

Sustainability-Linked Bond Framework

JSC Georgia Capital



Prepared in collaboration with HPL.LLC

The logo for HPL, consisting of the letters "HPL" in a white, sans-serif font centered within a solid green square.

HPL

Date 6 April 2023

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Abbreviations

BoG	Bank of Georgia Group PLC
CAPEX	Capital expenditure
CEO	Chief Executive Officer
CFO	Chief Financial Officer
E&S Policy	GCAP's Environmental and Social Policy
ESG	Environmental, social and governance
EU	European Union
GEL	Georgian Lari
GGU	Georgia Global Utilities JSC
GHG	Greenhouse gas
GRPO	Georgian Renewable Power Operations
ICMA	International Capital Market Association
KPIs	Key Performance Indicators
LSE	London Stock Exchange
NDCs	Nationally Determined Contributions
RI Policy	GCAP's Responsible Investment Policy
SECR	Streamlined Energy and Carbon Reporting Regulation
SLBs	Sustainability Linked Bonds
SLBP	Sustainability-Linked Bond Principles
SPO	Second Party Opinion
SPTs	Sustainability Performance Targets
TCFD	Task Force on Climate-related Financial Disclosures
UN SDGS	UN Sustainable Development Goals
WRI/WBCSD	World Resources Institute/World Business Council for Sustainable Development

Table of Contents

Disclaimer	2
Abbreviations	3
Table of Contents	4
1. Introduction	5
1.1 Business Overview	5
1.2 Strategic Approach	6
1.3 Sustainability at GCAP	8
1.3.1 Commitment to Net Zero	10
1.3.2 Sustainability Governance	12
1.3.3 GCAP’s Approach to Responsible Investment	14
2. Rationale for the Issuance	17
3. Sustainability-Linked Bond Framework	19
3.1 Selection of the Key Performance Indicator (KPI)	19
3.2 Calibration of the Sustainability Performance Target (SPT)	22
3.3 Bond Characteristics	25
3.4 Reporting	26
3.5 Verification	26
3.5.1 Second Party Opinion	26
3.5.2 Annual Verification	27

1. Introduction

1.1 Business Overview

JSC Georgia Capital (“the Company”) is a platform for buying, building and developing businesses in Georgia and monetizing those businesses, as they mature. JSC Georgia Capital is the sole subsidiary of Georgia Capital PLC (LSE: CGEO LN), which together make up a group of companies (the “Group”, “Georgia Capital”, or “GCAP”). Georgia Capital has 48 employees and two offices in Tbilisi and London. The Group supports their investees in institutionalizing and developing strong management so that they can keep developing and growing on their own, either independently or with ongoing oversight.¹

Georgia Capital is mainly focused on larger-scale investment opportunities in Georgia, with a potential to reach at least GEL 300 million equity value over a period of 3 to 5 years from the initial investment, and to monetize them through exits as the investments mature.²

In terms of size and sector diversification, GCAP’s portfolio value as of December 2022 is GEL 3.2 billion and presents a diverse mix of investments in defensive counter-cyclical sectors and very well managed, and conservatively positioned, operating companies. Georgia Capital currently has the following portfolio businesses: (i) a retail (pharmacy) business, (ii) a hospitals business, (iii) an insurance business (P&C and medical insurance); (iv) a clinics and diagnostics business, (v) a renewable energy business (hydro and wind assets) and (vi) an education business; Georgia Capital also holds other small private businesses across different industries in Georgia; a 20.0% equity stake in the water utility business and a 20.6% equity stake (at 31-Dec-22) in LSE premium-listed Bank of Georgia Group PLC (“BoG”), a leading universal bank in Georgia.³

¹ Georgia Capital PLC (2023). *2022 Annual Report*. Available [here](#).

² Ibidem.

³ Ibidem.

