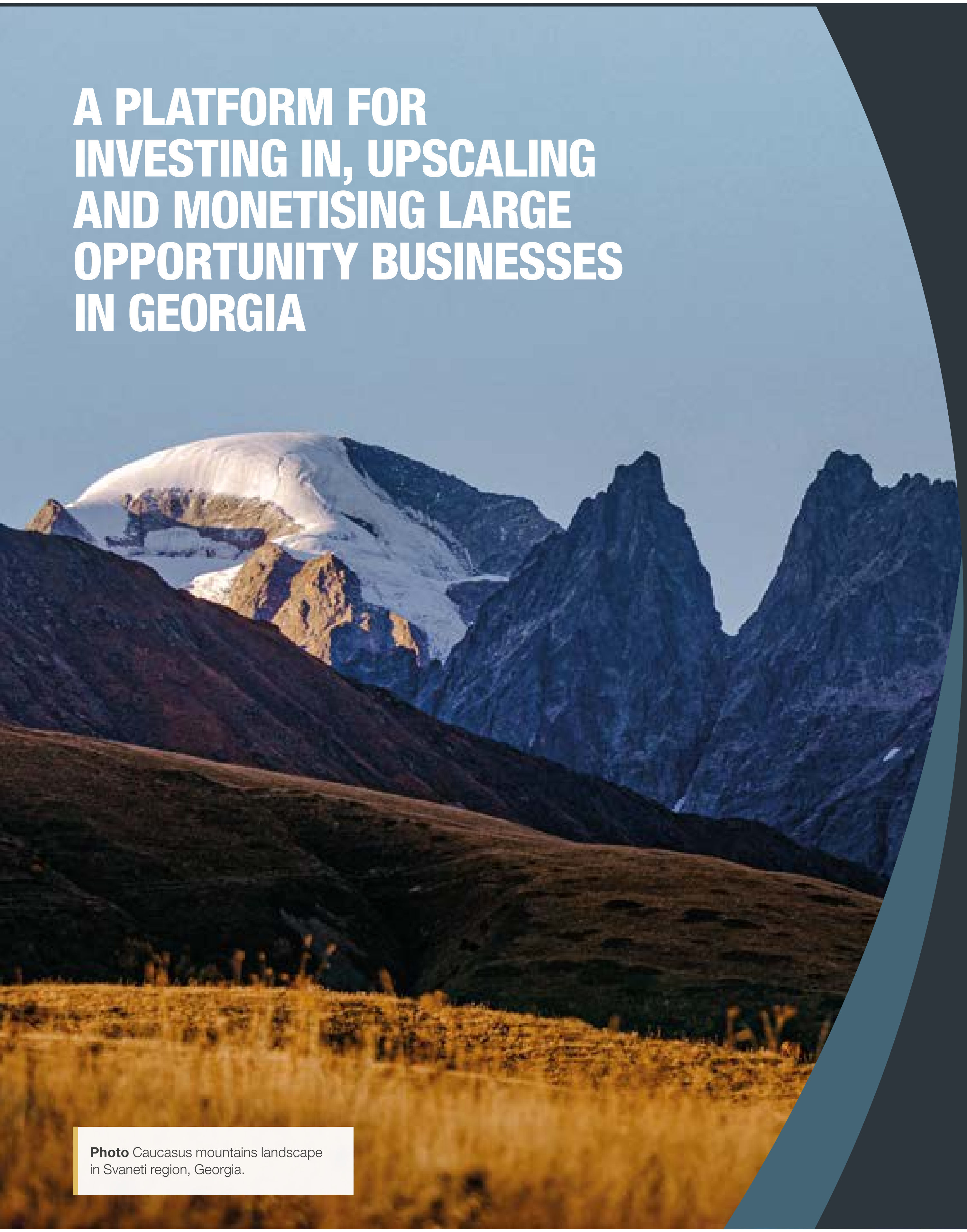
GEORGIA CAPITAL

ANNUAL REPORT 2022

# CREATING VALUE BY CAPTURING CAPITAL-LIGHT INVESTMENT OPPORTUNITIES

Georgia Capital PLC

GEORGIA CAPITAL



# A PLATFORM FOR INVESTING IN, UPSCALING AND MONETISING LARGE OPPORTUNITY BUSINESSES IN GEORGIA

**Photo** Caucasus mountains landscape in Svaneti region, Georgia.

Georgia Capital PLC ("Georgia Capital" or "GCAP" or "the Company" – LSE: CGEO LN) is a platform for buying, building and developing businesses in Georgia and monetising investments, as they mature. Georgia Capital PLC holds 100% of the share capital of JSC Georgia Capital ("JSC GCAP"), which together make up a group of companies (the "Group" or "GCAP HoldCo").

The Group's primary business is to develop or buy businesses, help them develop their management and institutionalise their businesses that can further develop mainly on their own, either with continued oversight or independently. The Group's focus is typically on larger-scale investment opportunities in Georgia, which have the potential to reach at least GEL 300 million equity value over three to five years from the initial investment and to monetise them through exits, as investments mature. Georgia Capital manages its portfolio companies individually and does not focus on achieving intergroup synergies. The Group does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. As such, it focuses on shareholder returns and on opportunities which meet its investment return and growth criteria.

## CHAIRMAN AND CEO STATEMENT

Read our **Chairman and CEO Statement** on pages 16 to 18

## STRATEGY

Read about **Georgia Capital Strategy** on pages 20 to 23

## PORTFOLIO

Read about our **portfolio companies** on pages 38 to 63

For more information on Georgia Capital visit:

**georgiacapital.ge**

# PERFORMANCE HIGHLIGHTS



## GEORGIA CAPITAL NAV OVERVIEW

NAV per share (GEL)
**65.56** +4.0% y-o-y

NAV per share (GBP)
**20.12** +33.2% y-o-y

Net Asset Value (NAV) (GEL million)
**2,817** -2.3% y-o-y

Total portfolio value (GEL million)
**3,199** -11.5% y-o-y

Liquid assets and loans issued (GEL million)
**439** +2.8% y-o-y

NCC[1] ratio
**21.1%** -10.8 ppts y-o-y

## PORTFOLIO BREAKDOWN (GEL MILLION)

### LISTED AND OBSERVABLE PORTFOLIO

Value: 985
30.8% of the total portfolio value

### PRIVATE PORTFOLIO

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

### LARGE PORTFOLIO COMPANIES

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

**BANK OF GEORGIA**
Value: 830
26.0% of the total

**RETAIL (PHARMACY)**
Value: 725
22.7% of the total

**HOSPITALS[2]**
Value: 433
13.5% of the total

**INSURANCE (P&C AND MEDICAL)**
Value: 280
8.8% of the total

### INVESTMENT STAGE PORTFOLIO COMPANIES

Value: 501; 15.7% of the total portfolio value

**WATER UTILITY**
Value: 155
4.8% of the total

**RENEWABLE ENERGY**
Value: 225
7.0% of the total

**EDUCATION**
Value: 164
5.1% of the total

**CLINICS AND DIAGNOSTICS[2]**
Value: 112
3.5% of the total

**OTHER BUSINESSES**
Value: 274
8.6% of the total

1 Please see definition in glossary on page 213.
2 As presented elsewhere in this report, in 2022, the healthcare services business was split into two individual businesses (hospitals, and clinics and diagnostics) given the differences in their stage of development.



## GEORGIA CAPITAL PERFORMANCE (GEL MILLION)

### TOTAL PORTFOLIO VALUE CREATION[1]

**34** -95.5% y-o-y

### LISTED AND OBSERVABLE

**206** +25.4% y-o-y

| BANK OF GEORGIA | WATER UTILITY |
|---|---|
| 190 | 16 |
| +15.9% y-o-y | NMF |

### PRIVATE BUSINESSES

**(172)** NMF

| LARGE PORTFOLIO COMPANIES | INVESTMENT STAGE PORTFOLIO COMPANIES | OTHER PORTFOLIO COMPANIES |
|---|---|---|
| (71) | 13 | (114) |
| NMF | NMF | NMF |

Investments[2]
**196** NMF

Buybacks[3]
**83** NMF

Divestments
**(558)** NMF

Dividend income
**94** +26.2% y-o-y

Net income
**1** -99.8% y-o-y

**OUR STRATEGY**
Read about our **Strategy** on page 20

1 The detailed value creation drivers for each business are described on pages 103-122 in the results section of this report.
2 Includes the conversion of GEL 170 million issued loans to our private businesses into equity.
3 Includes both the buybacks under the share buyback and cancellation programme and for the management trust.

Certain financial measures presented in the Strategic Review are taken from unaudited management accounts. The figures from the management accounts are alternative performance measures (APMs) and are described on page 96, and the differences from, and the reconciliation to, the IFRS audited accounts are presented on pages 99 to 100.

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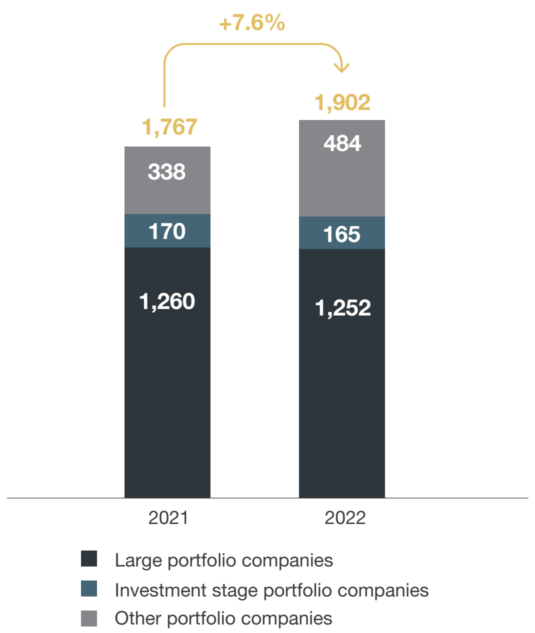
# PERFORMANCE HIGHLIGHTS CONTINUED



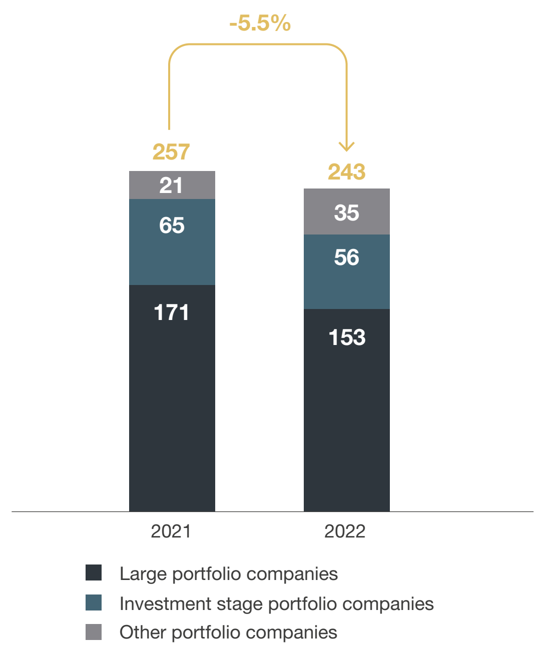
## PRIVATE PORTFOLIO COMPANIES' PERFORMANCE HIGHLIGHTS (UNAUDITED)[1]

Our 2022 performance reflects the high level of resilience of our portfolio companies, bolstered by the outstanding growth of the Georgian economy, which has enabled Georgia Capital to deliver substantial progress and value creation in 2022.

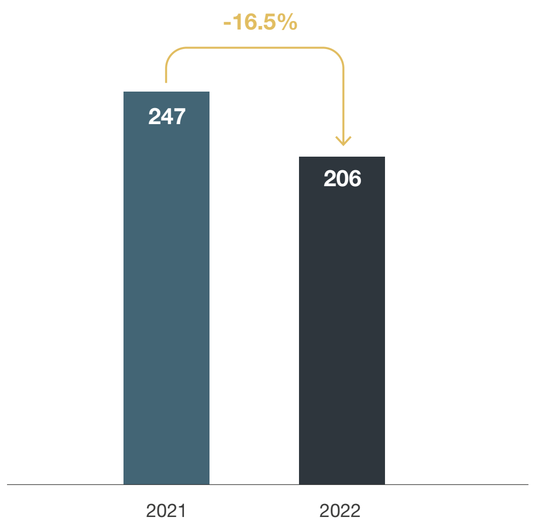
**Aggregated revenue (GEL million)**



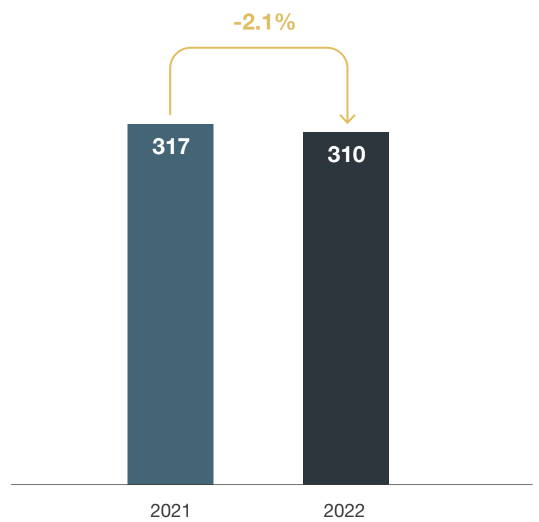

**Aggregated EBITDA (GEL million)**




**Aggregated net operating cash flow (GEL million)**




**Aggregated cash balances of private businesses (GEL million)**




**Organic transition to revenue growth strategy from previously adopted cash preservation strategy**

1 The portfolio companies' performance highlights include aggregated stand-alone unaudited IFRS results for our portfolio companies, which can be viewed as APMs for Georgia Capital, since Georgia Capital does not consolidate its subsidiaries, but instead measures them at fair value under IFRS. In the Strategic Review, various stand-alone figures other than those derived from our NAV statement for the individual portfolio companies and the discussion of their business developments are derived from their separate, individual unaudited IFRS accounts. Private portfolio companies' performance highlights are presented excluding the water utility business.

