals across the businesses. A key factor in our success is a cohesive and professional team, capable of accomplishing the Group’s objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment to our business.

## Outlook

To further enhance our ESG practices, the Board has recently adopted a Responsible Investment Policy, which sets out our stewardship approach and has been embedded into our investment and portfolio management processes. The policy is supported by detailed supporting documentation and internal resources. We recognise that ESG is a rapidly developing area, with new business practices and standards becoming part of market practice, and therefore anticipate that this policy will

develop over time and be revised on a periodic basis. We have also become a signatory of the UN Global Compact and officially made our commitment to its Ten Principles. Many of our businesses already make a positive impact on the environment and societies in which they operate, including on some of the themes highlighted by the UN’s Sustainable Development Goals (SDGs). Going forward we will further explore opportunities to align with the SDGs for the greater global effort. Throughout 2021 we have focused on identifying ESG challenges and opportunities and ways of integrating the findings into our business operations. Starting from 2021, we are committed to disclosing in line with the recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), as set out in this report and prepared with the support of a UK-based independent ESG consulting company. Adopting the recommendations of the TCFD is an iterative process and learnings along our TCFD journey will help us optimise implementation in the upcoming years.

# OUR RECENT ESG DEVELOPMENTS

- 6 Our Approach to Responsible Investment
  - 6 Implementation and oversight of the Responsible Investment Policy
  - 7 Consideration of ESG through the value creation cycle
- 9 Committing to the Principals of the UN Global Compact
- 10 Task Force on Climate-Related Financial Disclosures (TCFD) – Overview



# OUR APPROACH TO RESPONSIBLE INVESTMENT

## IMPLEMENTATION OF THE RESPONSIBLE INVESTMENT POLICY

As an investment holding company with c.40 employees, Georgia Capital has a limited direct impact on the environment and the community in which it operates. However, with the portfolio value of GEL 3.6 million, we have strong opportunities to positively affect the environment and community through the decisions we make across our portfolio.

Georgia Capital has recently adopted the Responsible Investment Policy. The policy is integrated into the investment and portfolio management processes and procedures. Georgia Capital monitors the portfolio companies' ESG performance and uses the resources to encourage the adoption of the ESG best practices. This policy covers Georgia Capital's responsible investment approach. It is supplemented with a dedicated Environmental and Social Policy.

Terms of reference of Georgia Capital's four principal Committees can be found on our website: <https://georgiacapital.ge/governance/cgf/terms>  
The Responsible Investment Policy can be found on our website: <https://georgiacapital.ge/governance/cgf/policies>

## OVERSIGHT OF THE RESPONSIBLE INVESTMENT POLICY



### THE BOARD

- Reviews and approves the policy.
- Approves the subsequent actions or recommendations if deemed appropriate.
- Monitors the implementation and conduct of the policy.



### INVESTMENT COMMITTEE

- The Investment Committee has overall responsibility for the policy and its implementation for the review and approval of any material changes.
- The Chairman of the Investment Committee summarises proceedings to the Board (after meetings or at least semi-annually) and makes recommendations, if deemed appropriate, on areas where action or improvement is needed.



### AUDIT AND VALUATION COMMITTEE

- The Audit and Valuation Committee retains responsibility for matters which fall into its Terms of Reference.
- The Chairman of the Audit and Valuation Committee reports to the Board and makes recommendations for matters within the remit of the Audit and Valuation Committee.



### MANAGEMENT

- The Director of Investments is responsible for the implementation of the policy. He may be assisted by the investment team, Finance, Investor Relations and Legal departments (both Georgian and UK) and advisors.
- The Finance Department, overseen by the Chief Financial Officer, reports on the monitoring of identified financial and climate-related risks and significant changes through its regular reports to the Management Board.
- The CEOs of the portfolio companies are responsible for implementing the ongoing Responsible Investment Policy requirements which directly affect their company and reporting data to the finance team.

# OUR APPROACH TO RESPONSIBLE INVESTMENT CONTINUED

## CONSIDERATION OF ESG THROUGH THE VALUE CREATION CYCLE

Georgia Capital's primary business is to develop or buy businesses, help them develop their management capacity and institutionalise their businesses so that they can continue to evolve and flourish on their own. Through the Responsible Investment Policy, ESG considerations are embedded into the entire deal process, from the initial investment stage to active ownership. Here we illustrate how we implement this Responsible Investment Policy at each step.

### DEAL SCREENING



#### EXCLUSION LIST

- Forced Labour
- Pornography
- Trade of Weapons
- Certain Hazardous Substances
- Tobacco
- Coal, Oil, Gas
- Corporate Governance Breaches such as Bribery and Corruption
- Fossil Fuels

### DUE DILIGENCE



#### ESG DUE DILIGENCE

- ESG Due Diligence Review
- Risk Assessment

### ACTIVE OWNERSHIP



#### ONGOING ENGAGEMENT

- Regular ESG reassessment of the portfolio companies
- Periodic follow up about the ESG matters

# OUR APPROACH TO RESPONSIBLE INVESTMENT CONTINUED

## STEP 1: EXCLUSION CRITERIA AND TRANSACTION QUALIFICATION

We do not invest in businesses that fall into our Exclusion List. The Group refrains from investing in environmentally, socially sensitive business activities including but not limited to:

- activities involving forced or child labour;
- business relating to pornography or prostitution;
- production or trade in weapons and munitions;
- activities involving the production, use, or trade of certain hazardous substances;
- growing of and manufacture of tobacco;
- businesses which generate their revenues from coal, oil or gas;
- in addition to the limit above, businesses involved in fossil fuel production, distribution or services that do not have a recognised strategy to achieve emissions consistent with the Paris Agreement's goal;
- businesses engaged in serious corporate governance breaches such as bribery and corruption that show no willingness to resolve these issues; and
- whilst not naturally within our geographic scope, we note for completeness that we refrain from investing in businesses involved in the production of palm oil and businesses involved in the production of fossil fuels from oil sands or through Arctic drilling.

## STEP 2: COMPREHENSIVE DUE DILIGENCE

If the investment does not fall within the Exclusion List, the investment team will further consider material sustainability aspects as part of its due diligence. In particular, the investment team will consider whether the potential investment business activity or proposed transaction is subject to any exclusions or restrictions, imposed by any applicable laws, regulations, contracts or otherwise.

The investment team, as overseen by the Director of Investments, will further assess the relative level of environmental and social risk associated with their business activities. They are assisted by an ESG questionnaire and screening list which identifies ESG concerns, alongside climate-related risks and opportunities.

Their conclusion and the material findings of the above process will be presented to the Investment Committee when the overall potential investment is placed before the Investment Committee for approval. Depending on the significance of the potential investment and the significance of the potential risk, an investment paper/presentation may also be placed before the Investment Committee at an earlier stage.

Based on the level of environmental and social risk associated with the potential investment's business activities or proposed transaction, and the analysis of the potential investment's procedures and measures in place to mitigate such risk, the investment team as assisted by the legal team or external legal or other advisors as appropriate will draft documentation with appropriate covenants to warrant compliance with relevant environmental, health and safety, and labour regulations and standards as well as public disclosure standards. This could include the resilience of the potential investment's strategic plans to the impacts associated with ESG/sustainability/environmental and social concerns.

In addition, the Group (or the relevant member thereof) may consult industry-specific guidance as well as seek the counsel and/or assistance of external advisors in connection with the drafting of relevant documentation and/or appropriate action plans.

## STEP 3: ACTIVE OWNERSHIP: MONITORING AND REPORTING

As part of our ongoing ESG assessment process, each business is reassessed on a semi-annual basis and we follow up to ensure appropriate actions are taken to improve as required. The Board has ultimate responsibility for risk, and the Management Board has delegated responsibility for risk management. The Group's risk management for ongoing investments is primarily managed by the Finance Department. Consequently, the Chief Financial Officer regularly monitors the environmental and social risks associated with its activities. The Finance Department reports to the Management Board periodically on the ongoing responsible investment risk across the portfolio companies. The Management Board reviews the reports and takes actions and escalates as necessary to the Investment Committee, or the Audit and Valuation Committee if the issue is within their remit.

# COMMITTING TO THE PRINCIPALS OF THE UN GLOBAL COMPACT

In February 2022, we became a signatory of the UN Global Compact and officially exceeded our commitment to its ten Principals. Many of our businesses already make a positive impact on the environment and societies in which they operate, including on some of the themes highlighted by the UN's SDGs. Going forward we will further explore opportunities to align with SDGs for the greater global effort. Our current portfolio companies that contribute towards the SDGs include:



**SDG 3: Good health and wellbeing**  
Healthcare Services (Georgia Healthcare Group) and Auto Service's periodic technical inspection (PTI) business



**SDG 4: Quality education**  
Education



**SDG 5: Gender equality**  
Georgia Capital Group



**SDG 6: Clean water and sanitation**  
Water Utility



**SDG 7: Affordable and clean energy**  
Renewable Energy



**SDG 8: Decent work and economic growth**  
Georgia Capital Group



**SDG 9: Industry, innovation and infrastructure**  
All Portfolio companies



**SDG 10: Reduced inequalities**  
Georgia Capital Group



**SDG 11: Sustainable cities and communities**  
Water Utility and Auto Service's periodic technical inspection (PTI) business



**SDG 12: Responsible consumption and production**  
Renewable Energy, Water Utility, Healthcare Services, Beverages, and Hospitality and Commercial Real Estate



**SDG 13: Climate action**  
Renewable Energy (e.g. flood control and prevention systems) and also our holding companies (implementation of TCFD)



To further enhance our ESG transparency, Georgia Capital is committed to disclosing information through Carbon Disclosure Project (CDP) for the 2021 financial year.

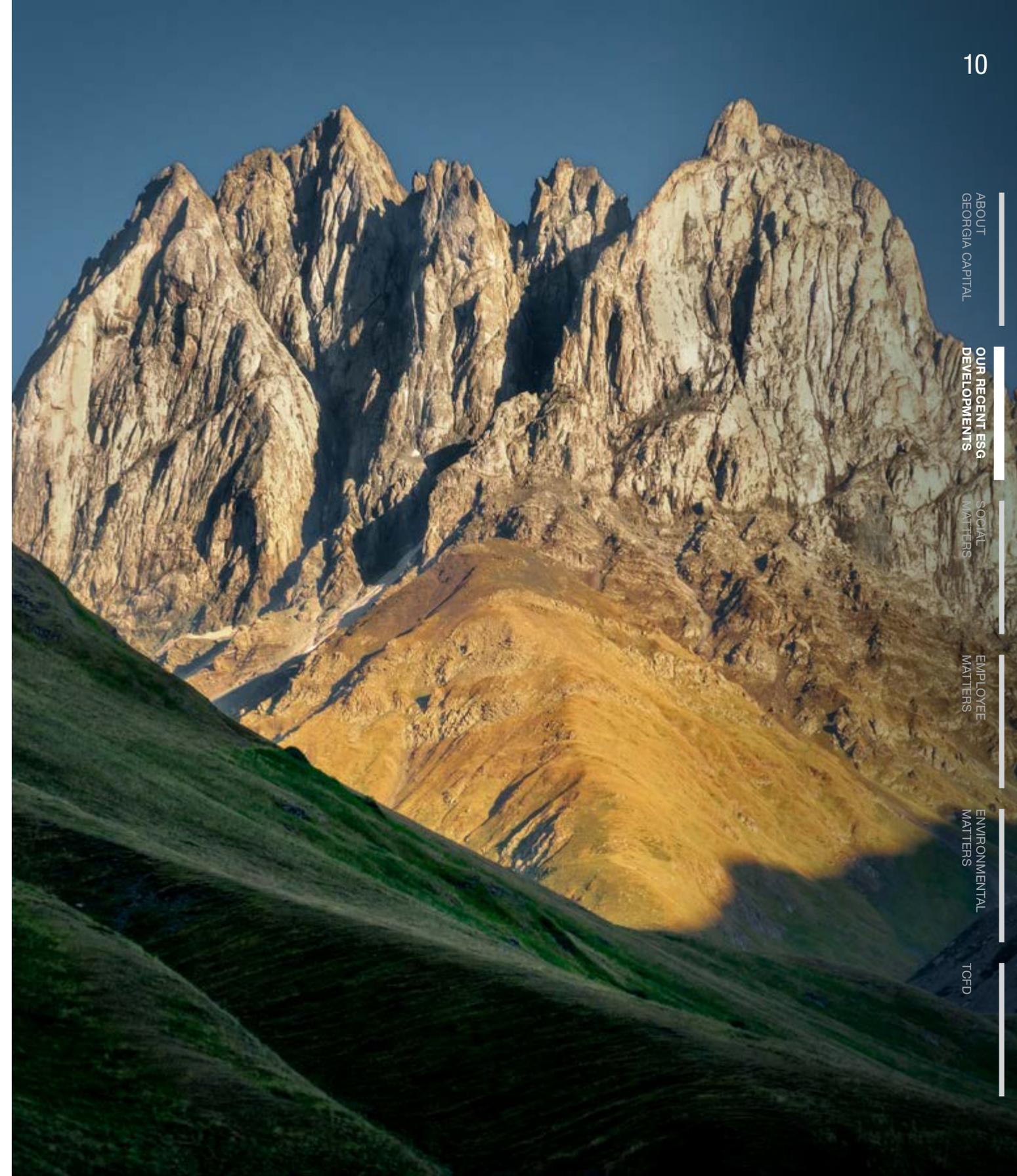
# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) – OVERVIEW

The Board supports the recommended disclosures of the TCFD, and Georgia Capital is committed to disclose in line with the recommendations.

Our TCFD disclosure was prepared with guidance from an independent sustainability consulting company, Quarter Penny Consulting Limited. Working with GCAP representatives they have developed a schedule for the phasing of activities described under the TCFD framework. The Board is entrusted with providing oversight of climate-related risks and opportunities, aided by the Audit and Valuation Committee and the Investment Committee. Management is increasing its role in assessing and managing climate-related risks and opportunities. We have enhanced the identification and monitoring of climate change risks through our risk management system and are mindful that climate-related risks and opportunities may arise from the perspectives of both the Group and our portfolio of investments. The evaluation of climate-related risks and opportunities, as with other risks, is iterative and evolving and we expect that our future disclosures will develop accordingly. At this time, we have completed a qualitative evaluation of the climate-related risks and opportunities for the Group.



Details of Georgia Capital’s response to the recommendations of the TCFD are set out on pages 43-51.



# SOCIAL MATTERS – A GOOD CORPORATE CITIZEN

- 12 Promoting Local Community
- 13 Case study: Our healthcare businesses supporting the COVID-19 vaccination programme
- 15 Case study: Digital transformation of our private businesses
- 16 Sponsorship and Charity
- 18 Promoting and Enhancing a Healthy Lifestyle
- 19 Sustainable Procurement



# PROMOTING LOCAL COMMUNITY



The Group considers the interests of its main stakeholders, including the local communities and the impact on the wider Georgian community, when developing the strategy and the processes to improve its operations. We adhere to our Environmental and Social Policy and we strive to contribute to society through our business activities by developing and investing in socially-oriented products and services, implementing responsible approaches to our business operations, sponsorship and charitable activities.

Georgia Capital and its portfolio investments are committed to playing a positive role in our local community, as shown in the case studies in this report.

## PROMOTING LOCAL COMMUNITY CONTINUED

### CASE STUDY

## Our healthcare businesses supporting the COVID-19 vaccination programme

Since the onset of COVID-19, our healthcare services business has played a significant role in managing the pandemic in Georgia. To support the Government and the patients affected by COVID-19, during 2021 GHG mobilised more than 20 healthcare facilities to receive COVID patients, with a total aggregate number of c.1,100 beds, and with trained medical personnel, isolated wards, intensive care and critical care units, to treat COVID-19 patients across Georgia. Employees of our hospitals and clinics were given a comprehensive training session, including how to manage patient flow, based on the recommendations of the Georgian National Center for Disease Control (NCDC).

Currently, our healthcare services account for 20% of the country's total referral beds to support hospitalised patients affected by COVID-19. In 2021, GHG's diagnostic facilities, including "Mega Lab", conducted 492,000 COVID-19 tests, covering 6.7% of the country's total population. In the course of the pandemic, our healthcare businesses served 65,840 COVID-19 patients and trained 8,855 medical personnel (men/training).