TOTAL PORTFOLIO

Value: GEL 3,199m

LISTED AND OBSERVABLE PORTFOLIO

Value: GEL 985m
30.8% of the total portfolio value

PRIVATE PORTFOLIO

Value: GEL 2,213m
69.2% of the total portfolio value

LARGE PORTFOLIO COMPANIES

Value: GEL 1,438m, 44.9% of the total portfolio value

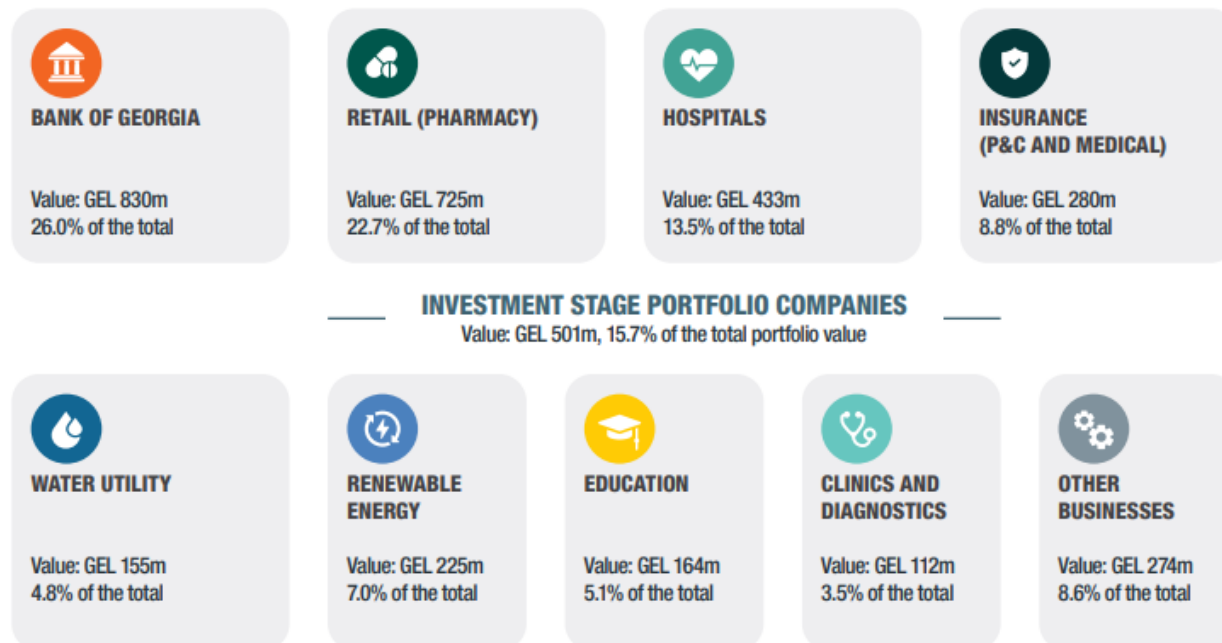


Figure 1. GCAP's portfolio companies as at 31 December 2022.

The Group's geographic focus (Georgia) is a core element of its strategy, contributing to diversifying and modernizing the country's economy. As a result of this approach, as of December 2022, the Group and its portfolio companies employ more than 19,000 individuals (75% female), making them the largest employer in the Georgian private sector.⁴ The Group is committed to achieving its strategic and investment objectives while behaving responsibly as an employer and as an international corporate citizen.

1.2 Strategic Approach

The Group's overall strategy is based on the following pillars: superior access to capital, skilled management teams, and strong corporate governance as three fundamental enablers. The Group does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. It focuses on shareholder returns and on opportunities that meet its investment return and growth criteria. The Group manages

⁴ Georgia Capital PLC (2023). 2022 Annual Report. Available [here](#).

capital allocations through its 360-degree framework (for details, please refer to the Annual Report 2022⁵). At Investor Day in May 2022, GCAP presented its updated strategy, which focuses on the following elements:

- 1. Implementing a capital-light investment strategy:** Seeking investments in Georgia with a strong value creation potential but without significant capital commitments, such as those in service-oriented sectors. This also enables the large and capital-light portfolio companies to explore regional growth opportunities, such as the recent expansion of the retail (pharmacy) business into Armenia and Azerbaijan.
- 2. Adapting the capital management framework:** Deleveraging the Group's balance sheet at a time of potential economic and regional instabilities, is a key priority for GCAP to safeguard its portfolio and enable the Group to take advantage of attractive investment opportunities that may arise as a result of those instabilities. In 2022, GCAP introduced a Net Capital Commitment ("NCC")⁶ Navigation Tool, which is an integral part of GCAP's 360-degree framework. The goal of this strategic pillar is deleveraging the Group by bringing down the NCC ratio below 15% by December 2025.
- 3. Putting ESG at the core of the strategy:** As the largest employer in the Georgian private sector, the Group and its portfolio companies are trusted with improving the future of the community by building the sustainable businesses of tomorrow. GCAP has a strong track record of investing and managing its portfolio responsibly, facilitated by operating according to a clear and proven governance model and an extensive network of top-quality talent. GCAP's approach to environmental, social and governance matters is reflected in the strategy and management principles of its portfolio companies, all of which adhere to sound ESG standards, as well as local policies and regulations. At the 2022 Investor Day, Georgia Capital introduced its strategic priority to set measurable ESG targets at both Group and portfolio company levels, which has been executed over the course of 2022.

⁵ Georgia Capital PLC (2023). *2022 Annual Report*. Available [here](#).

⁶ NCC represents an aggregated view of all confirmed, agreed and potential capital outflows at GCAP HoldCo level.

1.3 Sustainability at GCAP

Enhanced integration of ESG issues into the Group's core operations became one of the three strategic priorities of GCAP's overall strategy in 2022.⁷ By identifying ESG risks and opportunities, and integrating and managing ESG matters into the investment decision-making process, the Group is able to achieve a higher degree of investment optimization, while contributing to Georgia's advances towards sustainable development and improving the future of the community.

Within this context, during 2022, GCAP worked to identify material ESG risks and opportunities for both the Group and its portfolio companies and commenced a target-setting process. The outcome of this process was the definition of measurable ESG targets for the Group and its portfolio companies and the establishment of an ESG action plan. In addition, the Group mapped its business operations and the activities of the portfolio companies against the UN SDGs. At the holding company level, GCAP is committed to advancing towards the achievement of SDG 8 (decent work and economic growth), SDG 10 (reduce inequalities), and SDG 13 (climate action).⁸

⁷ Georgia Capital PLC (2022). *Georgia Capital Investor Day: Updated Strategy Overview*. Available [here](#).