### Listed and observable portfolio companies

**Bank of Georgia**

Bank of Georgia Group PLC ("Bank of Georgia" or "BoG" or "BoGG" – LSE: BGEO LN) is a UK incorporated holding company, comprising a) retail banking and payment services, and b) corporate banking and investment banking operations in Georgia. BoG expects to benefit from superior growth of the Georgian economy through both its retail banking and corporate and investment banking services and aims to deliver on its strategy and key medium-term objectives – at least 20% return on average equity (ROAE) and c.10% growth of its loan book. BoG targets to maintain a 30%-50% dividend/share buyback payout ratio through regular and progressive semi-annual capital distributions. BoG's Annual Report 2022, when published, will be available at **www.bankofgeorgiagroup.com**. As of 31 December 2022, Georgia Capital owns a 20.6% non-voting equity stake in BoG (31 December 2021: 19.9%).

**Water Utility**

The water utility business is a regulated monopoly in Tbilisi and the surrounding area, where it provides water and wastewater services to 1.4 million residents representing more than one-third of Georgia's population and c.39,900 legal entities. The water utility business also operates hydro power plants (HPPs) with a total installed capacity of 149MW. In 2022, Georgia Capital completed the sale of an 80% equity interest in the business to FCC Aqualia ("Aqualia") for a cash consideration of US$ 180 million. As a consequence, GCAP owns a 20% interest in the business as of 31 December 2022 (31 December 2021: 100%), which remains subject to the ongoing put/call option structure. Please see further details on page 12.

### Private large portfolio companies

**Retail (Pharmacy)**

The retail (pharmacy) business is the largest pharmaceuticals retailer and wholesaler in Georgia, with a 35% market share by revenue. The business consists of a retail pharmacy chain and a wholesale business that sells pharmaceuticals and medical supplies to hospitals and pharmacies. The business operates a total of 372 pharmacies (of which 362 are in Georgia and ten are in Armenia) and 12 franchise stores. GCAP owns a 77% stake in the retail (pharmacy) business as of 31 December 2022 (31 December 2021: 67%).

**Hospitals**

The hospitals business is the largest healthcare market participant in Georgia. The business is comprised of 16 referral hospitals with a total of 2,524 beds, providing secondary and tertiary level healthcare services across Georgia. As of 31 December 2022, the hospitals business is 100% owned by Georgia Capital (31 December 2021: 100%).

**Insurance**

The insurance business comprises a) property and casualty (P&C) insurance business, and b) medical insurance business. GCAP owns a 100% stake in the business as of 31 December 2022 (31 December 2021: 100%).

The **P&C insurance** business is a leading player in the local insurance market with a 27.4% market share in P&C insurance based on gross premiums as of 30 September 2022. The P&C insurance business also offers a variety of non-P&C products such as life insurance.

Our **medical insurance** business is one of the country's largest private medical insurers, with a 19% market share based on 9M22 net insurance premiums. The business offers a variety of medical insurance products primarily to Georgian corporate and retail clients and (selectively) to state entities.

### Private investment stage portfolio companies

**Renewable Energy**

The renewable energy business operates three wholly-owned commissioned renewable assets: 30MW Mestiachala HPP, 20MW Hydrolea HPPs and 21MW Qartli wind farm. In addition, a pipeline of up to 172MW projects are in a varying stage of development. The renewable energy business is 100% owned by Georgia Capital as of 31 December 2022 (31 December 2021: 100%).

**Education**

Our education business currently combines majority stakes in four private school brands operating across five campuses, acquired in 2019-2021: British-Georgian Academy and British International School of Tbilisi (70% stake), the leading schools in the premium and international segments; Buckswood International School (80% stake), well-positioned in the midscale segment and Green School (80%-90% ownership), well-positioned in the affordable segment.

**Clinics and Diagnostics**

The clinics business is the largest market participant on Georgia's outpatient market, with 21% market share by number of registered patients. The clinics and diagnostics business comprises two segments: 1) Clinics: 19 community clinics with 353 beds (providing outpatient and basic inpatient healthcare services), 17 polyclinics (providing outpatient diagnostic and treatment services), and 17 lab retail points at GPC pharmacies; and 2) Diagnostics, operating the largest laboratory in the entire Caucasus region – "Mega Lab". As of 31 December 2022, the clinics and diagnostics business is 100% owned by Georgia Capital (31 December 2021: 100%).

**PORTFOLIO COMPANIES**

Read more about our **Portfolio Companies** on pages 38-63



**Georgia Capital PLC** Annual Report 2022

# VALUE CREATION

## DEFENSIVE, NON-CYCLICAL, HIGH-QUALITY ASSETS WITH STRONG AND GROWING CASH FLOW STREAMS
## c.90% OF THE TOTAL PORTFOLIO IS VALUED EXTERNALLY AS AT 31 DECEMBER 2022

| | AT 31-DEC-22 | PORTFOLIO VALUE | VALUE CREATION IN 2022 | MULTIPLE OF INVESTED CAPITAL (MOIC) UNREALISED | OWNERSHIP | | VALUATION METHODOLOGY HIGHLIGHTS[1] |
|---|---|---|---|---|---|---|---|
| LISTED AND OBSERVABLE PORTFOLIO COMPANIES | BANK OF GEORGIA | GEL million 830 | GEL million 190 | 10.0x | Bank of Georgia (BoG) | 20.6% | LSE |
| | WATER UTILITY | GEL million 155 | GEL million 16 | 3.6x[2] | Water Utility | 20% | Pre-agreed put option multiple |
| PRIVATE PORTFOLIO COMPANIES | LARGE PORTFOLIO COMPANIES CLOSE TO GEL 300MLN+ IN VALUE | GEL million 1,438 | GEL million (71) | 4.5x | Retail (Pharmacy) | 77% | Valued externally (combination of DCF and market approaches) |
| | | | | | Hospitals | 100% | |
| | | | | | Insurance | 100% | |
| | INVESTMENT STAGE PORTFOLIO COMPANIES WITH POTENTIAL TO BECOME GEL 300MLN+ IN VALUE | GEL million 502 | GEL million 13 | 1.8x | Renewable Energy | 100% | Valued externally (combination of DCF and market approaches) |
| | | | | | Education | 70%-90% | |
| | | | | | Clinics and Diagnostics | 100% | |
| | OTHER PORTFOLIO COMPANIES LIMITED POTENTIAL TO BECOME GEL 300MLN+ IN VALUE | GEL million 274 | GEL million (114) | | | | |
| | TOTAL PORTFOLIO | GEL million 3,199 | GEL million 34 | | | | |

1 The detailed valuation methodology is described on pages 101-102 of this report.

2 In 2022, Georgia Capital completed the sale of an 80% equity interest in the water utility business for a cash consideration of US$ 180 million. The sale valuation translates into 2.7x MOIC in US$, of which 2.2x is realised (3.6x MOIC in GEL, of which 3.0x is realised). See page 12 for details.

**Photo** View of Tbilisi, capital of Georgia.

# 2022 IN BRIEF

## UPDATE OF OUR STRATEGY, ANNOUNCED AT OUR 2022 INVESTOR DAY

In 2022, the Group introduced its updated strategy, where Georgia Capital will focus on:

**01. INVESTING IN CAPITAL-LIGHT OPPORTUNITIES ONLY**

**02. ADAPTING THE CAPITAL MANAGEMENT FRAMEWORK**

**03. PUTTING ESG AT THE CORE OF THE GROUP'S STRATEGY**

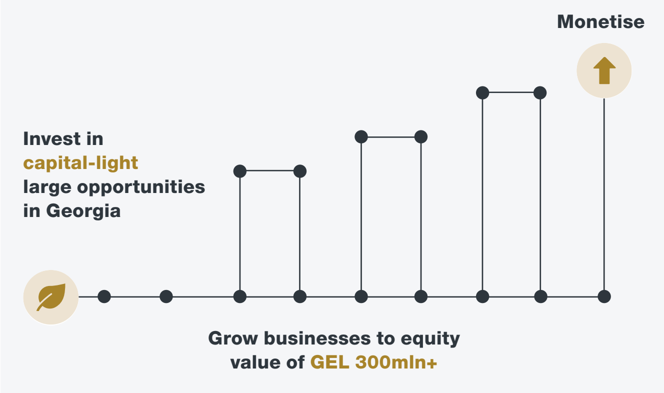
**Photo** Svaneti, Georgia.

## 01. INVESTING IN CAPITAL-LIGHT OPPORTUNITIES ONLY

### STRONG VALUE CREATION POTENTIAL WITHOUT SIGNIFICANT CAPITAL COMMITMENTS

- Georgia Capital will continue to invest in Georgia in sectors not requiring intensive capital commitments.
- GCAP will also enable its 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.
- In capital heavy industries, Georgia Capital will seek to manage third-party money and/or establish partnerships.

In addition, the minimum potential exit threshold required for business investment was reduced from GEL 500+ million to GEL 300+ million as our experience has demonstrated that businesses with a GEL 300+ million equity value in Georgia are very attractive to potential investors. We believe the new targeted exit threshold will increase the liquidity of our portfolio companies and improve the exit opportunities.




### MAPPING EXISTING PORTFOLIO TO THE REGIONAL GROWTH OPPORTUNITIES

| | | Large | Capital-light | Current regional expansion potential | Long-term regional expansion potential |
|---|---|---|---|---|---|
| LARGE PORTFOLIO COMPANIES | Hospitals | ✓ | ✗ | ✗ | ✗ |
| | Retail (Pharmacy) | ✓ | ✓ | ✓ | ✓ |
| | Insurance (P&C and Medical) | ✓ | ✗ | ✗ | ✗ |
| INVESTMENT STAGE PORTFOLIO COMPANIES | Renewable Energy | ✗ | ✗ | ✗ | ✗ |
| | Education | ✗ | ✓ | ✗ | ✓ |
| | Clinics and Diagnostics | ✗ | ✓ | ✗ | ✓ |

**Strong track record in tapping big opportunities with small investments by consolidating fragmented industries, especially in service-oriented sectors**

## 02. ADAPTING THE CAPITAL MANAGEMENT FRAMEWORK

In 2022, the Group introduced a Net Capital Commitment Navigation Tool, which is an integral part of GCAP's existing 360-degree framework and drives the Group's share buyback and investment decisions (see page 32 for details). NCC represents an aggregated view of all confirmed, agreed and expected capital outflows at the GCAP holding company level. An NCC ratio (NCC as a percentage of the total portfolio value) between 15%-40% will lead to tactical share buybacks/investments, whilst an NCC ratio below 15% is expected to generate more meaningful share buybacks/investments.

| US$ million | 31-Dec-21[1] | Change | 31-Dec-22 |
|---|---|---|---|
| Cash and liquid funds | 87.9 | 73.4% | 152.4 |
| Loans issued | 7.0 | 42.8% | 9.9 |
| Gross debt | (367.3) | -17.4% | (303.3) |
| **Net debt (1)** | **(272.4)** | **-48.2%** | **(141.0)** |
| **Guarantees issued (2)** | **(17.9)** | **-61.7%** | **(6.8)** |
| ***Net debt and guarantees issued (3) = (1) + (2)*** | ***(290.2)*** | ***-49.1%*** | ***(147.8)*** |
| **Planned investments (4)** | **(42.6)** | **22.9%** | **(52.3)** |
| *of which, planned investments in Renewable Energy* | *(32.9)* | *-8.6%* | *(30.1)* |
| *of which, planned investments in Education* | *(9.7)* | *NMF* | *(22.3)* |
| **Announced buybacks (5)** | **(3.0)** | **NMF** | **–** |
| **Contingency/liquidity buffer (6)** | **(50.0)** | **NMF** | **(50.0)** |
| ***Total planned investments, announced buybacks and contingency/liquidity buffer (7) = (4) + (5) + (6)*** | ***(95.6)*** | ***7.0%*** | ***(102.3)*** |
| **Net capital commitment (3) + (7)** | **(385.8)** | **-35.2%** | **(250.1)** |
| **Portfolio value** | **1,210.3** | **-2.2%** | **1,183.8** |
| **NCC ratio** | **31.9%** | **-10.8 ppts** | **21.1%** |

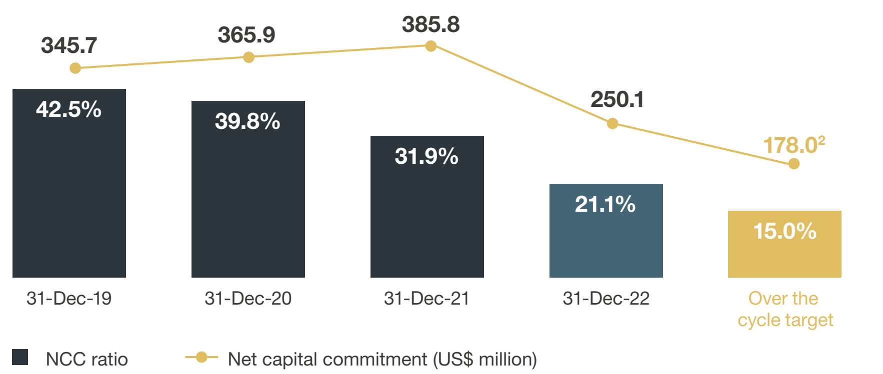
1 Loans issued balance and portfolio value as at 31 December 2021 reflect the retrospective conversions of the loans issued to our other businesses into equity.