The business is actively engaged and supports the Government in the COVID vaccination process. Vaccination cabinets were allocated in 17 of our hospitals and 31 of our clinics. In September our clinics business opened the country's biggest private vaccination centre with an electronic

management system and 26 vaccinating rooms, which offers a modern and comfortable service.

### Vaccination support campaigns

Notwithstanding the availability of the vaccines in the country, the pace of vaccinations was slow in Georgia during the first half of 2021. To support immunisation, the Government of Georgia introduced various activities. This approach has also been spread across our healthcare services business. To raise awareness and promote the COVID-19 vaccination process in the country, the healthcare services business organised ten webinars, led by the country's well-known medical professionals, who provided in-depth information regarding vaccination benefits. The business initiated an outdoor campaign to positively impact public opinion where Georgian influencers shared the statistical data from our hospital network experience on how vaccination helps to avoid possible COVID complications. The different videos and activities shared on TV programmes and social media had more than two million views. To further support the vaccination programme, our hospitals' network provided GEL 500 vouchers for medical services and a 50% discount on laboratory research for citizens holding a COVID vaccination passport.

The vaccination programme has also been actively promoted among the business' employees. To speed up the vaccination process and provide the safest possible environment for patients and medical staff, the business

initiated a "Green" campaign, through which hospitals and pharmacies with more than 80% vaccinated staff were granted green status. Further, vaccinated medical personnel at our hospitals were provided with a GEL 150 Pharmadepot pharmacy voucher. A total of 1,500 vouchers have been issued under this programme. Our retail (pharmacy) business is also active in supporting vaccination progress. The business granted monetary awards of up to GEL 200 for vaccinated staff with "Green" status and GEL 100 vouchers on pharma products for vaccinated employees, and offered additional vacation days during the vaccination period.

### Fighting COVID-19 through digital channels

A number of our clinics participated in a Government project for the remote treatment of COVID patients, which managed a total of 35,818 cases throughout the year. Clinics have also created the new model of online treatment by Viber groups, where doctors are available 24/7 and provide online consultation for COVID-infected patients. Furthermore, our clinics business provided more than 80,000 free phone and video consultations. The clinics business introduced online consultations through specially created Facebook groups where patients can receive general recommendations from the best professionals in the field. Online "cabinets" comprise more than 23,000 members. So far, more than 7,000 queries have been answered through social media.



**GHG'S FACILITIES  
CONDUCTED 396,977  
VACCINATIONS,  
REPRESENTING  
15.8% OF THE  
COUNTRY'S TOTAL  
VACCINATIONS.**



# PROMOTING LOCAL COMMUNITY CONTINUED



**THE HEALTH AND SAFETY OF EMPLOYEES HAS BEEN ONE OF GHG'S MOST IMPORTANT PRIORITIES AS HEALTHCARE WORKERS STAND ON THE FRONTLINE OF THE COVID-19 BATTLE.**

## Employee care during Covid-19

Along with implementing proper training and equipment, GHG developed various social programmes to support and encourage those who have been on the frontline of patient care.

In 2021, GHG continued a social campaign, “Say Thanks to Our Frontline Heroes”. Through this campaign, our society has an opportunity to send letters and express its gratitude for the dedication and commitment of our healthcare workers via the online platform [www.miceremadloba.ge](http://www.miceremadloba.ge).

To provide respite to its employees, GHG introduced mandatory away days for those in high-pressure environments, at which doctors and medical personnel are given the opportunity to spend four days in hotels and recreational resorts free of charge. In 2021, 20,000 medical personnel were also granted pharmacy store vouchers (the total budget of the programme amounts to GEL 1 million).

To support the health and well-being of our employees the following activities were carried out during the year:

- Special benefits programmes for GHG employees in recovery from COVID-19, including free check-ups, medical consultations and laboratory tests.
- Hotline for infected employees, and their family members, across the GHG Group.
- GEL 100,000 clinics fund for employees and their family members.
- Order of the Heart Award – “The Heart” Award Ceremony for clinics’ employees – up to 150 medical and non-medical employees across the country’s 33 clinics were awarded for their dedicated and heroic work during the pandemic.

## Post-COVID programmes

### Mental health and the pandemic

GHG’s aim was to provide psychological support to patients recovering from COVID-19 and to help them to cope with post-COVID stress. A series of webinars, involving reputable psychologists and public speakers, offered assistance to people who were in self-isolation, giving suggestions on how to manage their free time effectively and recognise the positive aspects of their situation. The project also aimed to provide tools to help wider society adapt to the new pandemic reality, filled with unprecedented restrictions.

### Post-COVID rehabilitation centre

Our flagship hospital, Caucasus Medical Center, with the collaboration of “Sairme” resort, initiated a post-COVID rehabilitation programme. To speed up the recovery process from the pandemic, an individual rehabilitation course is developed for each patient, using an integrated approach including diagnostic, therapeutic, wellness and relaxation procedures. The full rehabilitation course at the resort is supervised by a specially trained general practitioner, who offers on-site medical care to patients.

# PROMOTING LOCAL COMMUNITY CONTINUED



**EKIMO IS THE LARGEST DIGITAL HEALTHCARE PLATFORM IN THE COUNTRY, WITH MORE THAN 154,000 ACTIVE USERS BENEFITING FROM ITS SERVICES.**

## CASE STUDY

### Digital transformation of our private businesses

The COVID-19 pandemic has accelerated a digital transformation of our businesses. In 2021, GHG won the Gold Award in the Environmental & Social Innovation category at the European Bank for Reconstruction and Development (EBRD) Sustainability Awards 2021, for its new digital application – EKIMO. EKIMO is an innovative, independent and fully-integrated digital healthcare platform that combines all components of primary healthcare: doctors, clinics, laboratories, radiology units, retail pharmacies and medical insurance. The application was launched in March 2020 and is open to any healthcare service provider or health product seller in the country. EKIMO is completely free for all users and provides quick and easy access to the entire healthcare ecosystem, such as booking doctor appointments, online payments, online consultations and pharmacy delivery. Since its launch, EKIMO’s network has expanded to 1,012 doctors from 90 different clinics, half of which are independent, third-party clinics.

To ensure business continuity and the safety of employees and society, our P&C insurance business – Aldagi, completed its Digital Transformation Project, making all of its services and products available digitally. The new web application, applying artificial intelligence and blockchain technology, enabled the company



to offer fully-digital services to its customers. With the help of modern technologies, the web application identifies the user, applies artificial intelligence and allows an electronic insurance policy to be issued in the client’s name without physical contact or document exchange. The environmental impact of the previous system significantly reduced and the user experience became safer and more enjoyable. For this initiative, Aldagi was acknowledged by the UN Global Compact Georgian Network and won the nomination of “Industry, Innovation and Infrastructure” at the Corporate Responsibility Awards 2020.

In 2021, Aldagi launched its sub-brand, “Backapp”, which is the first insurance application available for Android and iOS operating systems in Georgia. The application was designed to raise awareness of safe driving and the importance of having auto-insurance. The customers are able to buy a car insurance policy online from the application, without any physical contact with the insurance company. Backapp is an innovative product offering a unique experience to the Georgian insurance industry.

# SPONSORSHIP AND CHARITY



In 2021, the Group spent a total of GEL 2.1 million in financing sponsorship and charitable activities, some of which are listed below. As part of the sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education, conserving nature, supporting people with disabilities and special needs, and facilitating innovative projects that focus on social good. The Group's sponsorship and charity activities encourage partnerships with various foundations and non-governmental organisations to deliver sustainable results and bring positive change. In doing so, we follow our undertakings in respect of social and community matters as set out in our Environmental and Social Policy.

In 2021, Georgia Capital continued to support the Fulbright programme and covered the education and travel expenses of one high-achieving student. The selected winner is given the opportunity to pursue a master's degree at a top US university.

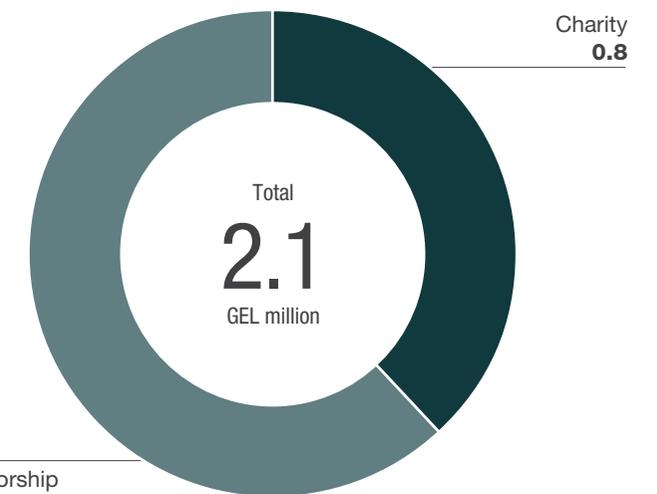
In 2021, Georgia Capital extended the sponsorship programme to support the Caucasus Nature Fund (CNF), where we are involved in the Project of Maintenance of Caucasus Natural and Cultural Heritage. The fund helps to support the effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. Under the programme, GCAP will contribute GEL 10,000 annually for the next two years.

GHG continues to support Georgian Solidarity Fund beneficiaries with free medical services at our facilities. In 2021, up to 71 beneficiaries received free medical check-ups at our hospitals. GHG also offered a 20% discount on all of our healthcare services to a charitable fund supporting children diagnosed with leukaemia and cancer. The retail (pharmacy) business continued an

initiative whereby, every newborn baby will receive a GEL 25 pharmacy voucher as a gift and a 40% discount on all baby products. GHG also supports activities to address the increasing prevalence of diabetes in Georgia, by offering a 50% discount on test strips to patients with diabetes. We help patients with chronic diseases to get accessible and affordable care by offering special prices at GHG pharmacies on the medication they need on a regular basis. Such patients can register the five most frequently used medicines on their GHG loyalty card (loyalty cards are available at our pharmacies) and get an extra discount on each purchase.

Our healthcare services business also provides free regular medical examinations in its facilities throughout the country. In 2021, the business carried out 17 different free screening programmes for up to 24,698 patients.

## Total sponsorship and charitable expenditure of the Group (GEL million)



Sponsorship  
**1.3**

Charity  
**0.8**

## SPONSORSHIP AND CHARITY CONTINUED

Such free-of-charge medical check-ups and screening programmes include managing tuberculosis, cancer screenings, hepatitis C screening and antenatal programmes. GHG's specialists deliver free medical services, including examination and treatment of socially and economically disadvantaged groups of the population. Additionally, during the year our hospitals spent up to GEL 1 million providing free medical services to the socially and economically disadvantaged groups. In cooperation with other healthcare institutions, GHG also arranges free blood transfusions for its inpatients.

As part of an unprecedented large-scale project of joint social responsibility of our clinics business and Liberty Bank, pensioners and socially vulnerable people received discounts on dental services. The services are accessible in 33 clinics in six regions of Georgia. The project started in January 2020 and is ongoing. The project benefited around 15,000 patients, who received around 50,000 discounted services. In addition, to increase access to medical services our clinics business and Liberty Bank created a specially-equipped mobile clinic and visited three different regions of Georgia where medical care is harder to access. Through the mobile clinic, patients were able to receive the consultation of physicians and general medical services.

In 2021, our water utility and renewable energy businesses, managed by GGU, were actively engaged in charity and sponsorship activities. Our water utility business continued to run charitable activities for several social service agencies in Tbilisi, Rustavi and Mtskheta. The business annually covers water supply expenses for social agencies that care for homeless children, children with disabilities and the elderly. In 2021, the renewable energy business' charitable activities were mainly directed to support the needs of local communities in the Mestia, Svaneti region. To support a healthy lifestyle, our renewable energy business sponsored one of the most popular annual mountain-skiing competitions in Svaneti – Tezo's cup.

### SPONSORING EDUCATION

Schools in our education business were also actively involved in social projects and activities. Care for the environment and charity events form part of the life of our students and staff. We regularly hold blood donation days, and maintain the schools' surrounding areas as well as different locations around the city. Our junior students organise charity trips to orphanages. Some of the charitable activities of the British International School of Tbilisi (BIST) are as follows:

- Roddy Scott Foundation (Pankisi) – donation of winter clothes from parents and employees.
- Caritas – donation of non-perishable food from parents and employees.
- Kera House – fundraising to purchase domestic items.
- UNHCR refugee centre – purchase of sports gear.
- World AIDS Day – local AIDS charity donation.
- Georgian Down Syndrome Association – funds raised throughout the year.
- Georgian Red Cross Society – funds raised throughout the year, accompanied by the awareness day.
- Red Box project for disadvantaged children in Chiatura – educational gifts.



# PROMOTING AND ENHANCING A HEALTHY LIFESTYLE

Georgia Capital acknowledges the importance of a healthy lifestyle for its employees. During the COVID-19 pandemic, in line with local regulations and recommendations of the healthcare experts, most of the indoor and outdoor physical group activities have been cancelled. Top management and the departmental heads have increased their support of the emotional well-being of our staff. We have encouraged an open dialogue with management and group chats on challenging topics. We believe that free expression and experience-sharing is key for developing a healthy workforce.

At our portfolio companies' level, to support healthy lifestyles in 2021, GHG initiated several activities including sponsorship of medical TV programmes to reach out to a wider population in order to raise health awareness and promote healthcare practices. In 2021, GEL 97,000 was spent by our hospitals business on financing these TV programmes (GEL 76,800 in 2020). Along with this, our clinics business provides free medical support and screening programmes for different illnesses to the pupils and teachers of nurseries.

Aldagi promoted safer driving with a project that offered safe drivers a chance to receive up to a 30% price discount on their car insurance policy premiums.

Promoting a healthy lifestyle is at the core of our education business. For example, BIST and British Georgian Academy (BGA) continue to promote healthy lifestyles through their academic and non-academic programmes. All students participate in compulsory sports lessons twice a week and all primary students must complete at least one sporting after-school activity per week. The schools continue to work extensively with the cafeteria to provide nutritious food. To promote a vegetarian lifestyle, BIST and BGA adopted a Meat Free Monday.

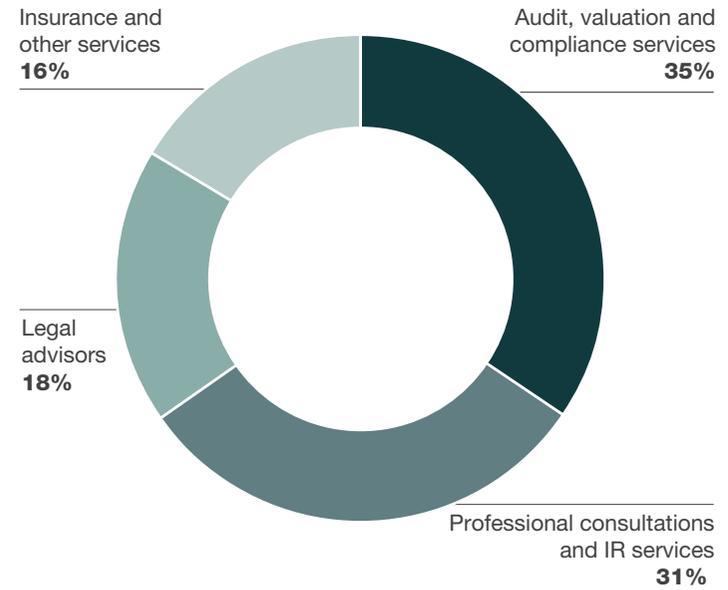
# SUSTAINABLE PROCUREMENT

At Georgia Capital, we strive to exercise good corporate citizenship and we take into consideration the ESG practices of our suppliers. A large majority of GCAP’s suppliers are professional advisors and consultants, predominantly blue-chip, reputable international organisations with sound ESG policies and procedures, which therefore, have lower exposure to ESG-related risks. Considering the small number of suppliers at the GCAP level and our active engagement with them, we do not have a dedicated procurement policy. However, our existing policies and procedures ensure that an appropriate level of due diligence is conducted on prospective suppliers before they are appointed, or any expenditure is committed. The nature of due diligence is determined on a case-by-case basis, however, as a general rule, the procedure safeguards the assessment of risks associated with bribery and corruption, information and data security, human rights and employment practices, and other material aspects as determined during the assessment.