⁸ Ibidem.

BUSINESS	DIRECT SDG IMPACT	SUPPORTIVE/INDIRECT SDG IMPACT
 HOSPITALS	  	 
 RETAIL (PHARMACY)	  	 
 CLINICS AND DIAGNOSTICS	  	 
 INSURANCE	  	 
 RENEWABLE ENERGY	  	 
 EDUCATION		  
 AUTO SERVICE	  	
 WATER UTILITY	  	  
 BANKING	  	

Figure 2. Mapping GCAP's portfolio to the SDGs.

GCAP's sustainability strategy focuses on **three main priorities: 1) Environmental** – Enhancing the GHG emissions transparency with an ultimate goal of reduction of GHG emissions and becoming Net Zero across Scope 1 and 2 emissions on both the Group and the portfolio companies by 2050, **2) Social** – Developing workforce and working environment and **3) Governance** – Strengthening the Company's policies (see Table 1).

Table 1. ESG targets at the Group level.

	Target by 2050	2022 value
ENVIRONMENTAL	Carry out annual carbon reporting	28,179 tCO ₂ e
	Assess carbon footprint of 100% of the portfolio companies	28,031 tCO ₂ e
	Assess exposure to physical and transition climate change risks and opportunities for 100% of the portfolio companies	Yes
SOCIAL	Conduct staff satisfactory surveys annually	Yes
	Hold regular workforce engagements directed at talent development	Yes
GOVERNANCE	Establish ESG committees across the portfolio companies	–
	Establish formalised ESG transformation roadmaps across the portfolio companies	–
	Review every investment opportunity using GCAP's exclusion list and identify the most material ESG risks and opportunities	Yes
	Review GCAP's exclusion list annually	Yes
	Review and strengthen the Group's policies annually	Yes

1.3.1 Commitment to Net Zero

GCAP is committed to minimize any potential adverse impact on the environment caused by its investments and aims to contribute to Georgia's transition towards a more sustainable and low carbon economy. At the same time, GCAP has identified climate change as an emerging risk.⁹

For a holding company like GCAP, measuring GHG emissions becomes the first step in the fight against climate change. The Group is aware of the increasing importance of GHG emission measurement and disclosure among the investment community. In line with their commitment to enhancing their ESG transparency practices, in 2018 GCAP started measuring and disclosing GHG emissions on all the emission sources listed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations

⁹ Georgia Capital PLC (2023). *Sustainability Report 2022*. Available [here](#).

2013¹⁰, and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (Scopes 1 and 2).¹¹

Prior to 2021, the emissions reported from the portfolio companies were presented at an aggregated Scope 1, 2 and 3 levels. Starting from 2021, as a result of the switch to IFRS 10 (investment entity accounting) from 31 December 2019 and in line with the recommendation of TCFD and the Greenhouse Gas Protocol, the Group reports portfolio companies' Scope 1, 2, and 3 emissions under its Scope 3 emissions.¹² Table 2 highlights the Group and its portfolio company's GHG emissions over the past three years.

Table 2. Total Greenhouse Gas Emissions (Tons of CO2e)

Data for the period beginning 1 January 2020 and ended 31 December 2022	2020	2021	2022
Scope 1 – Static fossil fuel (emissions fuel combustion and facility operations)	–	–	–
Scope 1 – Mobile fossil fuel	59	60	66
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	2	3	4
Scope 3	38,074	40,579	28,109
Of which, air travel and ground transportation provided by third parties plus electricity, heat/steam, cooling provided within lease and service agreements	12	5	78
Of which, investment portfolio Scope 1, 2 and 3 ¹	38,062	40,574	28,031
Total greenhouse gas emissions	38,136	40,642	28,179

1. Portfolio companies' total Scope 1 and 2 emissions are: 32,125 tCO2e in 2020, 31,292 tCO2e in 2021 and 22,759 tCO2e in 2022.

GCAP's long term Net Zero commitment was established in accordance with the GHG Protocol, and is coherent with the transition to a sustainable economy, while aligning with the objectives of limiting global warming well-below 2°C in line with the Paris Agreement¹³, and achieving climate neutrality by 2050, in accordance with the EU's Green Deal.¹⁴ Furthermore, this commitment is aligned with Georgia's 2021 updated Nationally Determined Contributions (NDCs).¹⁵ GCAP's Net Zero emissions plan is presented in Figure 2 below.

¹⁰ Parliament of the United Kingdom (2013). *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*. Available [here](#).

¹¹ Parliament of the United Kingdom (2018). *The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018*. Available [here](#).

¹² Georgia Capital PLC (2023). *Sustainability Report 2022*. Available [here](#).

¹³ United Nations (2015). *Paris Agreement*. Available [here](#).

¹⁴ European Commission (2023). *A European Green Deal*. Available [here](#).

¹⁵ Government of Georgia (2021). *Georgia's Updated Nationally Determined Contribution (NDC)*. Available [here](#).