### DE-RISKING GCAP BY DELEVERAGING

Deleveraging the Group's balance sheet, at a time of potential economic and regional instabilities, is a key priority to safeguard our portfolio, and enable the Group to take advantage of attractive investment opportunities that may arise as a result of those instabilities.

- The Group targets to bring down the NCC ratio below 15% by December 2025 and maintain it at the targeted level over the economic cycle.
- In light of a worldwide rising interest rate environment, we are targeting to reduce the balance of "net debt and guarantees issued" close to zero over the medium term.

#### NCC AND NCC RATIO DEVELOPMENT OVERVIEW[1]




1 Reflect the retrospective conversion of the loans issued to our real estate and beverages businesses into equity.
2 Assuming the application of the 15% NCC ratio target to the total portfolio value as at 31 December 2022.

## 02. ADAPTING THE CAPITAL MANAGEMENT FRAMEWORK CONTINUED

### DELEVERAGING ACROSS OUR PRIVATE PORTFOLIO

In line with the Group's capital management frameworks, individual leverage targets for the private portfolio companies were developed.

**ADJUSTED NET DEBT/EBITDA**

| | | 31-Dec-21 | Change | 31-Dec-22 | Target (over the cycle) |
|---|---|---|---|---|---|
| LARGE PORTFOLIO COMPANIES | Retail (Pharmacy)[1] | 1.9x | -0.3x | 1.6x | Up to 1.5x |
| | Hospitals | 2.2x | +1.2x | 3.4x | Up to 2.0x |
| | Insurance (P&C and Medical) | No leverage | NMF | No leverage | No leverage |
| INVESTMENT STAGE PORTFOLIO COMPANIES | Renewable Energy[2] | 8.0x | -1.6x | 6.4x | Up to 6.0x |
| | Education | 1.6x | -0.4x | 1.2x | Up to 2.5x |
| | Clinics and Diagnostics | 1.9x | +3.4x | 5.3x | Up to 2.0x |

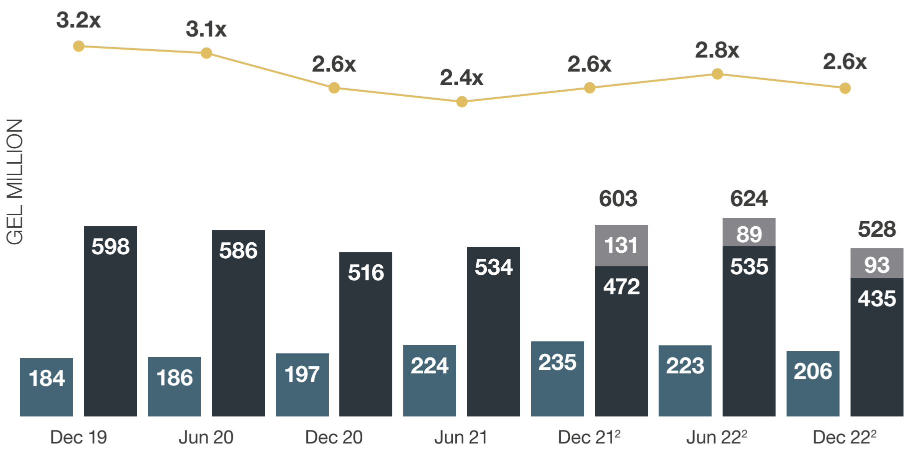
Figures for Retail (Pharmacy), Hospitals and Clinics and Diagnostics are given excluding IFRS 16 effects; net debt/EBITDA is adjusted for capital commitments.

1 Includes the application of the minority buyout agreement.
2 Renewable energy ratio is calculated in US$ terms.

### AGGREGATED LEVERAGE OVERVIEW ACROSS OUR LARGE AND INVESTMENT STAGE PORTFOLIO COMPANIES

Despite headwinds from COVID-19 and the Russia-Ukraine war, the leverage profile across our large and investment stage portfolio companies improved over the last two years.

**ADJUSTED[1] NET DEBT/EBITDA DEVELOPMENT OVERVIEW**




Figures for Hospitals, Retail (Pharmacy) and Clinics and Diagnostics are given excluding IFRS 16 effects.

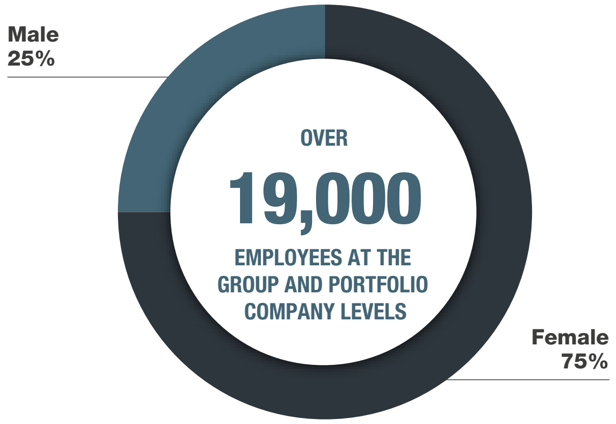
1 Adjusted for capital commitments.
2 Includes the application of the minority buyout agreement in the retail (pharmacy) business.



## 03. PUTTING ESG AT THE CORE OF GCAP'S STRATEGY

As the largest employer in the Georgian private sector, our Group and portfolio companies are 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 environmental, social and governance (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.

### LARGEST EMPLOYER IN THE GEORGIAN PRIVATE SECTOR




### WE INVEST IN INDUSTRIES WHICH HAVE POSITIVE IMPACT ON PEOPLE AND PLANET

Our healthcare businesses contribute to the development of the Georgian healthcare system and the well-being of our society as a whole.

Our education business makes a significant contribution to Georgia's education system and the development of the country's younger generation.

Through a number of green projects, our renewable energy business supports climate change mitigation, natural resources conservation and pollution prevention.

Our auto service business is directly engaged in the reduction of greenhouse gas (GHG) emissions.

The Group is committed to enhancing its ESG monitoring and reporting framework, in line with internationally accepted standards, and continues to ensure the incorporation of relevant ESG practices into both GCAP HoldCo and portfolio company operations.

At the 2022 Investor Day, Georgia Capital introduced its strategic priority to set measurable ESG targets at both GCAP HoldCo and portfolio company levels, which has been executed as set out in detail later in this report and in our Sustainability Report.

**GHG emissions reduction targets at GCAP HoldCo and portfolio company levels**

**30%**
Reduction of Scope 1 and 2 emissions by 2030

**95%**
Reduction of Scope 1 and 2 emissions by 2050 and becoming Net-Zero

For the details on environmental targets please refer to the section "Metrics and targets" in our TCFD disclosures on page 94.

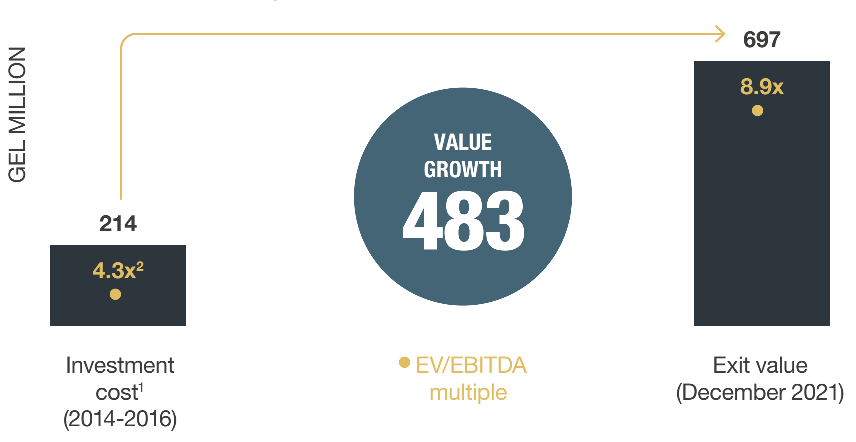
**Photo** Zhinvali Reservoir, Dusheti Municipality, Georgia.

## COMPLETION OF THE WATER UTILITY BUSINESS SALE

In 2022, Georgia Capital successfully completed the sale of an 80% equity interest in the water utility business to Aqualia for a cash consideration of US$ 180 million. The disposal represents our most significant monetisation event to date and marks the completion of the full investment cycle for one of our large portfolio businesses: from acquisition and development, to cash exit.

## VALIDATING OUR STRATEGY THROUGH THE SUCCESSFUL SALE OF THE WATER UTILITY BUSINESS

### DELIVERING ON OUR KEY STRATEGIC PRIORITY TO DISPOSE OF ONE OF OUR LARGE PORTFOLIO COMPANIES




1 A 25% equity interest in the water utility business was acquired in 2014, and the remaining 75% in 2016.
2 Represents the multiple at an acquisition of a 75% interest in the water utility business in 2016.

**GEL 97.1 million dividends collected from the water utility business since acquisition**

- The sale valuation translates into 2.7x MOIC in US$ (3.6x MOIC in GEL) and 20% internal rate of return (IRR) in US$ (27% IRR in GEL).
- The disposal brought a high-quality international investor and excellent industry expertise into Georgia.

**The disposal of an 80% equity interest in the water utility business was implemented via a two-staged process:**

- The first stage of the transaction, which considered the initial sale of a 65% equity interest in Georgia Global Utilities JSC (GGU), the holding company for GCAP's water utility business and the operational renewable energy assets (representing an 80% economic interest in the water utility business), was successfully completed on 3 February 2022 with the receipt of full sales proceeds and transfer of respective shares of GGU to Aqualia.
- The second stage of the transaction was conditional upon (a) obtaining antitrust clearance and (b) the redemption of GGU's US$ 250 million 7.750% Eurobond due 2025, which took place in September 2022. Both of these conditions have been satisfied. The Eurobond was redeemed in part by way of US$ 90 million financing provided by Georgia Capital. Out of US$ 90 million, a US$ 80 million shareholder loan from GCAP was repaid by the business in October 2022, from the proceeds of a US$ 80 million green secured bond placement on the local market, as discussed in more detail on page 13 of this report.

As a consequence, Georgia Capital now owns 100% of the renewable energy assets previously held by GGU, and a 20% interest in the water utility business, which remains subject to the ongoing put/call option structure between Georgia Capital and Aqualia. GCAP's put option will be exercisable in 2025-2026 while Aqualia's call option will be exercisable on the date of expiry of the put option in 2026 and expiring six months thereafter. The exercise price of the put and call options are set at 8.25x and 8.90x EV/EBITDA multiple, respectively, based on the normalised EBITDA and net debt of the business.



## MILESTONE TRANSACTIONS ON THE GEORGIAN CAPITAL MARKET

In 2022, our renewable energy and housing development businesses successfully completed bond placements on the Georgian capital market. The transactions, completed during challenging debt capital market conditions, represent milestone achievements for the businesses and once again demonstrates our superior access to capital.

**Renewable Energy**
Our renewable energy business closed a US$ 80 million green secured bond offering, which represents the largest-ever corporate bond placement in Georgia. The notes are US$-denominated with 5-year bullet maturity (callable after two years) and carry a 7.00% coupon. The proceeds of the notes were fully used to refinance the shareholder loan from GCAP, provided for redeeming the renewable energy business' portion of GGU's US$ 250 million 7.75% Eurobond.

The issuance was supplemented by a second-party opinion from Sustainalytics, a leading provider of ESG research and analysis, for its Green Bond Framework. Galt and Taggart JSC and TBC Capital LLC acted as placement agents for the transaction. The issuance was supported by long-standing partners of the business – the Dutch Development Bank (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. ("FMO")), the Asian Development Bank (ADB), the International Finance Corporation (IFC), and the European Bank for Reconstruction and Development (EBRD). FMO, ADB and IFC acted as anchor banks for the transaction.


**Housing Development**
Our housing development business issued a US$ 35 million 2-year bond, carrying an 8.5% coupon. Full proceeds of the notes were used to refinance the 3-year 7.5% coupon US$ 35 million local bonds that matured on 7 October 2022.