Georgia Capital aims to work with suppliers whose ESG practices are in line with our sustainability goals.

In 2021, significant items for Georgia Capital procurement expenditures were audit, valuation and compliance services, as well as services sourced from the professional consultations and IR services. The breakdown of expenditures by type of suppliers is provided in the graph.

**Expenses by type of suppliers at Georgia Capital level (FY21)**



# EMPLOYEE MATTERS – A RESPONSIBLE EMPLOYER

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# OUR EMPLOYEES



Recruiting, developing and retaining talent is one of our most important priorities. We work towards that objective by communicating openly with our employees, providing training and opportunities for career advancement, rewarding our employees fairly and encouraging employees to give direct feedback to senior management. We recognise the importance of providing a supportive working environment with a healthy work-life balance for all our employees, both at the holding company level and across our portfolio companies. A key factor in our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment. The Group developed and implemented Human Resource (HR) policies and procedures which promote the key principles, areas, approaches and methods that are crucial for building Human Capital Management systems at each business level and at Georgia Capital level in line with the above-mentioned policies.

We maintain a Group-wide Code of Conduct and Ethics for our employees and other effective HR policies and procedures covering matters such as:

- staff administration, compensation and benefits
- recruitment, development and training
- diversity and anti-nepotism
- succession planning, departure and dismissal
- grievances

## OUR EMPLOYEES CONTINUED

We are committed to employee engagement and we believe that effective communication is key. We strive to provide our employees with a continuous flow of information, which includes our corporate culture, the Group's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways, including via managers, presentations, email, intranet and regular off-site meetings. There are feedback systems, such as employee satisfaction surveys and a designated Non-Executive Director for workforce engagement at Board level, which ensure that the opinions of our employees are taken into account when making decisions that are likely to affect their interests.

Employee feedback also helps to improve our community-focused approach. Amid COVID-19, to support our employees' continuous development and engagement, we organised weekly online meetings initiated by the CEO. Meetings were attended by key management personnel. Following these sessions, further meetings were held by mid-level managers to cascade down the messages and information to those across all levels of staff at our businesses.

In 2021, we conducted our second employee satisfaction survey at the holding company level. According to the survey results, more than 95% of the participants enjoy working at Georgia Capital, more than 95% believe that their job responsibilities match their strengths, and more than 85% are highly or moderately satisfied with career growth opportunities at the Company. Survey participants also provided their recommendations on the following topics:

1. What Georgia Capital must continue to do;
2. What Georgia Capital must stop doing; and
3. What Georgia Capital must start doing.

The results of the survey were fed back to management.

Our office remained open throughout the year as there were no lockdowns in 2021. Despite this, attendance at the office was voluntary. For our employees who selected to work from the office, we ensured that they were able to work in a safe environment, following local legislation and guidance. Distance and hybrid working environments facilitated staff engagement through online platforms.

In 2021, the following employee engagement activities were performed at the GCAP holding company level:

- Online seminar/contest about "staff engagement" across the respective departments of the portfolio companies. The goal of this seminar was to share best practices among portfolio companies and incentivise top performers. All participants received prizes and the event was concluded with dinner.
- The exchange of upward, downward and peer feedback regarding performance management. Through the performance evaluation and talent management process, several staff members were identified and promoted; and
- Facilitating the planning process for "Nonviolent Communication" training for middle and top management.

Unfortunately, we had to postpone a number of events due to the pandemic.

Employee engagement activities have also been conducted by our portfolio companies in 2021. To increase safety and provide support for employees, GHG carried on the activities through the "COVID-19 coordination centre" such as:

- workplace health and safety – continuous training and on-job instructions for medical and non-medical employees;

### ACCORDING TO THE ANNUAL STAFF SURVEY, MORE THAN 95% OF THE SURVEY PARTICIPANTS ENJOY WORKING AT GEORGIA CAPITAL.

- open communication – recurring dialogue between senior managers and employees via electronic platforms and on-site; and
- well-being support – conducting stress resilience webinars and providing psychological support.

In 2021, employee surveys were focused on COVID-related factors and organisational culture and values. According to GHG employees, in absence of the pandemic, the majority of office-based employees (51%) think that in the future they would like to have a hybrid workplace model (working 2-3 days a week from the office and 2-3 days from home).

The Employee Fund is one of the most popular workforce engagement projects among GHG's employees. Employees voluntarily contribute 1% of their monthly salary to the fund, while the business matches 50% of the amount accumulated each month. The fund is managed solely by our employees through elected committees in each hospital and clinic. The fund currently has 2,778 voluntary participants, and in 2021 raised more than GEL 0.5 million. The fund has contributed to more than 827 causes – mainly supporting health issues of employees and their family members, as well as team-building, and motivational and learning activities for our employees.

# TALENT ATTRACTION, TRAINING AND DEVELOPMENT

Sustained development of the Group’s businesses requires the strengthening of the teams, both by using the Group’s own significant internal resources through staff development and rotation and by attracting external candidates. Our Recruitment Policy and relevant control procedures ensure an unbiased hiring process that provides equal employment opportunities for all candidates. All employees at Georgia Capital work on a full-time employment contract and we do not use zero hours contracts.

To attract young talent, we actively partner with leading Georgian business schools and universities, participate in job fairs and run extensive internships not only locally, but also internationally. The COVID-19 pandemic had a negative impact on employment prospects in Georgia. Reduced revenue streams and liquidity shortages have caused redundancies in many companies; however, Georgia Capital did not make any redundancies and even made some internal promotions. In 2021, Georgia Capital continued its talent acquisition project for its Investment Officer position which was launched in 2016. A number of young and talented candidates were selected for various investment projects within the Group and Investment Officers hired in the previous years were promoted to managerial positions Group-wide.



## Total number and rate of Company’s new employee hires and employee turnover (%)

	New hires	New hires rate	Full turnover	Turnover rate
2020	4	9%	5	12%
2021	4	9%	5	12%

To manage our employees in a way that best supports our business strategy and their professional growth, we seek to help them contribute to business performance through personal and professional development. Despite the slowdown of the training activities due to the pandemic, Georgia Capital managed to maintain an active engagement in the training process of its employees. In recent years we created a programme for the Investment department which helped participants to grasp new developments in the field and refresh their knowledge.

In addition to specific training courses, regular workshops are held in the Company which are linked to the more complex matters, such as business approaches and the best practices in related fields. In December 2021, Georgia Capital held a two-day meeting and training session for the legal teams at the portfolio companies on the new legislation “Law of Georgia on Entrepreneurs”. Besides in-house training, Georgia Capital provides designated training and certification programmes for various departments through third-party resources.

# TALENT ATTRACTION, TRAINING AND DEVELOPMENT CONTINUED

## CASE STUDY

### Developing talent at our portfolio companies

Georgia Capital Group is the largest employer in the Georgian private sector. Our approach to recruiting, developing and retaining our talent has been widely spread across our portfolio companies. In 2021, the Group hired 5,515 new employees (4,688 employees in 2020).

In 2021, GHG invested GEL 3 million in training and development courses, mostly designed for nurses, physicians, pharmacists and managers. GHG has continued to roll out the “GHG Leadership Programme”, which was designed to develop and improve managerial and leadership skills for mid-level managers. One of the most successful projects was “Megalab Drive”, which was implemented in 2021. This project provides not only COVID-19 testing but also various laboratory services.

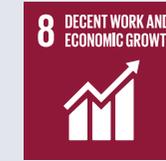
**Cultural transformation:** In 2021, our hospitals business was focused on cultural transformation and started actively working with Barrett Value Centre. Based on research and employee feedback, the business allocated five main values to focus on: employee satisfaction, customer/patient satisfaction, efficiency, creativity and constant development, and updated its mission and strategy accordingly. To actively facilitate the transformation process, the top management team held intensive workshops – “Transformation Choices”, individual and team coaching sessions. As part of the transformation process, ONA research was conducted, which

defined the network analysis of the organisation and was then used to identify cultural ambassadors, as the main supporters of the transformation process, and their mentors, within the organisation. There are planned development programmes and workshops for mentors to enable them to fulfil their roles and prepare them to disseminate their knowledge to the ambassadors and influencers and actively support the cultural transformation process.

In line with its strategy to develop a new generation of doctors in Georgia, in 2015, GHG launched postgraduate residency programmes in several fields. These programmes ensure the development of qualified specialists in the areas where we lack physicians and they have proved to be popular. Currently, we have 276 talented residents involved in 30 specialities, 20 of them have received a 100% grant and nine an 80% grant, while six residents have obtained student loans. Our residents are actively engaged in the new reality of caring for our COVID-19 patients.

GHG maintains a partnership with almost all leading universities in Georgia, which is the primary source of emerging talent. GHG has signed a memorandum of understanding (MoU) with 18 nursing colleges in all regions of Georgia.

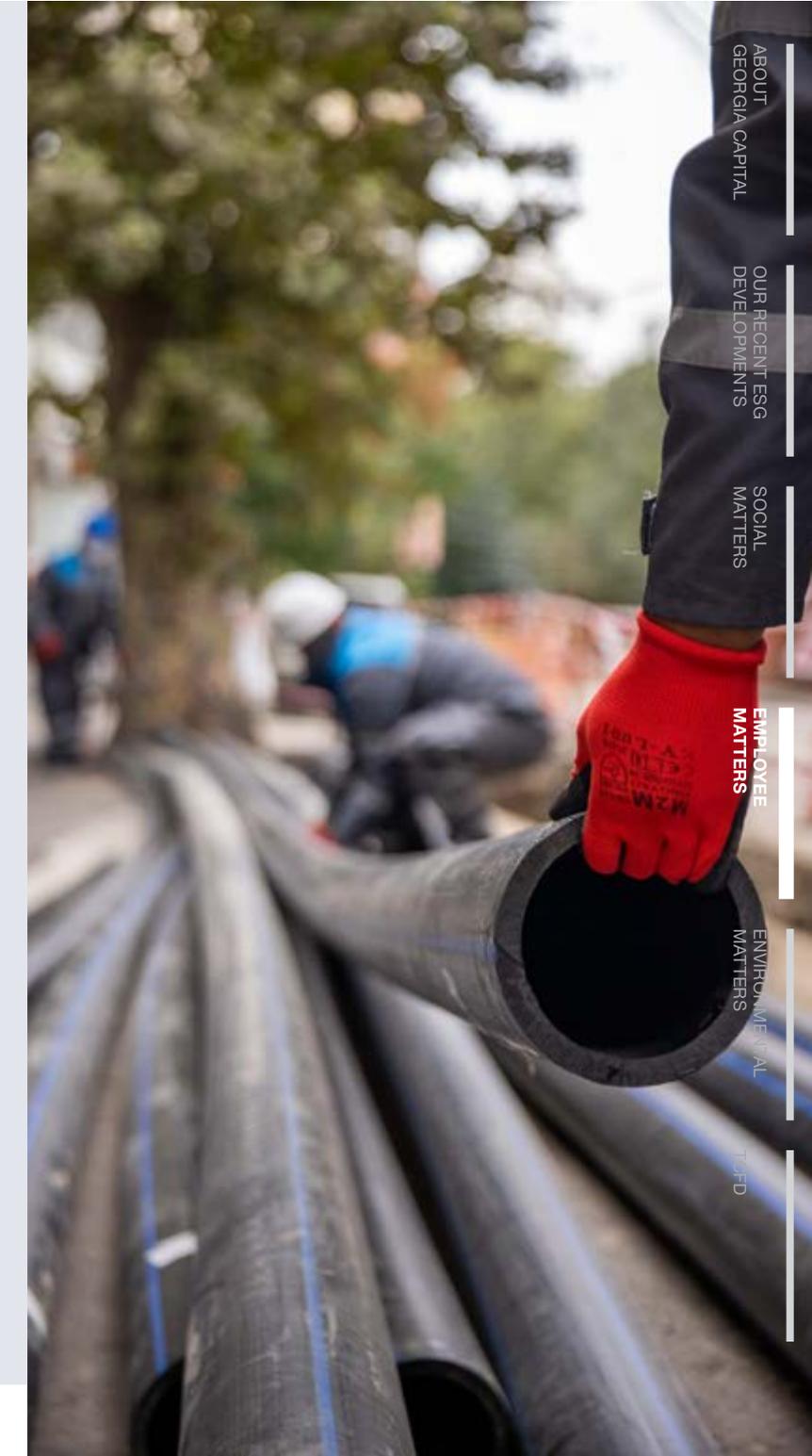
In addition, GHG initiated several projects to attract and develop young entry-level and specialists’ positions.



Amount GHG invested in training and development courses (GEL million)

# 3.0

- To address the shortage of pharmacists and increase the number of staff qualified for this position, our retail (pharmacy) business initiated exclusive partnership programmes with several colleges. As of 2021, 118 participants have been enrolled in the programme; 48 of them have been hired by GHG.
- In 2021, 200 students were hired under the student employment programme, operated by clinics.



ABOUT  
GEORGIA CAPITAL

OUR RECENT ESG  
DEVELOPMENTS

SOCIAL  
MATTERS

EMPLOYEE  
MATTERS

ENVIRONMENTAL  
MATTERS

TALENT

# TALENT ATTRACTION, TRAINING AND DEVELOPMENT CONTINUED



## New employees hired at Georgia Capital Group

# 5,515

GHG also continued training activities through EVEX Learning Centre, which is the only centre in Georgia offering continuing medical education.

Professional development of our retail (pharmacy) business employees is led by the GEPHA Training Centre trainers, mentors and coaches. Due to the pandemic, the trainings were organised through digital platforms. In 2021, about 2,500 employees received various training at the GEPHA Training Centre.

To encourage continuing professional development, our medical insurance business operates its own Imedi L Academy, offering specialised vocational training programmes and courses to its employees. In order to improve professional development as well as properly manage the pandemic, Family Doctors of Imedi L were trained in various areas (e.g. COVID-19 management for children and adults, gynaecology and cardiology). Training programmes are delivered by guest speakers as well as the company managers, who share their ideas, experience and best practices. Imedi L Academy has established a corporate library with a large variety of books to give employees opportunities for growth, learning and self-development. Imedi L Academy trained 601 participants in 2021.

In 2021, Georgia Capital's water utility and renewable energy businesses continued the sustainable development of their human capital. GGU conducted annual 360-degree assessments and as a result, as in the previous years, individually tailored career development plans were developed, including personal transformation coaching sessions, both for hard and soft skills, as well as professional training for middle management. In addition to internally conducting 360 assessments, GGU's management was evaluated for the second time via Barret Value Centre evaluation methodology, which provides a proven and useful map for understanding the values of leaders. GGU has successfully adapted the hybrid and online models of training and continued to offer its employees sustainable development including soft and hard skill training, virtual team buildings, emotional hyperventilation programmes and guest speakers. GGU also developed on-job and on-site training models and programmes for the technical and operational staff and provided the training in full alignment with all relevant safety measures.

Our education business devotes a significant amount of effort to raising awareness of the importance of having highly professional tutors on the Georgian market. Looking to the future, the market is currently characterised by gender imbalance (the majority of teachers in Georgia are female) and there is a declining interest from adolescents to follow the career path as a teacher. To attract and develop talent, the business systematically participates in job fairs and actively holds training sessions at the leading Georgian universities.

# GENDER DIVERSITY

Georgia Capital is fully committed to providing equal opportunities as an employer and prohibits unlawful and unfair discrimination. We believe that there are great benefits to be gained from having a diverse workforce. Although we do not set specific diversity targets at the Georgia Capital level, we seek to ensure that our corporate culture and policies, particularly our HR policies, create an inclusive work environment that helps to bring out the best in our employees. Georgia Capital's Diversity Policy establishes a commitment to eliminating unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organisation. The Board embraces diversity in all its forms. Diversity of gender, social and ethnic backgrounds, cognitive and personal strengths and balance in terms of skills, experience, independence and knowledge, amongst other factors, will be taken into consideration when seeking to make any new appointment within the business, whether an employee, client, supplier or contractor. On 31 December 2021, Georgia Capital, as an investment holding company, had a total of 43 employees, of which 26 are female, and 17 are male.