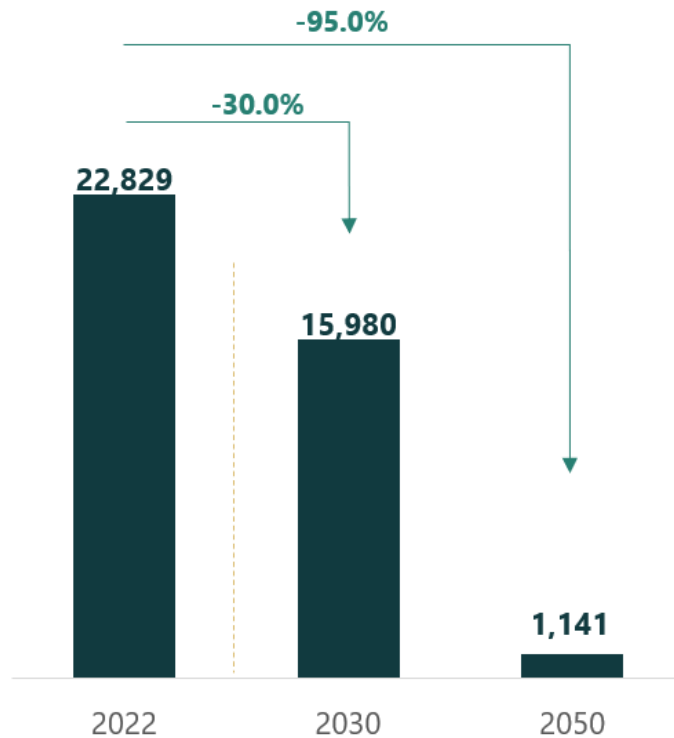


Figure 2. GCAP's Net Zero Ambitions

(aggregated Scope 1 and 2 emissions of the Group and its portfolio companies)

Emission reduction roadmaps at both the Group and portfolio company levels have been developed, and intermediate targets have been set to keep track on the progress towards achieving Net Zero emissions by 2050: reducing total Scope 1 and Scope 2 emissions by 30% by 2030, compared to the base year, 2022, and by 95% by 2050, ultimately becoming Net Zero (includes Scope 1 and 2 emissions of the portfolio companies, which are presented under GCAP's Scope 3 emission). In terms of governance, GCAP's Board of Directors is responsible for the approval of the Group's climate-related metrics and targets, and for ensuring progress against such targets.¹⁶

1.3.2 Sustainability Governance

GCAP's business model consists of creating value by improving performance of portfolio companies, by relying on strong corporate governance as one of the key enablers that allow GCAP to achieve this purpose. Therefore, the "G" in ESG has been at the core of the Group's strategy since its inception. GCAP's overall Corporate Governance Framework is

¹⁶ Georgia Capital PLC (2023). *Sustainability Report 2022*. Available [here](#).

built upon the highest standards, starting with the Group's board composition and policies which were designed taking into account the requirements set forth by the UK Corporate Governance Code.¹⁷

Along with the [Code of Conduct and Ethics](#), which outlines the behaviors and standards of conduct applicable to all individuals working for the Group, the Board of Directors adopted a number of different policies concerning ESG matters to improve GCAP's consideration of such matters and to guarantee a solid sustainability governance framework is in place.

At the top of GCAP's sustainability governance system is the [Environmental and Social Policy](#) adopted by the Board. This Policy describes the Group's commitment to sustainable finance as an integral component of responsible corporate governance, and the implementation of environmental and social risk management policies and procedures in connection with its commercial activities. Under the policy, GCAP also commits to encourage their clients and customers to comply with environmental, health & safety and labor regulations, and maintain best practices in regards to those topics. Based on this policy, the Group has fully integrated internationally recognized environmental and social risk management standards into its risk management processes, and it has committed to communicate transparently to its shareholders the Group's environmental performance.

Together with these two policies, the Group has also developed in a [Diversity Policy](#), reflecting GCAP's commitment to eliminate unlawful and unfair discrimination, and to promote diversity in all its forms, and an updated version of their [Anti-Bribery and Anti-Corruption Policy](#), which sets out the Group's policy for preventing bribery and corruption, in line with all applicable anti-bribery and anti-corruption laws.

To ensure these policies are known and followed by their stakeholders, GCAP has designed a [Whistleblowing Policy](#) that provides the means for identifying and eliminating unethical practices within the workplace. Moreover, the policy sets forth the process to report on concerns related to environmental damage and improper conduct or unethical behavior.

¹⁷ Financial Reporting Council (2018). *The UK Corporate Governance Code*. Available [here](#).

1.3.3 GCAP's Approach to Responsible Investment

GCAP has adopted a [Responsible Investment Policy](#) (2022), which covers the Group's approach to executing the investments and monitoring the performance of these investments. This policy was designed taking into account several responsible investment and ownership principles, to the extent that they are applicable to GCAP, such as the United Nations Principles of Responsible Investment (UN PRI), the UN Global Compact, the UN Sustainable Development Goals (UN SDGs), and the Taskforce for Climate-related Financial Disclosures (TCFD).