## 2022 IN BRIEF CONTINUED

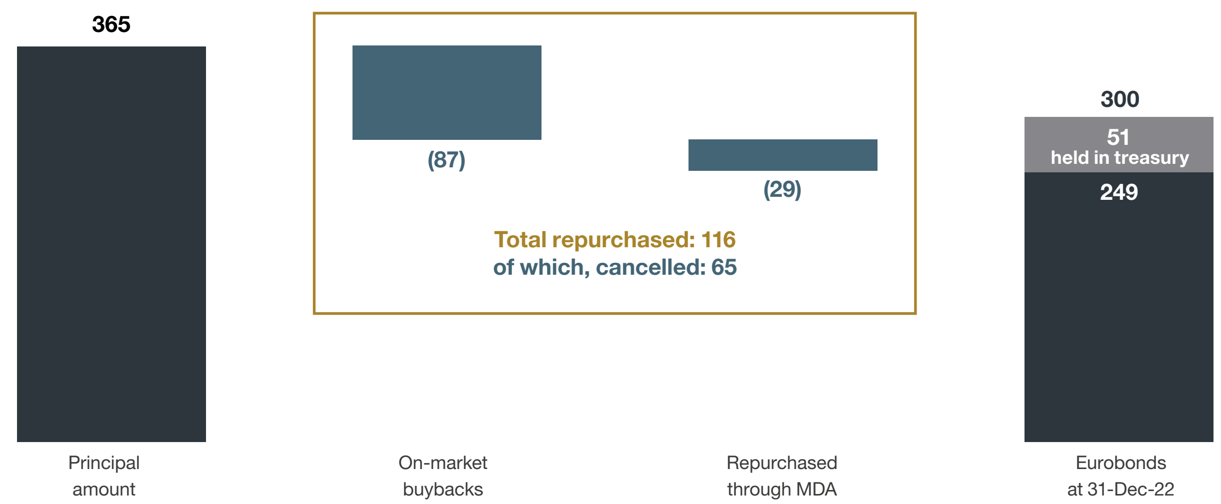
### BUYBACK OF GCAP EUROBONDS

In October 2022, we conducted a Modified Dutch Auction (MDA) through which we bought back US$ 29 million GCAP Eurobonds. The purchase price was set at US$ 880 per US$ 1,000 in principal amount of the notes. In addition to the tendered amount, we had accumulated US$ 87 million GCAP Eurobonds through repurchases on the open market. Upon completion of the MDA we cancelled US$ 65 million notes, decreasing our outstanding gross debt balance to US$ 300 million and leaving US$ 51 million GCAP Eurobonds in our treasury. The transaction is in line with our key strategic priority to deleverage Georgia Capital's balance sheet.

## STRONG PROGRESS ON OUR KEY STRATEGIC PRIORITY OF DELEVERAGING GCAP

### GCAP EUROBOND BUYBACKS OVERVIEW

(US$ million)




### CORPORATE CREDIT RATINGS

**In 2022, our corporate credit ratings were upgraded by Moody's and Standard & Poor's (S&P), reflecting the ongoing strong liquidity at GCAP level and a robust balance sheet and capital allocation management.**

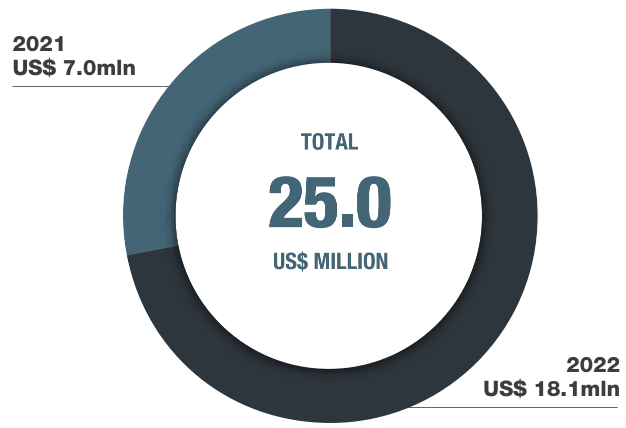
**MOODY'S**
**B1**
**UP FROM B2**

**S&P**
**B+**
**UP FROM B**

### THE SHARE BUYBACK AND CANCELLATION PROGRAMME IN 2022

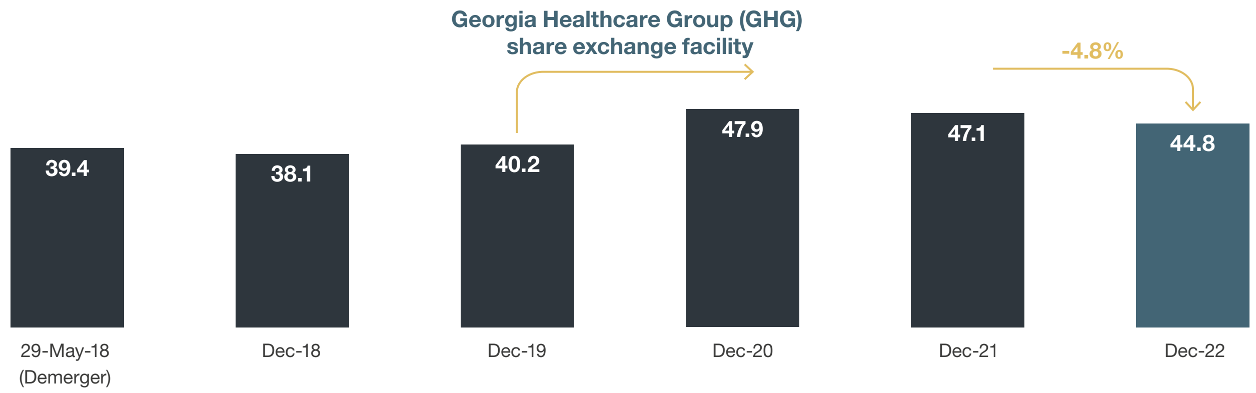
In 2022, 2,252,341 shares were repurchased under the US$ 25 million share buyback and cancellation programme. The total value of shares repurchased amounted to GEL 54.3 million (US$ 18.1 million). Since the commencement of the buyback programme in August 2021, 3,075,923 shares have been repurchased and cancelled, corresponding to GEL 76.2 million (US$ 25.0 million) in value.

**Since its commencement in August 2021, c.7% of issued capital has been repurchased under the US$ 25 million share buyback and cancellation programme as of 31 December 2022.**




### NUMBER OF ISSUED SHARES DEVELOPMENT OVERVIEW

(Million)



# CHAIRMAN AND CEO STATEMENT

**Irakli Gilauri**
**Chairman and Chief Executive Officer**

**"WE ALWAYS BELIEVED THAT GEORGIA CAPITAL, WITH ITS STRONG MIX OF BUSINESS INVESTMENTS IN DEFENSIVE SECTORS, AND VERY WELL MANAGED AND CONSERVATIVELY POSITIONED OPERATING COMPANIES, WAS WELL POSITIONED TO WITHSTAND THE POTENTIAL PRESSURES OF SLOWER REGIONAL ECONOMIC GROWTH, AND THIS PROVED TO BE THE CASE AS THE EVENTS OF 2022 UNFOLDED."**

**Dear Fellow Shareholders,**

This is my fifth annual letter to Georgia Capital shareholders, and I am writing it against the backdrop of the continued devastating impact of the Russia-Ukraine war. It was unimaginable to me, when I wrote last year's annual letter, that 12 months later I would still be writing about an ongoing conflict, and a time of such significant continued regional and geopolitical uncertainty. Our thoughts and prayers continue to focus on a swift resolution to the hostilities.

In February 2022, at the beginning of the war in Ukraine, we expected to see a significant and negative impact on all the regional economies, with resilience being the watch word for all countries and company managers and policy makers. We always believed that Georgia Capital, with its strong mix of business investments in defensive sectors, and very well managed and conservatively positioned operating companies, was well positioned to withstand the potential pressures of slower regional economic growth, and this proved to be the case as the events of 2022 unfolded. Our portfolio has demonstrated strong resilience and robustness.

From the start, our aim has been to invest in high quality businesses with great market positions, high returns and the ability to deliver sustainable earnings growth. This aim continued to guide us in 2022 and will continue to do so in the future. As Georgia Capital has evolved as an investment business during the last few years of significant geopolitical challenge, the Board and Investment Committee have kept a vigilant watch on ensuring that we maintain our core focus on the conservative management of our portfolio companies. In doing so, we have deleveraged the business from the high debt levels we had prior to the global pandemic-related slowdown and the recent escalation of regional tensions. In addition, our investment strategy has been to continue investing in capital light and capital efficient businesses, whilst considering the disposal of more capital intense, or low ROIC, businesses.

The discount of our share price to our NAV per share has widened over the last 12 months, however, the increase in our NAV per share, particularly in GBP terms, has exceeded the growth in our share price, and this has made the attractiveness for us to invest in Georgian businesses more challenging when compared to buying back our own shares. Notwithstanding the recent significant impacts of the global COVID pandemic and the Russia-Ukraine war, our NAV per share in GBP terms increased by 33.2% to GBP 20.12 over the last twelve months, and in the four year period from the end of 2018 by 54.2%, an 11.4% compound annual growth rate.

Our strategy during 2023 is to continue reducing leverage, de-risking the business by refinancing our Eurobond, due to mature in 2024, and then over time develop your Company into a sustainable permanent capital vehicle, seeking to invest mainly in capital efficient/capital light sectors and opportunities. In doing so, the Board believes that reducing our net capital commitment (NCC) ratio to below 15% will enable meaningful share buybacks/capital repatriations to take place.

I speak every year of Georgia Capital's three fundamental enablers on which our strategic thinking remains focused – our commitment to achieving the highest standards of corporate governance, which is a foundation of superior access to capital, and attracting and developing of highly talented management teams.

During 2022, your Company saw the benefit of these fundamental enablers as, despite the challenging external environment, we were able to continue achieving our key strategic priorities and increase our NAV per share by 4% year-on-year, whilst ensuring that we manage our businesses conservatively, prioritise the deleveraging of the business and maintain high levels of liquidity. This ensures that the business is fully prepared to withstand any potential sidewinds from the external environment.

**Our macroeconomic environment**
From a macroeconomic perspective, 2022 delivered a second consecutive year of double-digit growth, with real GDP expanding by an estimated 10.1% y-o-y in 2022, following a 10.5% growth in 2021. On the external side, strong foreign demand throughout the year was supplemented by substantial remittance inflows, with money transfers up by 86% y-o-y in 2022. Merchandise exports grew by 32% y-o-y, and tourism revenues reached 108% of 2019 levels in 2022, including 135% in 2H22, reflecting the global resumption of travel as well as significant inward migration, especially from neighbouring countries.

Surging foreign currency inflows resulted in a record high current account surplus of 6% of GDP in 3Q22, and an overall deficit of 2.7% of GDP in 9M22, Georgia's lowest on record. Foreign Direct Investment (FDI) inflows totalled US$ 1.7 billion, or 9.6% of GDP, in 9M22, up 100% y-o-y. On the domestic side, credit expansion has also been robust despite rising interest rates, as the commercial bank loan portfolio grew by 12.1% y-o-y as of December 2022 (on a constant currency basis). Additionally, while fiscal support has moderated, Georgia's fiscal stance remains expansionary, with current expenditures growing by 9% and capital expenditures expanding by 22% y-o-y in 2022. As the economy strengthened, the unemployment rate reached a historic low of 17.3% in 2022.

Despite the US dollar (US$) strengthening globally, the GEL has sustained its appreciation trend since mid-2021 and, compared to the beginning of 2022, has appreciated by 19.6% against the US$ as of 17 March 2023. This appreciation is driven by growing demand for Georgian exports, substantially increased remittance and migration inflows, robust economic activity, tight monetary policy and the strong tourism recovery. Moreover, GEL has appreciated not only against US$ but against a basket of all major trading partners, with the real effective exchange rate (REER) reaching a historic high in December 2022, up 15% y-o-y.

The fiscal deficit is projected to have shrunk to around 3.1% of GDP in 2022, as a result of the higher-than-expected growth, and is expected to return to under 3% of GDP in 2023, while public debt is projected to have fallen to under 40% of GDP, below pre-pandemic levels, by the end of 2022. The National Bank of Georgia (NBG) has maintained a tight monetary stance with the refinancing rate set at 11% since March 2022, reaffirming its commitment to pursue tight monetary policy until the current inflationary pressures subside. Inflation was 9.8% in December 2022 (11.9% on average in 2022) and 9.4% in January 2023, back to single digits following a peak of 13.9% in January 2022, and is expected to continue decelerating gradually in 2023.

As the length and the outcome of the war in Ukraine remain uncertain, the medium-long term effects on global and regional macroeconomic developments remain unclear. Despite substantial uncertainty enduring, Georgia's medium-term growth is projected to remain close to its potential level of 5%, according to the International Monetary Fund (IMF), positioning the country as one of the top performers in the region. In the short run, Georgia's external position is strong, as foreign currency inflows have been surging from multiple sources, resulting in a record-high current account surplus, FDI has risen and official reserve assets have reached a record high of US$ 4.9 billion by the end of 2022, providing ample cover.

**Delivering on our strategic priorities**
This Annual Report will go into greater detail later, but let me highlight here how we delivered on our strategic priorities in 2022.

Looking back, 2022 was an eventful year for the Group.

1) In what was a challenging global environment, we successfully completed the sale of an 80% interest in the water utility business to a high-quality international strategic investor for US$ 180 million. The disposal marked the completion of the full investment cycle for one of our large portfolio businesses and created substantial value for our shareholders.

2) Our renewable energy and housing development businesses closed milestone transactions on the Georgian capital market, and once again validated our superior access to capital. The US$ 80 million green secured bond offering by our renewable energy business represented the largest-ever corporate bond placement in Georgia.