We are supportive of the ambition shown in recent reviews on diversity, including the Parker Review regarding ethnic diversity. The Board is currently

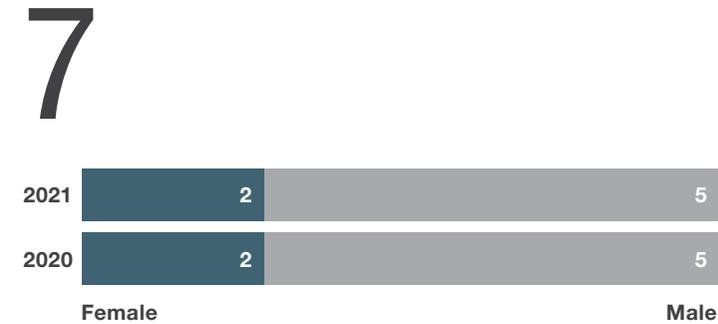
in line with recommendations for UK boards, with Board member Maria Chatti-Gautier of Syrian heritage (Middle Eastern) and so representing an ethnically diverse background. We are also supportive Davies Review, Hampton-Alexander Review, and the recently published FTSE Women Leaders Review regarding gender diversity, and seek to apply the UK Corporate Governance Code in this respect. We will continue to examine ways in which we can increase female and ethnic representation at Board and senior management levels.

Georgia Capital encourages its portfolio companies to embrace gender diversity. To increase the awareness of gender equality issues and the female roles in the utility and energy businesses, GGU continued to successfully implement a gender inclusion policy, which outlines and highlights the company's attitude to female roles in organisational culture, development, leadership and engagement. GGU continues to be one of the leading companies to support and encourage women in the utility and energy sectors in Georgia.

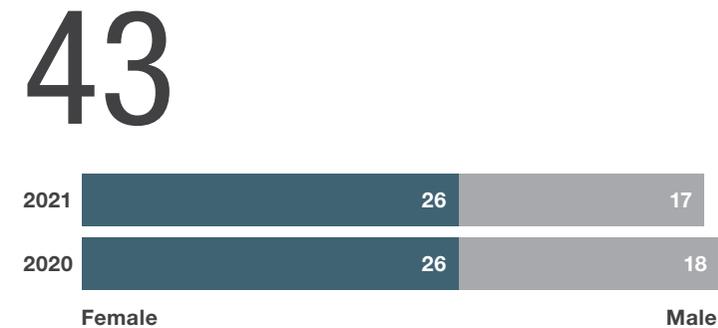
Our healthcare services business actively supports non-governmental organisation "the Society of Women in Business". Through this partnership a series of educational training sessions were conducted specifically for women involved in the UN Women project.

## GENDER DIVERSITY

Board of Directors at Georgia Capital PLC

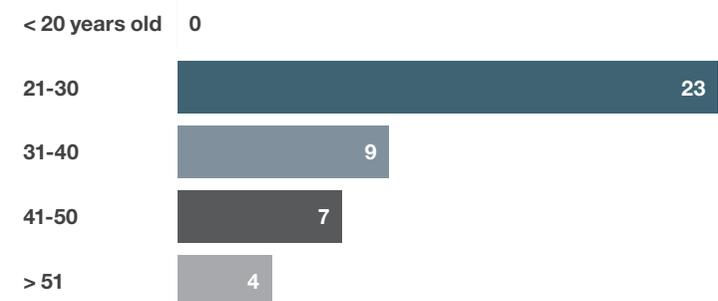


All employees at Georgia Capital<sup>2</sup>

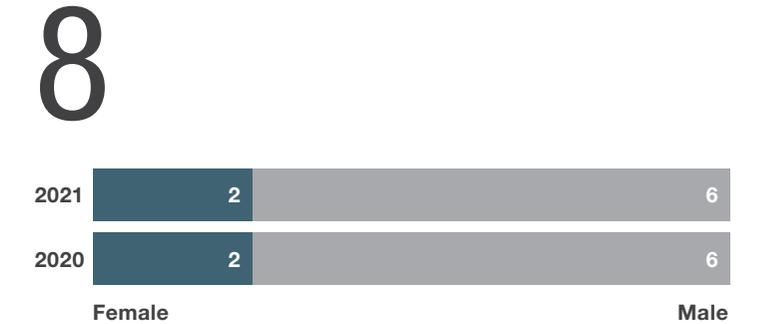


## AGE DIVERSITY

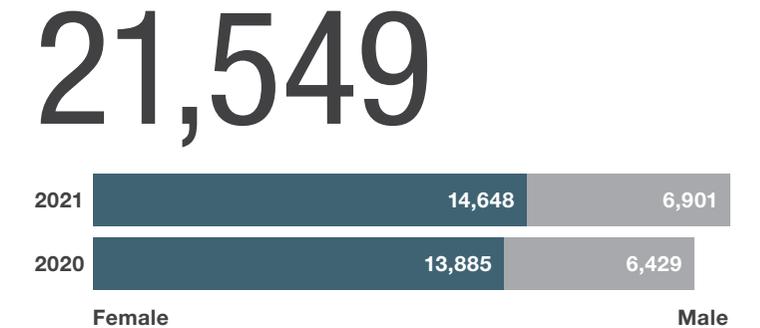
All employees at Georgia Capital<sup>2</sup>



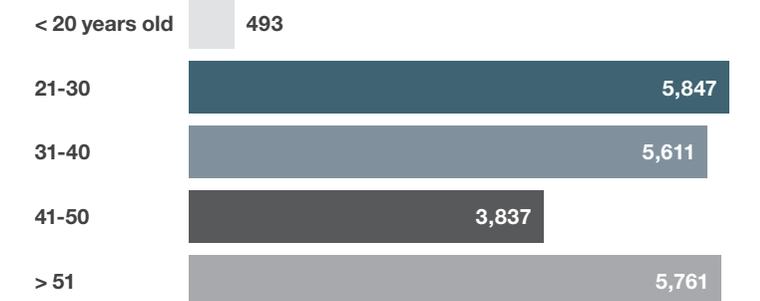
Management at Georgia Capital<sup>1</sup>



All employees at Group level<sup>3</sup>



All employees at Group level<sup>3</sup>



1 The Chairman and CEO is included in the both categories: "Board of Directors at Georgia Capital PLC" and "Management at Georgia Capital".  
 2 Employee numbers are presented at JSC Georgia Capital Level.  
 3 Excluding temporary employees.

# OCCUPATIONAL HEALTH AND SAFETY



Ensuring the safety of the workplace and providing healthy working conditions are amongst the Group's fundamental HR management principles. The Group pays particular attention to preventative measures, such as conducting regular staff training and medical check-ups, certifying workplaces and promoting a healthy lifestyle. In line with its principles, Georgia Capital has engaged a safety consultancy company, which provides a dedicated safety inspector. The inspector conducted a safety audit, gave recommendations and delivered staff training. Our safety consultant provides systematic monitoring to ensure compliance with globally accepted standards.

Safety measures against COVID-19 have been maintained throughout the year in line with the recommendations and guidance of local healthcare experts. To avoid the spread of the disease, the Company encourages its employees to test daily against COVID-19. The rapid tests are provided free of charge at the GCAP office.

Georgia Capital is aware of the damaging impact on the individual caused by stress and anxiety. It is Company practice to hold workshops to check on employee's mental health and to offer face-to-face counselling. Employees are encouraged to express their mental health concerns in an open manner and seek assistance. We provide the opportunity for a flexible work schedule and remote and hybrid working environments. Respective teams at GCAP track the workload of the employees to identify if the hiring of additional staff is required.

In response to the pandemic, our water utility and renewable energy businesses developed a COVID-19 Exposure Prevention and Control Plan in accordance with WHO and National Regulators principles in 2020. In 2021,

health and safety representatives monitored how their staff at the facilities and working areas were implementing measures to reduce the transmission of the virus.

Our water utility business systematically conducts health and safety supervision for every rehabilitation and installation project it undertakes. Each of these activities is performed in accordance with the control measures, determined in advance by the health and safety management plan, contractor management plan and risk assessment procedures. Moreover, contractor companies are supervised and monitored by the water utility business' certified health and safety professionals. In 2021, the water utility business performed a health and safety check of its facilities and assets. In total, 67 sites were inspected, findings were documented, and mitigation measures were defined. Consequently, safety operation procedures, health and safety plans, risk assessments and emergency preparedness and response plans were updated for each site.

Health and safety monitoring and site-specific trainings are also applied to the renewable energy business, where experienced and certified personnel are involved during operations of the power assets, inspecting all running equipment based on manufacturer's recommendations and monitoring daily on-site work processes to ensure the safety. In 2021, laboratory testing of isolation equipment and inspection of areas with potential hazardous exposures (noise, vibration, humidity) were conducted and documented to define additional preventive measures for the employees.

# HUMAN RIGHTS POLICY

The Human Resources Policy is an integral part of the employee on-boarding package at each business level with updates communicated electronically.

The Human Rights Policy is part of the Human Resources Policy and covers the following:

- Equal opportunities and anti-discrimination.
- Work environment free of harassment.
- Grievance Policy.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, including disabilities. The policy applies to all employees and includes procedures in relation to employment processes, training and development, procedures on recruitment and on the continuity of employment of employees who become disabled during their employment.

# CODE OF CONDUCT AND ETHICS AND ANTI-BRIBERY AND ANTI-CORRUPTION POLICY

The Group has a Code of Conduct and Ethics, as well as an Anti-Bribery and Anti-Corruption Policy, which are applicable to the Group companies. As an organisation that is fully committed to the prevention of bribery and corruption, the Group ensures that appropriate internal controls are in place and operating effectively.

Anti-Bribery and Anti-Corruption Policy enforcement processes include:

- an anonymous whistleblowing hotline;
- an internal whistleblowing process;
- disclosure of gifts or other benefits, including hospitality offered to, or received by, the Group's personnel;
- voluntary disclosure of corrupt conduct;
- third-party screening to identify the level of risk third parties might pose;
- informing the banks/partners/counterparties about anti-corruption and anti-bribery principles before commencement of business relations;

- ensuring that anti-bribery and anti-corruption clauses are incorporated in the agreements with customers and third parties;
- ensuring that anti-bribery and anti-corruption matters are included in contractual agreements with partners/counterparties; and
- online training programme aiming to raise awareness of corruption and bribery issues among employees.

As part of the Group's third-party screening to identify the level of risk which third parties might pose, the Group carries out due diligence such as indirect investigations, which include general research of the activities undertaken by the proposed business partners, research into their reputation and information on whether the company is a related party. The Compliance Officers (the General Counsel and UK General Counsel) have the authority to conduct periodic compliance checks of the operations of the Group. We are pleased to confirm that there have been no instances of violation of the Anti-Bribery and Anti-Corruption Policy in 2021.



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# EMISSION DISCLOSURE AND CALCULATION METHODOLOGY



## Reporting methodology

In preparing our emissions data, we have used the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD), Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition 2016) as a reference source. We have also used the most recent Georgian electricity conversion factor taken from the JRC Guidebook – “How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries”, European Commission, Ispra, 2018, JRC113659. Further conversion factors have been taken from the UK Government’s “Greenhouse Gas Conversion Factors for Company Reporting 2021”. Energy consumption is disclosed in line with SECR requirements. The emissions disclosures are also prepared in accordance with the TCFD requirements.

## Overview of organisation

The operations of Georgia Capital in London and Tbilisi itself have relatively low energy consumption. However, we recognise the evolving significance of emissions disclosures in the investment community and in line with our commitment to increasing transparency, we voluntarily disclose emissions for JSC Georgia Capital (intermediate Georgian holding company) and its portfolio investments. We have reported on all the emission sources listed under the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 and the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (Scopes 1 and 2). Additionally, we have reported on those emissions under Scope 3 that are applicable to our businesses’ direct operations. All reported sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

## What we report:

### The Group’s “central” operations

Our reported data is collected in respect of the Group, including our offices and facilities in London and Tbilisi. Data on emissions resulting from travel is reported for business-related travel only but excludes commuting. As we do not have any joint ventures, sub-leased properties or offshore emissions these have not been included within the reported figures.

The data has been obtained from the Group’s locations using both invoices and site meter readings. Our leased office in the UK operates with only four employees and the annual consumption is less than 5MWh (in 2021, UK office’s annual consumption was 4.1MWh and 3.6MWh for the 2020), the costs of which are included within the lease fees. The estimated electricity consumption of the UK office is included in Scope 2 emissions calculation.

### The Group’s portfolio

Data from our portfolio companies’ Scope 1, 2 and 3<sup>1</sup> emissions have been aggregated and presented as a separate line item under Scope 3 emissions in accordance with Greenhouse Gas Protocol. Scope 3 emissions for the year ended 31 December 2019 and 31 December 2020 have been updated retrospectively to reflect our approach. These have been reported for all our private investments, where the Group holds a controlling stake. Emission from our listed asset, Bank of Georgia, has not been included in the calculations. BoG, as a UK listed company discloses Scope 1, 2 and 3 emissions in its annual filings, available at:



<https://bankofgeorgiagroup.com/reports/annual>

<sup>1</sup> Portfolio company Scope 3 emissions reported for business travel and employee commuting.

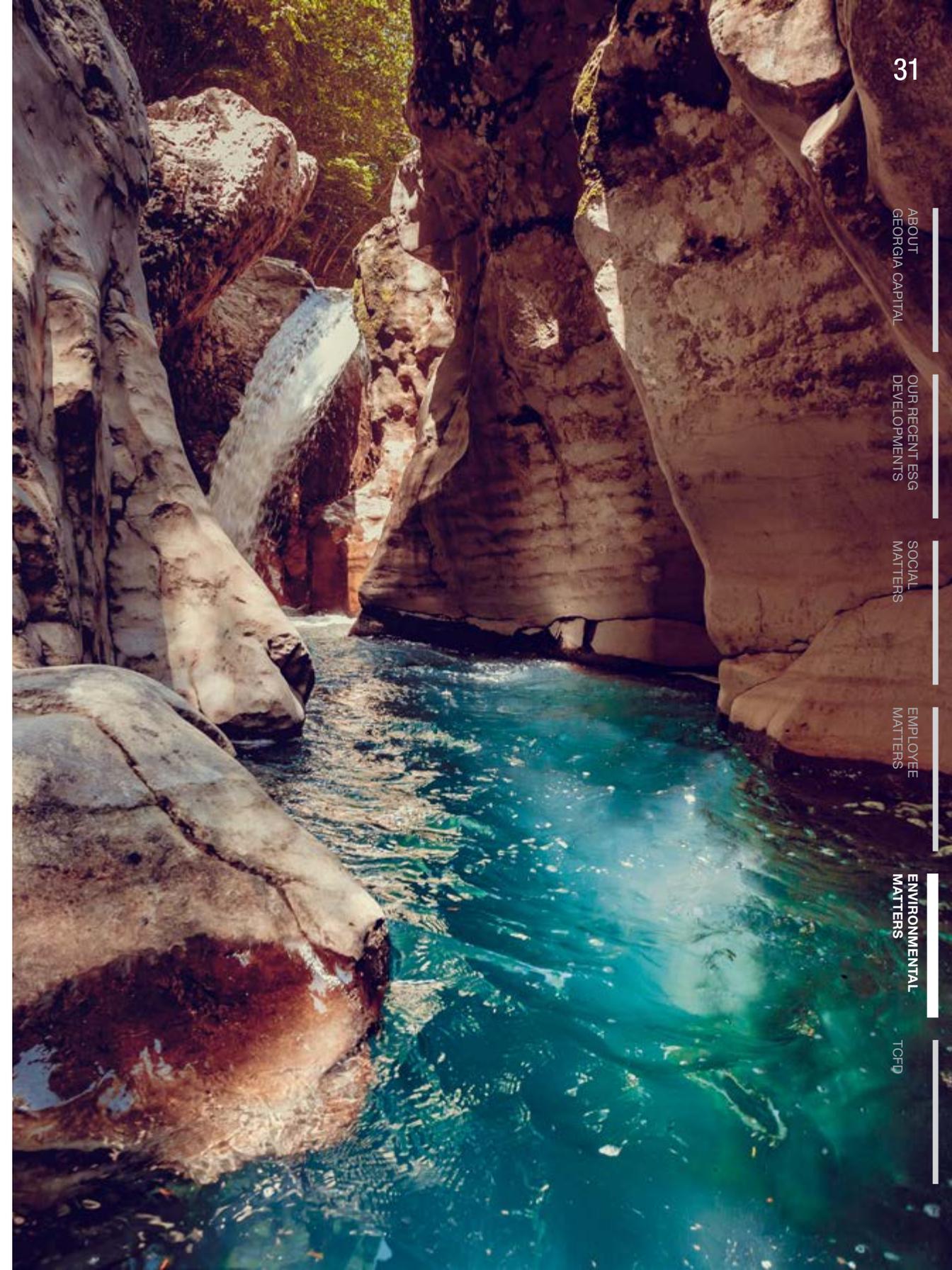
# EMISSION DISCLOSURE AND CALCULATION METHODOLOGY CONTINUED

## Summary of GCAP's greenhouse gas disclosure:

The table below summarises the various elements of our disclosure and details the particular greenhouse gas emissions and whether they are included or excluded.