As an investment holding company, GCAP is aware of its potential to contribute to Georgia's socioeconomic growth and development through the investment decisions made across its portfolio. The Group is committed to conduct its business in an environmentally and socially responsible manner in order to reduce the risk of any potential harm from its investments. Therefore, Responsible Investment is perceived at GCAP as an alternative to traditional investment that can significantly contribute to improve long-term outcomes by incorporating ESG factors in each investment decision. Furthermore, beyond considering ESG matters as core value drivers, the Group believes that Responsible Investment is a natural responsibility it has as corporate citizens of Georgia.¹⁸

GCAP's Responsible Investment Policy ("RI Policy") lays down the Group's approach to responsible investment and informs its overall strategy. The RI Policy is integrated into their investment and portfolio management processes and procedures, which enables environmental and social matters to be captured where they may directly or indirectly affect corporate and portfolio company performance. Under this policy, GCAP monitors their portfolio companies' environmental and social performance, and uses its influence to encourage better ESG management and performance. The scope of the RI Policy covers current and future investments and sets a more flexible application in those cases where GCAP only holds a minority interest in a company or when its level of control is restrained. Furthermore, this Policy focuses on ESG issues that are material to GCAP and its stakeholders.¹⁹

This RI Policy is complemented by GCAP's Environmental and Social Policy ("E&S Policy")²⁰. Under the RI Policy, a comprehensive system to embed ESG considerations into the whole investment cycle has been drafted. This implementation system is divided

¹⁸ Georgia Capital PLC (2022). *Responsible Investment Policy*. Available [here](#).

¹⁹ Ibidem.

²⁰ Georgia Capital PLC (2022). *Environmental & Social Policy*. Available [here](#).

in two phases: (1) the initial investment (dual screening/exclusion list and due diligence), and (2) post-investment implementation and management of risks (active ownership). In addition, GCAP has committed to publicly report on their application of the RI Policy annually in the Resources and Responsibilities section or equivalent section of the Group’s Annual Report or in their annual Sustainability Report (See Figure 3 below).²¹

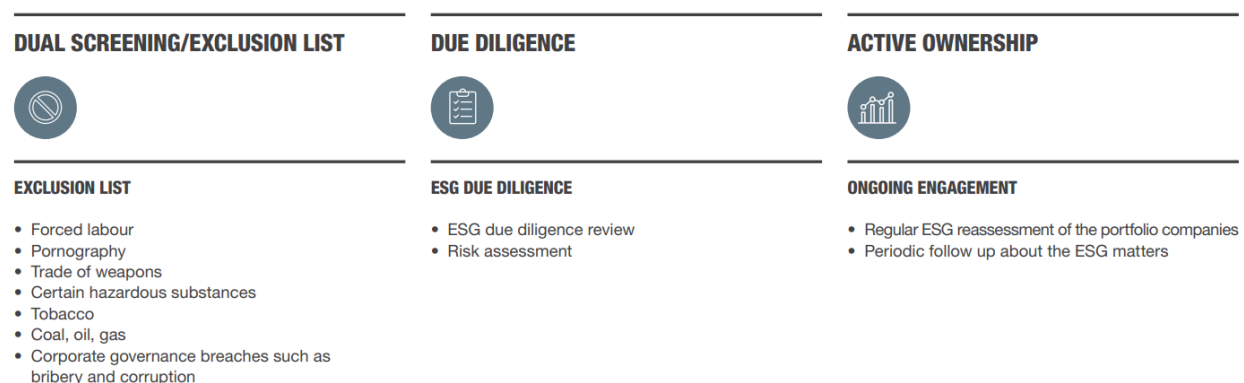


Figure 3. Main steps of GCAP’s RI Policy implementation process.

To ensure proper implementation of the RI Policy, GCAP has defined a clear governance structure where:

- **The Board of Directors** oversees: (i) reviewing and approving the RI Policy; (ii) approving subsequent actions or recommendations, when appropriate; (iii) monitoring the implementation of the RI Policy.
- **The Investment Committee** has overall responsibility for approving the potential investment. Under the RI Policy, material findings of the due diligence process will be presented to the Investment Committee. The Chairman of the Investment Committee oversees summarizing any proceedings conducted under the RI Policy and communicating the outcome of these proceedings to the Board.
- **The Audit and Valuation Committee** retains responsibility for matters which fall into its Terms of Reference²². The Chairman of the Investment Committee informs the Board on any proceedings conducted which fell under the purview of the Audit and Valuation Committee.
- At a **management level**, the Director of Investments is responsible for the implementation of the RI Policy, with the assistance of the investment team, the Finance, Investor Relations, and the Legal departments.

²¹ Georgia Capital PLC (2022). *Responsible Investment Policy*. Available [here](#).

²² Georgia Capital PLC (2023). *Terms of Reference*. Available [here](#).

- Under the oversight of GCAP's Chief Financial Officer (CFO), the **Finance Department** reports to the management Board on any significant financial and climate-related risks identified, which are then escalated to the Audit and Valuation Committee.
- Finally, the **CEOs of the portfolio companies** are responsible for implementing the ongoing RI Policy requirements which directly affect their company and reporting the relevant ESG disclosures to the Finance Team.²³

²³ Georgia Capital PLC (2022). *Responsible Investment Policy*. Available [here](#).