3) Buybacks and cancellation of GCAP Eurobonds demonstrated strong progress on our key strategic priority of deleveraging GCAP. Through the end of 2022, we repurchased US$ 116 million GCAP Eurobonds, of which US$ 65 million were cancelled following a Modified Dutch Auction (MDA) in 4Q22. These positive developments in our leverage profile, coupled with our robust balance sheet and capital allocation processes, led to a 10.8 ppts decrease in the NCC ratio in 2022. This also resulted in an upgrade in our corporate credit ratings to "B1" by Moody's and "B+" by S&P (from "B2" and "B", respectively).

4) During 2022, under the US$ 25 million share buyback and cancellation programme, we repurchased 2,252,341 shares for a total consideration of GEL 54.3 million (US$ 18.1 million). This brings the total number of shares bought back and cancelled to 6.4% of issued capital since we launched the programme in August 2021.

**Proposed transfer from LSE premium to LSE standard listing**
In February 2022, we put forward to our shareholders a proposal to transfer Georgia Capital to a London Stock Exchange standard listing, which we consider is more suited to the Company's size and strategy and will help GCAP better achieve its strategic goals and produce greater value for shareholders. In particular, the transfer is expected to eliminate transaction delays and costs associated with regulatory class tests and ensure a more seamless execution of significant transactions, such as disposals/exits from portfolio companies. This will also enable your Company to minimise its dependency on market capitalisation fluctuations, especially in the current challenging market conditions, as our market capitalisation will no longer be the main factor in determining class test related transaction execution paths. The proposed transfer will also provide greater flexibility to execute meaningful share buybacks, including the ability to repurchase more than 15% of our issued equity capital without the requirement to make a tender offer. At a General Meeting on 14 March 2023, shareholders overwhelmingly approved this transaction, and we expect the transfer to a standard listing to become effective on 13 April 2023.

**Capital allocation and dividends**
During 2022, we allocated capital in three areas of business investment, and this translated into investment of GEL 53.4 million predominantly in our investment stage businesses:
- GEL 6.3 million was allocated to the education business;
- GEL 27.4 million was allocated to the renewable energy business for the conversion of a US$ 10 million shareholder loan into equity; and
- GEL 19.2 million was allocated to the housing development business for bridge financing purposes.

# **CHAIRMAN AND CEO STATEMENT** CONTINUED



During 2022, Georgia Capital collected GEL 93.9 million in dividends (2021: GEL 74.4 million), of which GEL 40.9 million was received from Bank of Georgia, GEL 16.0 million from retail (pharmacy), GEL 13.0 million from hospitals, GEL 14.7 million from P&C insurance, GEL 1.0 million from medical insurance, and GEL 8.2 million from the renewable energy businesses. Looking forward to 2023, we currently expect a significant uplift to approximately GEL 150-160 million in dividends from our portfolio companies.

**Value creation**
Our portfolio value decreased by 11.5% to GEL 3.2 billion during the year, mainly reflecting the disposal of an 80% interest in the water utility business, partially offset by strong growth in BoG's value.

Our listed investment – Bank of Georgia – continued to deliver its recent track record of exceptional performance, with an annualised ROAE of 32.4%, even excluding some net one-off gains, and particularly strong 43.2% deposit growth and 12.9% loan book growth, on a constant-currency basis, during 2022. The Bank is clearly making significant progress in its digital transformation, which is leading to strong customer franchise and revenue generation growth. Reflecting the strong performance alongside the economic recovery, BoG's share price increased by 56.2% in 2022, strongly supporting our NAV growth with GEL 190 million value creation. In addition, the Bank has a strong capital repatriation policy, including share buybacks and regular dividends and, on 15 February 2023, the Bank announced its board's intention to recommend a final dividend for 2022 of GEL 5.80 per ordinary share at the Bank's 2022 Annual General Meeting. This will make a total dividend paid in respect of the Bank's 2022 earnings of GEL 7.65 per share. In addition, in 2022 the Bank completed a GEL 112.7 million share buyback and cancellation programme and has announced, in February 2023, a further buyback programme totalling up to GEL 148 million.

The operating performance of our various **private portfolio investments** was solid, as evidenced by the aggregated revenue growth across the private portfolio of 7.6%, despite the impact of some external factors during 2022, particularly in the hospitals business which resulted in a reduction in EBITDA in 2022 of 5.5%.

This reflects the net impact of the healthy performance in our non-healthcare businesses and the dampening effect of the gradual organic return to a pre-pandemic environment for our hospitals and clinics and diagnostics businesses. Substantially lower COVID cases in Georgia led to the suspension of COVID contracts by the Government in March 2022 which, together with the sale of one of our hospitals in April 2022 and the temporary closure of another hospital towards the end of the year due to mandatory renovation works, impacted the y-o-y revenue and EBITDA growth of our hospitals business

The individual performances of our private businesses are described in greater detail later in this report.

**Environmental, social and governance**
We have put environmental, social and governance (ESG) issues at the forefront of our strategy and our commitment to the increasing importance of the ESG issues that we all face remains undimmed. There is significantly more detail later in this report and in our Sustainability Report with regard to the good progress we are making and we remain committed to providing more information to highlight our good work on ESG matters. We have a strong track record on governance issues and this track record will continue as we move to the LSE standard listing.

We invest in businesses and industries that have a positive impact on people and our planet:

- Our healthcare businesses contribute significantly to the development of the Georgian healthcare system, and the general well-being of Georgian society.
- Our education business significantly supports Georgia's education system and the development of the country's younger generation.
- Our renewable energy business, through a number of green projects, supports Georgia's climate change mitigation, natural resources conservation and pollution prevention.
- Our auto services business is directly engaged in the reduction of greenhouse gas emissions.

Our measurable ESG targets, which are being successfully achieved, are set out later in this report and in our Sustainability Report.

**The strength of our people**
I spend a great deal of my time mentoring and working with what is already an extremely talented group of business managers. Our management and people continue to be the core foundation of Georgia Capital's business performance.

I have written in many previous Annual Letters that we will never invest in businesses unless we have certainty that we have the very highest calibre of people to run them. That commitment remains as steadfast as ever, and I am delighted that the quality of people throughout the organisation continues to exceed my expectations. My thanks to each and every one of our employees for their continuing focus and commitment to Georgia Capital.

**Outlook**
Against the backdrop of a volatile environment, the strong performance of our portfolio companies coupled with our focus on improving the strength of our balance sheet and capital allocation management were instrumental to our robust 2022 results. We have made strong progress in deleveraging the business towards our targeted NCC ratio of 15%, while consistently growing NAV per share on the back of capital light and sustainable investments. Looking ahead, with greater flexibility and the more cost-effective structure that transferring to a standard listing is expected to bring, I believe that Georgia Capital is extremely well-positioned to deliver consistent NAV per share growth over the medium to long term, while also continuing to make significant progress on our key strategic priorities.

This Strategic Report as set out on pages 2 to 122 was approved by the Board of Directors on 23 March 2023 and signed on behalf by Irakli Gilauri, Chairman and Chief Executive Officer.

**Irakli Gilauri**
Chairman and CEO
23 March 2023

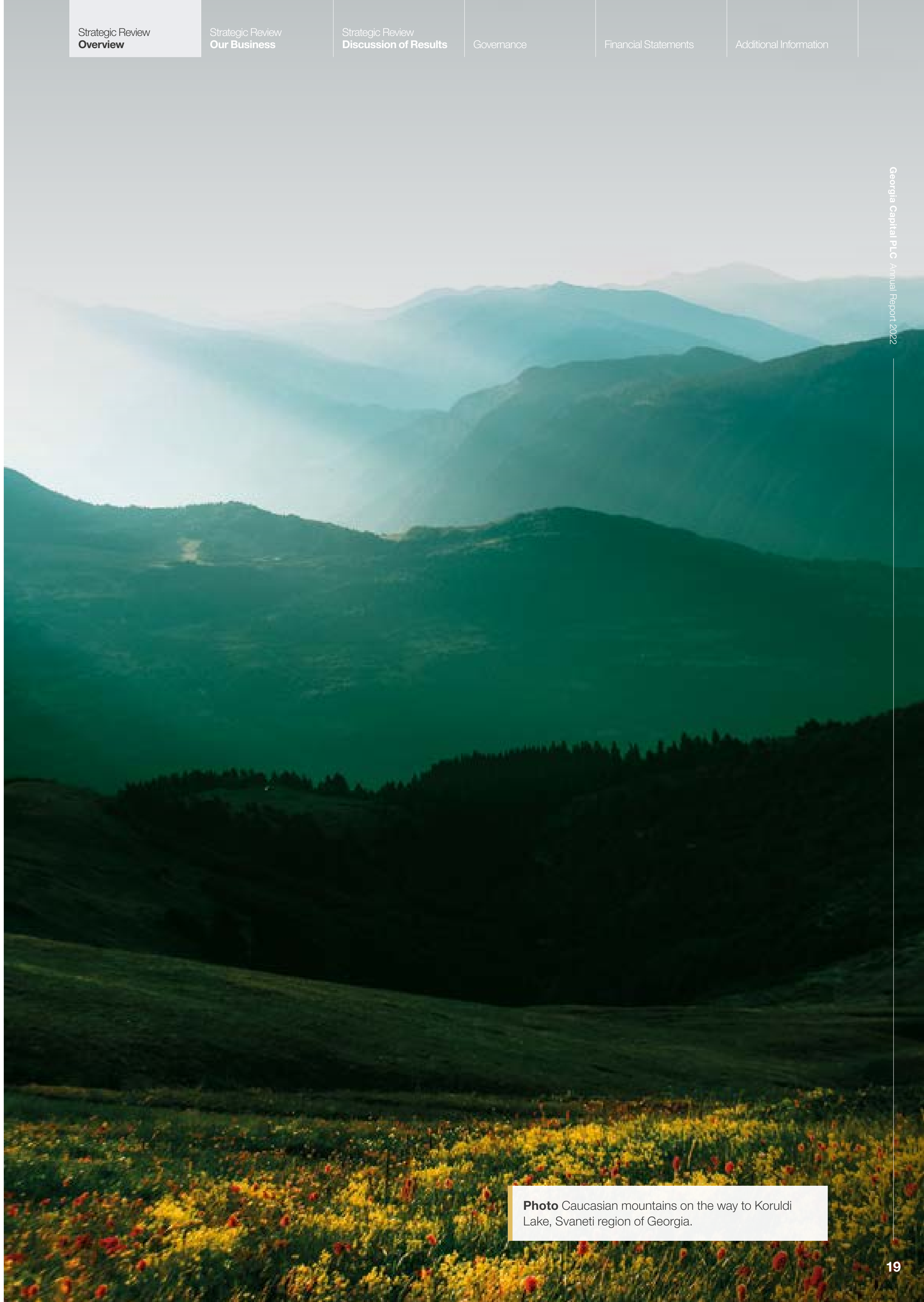


**Photo** Caucasian mountains on the way to Koruldi Lake, Svaneti region of Georgia.

**Georgia Capital PLC** Annual Report 2022

# GEORGIA CAPITAL STRATEGY

## GEORGIA CAPITAL STRATEGY IS BASED ON THREE FUNDAMENTAL ENABLERS:

### 1 SUPERIOR ACCESS TO CAPITAL[1]

- Only Group of its size and scale focused on investing in and developing businesses in Georgia.
- Uniquely positioned given access to capital in a small frontier economy:
  - c.US$ 500 million raised in equity at LSE.
  - Issued six Eurobonds totalling US$ 1.8 billion.
  - US$ 3+ billion raised from IFIs (EBRD, IFC, etc.).

1 Figures and statements in this section include the track record of our predecessor company BGEO, prior to the 2018 demerger.

### 2 ACCESS TO GOOD MANAGEMENT

- Highly experienced senior management team, which grew BGEO Group (predecessor company) by c.33 times in asset size between 2005 and 2017.
- Reputation among talented managers as the “best group to work for”.
- Attracted talents have demonstrated a solid track record of successful delivery.
- Proven track record in turning around companies and growing them efficiently.
- Proven track record in monetising investments through cash exits.
- A platform for entrepreneurs to build institutions (entrepreneurship culture):
  - If we do not have the right people, then we do not invest, no matter the attractiveness of the opportunity.

### 3 COMMITMENT TO ACHIEVING THE HIGHEST LEVEL OF CORPORATE GOVERNANCE

- Strong Board comprised mainly of independent Directors with extensive international experience.
- Outstanding track record in institutionalising businesses and creating independently run/managed institutions.
- Approximately 45 employees at the holding company level.
- Highly experienced management team in each portfolio company with a strong measure of independence.
- Aligned shareholders’ and management’s interests by share compensation:
  - The Executive Director is solely remunerated by way of long-term deferred shares (six-year vesting) and receives no cash compensation.
  - Salaries of the Company’s senior managers are heavily weighted towards deferred share remuneration, and bonuses for senior managers are paid in deferred shares rather than cash.
- High level of transparent reporting.
- Strong ESG practices.