Element	Description	Included/Excluded
<b>SCOPE 1 – STATIC FOSSIL FUEL</b>	Combustion of fossil fuels e.g. natural gas, fuel oils, diesel and petrol in stationary equipment at owned and controlled sites.	Excluded – No such processes/equipment owned or operated by the Group.
<b>SCOPE 1 – MOBILE FOSSIL FUEL</b>	Combustion of petrol, diesel and aviation fuel in owned/operated vehicles.	Business travel has been included.
<b>SCOPE 1 – OTHER EMISSIONS</b>	Process emissions and refrigerant leakage.	Excluded – No such processes/equipment owned or operated by the Group.
<b>SCOPE 2 – CONSUMPTION OF ELECTRICITY</b>	Consumption of electricity.	Included – Used electricity at owned and controlled sites using the most recent Georgia electricity conversion factor taken from the JRC Guidebook – How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries, European Commission, Ispra, 2018, JRC113659. Also included are emissions of the UK office.
<b>SCOPE 2 – CONSUMPTION OF THERMAL ENERGY</b>	Direct consumption of heat, steam or cooling generated by others.	Excluded – No such thermal energy supplies are consumed by the Group.
<b>SCOPE 3</b>	Combustion of petrol, diesel and aviation fuel in vehicles owned and operated by others.	Included – Air business travel (short-haul and long-haul); information on the class of travel is unavailable, hence, we used an “average passenger” conversion factor, with Radiative Forcing (RF). Included – Ground transportation, including taxis, coaches, trains, etc. owned and operated by others. Excluded – emissions from staff commuting.
	Investments	Included – Scope 1, 2 and 3 <sup>1</sup> of our portfolio companies where we have a majority stake.

<sup>1</sup> Portfolio company Scope 3 emissions reported for business travel and employee commuting.



# EMISSION DISCLOSURE AND CALCULATION METHODOLOGY CONTINUED

## Emissions

Due to the impact of the coronavirus pandemic, the consumption of energy, and therefore emissions, by the Group and its portfolio companies have been atypical for almost two years, i.e. 2020 and 2021. As such, to enable useful year-on-year analysis of trends in emissions, it is necessary to go back to 2019 (the first full year GCAP

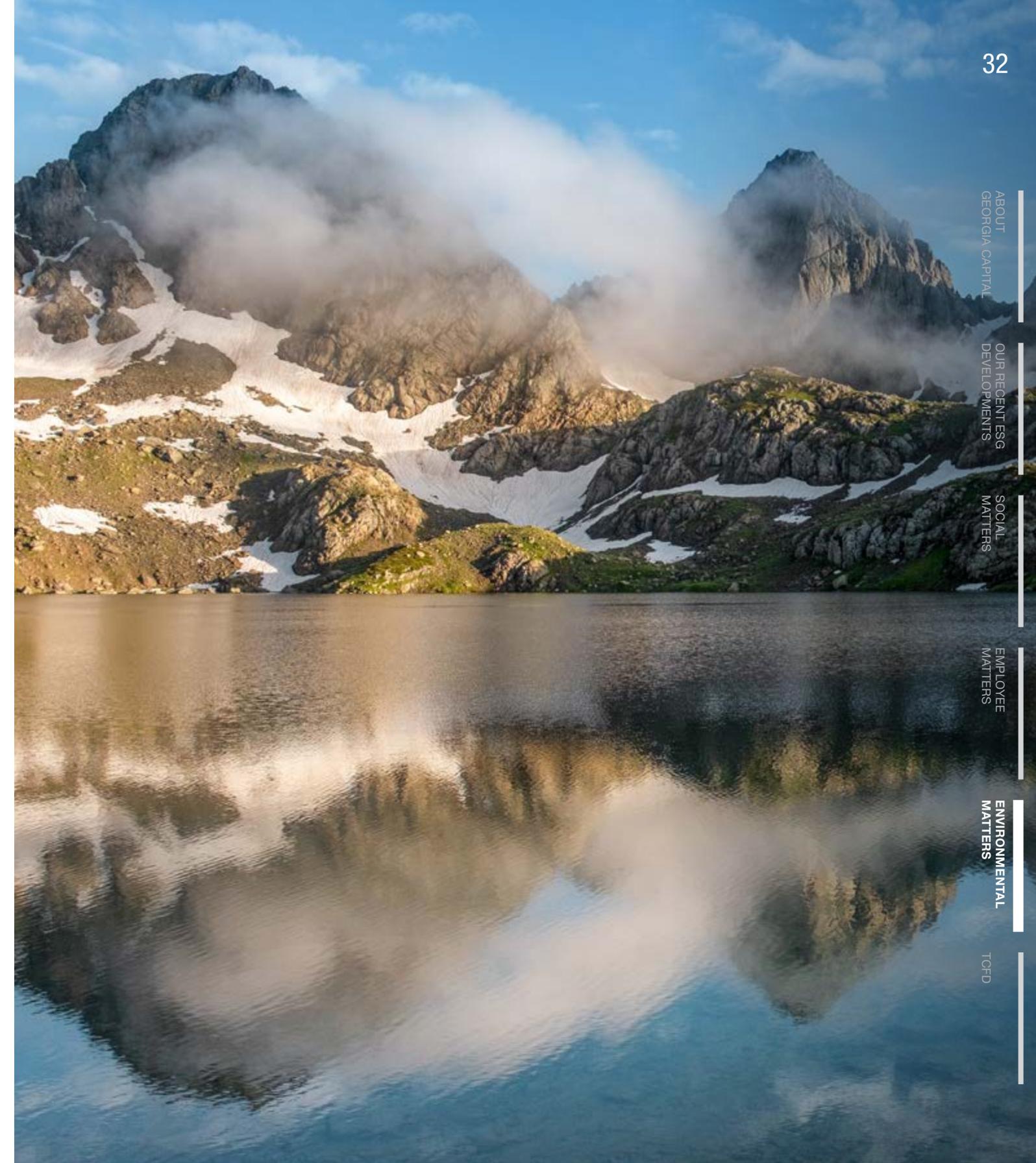
existed) as the pandemic has distorted the years since then making them unreliable for comparative purposes. It is hoped that in 2022 and certainly by 2023 emission patterns should have reverted back to pre-pandemic levels so it may not be until then that underlying trends in emissions can be confidently deduced.

### Total greenhouse gas emissions (tonnes of CO<sub>2</sub>e)

Data for the period beginning 1 January 2019 and ended 31 December 2021

Element	2019	2020	2021
SCOPE 1 – STATIC FOSSIL FUEL (EMISSIONS FUEL COMBUSTION AND FACILITY OPERATIONS)	–	–	–
SCOPE 1 – MOBILE FOSSIL FUEL	84	59	60
SCOPE 2 (EMISSIONS FROM ELECTRICITY, HEAT, STEAM AND COOLING PURCHASED FOR OWN USE)	13	2	3
SCOPE 3	76,736	38,074	40,579
OF WHICH, AIR TRAVEL AND GROUND TRANSPORTATION PROVIDED BY THIRD PARTIES PLUS ELECTRICITY HEAT/STEAM COOLING PROVIDED WITHIN LEASE AND SERVICE AGREEMENTS	197	12	5
OF WHICH, INVESTMENT PORTFOLIO SCOPE 1, 2 AND 3	76,539	38,062	40,574
<b>TOTAL GREENHOUSE GAS EMISSIONS</b>	<b>76,833</b>	<b>38,136</b>	<b>40,642</b>
FTES AT JSC GEORGIA CAPITAL LEVEL	39	44	43
TOTAL GREENHOUSE GAS EMISSIONS PER FTE <sup>1</sup> (JSC GEORGIA CAPITAL)	1,970.1	866.7	945.2
FTES AT JSC GEORGIA CAPITAL AND PORTFOLIO INVESTMENTS' LEVEL	21,439	20,314	21,549
<b>TOTAL GREENHOUSE GAS EMISSIONS PER FTE<sup>1</sup> (JSC GEORGIA CAPITAL AND PORTFOLIO INVESTMENTS' LEVEL)</b>	<b>3.58</b>	<b>1.88</b>	<b>1.89</b>

<sup>1</sup> FTE is stated excluding temporary employees.



# EMISSION DISCLOSURE AND CALCULATION METHODOLOGY CONTINUED

## SECR Report

This report has been produced in accordance with the UK Government's policy on Streamlined Energy and Carbon Reporting (SECR). As determined by the Greenhouse

Gas Protocol, the scope and boundary of the greenhouse gas emissions herein relate to those where we have operational control, i.e. those relating to our corporate offices in both London and Tbilisi.

## Quantification and reporting methodology

The greenhouse gas and energy data presented above has been collated, calculated, and presented using methodology following the Greenhouse Gas Reporting Protocol, and uses the 2021 Government Emission Conversion Factors for Company Reporting.

## Intensity ratio

The intensity ratio used in the table above displays total gross emissions (tCO<sub>2</sub>e) per FTE.

## Greenhouse gas emissions and energy data

The following table reports upon greenhouse gas and energy data for the period January 2020 to December 2021. The prior reporting year has been included for comparative purposes.

Energy consumption (in kilowatt hours, kWh)	Prior reporting year (2020)		Current reporting year (2021)	
PURCHASED ELECTRICITY	25,946		27,852	
GAS COMBUSTION	–		–	
TRANSPORT FUEL	185,635		199,457	
REFRIGERANTS	–		–	
<b>TOTAL ENERGY CONSUMPTION (KWH)<sup>1</sup></b>	<b>211,581</b>		<b>227,309</b>	
EMISSIONS (PER METRIC TONNES OF CO <sub>2</sub> EQUIVALENT, TCO <sub>2</sub> E)	TOTAL	SCOPE	TOTAL	SCOPE
PURCHASED ELECTRICITY	2.5	2	2.6	2
GAS COMBUSTION	–	1	–	1
TRANSPORT <sup>2</sup>	11	3	3	3
REFRIGERANT EMISSIONS	–	2	–	2
TOTAL GROSS EMISSIONS	13.5	–	5.5	–
INTENSITY RATIO	TOTAL		TOTAL	
<b>TCO<sub>2</sub>E PER FTE</b>	<b>1.68</b>		<b>1.57</b>	

<sup>1</sup> Scope 1 and Scope 2 consumption data is converted in kWh. For the distance (km) conversion into kWh, we used a conversion factor for an average size car.

<sup>2</sup> Transport emissions represent: 1) business travel in employee-owned vehicles where the firm is responsible for purchasing the fuel, and 2) business travel in company owned vehicles.

# OUR ENVIRONMENTAL ACTIVITIES

## Measures undertaken to improve energy efficiency

As an investment holding company with around 40 employees in Georgia and a further four in the UK, Georgia Capital has limited direct impact on the environment. However, we realise that the indirect impact through our investment undertakings might be an important consideration for our stakeholders. Over the last periods, Georgia Capital has introduced and implemented the energy efficient solutions to further reduce energy consumption by conducting various activities across the Group. To be more environmentally responsible, our portfolio companies continue to implement energy-saving solutions, such as LED lights and other energy-efficient equipment, such as boilers and heating ventilation and air conditioning systems. The housing development business pioneered the introduction of energy efficient construction materials and our clinics business also joined in energy efficiency initiatives as one of the clinics switched to a solar power system, a renewable energy source. To minimise emissions and further contribute to eco-friendly energy consumption, two clinics replaced a diesel-powered heating system with a gas heating system. In our education business, one of our schools successfully introduced solar panels and gradually other educational infrastructures will follow along. Our beverages business reduced the energy consumption and carbon footprint by the CO<sub>2</sub> recovery plant, alongside with the wastewater treatment plant. In addition, the company also introduced the Green Fridge policy which will help the business in sustaining the environment by reducing the carbon footprint of cooling bottled and canned products.

# OUR ENVIRONMENTAL ACTIVITIES CONTINUED

## CASE STUDY

### Investing in renewable energy

Georgia announced its updated plan of nationally determined contribution (NDC) at the COP26 Glasgow conference held in November 2021. The plan aims to support the sustainable and balanced development of the country, taking into consideration climate change, environmental and socio-economic challenges in equal measure. The timeframe for the implementation is set for 2030, while the updated scheme aims to:

- Decrease domestic total greenhouse gas emissions by 35% below 1990 levels.
- Target 50%-57% of its total greenhouse gas emissions by 2030 compared to 1990.
- Set 2030 Climate Change Strategy and Action Plan for the determination of mitigation measures.
- Continue to study the adaptive capacity of different economic sectors to the negative effects of climate change, as well as to plan and implement the respective adaptation measures by mobilising domestic and international resources for the sectors particularly vulnerable to climate change.

GGU's renewable energy business plays an important role in supporting Georgia's sustainability transition plan. In 2021, the business generated 265.8GWh

Power generated in 2021

# 265.8GWh

electricity through its operational power assets and substituted 120.8 CO<sub>2</sub> equivalent emissions in tonnes. Going forward, our renewable energy business will further enhance its contribution to green energy production development by launching the pipeline hydro and wind power plants.

Apart from supporting the country's sustainability goals, investments in the renewable energy business foster the country's development plan to secure energy independence. Ten out of 12 months during the year represent deficit months, where the country has to import electricity from the neighbouring countries. We see developing clean energy generation assets as a vital solution to support and fulfil the internal electricity demand that has been growing steadily, in line with the GDP growth during the past decade. Our renewable energy business has the potential to substitute up to 700GWh import annually, US\$42 million in monetary terms. We foresee further strong growth in electricity consumption for the next few years, backed-up by the recovery of post-pandemic economic activities in the country, as well as further penetration of electricity-drawing appliances in the residential and industrial spaces, such as air conditioners.

Potential of substituting the imported GWh

# 700GWh



**OUR RENEWABLE ENERGY BUSINESS GENERATED 265.8GWH ELECTRICITY AND SUBSTITUTED 120.8 CO<sub>2</sub> EQUIVALENT EMISSIONS IN TONNES.**



# ENVIRONMENTAL ACTIVITIES OF OUR PORTFOLIO COMPANIES

GGU's business model has an important role to play in the transition toward a more sustainable and lower-carbon economy in Georgia, both through the current investment portfolio and future investments. The environmental objectives of GGU are part of its overall strategy and are implemented in two main areas: water quality and water resource management and climate. In July 2020, GGU issued US\$ 250 million debut green bonds from Georgia and aligned its Green Bond Framework with International Capital Market Association (ICMA) Green Bond Principles. Proceeds from the bonds were used to refinance the outstanding indebtedness of the issuer, as well as finance future capital expenditures in the water utility business.

In 2021, the water utility and renewable energy businesses fulfilled the commitments defined for 2021 under CAP (Corrective Action Plan) and ESAP (Environmental and Social Action Plan). In May 2021, the "GGU Green Bond Allocation and Impact Report 2020" was published in accordance with Green Bond Principles, document by ICMA. The verification second-party opinion was provided by Sustainalytics. The "GGU Green Bond Allocation and Impact Report 2020" includes detailed information on environmental and social impacts and benefits derived by GGU's operations for 2020, such as:

- 93,100 CO<sub>2</sub>e emission avoided in tonnes.
- 457.8GWh renewable energy generation.
- Over 126,000 households served with clean energy.

Households served with clean energy by GGU

over **126,000**

Additionally, in 2021 policy documents (such as Stakeholder Engagement Plans, Grievance Mechanisms, IFC PS1 and PS5) were elaborated and approved in line with IFC Performance Standards. To raise the environmental awareness of its employees, GGU also implemented the weekly distribution of informational brochures on various ongoing environmental topics, via electronic format, to all of its internal staff.