2. Rationale for the Issuance

By placing ESG matters as one of the fundamental pillars of its overall strategy, GCAP is determined to embed sustainability in all investment decisions made across its portfolio to minimize its environmental impacts and contribute positively to Georgia's socioeconomic growth and development.

GCAP is already familiar with the use of sustainable finance instruments and the financing opportunities they offer. In 2022, GCAP's renewable energy business (Georgian Renewable Power Operations (GRPO)) issued its first-ever USD 80 million green secured bonds on the Georgian Capital Market.²⁴ GRPO's Green Bond Framework²⁵ was considered credible, impactful, and aligned with the four core components of the Green Bond Principles 2021 by Sustainalytics' Second Party Opinion (SPO).²⁶ This was the second green bond issuance by one of GCAP's portfolio companies. In 2020, Georgia Global Utilities JSC (GGU), then the holding company of the Group's operational renewable energy assets and water utility business, issued USD 250 million green bonds, listed on the Global Exchange Market of the Irish Stock Exchange.²⁷ GGU's Green Bond Framework²⁸ obtained a favorable SPO issued by Sustainalytics.²⁹ In both cases, the use of these instruments resulted in a broader investor base, and the involvement of Development Finance Institutions.

Some of GCAP's current portfolio companies could become potential thematic bond issuers due to their beneficial impacts in Georgia's society and economy. However, the Group is now aiming at a sustainable finance instrument that can be easily related to their own sustainability strategy and that they can be tied to its three key ESG priorities: GHG emissions reduction, workforce development, and resilient policies. By becoming an issuer of Sustainability-linked bonds (SLBs), GCAP intends to:

- Encourage the integration of ESG issues into its investment philosophy,
- Contribute to the country's progress towards a carbon neutral economy,
- Raise public awareness on the benefits and importance of good ESG management and climate disclosure practices,

²⁴ Georgian Renewable Power Operations PLC (2022). *Final Term Sheet of the Bonds*. Available [here](#).

²⁵ Georgian Renewable Power Operations PLC (2022). *Green Bond Framework*. Available [here](#).

²⁶ Sustainalytics (2022). *Second-Party Opinion: Georgian Renewable Power Operations Green Bond Framework*. Available [here](#).

²⁷ Georgia Global Utilities JSC (2023). *Green Bonds*. Available [here](#).

²⁸ Georgia Global Utilities JSC (2020). *Green Bond Framework*. Available [here](#).

²⁹ Sustainalytics (2020). *Second-Party Opinion: Georgia Global Utilities Green Bond Framework*. Available [here](#).

- Strengthen their position in the market as the leading sustainability-oriented company in Georgia, and
- Serve as an example and inspiration for other market players, by becoming an SLB issuer in the Georgian Capital Market.

3. Sustainability-Linked Bond Framework

GCAP's Framework presents the guiding principles to issue Sustainability-Linked Bonds. This Framework has been established in accordance with the Sustainability-Linked Bond Principles (SLBP) 2020 of the International Capital Market Association (ICMA). The SLBPs are voluntary guidelines that describe the best practices for financial instruments to incorporate future results related to sustainability, clarifying the approach to issuing SLBs and contributing to the development of the SLB market.³⁰

GCAP's Sustainability-Linked Bond Framework is aligned with the five components of the SLBP:

- (1) Selection of Key Performance Indicators (KPIs)
- (2) Calibration of Sustainability Performance Targets (SPTs)
- (3) Bond Characteristics
- (4) Reporting
- (5) Verification

SLBs are any type of bond instrument for which the financial and/or structural characteristics may vary depending on whether the issuer achieves previously defined sustainability/ESG objectives. In this sense, the issuer of an SLB explicitly commits to improve (including within bond documentation), to certain sustainability outcomes that are relevant, fundamental, and material to its business within a set period. SLBs are performance-based instruments, therefore the use of proceeds are not considered a determinant in their categorization, and the use of proceeds are intended to be used for general corporate purposes.³¹

3.1 Selection of the Key Performance Indicator (KPI)

GCAP has selected one KPI and a related ambitious SPT, which is core, relevant and material to the business. The selected KPI is presented below.

³⁰ ICMA (2020). *Sustainability-Linked Bond Principles 2020*. Available [here](#).



³¹ Ibid.