## GEORGIA CAPITAL – A PLATFORM FOR INVESTING IN, UPSCALING AND MONETISING LARGE OPPORTUNITY BUSINESSES IN GEORGIA

- **Developing and growing businesses to the equity value of GEL 300 million to realise proceeds through an exit, as investments mature.**
- **LSE listed, with more than 90% institutional shareholder base.**
- **Running an efficient cost structure with no management or success fees.**

**Photo** Paragliding over mountains of Gudauri, Georgia.

# GEORGIA CAPITAL STRATEGY CONTINUED

## STRATEGIC PRIORITIES ANNOUNCED IN 2022

**DELEVERAGING GCAP HOLDCO BY BRINGING DOWN THE NCC RATIO BELOW 15% BY DECEMBER 2025.**

**REDUCE AND MAINTAIN PORTFOLIO COMPANIES' LEVERAGE TO RESPECTIVE TARGETED LEVELS.**

**SET MEASURABLE ESG TARGETS AT BOTH GCAP HOLDCO AND PORTFOLIO COMPANY LEVELS.**

**CONTINUED PROGRESS ON THE DIVESTMENT OF "OTHER" PORTFOLIO COMPANIES.**

- "Other" portfolio companies comprise 8.6% of the total portfolio value and include four subscale private businesses being the auto service, beverages, housing development and hospitality businesses.
- While a number of these businesses have interesting potential, the Group currently believes that most will not offer the scalable growth potential we seek. Absent a change in that assessment, the Group is targeting to exit "Other" assets in a two to three-year period.

## OUR LONG-TERM ASPIRATION

**ACHIEVEMENT OF OUR STRATEGIC PRIORITIES WILL ENABLE GCAP TO GRADUALLY TRANSFORM INTO A SUSTAINABLE PERMANENT CAPITAL VEHICLE (PCV).**

- Significantly reduced leverage at the GCAP HoldCo level.
- Capacity to redeploy our existing capital without the need for new equity share issuance/raise.
- Consistent NAV per share growth on the back of resilient, capital-light investments.
- Opportunity to return a significant portion of GCAP's cash inflows to our shareholders.

**Photo** Batumi, Adjara, Georgia.

# MARKET AND INDUSTRY OVERVIEW

## SECOND CONSECUTIVE YEAR OF DOUBLE-DIGIT REAL GDP GROWTH

Preliminary estimates of economic growth show the real economy expanding by 10.1% y-o-y in 2022, following up on a 10.5% y-o-y growth in 2021. Rapid expansion has been supported by macroeconomic developments on both the external and domestic sides, with surging foreign currency inflows building upon strong aggregate demand. Despite tightening financial conditions and enduring substantial uncertainty in the global economy, the medium-term outlook for Georgia remains strong. Exceptional growth has allowed the seamless unwinding of fiscal policy support, as the Government balance sheet has improved to pre-COVID levels, whilst the monetary stance remains tight as inflation has begun descending.

**Photo** Signagi city, Georgia.

**Georgia is favourably placed among peers**

| Country | Country rating | Fitch rating outlook |
|---|---|---|
| Armenia | B+ | Stable |
| Azerbaijan | BB+ | Positive |
| Czech Republic | AA- | Negative |
| Georgia | BB | Positive |
| Kazakhstan | BBB | Stable |
| Turkey | B | Negative |
| Uzbekistan | BB- | Stable |

**Macroeconomic overview and outlook**
2022 has been another year of exceptional performance for the Georgian economy, proving yet again that the macroeconomic environment remains flexible and resilient against exogenous shocks. The economy delivered a second consecutive year of double-digit expansion in 2022, finishing the year as one of the top ten fastest-growing economies according to the International Monetary Fund (IMF) and the World Bank. Preliminary estimates show annual growth reaching 10.1% in 2022 after a 10.5% growth in 2021, driven by macroeconomic developments on both the external and domestic sides.

Strong economic growth in 2022

**10.1%**

following a 10.5% growth in 2021

On the external side, strong foreign demand throughout the year was supplemented by an upswing in remittance inflows since the beginning of the Russia-Ukraine war due to the migration effect, with money transfers surging by 86% y-o-y in 2022, predominantly due to transfers from Russia. Merchandise exports also continued robust performance, up by 32% y-o-y in 2022, benefiting from improving terms of trade, especially on the back of rising commodity prices, and stronger demand from neighbour countries as well as several new markets. Moreover, tourism revenues reached 108% of respective 2019 levels as of 2022, including 135% in 2H22, reflecting the global resumption of travel as well as the migration effect. On the domestic side, growth was aided by continued credit expansion in both domestic and foreign currencies across both retail and business sectors, as the commercial bank loan portfolio grew by 12.1% y-o-y as of December 2022 (without the exchange rate effect), despite the tight monetary stance and globally rising foreign currency interest rates. Additionally, while fiscal support has moderated, the fiscal stance remains expansionary, with current expenditures growing by 9% y-o-y and capital expenditures increasing by 22% y-o-y in 2022, facilitated by a 28% surge in fiscal revenues.

As aggregate demand strengthened, imports also accelerated substantially in 2022, growing by 31% y-o-y. All of investment, consumer and intermediate goods contributed to rising external trade, as the trade deficit reached US$ 7.6 billion, up 30% y-o-y. Importantly, domestic exports (without re-exports) reached a record high of US$ 3.7 billion in 2022, accounting for 66% of total exports and growing by 18.4% y-o-y. The resilience of domestic exports has been of particular importance in the past couple of years, with domestic exports growing by 3.6% y-o-y in 2020 despite total exports falling by 12% y-o-y, and then growing by 30% y-o-y in 2021. With strong merchandise export performance aided by record-high remittance inflows and rebounding tourism revenues, the current account balance (CAB) reached a record low of -2.7% of GDP in 9M22, down from -10.2% in 9M21, with 3Q22 posting a record-high current account surplus of 5.9% of GDP. Foreign Direct Investment (FDI) inflows also increased significantly in 2022, totalling US$ 1.7 billion in 9M22, up over 100% y-o-y.

Strong rebound in tourism revenues in 2022

**108%**

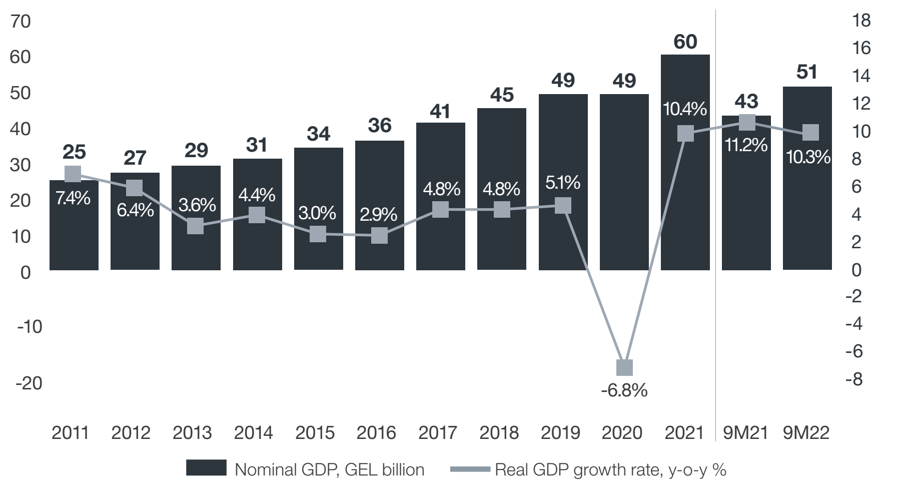
compared to 2019

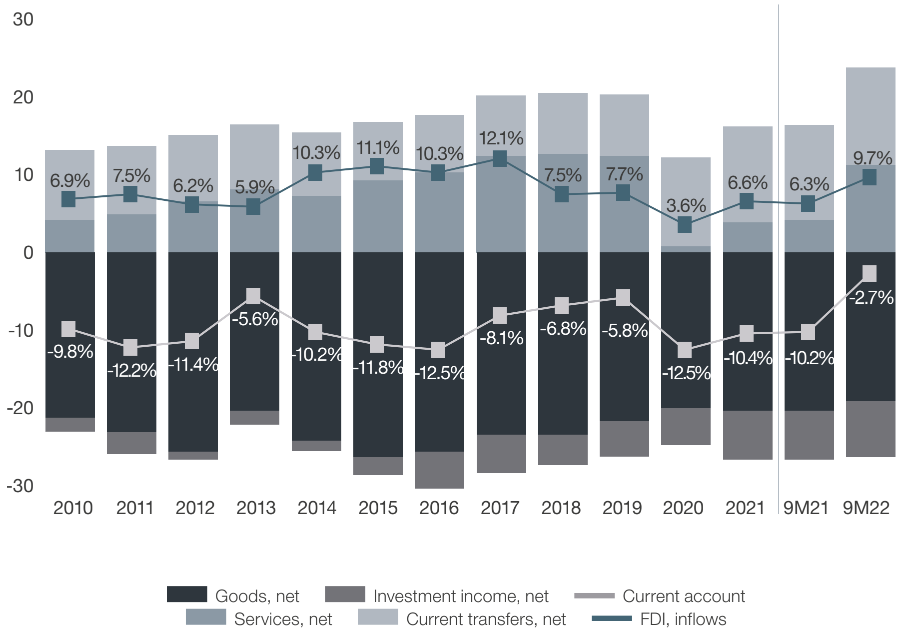
The unemployment rate reached 17.3% in 2022, lowest since at least 2010 (most up-to-date data begins from 2010 due to switching to a new methodology). More than 66,000 jobs were added compared to the beginning of the year, while the number of people participating in the labour force increased by 64,000, as the labour participation rate increased above pre-pandemic levels.

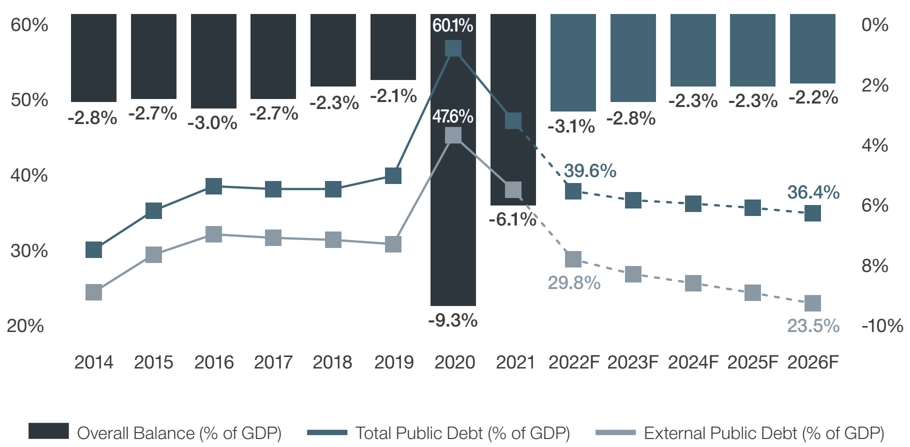
The consolidated budget overall deficit was GEL (1.8) billion in 2022, down 53% y-o-y, with the annual deficit (IMF modified) planned at -3.1% of GDP, down from -6.1% in 2021. The operating balance also improved substantially, growing from GEL (227) million in 2021 to GEL 2.6 billion in 2022. Reduction in the fiscal deficit was mostly attributed to high revenues stemming from higher-than-expected economic growth, with the consolidated budget revenues growing by 28% y-o-y, including a 30% y-o-y growth in tax revenues. Strong revenue performance allowed current







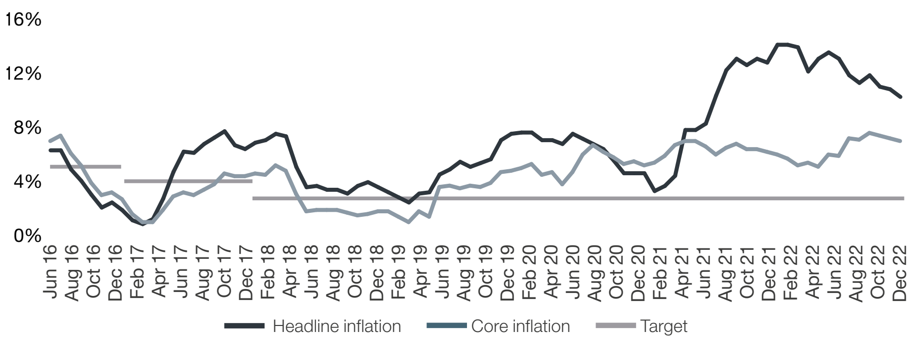

(+9% y-o-y) and capital (+22% y-o-y) expenditures to increase whilst cutting the deficit in line with the fiscal consolidation plan, although expenditure growth has itself moderated. With the Government borrowing in order to meet financing needs in 2020, the general Government gross debt increased from 40.4% to 60.2% of GDP by the end of 2020 but is expected to have fallen to below pre-COVID levels at 39% of GDP by the end of 2022 as GEL has strengthened and the economy has rebounded. The improvement in the Government balance sheet has thus appropriately aided disinflation on the domestic side and reduced vulnerabilities on the external side. The external debt service to budget revenues ratio fell to 6.5% in 2022 as opposed to 19.4% in 2021 and a pre-crisis level of 9.6% in 2019. In line with the Economic Liberty Act of Georgia, which sets ceilings of 3% for the fiscal deficit and 60% for debt while allowing for a three-year grace period, the parliament has ratified the 2023 budget law with the planned deficit declining to 2.8% and planned debt standing at 38.3% of GDP by the end of 2023.