In 2021, GGU continued to implement projects with direct positive impacts on national and regional environments. For example, works were completed on sanitary zoning projects for regional water supply infrastructures.

Significant improvements were achieved in terms of waste management. The contracts with waste management companies have been renewed and supplemented in line with international standards. Specially dedicated waste management staff were identified and trained for all sites. In 2021, GGU also completed the construction of temporary waste storage sites at nine locations, which was in line with agreed waste management plans with the Ministry of Environmental Protection and Agriculture of Georgia.

In 2021, GGU also started active cooperation with the Ministry of Environmental Protection and Agriculture in the process of developing the "Fourth National Environmental Action Program of Georgia 2021-2024" (NEAP), which is the main strategic document of the country in the field of environment and natural resources management. Relevant GGU representatives are fully involved in elaborating NEAP components related to the water utility sector in the country.

# ENVIRONMENTAL ACTIVITIES OF OUR PORTFOLIO COMPANIES CONTINUED

To reduce the harmful effects of plastic in the healthcare sector, GHG has been using paper bags in its pharmacies. Pharmadepot (one of GHG’s pharmacy brands) also produces and promotes the use of eco-friendly canvas bags in its pharmacies. GHG has put in place a reward system for the pharmacies’ customers to encourage them to use canvas bags instead of plastic. Both of the pharmacy chains, GPC and Pharmadepot, sell an exclusive product within the market, eco-batteries that are 100% safe for standard recycling.

GHG continues to promote its going “paperless” programme. In this regard, GHG has replaced several historically paper-based procedures with software-based programmes and has launched “The Green Project” by placing special boxes at our facilities for recycling paper waste. The money received from the sale of scrap paper collected at such boxes will be used for various social activities. GHG’s annual consumption of paper stood at approximately 444 tonnes in 2021, compared with 371 tonnes in 2020.

Our portfolio company Aldagi, a leader in the insurance industry, is a responsible player in the insurance market, its management continue to demonstrate a desire to reduce its environmental footprint. The pandemic helped to accelerate the creation of a digital platform for internal and external use and the company encourages internal staff to reduce paper consumption by replacing it with digital alternatives.

Our education business emphasises environmental matters among the students and holds various campaigns designed to help promote the importance of sustainability. In 2021, our schools held events including cleaning the school surroundings and different locations around the city, building a greenhouse from plastic bottles, collecting waste materials for recycling and meeting up with guest speaker environmentalists.

Eco Clubs are actively promoted in primary and secondary schools to raise awareness of the significance of sustainability and the schools are aiming to achieve the internationally recognised Green Flag Award in 2022.

In the recent period, a newly developed additional course in the curriculum – Environment and Sustainable Development – was also introduced to the students. To set a good example for the students and to call to attention the importance of the energy sufficient infrastructure, solar panels were installed in one of our schools.

**OUR EDUCATION BUSINESS EMPHASISES ENVIRONMENTAL MATTERS AMONG THE STUDENTS AND HOLDS VARIOUS CAMPAIGNS DESIGNED TO HELP PROMOTE THE IMPORTANCE OF SUSTAINABILITY.**



# ENVIRONMENTAL ACTIVITIES OF OUR PORTFOLIO COMPANIES CONTINUED

## CASE STUDY

### Sustainable water management at our water utility business



GGU is strongly committed to introducing sustainable water management practices and carrying out water utility business operations that take into account the principles of a green economy, with targets to increase the country’s welfare with minimum environmental impact and maximum resource efficiency. Since sustainable water management encompasses maximisation of resource efficiency, GGU’s urban water management includes the production and treatment of water resources, as well as reduction in energy and material resource consumption and lower emission levels related to Water Utility operations. To improve efficiency, GGU invests in the upgrading of ageing infrastructure, introduces innovative technologies and implements continuous training of staff, as well as awareness-raising campaigns.

**Network development:** Certain parts of the water supply network in Georgia date back to the Soviet period and are in poor condition. Disruptions to the water supply have historically been frequent and water losses have been relatively high. GGU is investing in its water supply network to fulfil its privatisation obligations. During 2017-2021 GGU invested more than GEL 400 million to upgrade and develop substantial new water utility infrastructure. The upgrading of the infrastructure contributes to

a reduction of water losses and reduces the electricity consumption by the water network. GGU’s water utility business is the only water utility company in Georgia, which provides uninterrupted water and wastewater services to its customers.

**Metering programmes aimed at optimising water usage and electricity resources:** During 2017-2021, the company installed 125,818 water meters to end customers, out of which 33,588 were smart water meters. The metering programme enables the company to continuously monitor the condition of water pipes remotely and identify various pipe damages. Customers also benefit from a better understanding of their own usage, reducing unnecessary consumption. From 2017 to 2021, the company managed to increase metered residential customer base from 25% to 43%, while 100% of commercial customers are metered.

**Energy efficiency:** Over the past several years the business implemented several capital programmes, such as installation of water flow meters, water pressure loggers and internal electricity consumption meters, as well as the introduction of technologies such as Geographic Information System (GIS) and Supervisory Control and Data Acquisition (SCADA) systems. These measures contributed to reducing self-produced electricity consumption by c.25% over 2017-2021



and as a result, the average energy consumption of GGU’s water supply network was 0.37kWh per cubic metre of water production in 2021. Moreover, GGU under its continuous improvement programmes, monitors fuel and electricity consumption. For better energy management, GGU also updated its Energy Efficient Plans in line with “IFC Good Practice Note: Environmental, Health, and Safety Approaches for Hydropower Projects” (published in March 2018). Updated plans cover organisational commitment, energy management team, facility assessments, sustainable energy management and implementation plan. Equipment upgrades to improve energy efficiency and reduce energy use are also part of energy efficiency measures for GGU’s Water Utility assets.

**Pollution prevention and control:** GGU’s water utility business identifies and strictly follows the arrangements

necessary to prevent pollution of water, air and soil. Pollution prevention, spill prevention, and waste management plans are developed and introduced in compliance with the IFC PS3 and the WB General EHS Guidelines. The pollution prevention and control measures are implemented for the following components: wastewater and storm-water management, spill prevention and control hazardous materials storage and handling, air emissions management, dust control and noise management.

Installed water meters during 2017-2021

# 125,818

# ENVIRONMENTAL ACTIVITIES OF OUR PORTFOLIO COMPANIES CONTINUED



## CASE STUDY

### Specialised medical and biological waste disposal at our healthcare services business

GHG's medical waste management record-keeping standards remain in line with national legislative requirements. GHG personnel are responsible for registering the information on produced hazardous waste on the state platform and filling out waste registration and transportation forms. To further reduce risks and maintain regulatory compliance, GHG regularly conducts internal trainings on waste management procedures. All hospitals have a special storage room to store waste before final disposal. To prevent human or environmental harm, GHG clinics collect and dispose of medical and biological waste through a specialised outsourced service.

GHG is dedicated to looking at innovative ways of reducing medical and biological waste and taking advantage of best practices both in Georgia and internationally. To ensure the reliability of their contractors, GHG regularly examines monthly reports and imposes penalties if necessary. In total, GHG hospitals generated 817 tonnes of medical waste in 2021, compared to 859 tonnes in 2020.

# ENVIRONMENTAL ACTIVITIES OF OUR SUBSCALE (OTHER) PORTFOLIO COMPANIES

## CASE STUDY

### PTI business supporting greenhouse gas emissions reduction

The issue of periodic technical inspection of vehicles in Georgia has been named as one of the main problems in the country for the last 15 years. In 2014, after the signing of the “Association Agreement”, the country was faced with the requirement to reform the periodic technical inspection of vehicles. During that period, there were a number of technical inspection service centres in Georgia, but they were not sufficient to handle the flow of vehicles registered in the country. Greenway Georgia won the subsequent tender from the Ministry of Economy and Sustainable Development of Georgia for mandatory periodic technical inspections and received a ten-year right to operate. Our PTI business is a partner of the world leader in vehicle technical inspection Applus +, which operates in 70 countries. Considering the international experience of Applus +, Greenway Georgia is established under the European standards, which provides full transparency of the technical inspection process.

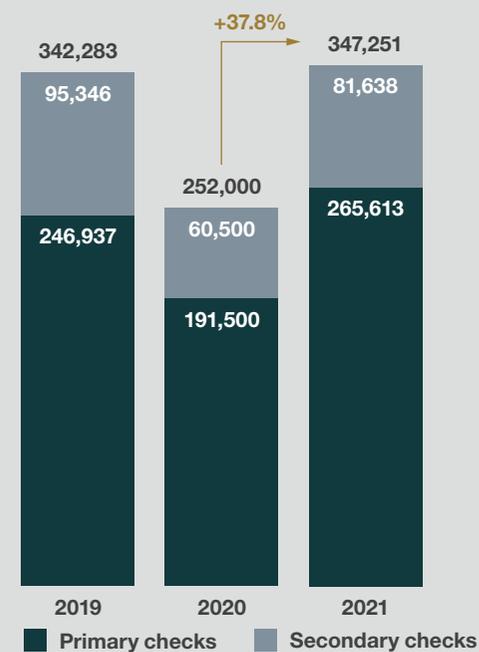
Our PTI business represents the largest network of mandatory periodic technical inspections throughout Georgia, accounting for 36% of the existing market. The business is directly engaged in greenhouse gas emissions and road accidents reduction in the country. In 2021, the business conducted 265,613 primary technical inspections in total and the failure rate stood at 35%, compared to a 52% failure rate



in 2019. Approximately half of the failure cases during the inspections have been attributable to the excess exhaust emissions of the vehicles. The observed tendency of declining failure rates underlines positive developments in relation to the greenhouse gas emissions reduction and contributes to the improved ecological environment.

Total number of inspections performed in 2021

# 347,251



# ENVIRONMENTAL ACTIVITIES OF OUR SUBSCALE (OTHER) PORTFOLIO COMPANIES CONTINUED

## CASE STUDY

### Energy efficiency, a sustainable initiative in the housing development business

Achieving higher energy efficiency and introducing greener construction in the residential real estate sector forms part of the EU's energy and environmental goals and furthermore improves the quality of living while benefiting the economy and society.

Environmental consideration is an integral part of Georgia Real Estate. It delivers environmentally conscious products whilst being aware of the immense importance of buildings with energy-efficient designs for sustainable development. m<sup>2</sup> pioneered the construction of energy-efficient complexes in Georgia in 2014 and ever since has focused on the construction of energy-saving buildings.

Since 2014, Georgia Real Estate has obtained syndicated loans from International Financial Institutions (IFIs), such as the International Finance Corporation (IFC), the Green for Growth Fund (GGF), the Entrepreneurial Development Bank (FMO) and Asian Development Bank (ADB) for the purpose of constructing energy-efficient complexes. While m<sup>2</sup> was already devoted to constructing sustainable buildings, the partnership with IFIs also provided access to international best practices and technical assistance to conduct energy audits and identify the most efficient manner to meet high energy standards. Georgia Real Estate was able to implement energy-efficient construction materials (e.g. aerated block), improved building insulation, modern boilers and appliances, better insulated windows and doors. As part of these initiatives, the total expected annual savings of CO<sub>2</sub> is the equivalent to planting more than 1,000,000 trees each year.

Although there is no official or effective Energy Efficiency Framework in Georgia, m<sup>2</sup> conducted assessments of Energy Efficiency on its previous and ongoing projects and obtained the baseline report prepared by Energy Efficiency Centre Georgia (EECG). In the first assessment by EECG in 2014, average energy efficiency was in the range of 40%, as compared to the baseline of Tbilisi.

Currently, m<sup>2</sup> is developing two Affordable Housing projects partially financed by the ADB, where similar assessments are conducted. The aim of the energy assessment was to examine energy efficiency measures implemented by m<sup>2</sup> to potentially achieve better results for energy savings in ongoing projects. While construction works are underway, preliminary assessment of materials and solutions have already been performed and were compared to the previous projects and initial results show that the same or better energy efficiency could be achieved in the current two Affordable Housing projects.

The materials used for the energy efficiency concern:

- thermal insulation of walls (including aerated block);
- installation of triple glazed PVC windows and doors;
- thermal insulation of roofs;
- thermal insulation of floors; and
- installation of heating systems with decentralised combination boilers.



In addition to energy efficiency and construction standards according to best practices, m<sup>2</sup> is further committed to sustainable development with innovative and greener residential complexes through:

- Adhering to international HSE standards. m<sup>2</sup> has implemented HSE policies in coordination with IFIs. Under the policy, HSE personnel daily monitor all construction sites. On-site employees have also been re-trained to swiftly respond to HSE issues.
- Keeping and expanding land biodiversity. In the m<sup>3</sup> innovative residential project, m<sup>2</sup> has kept a majority of the existing trees and 2,000+ new seedlings will be added. The project features 35% green areas and a 1.4ha park.
- Promoting a creative and healthy lifestyle. The same complex features diverse sports facilities, common areas, as well an educational and working environment. The project also involves school, kindergarten and customised spaces for large organisations, as well as small entrepreneurs and startups.

# ENVIRONMENTAL ACTIVITIES OF OUR SUBSCALE (OTHER) PORTFOLIO COMPANIES CONTINUED

## CASE STUDY

### Environmental management at our beverages business

Our beverages business combines three business lines: a wine business, a beer business and a distribution business.

The beer business fully committed to sustainability and devoted its efforts to minimise its environmental footprint. The company has the CO<sub>2</sub> recovery plant, alongside with the wastewater treatment plant. In addition, the company also introduced the Green Fridge policy which will help the business in sustaining the environment by reducing the carbon footprint of cooling bottled and canned products.

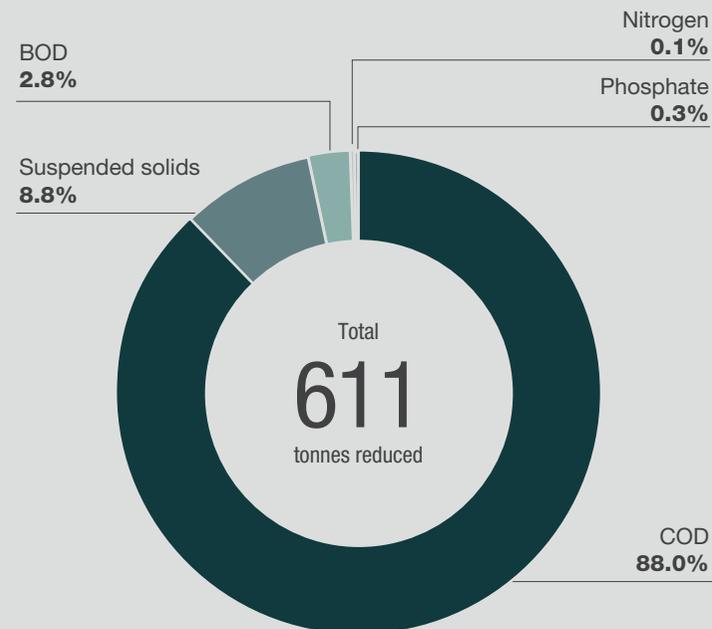
The beer production process releases additional carbon dioxide (CO<sub>2</sub>) and wastewater that directly contribute to environmental pollution and climate change. The emission implications on communities, agriculture and the availability of raw materials are complex and challenging. The beer business responsibly reduces the impact through technology:

- **CO<sub>2</sub> recovery plant, which captures the carbon dioxide released during the beer production process:** CO<sub>2</sub> is naturally produced during the beer fermentation process. If not eliminated, it will be released to the atmosphere from fermentation vessels. It is essential to make the recovery of produced CO<sub>2</sub> to minimise environmental impact. In 2021, the business recovered a total of 250,000kg of CO<sub>2</sub>.

- **Wastewater treatment plant, that cleans wastewater chemically, biologically and physically to obtain ecologically safe wastewater:** the process consists of physical, chemical and biological treatment with aerobic bacteria. The plant is designed to reduce total chemical oxygen demand (COD), biochemical oxygen demand (BOD), nitrogen, phosphate, suspended solids (dry matters) and adjust the water's PH to a neutral value.