Table 3. KPI 1 – Absolute Scope 1, 2 and 3 GHG Emissions

KPI 1: Absolute Scope 1, 2 and 3 GHG emissions (measured in tCO ₂ e)	
KPI:	<p>The KPI is defined as the absolute amount of Scope 1, 2 and 3 GHG emissions across GCAP’s value chain measured in tons of carbon dioxide equivalent (tCO₂e).</p> <p>Scope 1, 2 and 3 emissions are defined as followed:</p> <ul style="list-style-type: none"> • Scope 1 emissions are direct emissions from sources owned or controlled by GCAP. • Scope 2 emissions are indirect emissions from the consumption of purchased electricity, heat, steam, and cooling. • Scope 3 emissions represent the Scope 1 and Scope 2 emissions of GCAP’s portfolio companies.
Rationale	<p>This KPI aligns with GCAP’s commitment to contribute to Georgia’s transition towards a more sustainable and low carbon economy. Additionally, this KPI supports GCAP’s long term Net Zero goals, which were established in accordance with the GHG Protocol.</p> <p>This KPI is material and relevant to GCAP because it provides a way for GCAP to measure its own performance and their portfolio companies’ performance concerning GHG emissions. Under GCAP’s Responsible Investment Policy³², each business’s ESG operations are assessed on a semi-annual basis. Moreover, GCAP regularly collects the GHG (and other ESG) data from its portfolio companies.</p> <p>The disclosure of this KPI allows GCAP to (1) better understand the carbon-related risks in its portfolio, and (2) support decarbonization targets.</p>

³² Georgia Capital PLC (2022). *Responsible Investment Policy*. Available [here](#).

KPI 1: Absolute Scope 1, 2 and 3 GHG emissions (measured in tCO₂e)

<p>Alignment with the SDGs</p>		<p>7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.</p> <p>7.3 By 2030, double the global rate of improvement in energy efficiency.</p>
		<p>9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
<p>Relevant Methodology and Benchmark</p>	<p>The applied methodology is relevant and able to be benchmarked. The methodology applied by GCAP to measure emissions is based on the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD), Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition 2016). The most recent Georgian electricity conversion factors have been applied from the JRC Guidebook – “How to Develop a Sustainable Energy and Climate Action Plan in the Eastern Partnership Countries”, European Commission, Ispra, 2018, JRC113659. 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.</p> <p>Further conversion factors have been taken from the UK Government’s “Greenhouse Gas Conversion Factors for Company Reporting 2022”. Energy consumption is disclosed in line with SECR requirements. The emissions disclosures are also prepared in accordance with the TCFD requirements.</p>	

KPI 1: Absolute Scope 1, 2 and 3 GHG emissions (measured in tCO_{2e})

GCAP's reported data is collected in respect of the Group, including offices and facilities in London and Tbilisi. Data on emissions resulting from travel is reported for business-related travel only but excludes commuting. As GCAP does 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.

Data from portfolio companies' Scope 1 and 2 emissions have been aggregated and presented as a separate line item under Scope 3 emissions in accordance with the Greenhouse Gas Protocol. GHG emissions have been reported for all GCAP's private investments, where the Group holds a controlling stake.

Emissions from Water Utility as well as Bank of Georgia have not been included in the calculations. BoG, as a UK listed company discloses Scope 1, 2 and 3 emissions in its annual filings, available [here](#).

GCAP regularly reports Scope 3 GHG emissions of its portfolio companies in its Annual and Sustainability Reports.

3.2 Calibration of the Sustainability Performance Target (SPT)

The related SPT is presented below.

Table 4. SPT 1 – Reduce Absolute Scope 1, 2 and 3 GHG emissions by 20% by 2027 compared to a 2022 baseline

SPT 1: Reduce Absolute Scope 1, 2 and 3 GHG emissions by 20% by 2027 compared to a 2022 baseline	
SPT	Reduce Absolute Scope 1, 2 and 3 GHG emissions by 20% by 2027 compared to a 2022 baseline.
SPT Trigger	20% reduction by 31 December 2027.
SPT Observation Date	31 December 2027.
Baseline	<p>22,829 tCO₂ equivalent as of December 2022.</p> <p>2022 has been chosen as a base year for two major reasons:</p> <ul style="list-style-type: none"> • In 2022, the disposal of the majority equity stake in the water utility business was completed, which significantly changed the GHG emission composition. • The 2022 year reflects the normalization of economic activities compared to the abnormal environment in 2020-2021 years due to COVID-19- related implications.
Ambition	The SPT is in line with GCAP’s long term goal to reduce absolute Scope 1, 2 and 3 emissions by 30% by 2030 and by 95% by 2050, compared to the base year of 2022 – in line with net zero targets. The SPT is coherent with the transition to a sustainable economy and aligns with the objectives of limiting global warming well-below 2°C in line with the Paris Agreement ³³ , and achieving climate neutrality by 2050, in accordance with the EU’s Green Deal. ³⁴
Factors that support the	To achieve the target, GCAP will:

³³ United Nations (2015). *Paris Agreement*. Available [here](#).

³⁴ European Commission (2023). *A European Green Deal*. Available [here](#).