As an established tourism destination, tourism has been an increasingly important sector of the Georgian economy and a major source of FX inflows during the past few years, significantly contributing to improving the CAB and driving rising service exports. With borders closed and international travel essentially halted, the tourism sector, like elsewhere around the world, came to a near-complete standstill in Georgia in 2020. The number of international visitors to Georgia increased on average by 15% over 2012-2019 but fell by 81% in 2020, rebounding by 7.7% y-o-y in 2021. In 2022 the tourism sector experienced significant growth, as global resumption of travel was compounded by the migration effect arising after the Russian invasion of Ukraine. The number of international travellers grew by 188% y-o-y in 2022, reaching 58% of 2019 level, while tourism revenues grew by 182% y-o-y, reaching US$ 3.5 billion, or 108% of 2019 level. While research indicates that migrants from Ukraine, Belarus and Russia intend to remain in Georgia for long-term stays, the outlook remains uncertain as it is inevitably tied to the timing and terms of the war resolution. However, travel receipts rebounding to over 100% of 2019 level despite the number of travellers only recovering to 58% suggests that significant growth potential remains.

The Georgian Lari (GEL) has sustained its appreciation trend since mid-2021 and has appreciated by 19.6% against the US dollar (US$) compared to the beginning of 2022 as of 17 March 2023, despite US$ strengthening globally. With this, GEL has now strengthened above pre-pandemic levels. On the external side, GEL appreciation has been propelled by very strong foreign currency inflows, driven by a multitude of factors including improving terms of trade, worldwide travel recovery, migrant impact and growing demand for Georgian exports (both goods and services), further

# MARKET AND INDUSTRY OVERVIEW CONTINUED

**Inflation vs inflation target**




aided by rebounding economic activity, robust foreign currency lending, ample FX liquidity in the banking sector, the tight monetary stance and improving market confidence on the domestic side. GEL also appreciated against the entire basket of trading partner currencies, with the nominal effective exchange rate up by 25% y-o-y and the real effective exchange rate up 15% y-o-y by the end of 2022, reaching record-high levels.

Robust GEL strengthening

**19.6%**

appreciation against US$ compared to the beginning of 2022 (as of 17 March 2023)

Average annual inflation was 11.9% in 2022, significantly above the 3% target, but shrank to 9.8% in December 2022 and 9.4% in January 2023, back to single digits after decelerating throughout the year since the peak of 13.9% in January 2022. All major components contributed to rising inflation in 2022, as the Russian invasion of Ukraine exacerbated existing supply-side effects and resulted in a further surge of energy, food and commodity prices. Despite GEL strengthening, imported inflation was by far the most significant driver of increasing prices on the back of the global supply crunch. The National Bank of Georgia (NBG) has maintained a tight monetary stance with the refinancing rate set at 11% since March 2022, a cumulative hike of 300 basis points since March 2021, reaffirming its commitment to pursue tight policy until inflationary pressures subside. NBG sold US$ 94 million and bought US$ 80 million on foreign currency auctions in 2022, but also bought a net amount of US$ 580 million through direct participation in the foreign exchange market, taking advantage of surging FX inflows. Subsequently, official reserve assets reached a record-high level of $4.9 billion by the end of December 2022, up 15% y-o-y.

As a result of the improved macroeconomic environment, Fitch Ratings revised Georgia's sovereign credit rating outlook to positive from stable in January 2023. The agency cited macroeconomic performance, including "exceptionally strong" GDP growth coupled with strong fiscal and monetary discipline, as the main driver behind the improved outlook. A new three-year executive stand-by arrangement worth US$ 280 million was approved with the IMF in June 2022, focusing on structural reforms and anchoring macroeconomic policy.

The IMF revised Georgia's GDP growth forecast several times up to a final 10% in 2022 (December 2022 forecast), positioning Georgia as one of the top ten fastest-growing economies in the world. The IMF expects inflation to decelerate close to the 3% target by the end of 2023, while the medium-term growth (2023-2027) projection stands at 5.0%, one of the highest in the region. The great uncertainty surrounding the resolution of the war, as well as its medium-longer run effects, pose the greatest threats to the medium-term outlook.

Medium-term (2023-2027) economic growth rate

**5%**

One of the highest in the region (IMF, December 2022)

Fiscal authorities have demonstrated commitment to returning to neutral levels, while NBG has declared to strictly adhere to the inflation target and maintain a tight stance until inflation and inflationary expectations subside. The appropriate policy mix, combined with the swift resurgence and improving macroeconomic environment, has ensured that the economy has remained resilient in the face of the crises, although uncertainty persists.

The new three-year stand-by arrangement with the IMF, signed in June 2022 following the conclusion of a three-year EFF programme in April 2021, is designed to maintain macroeconomic stability and anchor policy decisions. Although the Government doesn't intend to use the allocated US$ 280 million as part of the new arrangement, the purpose of the programme is to strengthen the agenda for structural reforms and underscore confidence in macroeconomic policymaking. In approving the arrangement, the IMF executive board underlined the resilience of the Georgian economy and the appropriate policy mix cushioning the impact of recent crises. The first review under the stand-by arrangement took place in December 2022, with the IMF executive board noting that adverse spillovers from Russia's war in Ukraine has been limited thus far, and positive economic developments have been appropriately used to rebuild fiscal and external buffers.

**Reform-driven success**

Georgia has carried out genuine economic and structural improvements over the past two decades. As a result, corruption has decreased, productivity has been enhanced and the economy has become more diversified, supporting resilience against exogenous shocks such as the global financial crisis and the COVID-19 pandemic.

Georgia is consistently ranked as a top performer in governance and doing business indicators. With a ranking of 7th in Ease of Doing Business in 2020 (World Bank, Doing Business), Georgia has implemented an array of reforms and is characterised as a top-performing economy in the region in which to start a business. Furthermore, Georgia is ranked 1st out of 117 countries in the International Budget Partnership's 2021 Open Budget Index, as well as 26th out of 180 countries by the Index of Economic Freedom measured by the Heritage Foundation in 2021 and 29th out of 194 countries in Trace International's 2021 Matrix of Business Bribery Risk. Georgia is on a par with the European Union (EU) member states and top in the Eastern Europe and Central Asia Region in the 2020 Corruption Perception Index by Transparency International.

The Economic Liberty Act, effective since January 2014, ensures the continuation of a credible fiscal framework for Georgia by capping the fiscal deficit at 3% of GDP and public debt at 60% of GDP. However, the emergency escape clause allows the Government to surpass the thresholds temporarily in order to manage the pandemic, with the law requiring a return to the bounds within three years. The fiscal consolidation plan has already been adopted by the parliament as part of the new budget law. The Economic Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing taxes, subject to certain exceptions. Furthermore, as of January 2017, corporate income tax for non-banking and non-insurance corporations is now applicable to only distributed profits; undistributed profits, which are reinvested or retained, are exempted. Georgia has one of the friendliest tax regimes according to World Bank's Doing Business 2020 report, having slashed the number of taxes from 21 in 2004 to just six currently. Commitment towards structural reforms ensures constant effort for improving the business environment, the latest examples being the VAT reform (adopted in July 2020) and the new insolvency framework (adopted in September 2020 and into force since April 2021).

Public debt down to

**39% of GDP**

by the end of 2022, below pre-COVID levels

Despite challenges arising from the pandemic, structural reforms and large infrastructure projects to promote Georgia as a transit and tourism hub and enhance long-term growth are still underway. A new pension law was adopted in 2018, enhancing long-term fiscal sustainability, supporting capital market development, increasing the replacement rate, narrowing the current account deficit and boosting potential output. A new bill on investment funds was adopted in 2020, in line with international practice and harmonisation obligations with EU law, providing an up-to-date regulatory framework for investment activity. The Government focuses on addressing the shortcomings in employee benefit schemes, further cutting non-essential expenditures, consolidating public sector institutions, making social and healthcare spending more targeted, privatisation schemes and increasing capital expenditure efficiency. Within the responsible lending framework, NBG took macroprudential measures to decrease household indebtedness, enhance financial stability and strengthen regulation, supporting the financial system's resilience to currency fluctuations and FX-induced credit risks. A new important reform adopting the framework for issuing mortgage covered bonds was adopted by the parliament in 2022, aiming to provide an additional source for a relatively cheap and stable source of financing for credit institutions.

A business-friendly environment, renowned in the region for best-in-class governance, well-developed infrastructure, stable energy supply, flexible labour legislation, a stable and profitable banking sector, strategic geography connecting European, landlocked Central Asian and Middle East countries, and preferential trading agreements, support Georgia to become a regional hub economy.

The Government's ongoing infrastructure investments and increased spending on roads, energy, tourism and municipal infrastructure will also reinforce the potential. To enhance Georgia's competitiveness, the Government continues to strengthen integration in existing international systems as well as new transit routes. Georgia is a regional energy corridor. In November 2019, the Georgian PM, alongside the Turkish and Azerbaijani presidents, opened the Trans-Anatolian Pipeline (TANAP), allowing natural gas from Azerbaijan to be exported to Europe through Georgia. In December 2022, leaders of Azerbaijan, Georgia, Hungary and Romania signed an agreement to build an underwater electric cable in the Black Sea, further positioning Georgia as an important player in the EU energy policy.

Georgia's business-friendly environment, coupled with its sustainable growth prospects, attracted FDI on average 10% of GDP over the past decade. These capital flows boosted productivity and accelerated growth. Public infrastructure projects were also instrumental in driving growth, as well as better realising the country's potential in logistics, transport and tourism. Faced with low domestic savings, FDI is an important source of financing growth in Georgia, as well as a reliable source of current account deficit funding. In 9M22, total FDI amounted to US$ 1.7 billion, up 100% y-o-y. Major sectors attracting FDI were: real estate (25% of the total), finance (19%) and energy (19%). The share of reinvestment by foreign companies in total FDI was 60% in 9M22, on par with 2019's 62%. The increasing share of reinvestment indicates investors' trust in Georgia's growth model and the success of the profit tax reform introduced in 2017. Planned investment and infrastructure programmes, a rising number of free trade agreements (FTAs) and a business-supportive environment will support further FDI inflows in the medium term.

**Free trade agreements**

There have been significant changes in Georgia's export structure and destination markets in recent years; however, Georgia has not yet fully tapped into international markets. One of the biggest changes in destination markets has been a reorientation from the Russian market after the 2005 embargo, as the embargo forced Georgian producers to redirect exports to other Commonwealth of Independent States (CIS) countries, the EU and the Middle East. Exports to Russia picked up again in 2013 as Russia reopened its borders to Georgian products. Another significant change concerns the growing importance of China as a Georgian export market, as the FTA effective from January 2018 has brought a major acceleration of exports to China. Since 2013, Georgia's developed logistics and transport infrastructure has helped shore up opportunities for new re-export commodities, including copper and pharmaceuticals. Domestic exports, which posted a positive growth rate in 2020 despite a significant fall in re-exports, have remained resilient throughout, as explained above.

Together with established destinations, improved access to new large markets, such as the EU, China and Hong Kong, could increase market penetration. There is also scope for diversifying agricultural exports. Georgia's existing FTAs (with the EU, CIS, EFTA, Turkey, China and Hong Kong) and the prospective FTA with India, as well as an agreement with Israel, offer significant upside potential for Georgia's exports.

The EU-Georgia Association Agreement, which came into force in July 2016, and the related DCFTA, effective since September 2014, have laid the solid groundwork to improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. Closer economic ties with the EU and trust in prudent policymaking are also expected to attract foreign investments to Georgia. Visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of the Georgian foreign policy.

Following Ukraine's plea to join the EU as it battles Russia's invasion, Georgia and Moldova on 3 March 2022 submitted their applications to join the EU. Georgia previously planned to apply to join the EU in 2024. The European Council granted a conditional European perspective to all three countries, with Ukraine and Moldova receiving the candidate status pre-emptively. For Georgia, however, candidate status was made subject to meeting a list of 12 conditions. In February 2023, the European Commission published analytical reports assessing the stance of Georgia, Ukraine and Moldova with respect to their alignment with the EU acquis and offering guidance for the steps ahead. The report for Georgia was widely regarded as favourable, with the EU ambassador to Georgia congratulating the Government for "a very positive report". Progress towards meeting the conditions is nonetheless still required before candidate status would be granted.

Georgia's FTA with China, effective from January 2018, and its FTA with Hong Kong, effective from February 2019, have been increasing opportunities to further accelerate exporting markets and attract investors by offering a business-friendly environment, strong corporate governance standards and access to a market of 2.8 billion customers. China became the single largest destination country for Georgian exports in 2020 and retained its position in 2021, accounting for 13.2% of total exports in 2022. China is also the largest consumer of Georgian domestic exports, responsible for a fifth of the total.

**Individual sector overview**

**Banking**

The banking sector has been one of the most developed and fastest-growing sectors of the Georgian economy. The banking sector's asset growth rate of 17.2% (ten-year CAGR) has far outstripped the nominal GDP growth rate for the same period. However, despite robust progress, there are plenty of opportunities to further tap into growth potential, as the financial market remains at an early stage of development. The sector has remained resilient in the face of challenges brought by the COVID-19 shock and the war in Ukraine, underscoring the robustness of the banking system.

Fitch Ratings, which downgraded the outlook on Georgian banks to negative in April 2020, revised the outlook to stable in March 2021, citing reduced pressure on the banks' credit profiles and the banks' "intrinsic strength". The agency affirmed the stable outlook in June



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# MARKET AND INDUSTRY OVERVIEW CONTINUED

**Photo** Tobavarchkhili lake, in Samegrelo region, Georgia.

2022, pointing that the leading banks are characterised by "sound financial metrics" and "adequate capital buffers". Subsequently, Fitch Ratings revised the sovereign credit rating outlook for Georgia to positive in January 2023, paving way for a potential outlook upgrade for the banking sector.