In 2021 the business reduced:

#### Reduction of waste in tonnes



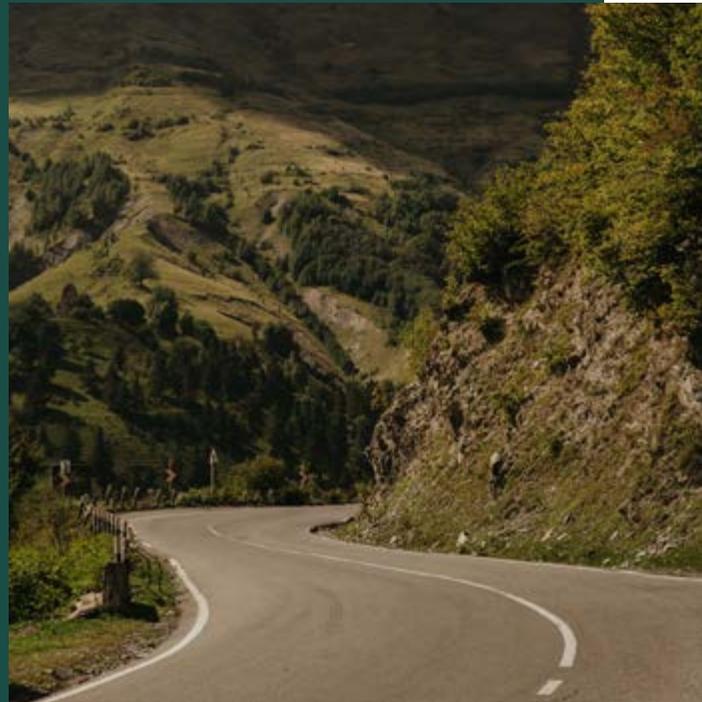
**THE BUSINESS CONTINUES TO IMPROVE YEAR-ON-YEAR WATER CONSUMPTION PER HECTOLITRE OF PRODUCED FINISHED GOODS (BEER & CSD). COMPARED TO 2020, IN 2021, WATER USAGE IMPROVED BY 16%, WHICH IS APPROXIMATELY 53,000M<sup>3</sup> OF WATER SAVED DURING THE PRODUCTION PROCESS. IN ADDITION, TO DECREASE EMISSIONS, PET PREFORMS FOR THE MAIN BEER BRANDS HAVE BEEN LIGHTENED BY 2%.**



# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

- 44 Governance
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# GOVERNANCE



## Board oversight

The Board is entrusted with providing oversight of climate-related risks and opportunities, aided by the Audit and Valuation Committee and the Investment Committee members which includes all Board members. These two Committees have the responsibility for assessing and managing climate-related risks and opportunities in relation to GCAP's direct operations and to our portfolio companies, as it affects matters within their remit.

Current, future and emerging risks are included within the standing item, "Discussion of risks", of the Audit and Valuation Committee and Board agendas. Risks, including those relating to climate change, are discussed, and implications for future strategy are considered, semi-annually, in line with the annual and semi-annual reports.

The Board will be responsible for the approval of the climate-related metrics and targets that will be established by GCAP during the 2022 year. It will also be responsible for ensuring progress against agreed metrics and targets.

## Management oversight

Within the management team, the Chief Financial Officer (CFO) supported by the finance team, is responsible for identifying risks, including climate change risks, in relation to the investment portfolio and including these in the valuation process. The Director of Investments (DoI), supported by the Investment Officers, is responsible for identifying specific risks and opportunities at the initial investment stage.

Materiality may be considered in terms of matters that may have a material financial impact on the financial performance of GCAP (revenues, expenditures) and the financial position of the portfolio companies, as well as capital and financing implications (financial materiality). These matters may arise from different types of climate change-related physical and transitional risks.

The CFO and DoI report on monitoring of identified financial and climate-related risks and significant changes through its regular reports to the management board. Risks are escalated to the Audit and Valuation Committee.

The Board and management work together to develop and review the GCAP investment strategy and consider, among other aspects, climate-related issues. They are also responsible for setting a wide range of corporate policies and objectives, among them environmental and social policies, and for monitoring performance against objectives and targets.

## Understanding climate-related risks

In alignment with TCFD guidance for Board and senior management, a workshop was held on the topic of climate-related risks. The objectives of the workshop were to introduce the Board to the approach and methodology of evaluating potential climate-related risks and opportunities; to share the modelling scenarios and plausible outcomes with respect to physical and transitional risks; and to review the potential risks that should be considered further.

The workshop was held in November 2021 and led by independent consultant Quarter Penny Consulting Ltd. It was attended by members of the Board, including the Chair of the Audit and Valuation Committee and Senior Independent Director, the Chair of the Investment Committee and the management team. It is noted that the Senior Independent Director was appointed the Republic of Georgia's first Environmental Ombudsman in 2019 and as such has specific knowledge of environmental matters including climate change.

For 2021, we are reporting our greenhouse gas emissions and energy use in line with the Greenhouse Gas Protocol, Scope 1, 2 and limited Scope 3.

During 2022, we will be considering suitable goals and targets that support the resilience of the portfolio with respect to climate change and in line with the Republic of Georgia Nationally Determined Contributions. These goals and targets will be appropriate to, and applied to:

- the Group; and
- the aggregated performance of the portfolio companies.

The finance team will be responsible for reporting upwards, via the management team to the Audit and Valuation Committee, on the progress made against the goals and targets.

# STRATEGY

In support of the evaluation of climate-related risks and opportunities that may be present, a review of GCAP's direct operations and a macro-level review of the portfolio companies' operations was completed by the independent consultant Quarter Penny Consulting Ltd during 2021.

The work comprised an initial qualitative assessment of the climate-related impacts associated with the Group and portfolio companies. It is considered that indirect climate-related risks within the portfolio companies will be more significant than those present within the Group's operations. An early-stage scenario analysis was completed as part of the process towards understanding how the climate impacts identified in the qualitative assessment could present as financial risks to GCAP under different plausible future scenarios. The findings and potentially material risk implications of such findings (examples of which are provided below in section "Scenario analysis of plausible futures") will inform future strategy. However, it is noted that the current strategy already incorporates some consideration of climate change aspects (e.g. GCAP's focus upon renewable energy, 4.8% share of the portfolio at 31 December 2021).

## Scenario analysis of plausible futures

Network for Greening the Financial System (NGFS) scenarios were chosen for their relevance to the finance sector and to allow for comparability. Climate change scenarios for the Republic of Georgia were explored as follows:

- Current policies/(Business as Usual (BAU)) (policy ambition of >3°C by 2025).
- Delayed transition to net zero (policy ambition of 1.8°C by 2050).
- Orderly transition to net zero (1.5°C by 2050).

GCAP is investing over a three to five year horizon. With this in mind, the scenario outputs were considered by GCAP in the short term (year 2025), medium term (year 2030) and long term (year 2050).

Each NGFS scenario explores a different set of assumptions for how climate policy, emissions and temperatures evolve. The scenario descriptions using the REMIND-MAgPIE 2.1-4.2 model are as follows:

- **Current Policies** (or BAU) where the modelled temperature in 2050 exceeds 3°C. This scenario is dominated by physical risks due to the resulting climate and weather pattern changes. Transition risks are muted as regulators and technology are not being driven to change beyond current plans.

Georgia would experience a reduction in the overall volume of precipitation across the country, including a reduction in the volume of snowfall. Gradual snow melt will be replaced by more intense rainfall run-off. This will result in landscape instability and heightened flood risk with the potential for infrastructure to be overwhelmed. In addition, there is an expectation of increasing frequency of heatwaves.

- **Delayed Transition 1.8°C** where the temperature rise is around 2°C by 2050. Physical risks as described under the Current policies scenario are still likely. Delayed transition implies that society remains slow to act but there is a more urgent response in the 2030s. Consequently, transition risks, especially those relating to regulation, occur mid-2030s and are swiftly implemented (not gradual or phased), for example fuel use and carbon pricing. Technology will continue

to evolve because R&D generally occurs over 10-15-year horizons, while consumer preferences and reputation may have more of an influence.

- **Net Zero 1.5°C** consistent with a temperature rise of 1.5°C, reflecting early, planned policy action. Transition risks will dominate this scenario in relation to regulation, technology and products. There is an expectation of rapid obsolescence of fossil fuel technologies and technology advancements that will contribute to the transition. Consumer preferences towards sustainable choices and reputation will drive change in market demand. While physical risk profiles remain broadly similar up to 2030 they are lower than in other scenarios after this date.

Carbon prices (including taxation measures) are a key policy instrument for incentivising carbon emissions reduction. There is a direct relationship between the ambition (and stringency) of policies and the cost of emissions. The cost of emissions is also sensitive to the timing and implementation of the policies, the distribution of policies across all industrial sectors and the available technology, for example for CO<sub>2</sub> removal.

The carbon price in Georgia is a key variable in determining the future climate-related financial risk for GCAP. The projected carbon price over the short, medium and long term under the three plausible scenarios is shown in Table 1. Under current Policies, there is little change in the carbon price. However, there is a sharp increase in the carbon price occurring in about 2030-2035 under the Delayed Transition 1.8°C scenario. Under the Net Zero 1.5°C scenario, a carbon price in Georgia of US\$ 204/tonnes by 2030 is projected.

1 www.ngfs.net. Network for Greening the Financial System NGFS Climate Scenarios for Central Banks and Supervisors June 2021.



# STRATEGY CONTINUED

Based on the early-stage scenario modelling and a workshop session involving a range of GCAP stakeholders and Quarter Penny Consulting Ltd, initial tables of potentially material climate-related financial risks and opportunities for each scenario were prepared.

An example summary table of the Delayed Transition 1.8°C scenario is presented as Table 2. In this example scenario, the increasing carbon price is likely to be material to each of the portfolio companies either directly or through their supply chains. In addition, potential financial impacts under this scenario may also arise associated with:

- Acute physical events for example, from increased flooding or land instability due to intense rainfall on operations or physical assets;
- Chronic physical changes to climate such as increased average temperatures affecting the condition or habitability of real estate assets, the physical condition of distribution networks, and/or community health;
- Adaptation of operations or assets to mitigate the effect of physical or transition risks. In this example, transition risks and, in particular, opportunities for the GCAP investment strategy and portfolio may be driven by the Georgian Nationally Determined Contributions and the Georgian 2030 Climate Change Strategy and Action Plan (CCSAP) Strategy.

It is noted that under the plausible scenarios analysis, there will be little difference in the physical outcomes between Current Policies and Delayed Transition 1.8°C before 2050. But under the Delayed Transition 1.8°C scenario, there is significant potential for variation in near-term policy action which will introduce great uncertainty for businesses. As part of the TCFD programme in 2022 the qualitatively identified risks and opportunities will be further developed and quantified.

A narrative summary of qualitatively identified macro-level risks and opportunities under the Delayed Transition 1.8°C scenario and the potential impact of these risks is provided below. For each portfolio company, examples are given which are considered to have the potential to be material to the portfolio company, if not to the portfolio as a whole. The percentage value of the portfolio company within the portfolio is provided as a broad indicator of likely weighting.

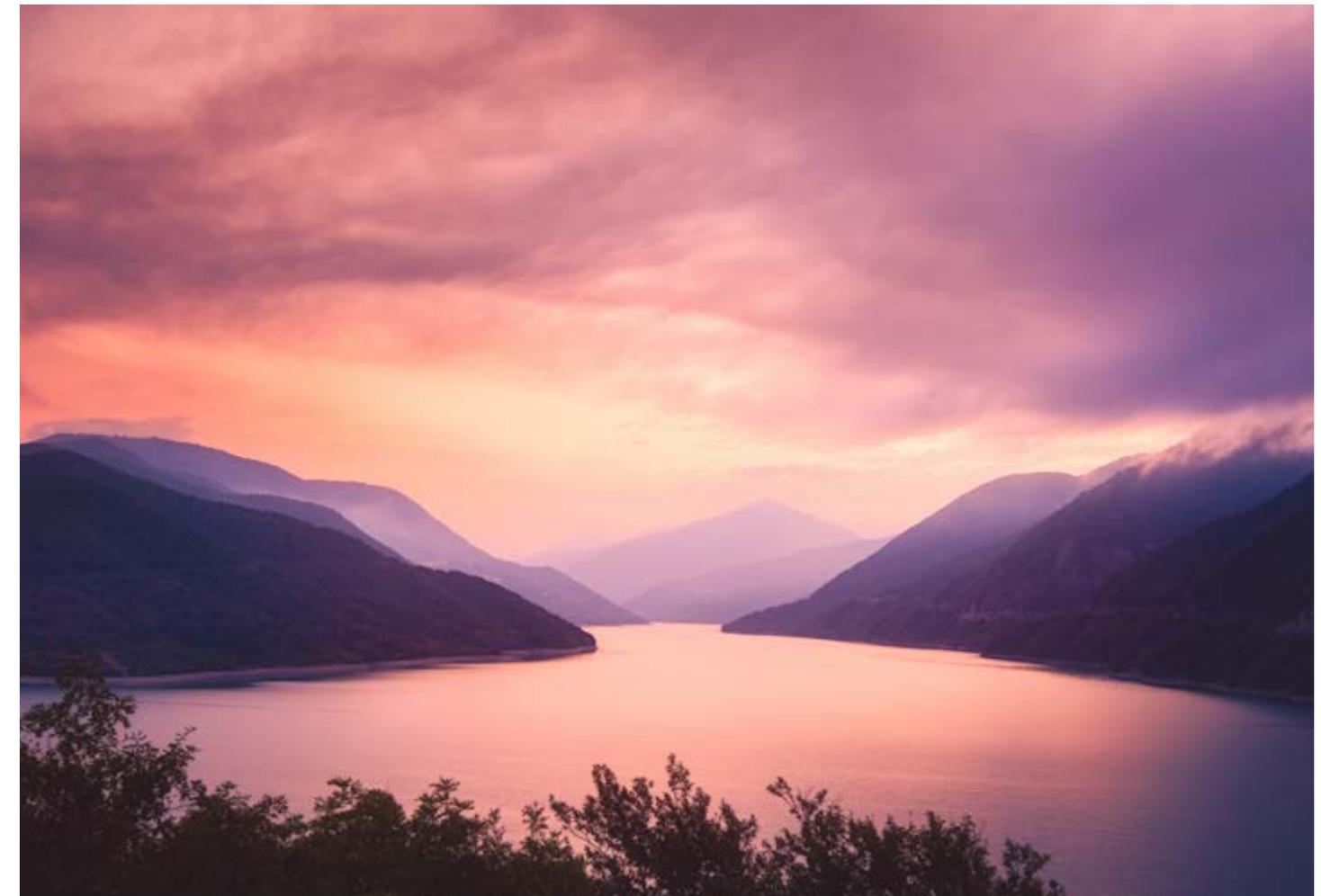
**Bank of Georgia** (18.8% of total portfolio)

- **Risks** – Within the medium term, the rapid implementation of climate policy and regulation may result in sharply increasing direct regulatory expenses in relation to fixed assets such as the Bank’s retail outlets.
- **Opportunities** – In the short term, and in mitigation, the Bank is already in the advanced stages of implementing energy efficiency programmes within its real estate (retail, office and data centres). By anticipating compliance with regulations relating to fuel efficiency standards, emissions-reducing regulations and building efficiency compliance, the Bank will minimise costs in relation to regulations. In addition, it will lower the energy expenditure and generate a financial benefit, especially where renewable energy is utilised. Additionally, the Bank is adopting digital technology to enable all forms of digital banking, potentially further reducing the need for fixed assets.

Bank of Georgia Group PLC is in the process of completing its own TCFD assessments, the results of which will be available publicly in Bank of Georgia Group PLC’s Annual Report and Accounts 2021.