SPT 1: Reduce Absolute Scope 1, 2 and 3 GHG emissions by 20% by 2027 compared to a 2022 baseline	
achievement of the target	<ul style="list-style-type: none"> ● Implement Net Zero Initiative awareness campaigns across the Group; ● Organize annual ESG workshops with the portfolio companies; ● Replace the natural gas heating systems with efficient electric heating solutions; ● Promote electric vehicle deployment to reduce the consumption of petrol and diesel Group-wide; ● Gradually transfer electricity consumption to 100% renewable energy, either by installing renewable energy solutions at GCAP’s and its portfolio companies’ facilities or purchasing electricity from renewable energy providers; ● GCAP has specific set of targets for each of its portfolio companies, which include actions that should be taken by 2030 and 2050; ● Encourage all large portfolio companies to publicly report on ESG-relevant disclosures. Relevant disclosures include CDP,³⁵ UN Global Compact’s Communication on Progress Report,³⁶ and other internationally acknowledged disclosure platforms. <p>GHG emissions reduction will not be achieved via offsetting but rather through optimisation of the operations of GCAP and its portfolio companies.</p>
Risks to the targets	<p>Georgia Capital has a capital-light investment strategy and has built a strong track record in tapping big opportunities with small investments by consolidated fragmented industries especially in service-oriented sectors. GCAP helps the portfolio companies institutionalize their management, enhance their governance, and grow them into mature businesses that can further develop largely on their own, either with continued oversight or independently. As investments mature, GCAP intends to realize proceeds through exits at attractive prices.</p>

³⁵ CDP (n.d.). *About Us*. Available [here](#).

³⁶ UN Global Compact (n.d.) *Communication on Progress*. Available [here](#).

SPT 1: Reduce Absolute Scope 1, 2 and 3 GHG emissions by 20% by 2027 compared to a 2022 baseline	
	Given this business model, GCAP's portfolio is subject to changes as it buys and sells companies. This rotation of its portfolio may impact the emissions (i.e., reduce emissions of the portfolio in case a company is sold, or increase the emissions in the case that a company is bought).

3.3 Bond Characteristics

GCAP will tie the financial characteristics of the SLB issued under this Framework to the SPT defined in the previous section. Therefore, the financial characteristics of GCAP's SLB can differ depending on whether the selected KPI reaches the predefined SPT by the Target Observation Date (December 31st, 2027). The results of achievement or lack of achievement of the SPT will be available on or before the publication date of the Group's 2027 Annual and Sustainability Reports, no later than 120 calendar days from the target observation date.

If the SPT has not been achieved by the Target Observation Date, a coupon step-up, or an increase of the premium will be payable by GCAP. In addition, a coupon step-up or an increase of the premium will also become payable if the performance level against the SPT cannot be calculated or reported in a satisfactory manner supported by a verification assurance statement provided by an independent auditor, or if GCAP does not publish the relevant verification assurance statement within the time limit as prescribed by the bond's final terms. The final terms the SLB issued under the Framework will specify the type of financial mechanism that will apply (a coupon step-up or an increase of the premium) as well as the amount of the coupon step-up or the value of the premium's increase, depending on the case. Unless specified in the instrument documentation, no assurance can be provided that the proceeds of the SLB will be allocated to finance green or social projects.

Recalculation of Baseline

GCAP recognizes that certain potential events, such as significant acquisitions, divestments, mergers, changes in the regulatory environment, or changes in the methodology applied by the external verifier, can substantially impact the calculation of

the KPI and may require the restatement of the SPT, and/or adjustments of its baseline. Under such circumstances, GCAP may recalculate the baseline in adherence to the recalculation methodology deployed by the external and independent verifier. Any such readjustment will be communicated by GCAP in its annual reporting on the SPT and will be accompanied by a verification assurance statement provided by an independent auditor (as described in the verification section).

3.4 Reporting

GCAP is committed to openness and transparency in its external communications, which must be accurate, timely and clear, in accordance with the Group's [Code of Conduct and Ethics](#). GCAP will publicly disclose on a separate section of its annual sustainability report updated information concerning the SLB, which will include:

- Updated information on the performance of the selected KPI, including baselines (where relevant).
- A verification assurance report of the SPT that describes the performance against the SPT and the related impact, and timing of the impact, on the bond's financial and/or structural characteristics.
- A qualitative and/or quantitative explanation of the contribution of the main factors behind the evolution of the KPI.
- An illustration of the positive impacts related to improved sustainable performance.
- Any additional information that allows investors to monitor the ambition of the SPT.

The reporting will be published annually until bond maturity, and in case for any date/period relevant for assessing the SPT performance leads to a potential adjustment of the SLB's financial and/or structural characteristics.

3.5 Verification

3.5.1 Second Party Opinion

GCAP will obtain and publicly disclose the Second Party Opinion (SPO) conducted by an internationally recognized firm with environmental and social expertise. The SPO will evaluate the sustainability benefits of GCAP's Sustainability-Linked Bond Framework, as well as alignment with the SLBP 2020. The SPO will be readily available and easily accessible on GCAP's website prior to the issuance of its first SLB under this Framework.

3.5.2 Annual Verification

GCAP will seek an independent and external verification of their performance level against each SPT for each KPI by a qualified external reviewer with relevant expertise, annually until the bond's maturity, and in any case for any date relevant for assessing the SPT performance leading to a potential adjustment of the SLB financial and/or structural characteristics, until after the last SPT trigger event of the bond has been reached.

The verification of the performance against the SPTs will be made publicly available within a specific section of GCAP's annual sustainability reports.

In case of a recalculation of the KPIs, SPTs, or the baselines, any such readjustments will be accompanied by a verification assurance statement provided by an independent auditor that will also be publicly disclosed within GCAP's annual sustainability reports.