**Table 1: Modelled carbon price for Georgia (US\$/tonne)**

NGFS modelled scenario	Projected carbon price			
	Year 2025	Year 2030	Year 2035	Year 2050
<b>CURRENT POLICIES</b>	3	3	3	4
<b>DELAYED TRANSITION 1.8°C</b>	<1	<1	224	497
<b>NET ZERO 1.5°C</b>	148	204	272	603



# STRATEGY CONTINUED

**Table 2: Portfolio 2021: Qualitative presence of potential climate-related physical or transition risks under Delayed Transition 1.8°C**

Portfolio company	Physical risks <sup>1</sup>				Transition risks <sup>2</sup>								
	Acute		Chronic		Legal/Regulation		Market		Reputation		Technology/Digital		
	Risk	Opp.	Risk	Opp.	Risk	Opp.	Risk	Opp.	Risk	Opp.	Risk	Opp.	
<b>BANK OF GEORGIA</b>	Red		Red		Red								
<b>WATER UTILITY</b>	Red		Red		Red								
<b>RENEWABLE ENERGY</b>	Red	Green	Red										
<b>HEALTHCARE SERVICES</b>	Red		Red		Red								
<b>RETAIL (PHARMACY)</b>	Red		Red		Red								
<b>MEDICAL INSURANCE</b>	Red		Red		Red								
<b>P&amp;C INSURANCE</b>	Red		Red		Red		Red						
<b>EDUCATION</b>	Red		Red							Green			
<b>AUTO SERVICE</b>	Red	Green	Red		Red					Green			
<b>BEVERAGES (BEER AND WINE)</b>	Red		Red		Red								
<b>HOUSING DEVELOPMENT, HOSPITALITY AND COMMERCIAL REAL ESTATE</b>	Red		Red		Red								

Key: The red blocks indicate potentially material risk areas and the green blocks indicate potentially material opportunities for each of the portfolio companies. White areas indicate that neither material risks nor material opportunities are anticipated.

1 Physical risks and opportunities are those that occur due to the physical manifestation of climate change – as chronic long-term climate changes or as acute episodic weather events.  
 2 Transition risks and opportunities are those related to the transition to a low carbon economy including legal/regulatory risks such as carbon prices, market supply and demand, reputation and technology (e.g. disrupters, improvements and replacement of technology that support the transition to a low carbon economy).

**Healthcare Service** (20.2% of total portfolio)

- **Risks** – A delayed transition, it is anticipated that in the medium-term carbon prices will remain low. After 2030, carbon prices may rise quickly year on year towards 2050. The implications of this will be financially more severe for carbon-intensive products, services and operations. This will result in increased costs of purchase relating to medical equipment and supplies particularly those originating out-of-country.
- **Opportunities** – In the short to medium term, commitment to a low carbon portfolio (e.g. low carbon hospitals) could have material benefits. A reduction in the portfolio’s carbon intensity will mitigate future costs associated with increasing carbon prices.

**Retail (pharmacy)** (19.6% of total portfolio)

- **Risks** – The principal risks arise from physical aspects of climate change and may impact the physical assets (refer also to commercial real estate). Transition risks are considered to mainly relate to carbon pricing and the effect this will have on the supply chain, for example, the purchase of drugs and medicines. As the carbon price rapidly increases post-2030 (medium term) the prices of goods will increase. While this will be felt across the market and will not be unique to the portfolio, given the leading market share, this could result in reputational risk arising from consumer perception.
- **Opportunities** – There is a regulation opportunity for Georgia Healthcare Group in general. Being an early adopter of fuel efficiency standards, emissions-reducing regulations and building efficiency compliance will reduce overall running costs in the medium term. Good energy management and the use of renewable energy will not only lower the energy expenditure and generate a financial benefit but will also reduce the carbon footprint of the operations.

**Medical Insurance** (1.6% of total portfolio)

- **Risks** – An increase in medical insurance claims may arise from both acute short-term weather conditions (flooding and in some regions landslides, heatwaves) and long-term chronic changes in weather such as increased average temperatures, impacting health. Failure of infrastructure may cause longer-term ill health from waterborne diseases. There is also a risk that the Government introduces a policy for insurers to maintain policy cover for the “uninsurable”, the costs of which may not be possible to pass on to the insured.
- **Opportunities** – Encouraging customers to prepare to be resilient with respect of climate risks, for example through premium incentives to have healthy lifestyles, may contribute to the business reputation and customer base.

**P&C Insurance** (5.8% of total portfolio)

- **Risks** – Carbon pricing is a fundamental component of the EU’s new climate change agenda. Under the Delayed Transition 1.8°C scenario, carbon pricing is expected to rise sharply after 2030 (medium term). This will see a progressive rise in the cost of carbon-intensive products and services, logistics, distribution and any other operations within the supply chain associated with high carbon emissions. This will have implications for the cost of insurance, which may be passed on to the customer.
- **Opportunities** – Opportunities will likely arise from energy efficiency regulation which will force customers to upgrade their homes and vehicles and may require new product offerings.

# STRATEGY CONTINUED

## Water Utility (19.3% of total portfolio)

- **Risks** – Acute physical risks may impact the utility assets. For example, in the short to medium term, extreme rain events may overwhelm infrastructure, causing damaged water treatment and sewage treatment plants. Pipelines are also at risk from such events, as the overall integrity is placed under pressure. These will require greater increased maintenance and repair costs. Landslides in more remote locations could cause further damage and may block access in some areas.
- **Opportunities** – In the medium term, decarbonisation of operations will enable the Water Utility operations to limit the cost consequences of carbon pricing and provide an advantage over more carbon-intensive competition.

## Renewable Energy (4.8% of total portfolio)

- **Risks** – In the short to medium term, the infrastructure and transmission lines are clearly at risk from physical risks such as landslides, or extreme heat impacting the integrity of lines or pipes. However, for each of the HPPs and WPPs, the business has taken steps to improve the resilience of infrastructure to changes in climate.
- **Opportunities** – The renewable energy business generates electricity using renewable sources, and there are a number of policy and Government incentives for solar wind and hydropower generation in Georgia as part of the Georgian 2030 CCSAP. Renewable energy sources are considered to be the future of energy and are valued higher than traditional electricity generation companies.

## Education (3.6% of total portfolio)

- **Risks** – The potentially material risks relate to transition type risks, in particular energy and air quality regulations, that may be introduced under this scenario at short notice in the medium term. Schools may be expected to retrofit heating and cooling measures/equipment to meet regulations. In addition, energy requirements may arise in response to air conditioner use during prolonged heatwaves for example. These risks are expected of all real estate and are similar to those reported for the commercial real estate portfolio.

## Auto Service

- **Risks** – Currently, vehicles on the market and in use in Georgia are mainly diesel and petrol-fuelled. Initially, in the short term, there will be a gradual switch to electric vehicles. After 2030, there will likely be a significant increase in the use of electric vehicles, abruptly reducing the need for emissions checks. Additionally, the anticipated rise of carbon pricing and adoption of border adjustment mechanisms after 2030 will affect Amboli's supply chain and trade of car consumables and parts. There will likely be an abrupt rise in distribution and retail costs as a result of increases in carbon pricing.
- **Opportunities** – In the short to medium term, it may be that there will be stricter emissions requirements. This may mean that more vehicles will need to be emissions-checked more regularly or be modified, causing demand at PTI centres.

## Beverages

- **Risks** – In addition to physical risks (reduced rain, high intensity events, prolonged heatwaves) affecting hops and grape production, the main identified risk relates to regulatory transition risk. In particular, carbon prices and border taxes such as the EU Carbon Border Adjustment Mechanism will adversely affect the prices of both incoming goods and exported products.

## Housing Development, Hospitality and Commercial Real Estate

- **Risks** – Physical risks to property will occur. These include deterioration of asset integrity due to flooding or extreme heat. In the medium term (post-2030) assets that are not energy efficient will be hit by energy efficiency regulation for retrofitting and increased energy costs due to carbon pricing.
- **Opportunities** – Early adoption of fuel efficiency standards, emissions-reducing regulations and building efficiency compliance will reduce longer-term costs relating to regulations including a reduction in potential declines.

As stated previously, GCAP's period of investing is between two to five years, which is within the short-term horizon of the scenarios. Management is taking climate change risk into consideration when determining its investment strategy. We expect further emphasis to be placed upon climate resilience as our understanding of climate-related risks and opportunities matures. Management is also taking into consideration the resilience of its portfolio with respect to climate change risks as part of the portfolio strategy. This is described further in the Risk Management section.

Climate change is also reflected in the valuation assessments of the portfolio companies, as described in the Risk Management section on page 70. Going forward we will be exploring how to further incorporate climate change risk into our portfolio valuations. This may include an assessment of the influence of the projected carbon price under different scenarios, on the valuation of the portfolio. In addition, the use of shadow carbon pricing might be reviewed.

Other identified potential risks and opportunities will be evaluated by the investment and finance teams in discussion with the portfolio companies during the course of 2022 to determine their financial materiality (impact on financial performance including revenues and expenditures, and impact on financial position, assets and liabilities, capital and financing).

Ahead of this evaluation exercise with the portfolio companies, it is already anticipated that material transition risks including energy and climate-related regulation and policy and potentially reputation risks will occur within the short to medium time frame.

# RISK MANAGEMENT



Climate change risk has been recognised by GCAP as an emerging risk. During the course of 2022, we will review its classification as part of our ongoing climate-related work, with particular reference to consideration of financial materiality of the range of physical and transitional risks that have, thus far, been identified qualitatively to be potentially material.

## Investment stage

In 2021, the investment risk management process was updated to include consideration of climate-related risks, in line with the implementation of the Responsible Investment Policy. Procedures for identifying, describing and managing environmental and social risks and impacts (including those associated with climate change) have been incorporated into the investment process from the initial investment, through to the holding period.

GCAP has a staged approach to investment appraisal which becomes progressively more detailed. At the early stages of appraisal, the potential investment is screened against the GCAP Exclusion List. This list excludes businesses that generate more than 10% of their revenues from fossil fuels. Subsequent appraisal stages include evaluation of the carbon and energy emissions, as well as business strategy and plan elements in relation to carbon and energy management. These plan elements will consider alignment with the Georgian Government Climate Goals and incorporate the shadow carbon price.

## Current portfolio

Climate change, and the risks relating to climate change, is reflected in the valuation assessments of the portfolio companies. Equity investments in Georgia Capital's portfolio companies are measured at fair values at each reporting date in accordance with IFRS 13, Fair Value Measurement. Private large portfolio companies are valued by applying a combination of an income approach (DCF) and a market approach (listed peer multiples and, in some cases, precedent transactions) in line with International Private Equity Valuation (IPEV) guidelines and methodology. Under the discounted cash flow (DCF) valuation method, fair value is estimated by deriving the present value of the business using reasonable assumptions of expected future cash flows and the terminal value, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the business. The discount rate is estimated with reference to the market risk-free rate, a risk-adjusted premium and information specific to the business or market sector, which consequently reflects the climate change-related considerations of the business. Market approach valuation methodology involves the application of a listed peer group earnings multiple to the earnings of the business and is appropriate for investments in established businesses and for which the Company can determine a group of listed companies with similar characteristics. GCAP identifies the peer group for each equity investment taking into consideration points of similarity

with the investment such as industry, business model, size of the company, economic and regulatory factors, growth prospects (higher growth rate) and risk profiles (including the climate change risk). Valuation assessments of the large portfolio companies are performed by an independent valuation firm on a semi-annual basis. Climate change risk is factored in the valuation assessments. Climate change risk is also embedded in the valuation of the investment stage and other portfolio companies as set out in the Valuation Methodology on page 103 of the Annual Report 2021.

Understanding the relationship and potential impact of climate change and its associated risks across different risk categories will be a priority for GCAP risk management during 2022 as climate risk continues to be integrated into the risk management framework.

# RISK MANAGEMENT CONTINUED

## Evaluating macro-level risks:

For each of the portfolio companies, a macro-level review has been completed within the scenarios and time horizons (short, medium, and long). This has identified potential risks and opportunities within the portfolio companies, the financial materiality of which, or whether they are recognised and managed by the portfolio companies, has not yet been established.

The determination of the financial materiality of the identified potential risks and opportunities will be progressed during 2022. The process might include among other activities:

- review of the scenarios selection and identified risks and opportunities with the portfolio companies;
- application of the carbon prices to investee emission profiles to establish the impact; and
- further discussion with the portfolio companies on how carbon price may be used to influence their strategy and impact on their business plans going forward – including cost of supplied materials, ability to pass through costs, and potential capex among other aspects.

The initial NGFS modelling scenarios will be re-run annually to assess changes, if any, that may occur in response to global or Republic of Georgia commitments and policies towards climate change. It is expected that the scenario analysis will become more quantitative, and the outputs will be further incorporated into the portfolio allocation/investment strategy.

## Monitoring and reporting:

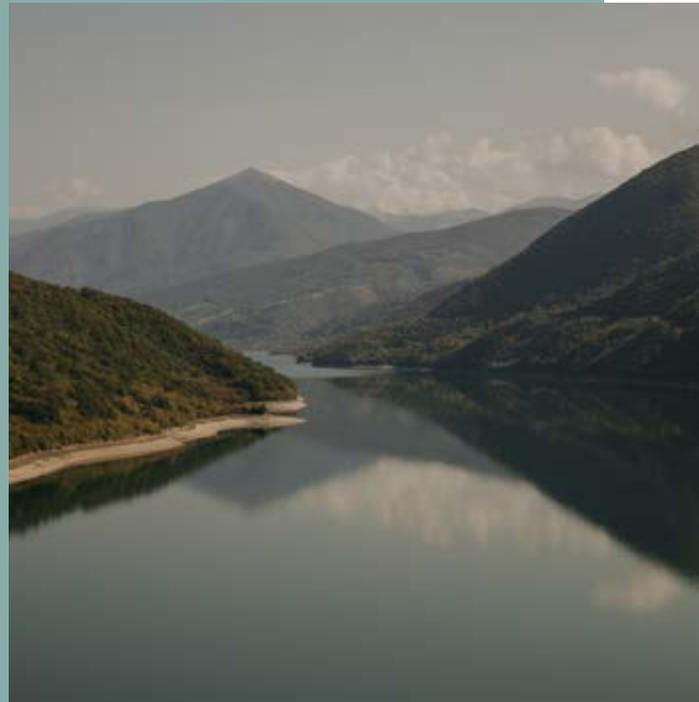
Environment (including climate) and social risks and opportunities are managed through regular engagement with the portfolio companies. In 2021, a reporting protocol was developed for use on a semi-annual basis. Topics cover a range of aspects under the headings of Governance, Policies, Social, Environment, Carbon and Energy Management and Suppliers.

## Capacity building:

Where appropriate, GCAP will support portfolio companies in training and upskilling the Investment Managers with respect to climate change terminology, risks and opportunities during 2022 and beyond.



# TARGETS AND METRICS



GCAP has collated Scope 1, 2 and limited Scope 3 greenhouse gas emissions over the past few years.

In 2020 we focused on emissions derived from GCAP operations (Scope 1, 2 and limited 3). We reported on the emission sources listed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (Scopes 1 and 2). Additionally, we reported on those emissions under Scope 3 that are under our control and applicable to our business. All sources reported in 2020 fell within our consolidated financial statements.

For 2021, in accordance with the Greenhouse Gas Protocol and aligning with TCFD, we have taken the opportunity to present elements of the emissions derived from our portfolio companies (outside our consolidated financial statements). These are aggregated under Scope 3 – Investment emissions and are principally the Scope 1 and 2 emissions with limited Scope 3 (business travel and employee commuting) of the portfolio companies. The data set has been re-reported for 2019, 2020 and 2021.

Since the years 2020 and 2021 are atypical with respect to emissions due to the change in ways of working arising from COVID-19 measures, the 2019 data set will form the baseline data set. We note that the Group has also significantly changed its portfolio businesses since 2019, and further we have been working on improving data collection, which we expect to improve in quality each year, with regard to Scope 3 emissions.

GCAP is developing metrics and targets in relation to climate-related risks and opportunities for GCAP HoldCo (operational emissions) and GCAP's aggregated performance (financed emissions) of the portfolio.

During 2021, we reviewed appropriate metrics and targets to be aligned with the Republic of Georgia commitments to climate change.

Metrics to be adopted are:

1. Absolute Portfolio Emissions (Scopes 1, 2 and 3); and
2. the Weighted Average Carbon Intensity (WACI). WACI is useful to aid understanding portfolio's dependency on carbon. Depending on its application, it may be used to highlight particular aspects of the portfolio that bare the highest carbon inputs.

This year, like 2020, has been disrupted by COVID-19 and the emissions data is reflective of the modified working conditions. We will be working towards Science Based Targets (in alignment with TCFD guidance) for the Group and with the portfolio companies.