In December 2022, the parliament adopted changes in the corporate tax model for banks (as well as credit unions and microfinance organisations), setting the corporate tax rate at 20%, combining the previous 15% rate with the 5% dividend tax rate and abolishing the latter. Moreover, commercial banks adopted International Financial Reporting Standards (IFRS) from January 2023, as laid out in NBG's 2020-2022 supervisory strategy, aiming to increase harmonisation with developed countries. Parallel reporting will be maintained until another decision is made by NBG.

In 2022, NBG began working on operationalising a new bank recovery and resolution framework, assisted by technical missions from IMF. The mission noted that Georgia has made "considerable progress" in developing for the infrastructure necessary for an effective bank recovery and resolution regime, and identified several priorities in cooperation with authorities. NBG also applied for membership in the Single Euro Payment Area (SEPA), noting that SEPA membership will increase the credibility of the financial sector and simplify services for Georgian citizens.

In January 2023, a new methodology was published for defining systemically important commercial banks and establishing a systemic buffer for them, aiming to further increase the system resilience. The updated methodology defined three banks – Bank of Georgia, TBC Bank and Liberty Bank – as systemically important, setting a 2.5% buffer for the former two and 1% for the latter. The decree contains provisions for increasing the buffers in case an individual bank's deposit concentration exceeds specified norms.

The banking sector ended 2022 with record net profits of GEL 2.1 billion, almost equal to 2021 profits (0.3% larger). Revenues reached GEL 7.5 billion in 2022, up 25.6% y-o-y, while total expenses reached GEL 5 billion, up 36.6% y-o-y. Non-performing loans (IMF methodology) reached 1.7% of total loans by the end of 2022, compared to 1.9% at the end of 2021. Return on assets was 3.8% (3.9% at the end of 2021) and return on equity was 30.2% (34.4%), while the average capital adequacy ratio was 20.3% (19.6%) and the liquid asset ratio was 22.9% (20.2%).

The loan portfolio proved extremely resilient in 2022, despite a tightened monetary stance and rising foreign currency rates in the latter part of the year, as credit to the economy increased by 12.1% y-o-y (excluding the exchange rate effect) by the end of 2022, including a 16.5% growth in GEL loans and a 8% growth in foreign currency loans. Mortgage loans increased by 12.2% by the end of the year, while business loans increased by 10%. As for deposits, commercial bank deposits increased by 30% by the end of 2022 (without the exchange rate effect), including a 27.4% growth in GEL deposits and a 28.8% growth in foreign currency deposits (without Government deposits).

Deposit dollarisation was 56% at the end of 2022, down from 60% at the end of 2021. Loan dollarisation followed a similar trend, falling below 50% for the first time and reaching 45% by the end of 2022, down from 51% by the end of 2020.

### Retail (Pharmacy)

The pharmaceutical market in Georgia is highly concentrated, with three major players holding approximately 83% of the market share. The Georgian pharmaceutical market is highly dependent on imports. The share of number of locally produced drugs on the market is c.14% as opposed to only 5% in the early 2000s. There are over 100 importers of pharmaceutical products in Georgia, but approximately 70% of all imports are performed by three companies: GEPHA (approximately 25%), PSP (approximately 23%) and Aversi (approximately 20%). Domestic production is represented by over 50 companies and is dominated by two players, with approximately 84% of the country's total production volume. Pharmaceuticals market reforms have made it possible to create a competitive marketplace in Georgia. These have included the introduction of parallel imports and automatic registration of medicines recognised by international control bodies, such as the U.S. Food and Drug Administration and the European Medicines Agency, as well as favourable regimes for setting up pharmacies (0% VAT on medicines, absence of customs duties and no price controls).

According to the new Government initiative, from January 2022 Turkey has also been added to the list of parallel import countries, meaning companies would be allowed to import, without further national authorisation, all pharmaceutical products approved by the Turkish regulator. The initiative aims to increase the variety and accessibility of pharma products in the country.

According to management's estimates based on third-party data, generics account for 73% of the total market revenues, which is somewhat higher than the EU average (c.50%). However, there is still market opportunity for generics – in the leading economies like Germany and the UK, generics hold a dominant share of more than 80% (in the reimbursed segment). Over the Counter (OTC) segment in Georgia prevailed over the last decade until 2014 when a prescription requirement was introduced for over 6,000 medicines. Currently, there is a nearly equal split between OTC and prescription drugs. Medicines and pharmaceutical products have a significant contribution to trade turnover. Trade of medicines packaged in measured doses is a considerable source of income. Imports of medicines were the fifth largest commodity group, amounting to US$ 404 million (3.0% of total imports), while export of medicines was the eighth largest export commodity group, amounting to US$ 109 million (2.0% of total exports) in 2022, including US$ 88 million of re-exports (4.7% of total re-exports).

Also, effective from 15 January 2023, the Ministry of Health, Labour and Social Affairs of Georgia (the "Ministry") implemented an External Reference Pricing model on the pharmaceuticals market, only related to prescribed medicines that are financed by the State. Reference Pricing is an approach where prices are set according to the benchmark prices for the same or similar medicines in comparable countries. According to the new initiative, the Ministry introduced the maximum retail price on targeted pharmaceutical products, in two directions: Generic and Original drugs. The price caps are set based on the average of such medicine prices in the following countries: Bulgaria, Latvia, Macedonia and Montenegro.

Currently, approximately 50 Generic drugs are subject to the new regulation.

### Hospitals and Clinics and Diagnostics

The Georgian healthcare industry experienced important transformations during the last decade. The key components of the national healthcare reform were massive privatisation, infrastructure upgrade, sector liberalisation, introduction of Universal Health Care (UHC) and wider accessibility to healthcare services as the major outcome.

To address high private healthcare costs and basic healthcare coverage for the entire population, UHC was introduced in 2013 and replaced previous state-funded medical insurance plans. New initiatives regarding the reimbursement and differentiating coverage of Universal Health Insurance were adopted in 2017. In November 2019, aiming to standardise hospital reimbursement and limit healthcare expenditures, the Georgian Government introduced further changes to the UHC reimbursement mechanism. The changes mainly cover the Tbilisi and Kutaisi regions, which had recently developed an oversupply of beds as a result of the addition of a number of small hospitals in recent years. The change may also drive more rapid market consolidation in Tbilisi and Kutaisi, improving service efficiency and quality in the country.

In terms of health expenditure as a percentage of GDP, Georgia achieved a level consistent with that of major developed economies, at approximately 8%, which is above most of its peer emerging economies. However, there still remains vast potential for further increase since Georgia has one of the lowest per capita expenditures on healthcare among the benchmark countries. Healthcare spending per capita is currently at a very low base of only US$ 291, with annual outpatient encounters of 3.7 per capita, significantly lower than many comparable countries. On average, 65% of healthcare spending is funded by the private sector. Notwithstanding a significant improvement in the bed occupancy rate, from 30% in 2003 to 49.1% currently, there is still potential for even higher efficiency in order to align Georgia with best practices. The occupancy rate in Georgia is far below EU (77%) and CIS average (83.4%) indicators. The Georgian healthcare market has shown solid growth in recent years. According to management's estimates based on third-party data, the total healthcare market grew by a CAGR of 12% over 2011-2020 years and was expected to grow at 8% in 2021. Outlook for the healthcare sector is positive as increasing disposable income and supportive Government healthcare help domestic consumption to increase. The growth of overnight visitors, in line with significant improvement in healthcare service quality, support Georgia to become a medical tourism hub in the Caucasus region and to further boost the growth of services exports.

To streamline the state funding financing in healthcare and improve the reimbursement process, the Georgian Government introduced an initiative to implement a Diagnosis Related Group (DRG) financing system. The DRG system categorises inpatient case types that are clinically similar and expected to use the same or similar resources into groups by applying various criteria (age, sex, intervention needed, comorbidity, etc.). The roll-out of the DRG system started on 1 November 2022 and was in the testing phase until 1 January 2023. While it is too early to estimate its impact on the financial performance of our hospitals business, the implementation of the DRG system aims to increase the efficiency of state financing and improve the quality of healthcare service on the market. The system is expected to better reflect inflation and other price pressures that are present in the healthcare sector.

### Property and Casualty (P&C) Insurance

From 2010 to 2021, the Georgian property and casualty insurance sector grew by 299%, with insurance revenue increasing to GEL 423 million. According to the Insurance State Supervision Service of Georgia (the ISSSG), the total value of gross written premiums increased from GEL 113 million in 2010 to GEL 461 million in 2021; an increase of 306%. The largest six insurance providers in Georgia account for approximately 80% of the market. The level of insurance market penetration in Georgia amounts to 1.29% (of which 0.8% is attributable to the property and casualty insurance market) as at 31 December 2021. This was lower than insurance penetration in more developed countries such as the United Kingdom, France, Switzerland and Belgium, which had penetration rates of 11.10%, 9.50%, 7.10%, and 5.80%, respectively, and was also lower than penetration in neighbouring countries such as Slovenia, Poland, Bulgaria, Turkey and Russia, which had penetration rates of 5.00%, 2.50%, 2.40%, 1.30% and 1.30%, respectively. The Georgian retail insurance market offers ample room for growth, as most of its potential is yet to be unlocked. Motor insurance accounts for 51% of the total retail insurance market in Georgia, of which 14% represents border Mandatory Third Party Liability (MTPL) insurance, effective from March 2018.

Moreover, the motor insurance segment has great potential to increase, as only 7% of registered cars are insured on the local market. The new law requiring local MTPL for all vehicles registered in Georgia is expected to kick in and significantly boost retail market penetration.

### Medical Insurance

Over the past decade, the private medical insurance market expanded significantly compared with the 2006 figure, when only 40,000 Georgian citizens (or c.1% of the total population) had a voluntary medical insurance package, mostly provided as part of a corporate benefits programme. There were 673,000 private health insurance (PHI) policies in force by the end of September 2022. The corporate segment accounts for the major portion of the PHI market – 93.9% of all policies are acquired by employers, and the rest (41,300) are purchased by self-paying individuals. In Georgia, PHI is primarily intended to provide value-added services in the form of more extensive coverage or more convenience for the patient.

### Renewable Energy

In Georgia, electricity consumption has been growing significantly for the last decade, in line with GDP growth. Electricity demand for the last decade has been growing on average by 5.1%. The country was historically a net exporter of electricity; however, due to sustained consumption growth, the trend changed and Georgia became a more import-dependent country with ten months of electricity deficit throughout the year. To support the consumption growth, which is forecasted at a minimum of 4.5% for the next decade, the Government is promoting the development and construction of domestic renewable capacities through different support mechanisms, as well as implementing reforms in the Georgian energy market. Back in 2008, the power generation market witnessed significant changes to facilitate market liberalisation. All HPPs constructed after August 2008 have been deregulated, which served as a first step towards the establishment of a free electricity market. In 2014, the EU and Georgia signed an Association Agreement and Georgia became a full contracting party member of the Energy Community. Further, the Electricity Law was amended in June 2017, deregulating all HPPs below 40MW and gradually moving the large industrial consumers out of the regulated pricing scheme to the free market. In the next phase of deregulation, effective from May 2019, big industrial customers with monthly electricity consumption of at least 5GWh were required to register as direct customers. Deregulation continued in 2021 – all entities with monthly consumption of more than 0.4GWh and with 35-110kV access lines were registered as direct consumers. Also, since May 2022, HPPs with a capacity of less than 65MW have been deregulated. This process will continue in 2024 and the following years as well, further increasing the share of the deregulated market.

At the end of December 2019, the Parliament of Georgia has adopted the new Law on Energy and Water Supply and the Law on Renewable Energy Sources. The draft of the law on Energy was prepared by the Energy Community Secretariat, taking into account the specifics of the Georgian energy market. In 2020 and 2021 several important laws were adopted to prepare Georgia's energy market for the reforms in 2022-2023. The establishment of the new energy exchange was a step forward to the reform of the Georgian energy sector. In December 2019, the Georgian Energy Exchange was founded with 50%-50% co-participation of

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## MARKET AND INDUSTRY OVERVIEW CONTINUED

Georgian State Electro system and Electricity System Commercial Operator. The Georgian Energy Exchange will be responsible for organising day-ahead, intraday and bilateral markets through the software services of consulting company "Nord Pool Consulting".

### Education

The private K-12 education industry in Georgia is growing at a rate twice that of the nominal GDP growth rate, at a compound annual growth rate of 16% from 2013 to 2019 to reach GEL 280 million, driven by both increasing enrolments and rising tuition fees.

We believe there is a consolidation trend that represents an opportunity in a fragmented market. The number of private schools in the Georgian market has decreased from 245 in 2011 to 214 in 2022 and at the same time, the average private school size has increased from 212 learners per school to 297 learners per school. Based on our estimation, the market share of the ten largest players has increased from 15% to 19% over the same period. Private learners are consolidating in the four largest cities with a population of over 100,000, namely Tbilisi, Batumi, Kutaisi and Rustavi.

Management believes that the key growth drivers will be the large gap in the quality of public schools as compared to private schools as well as increasing household income and decreasing unemployment rates (prior to the onset of the COVID-19 pandemic). Georgia has the potential to grow private education enrolment given the penetration levels achieved in sub-Saharan Africa, Latin America and South Asia, which were 16%, 20% and 44% in 2020, respectively, compared to 10% for Georgia, according to UNESCO. Lower average spending per learner also indicates further room for growth. Total private and public spending per learner currently stands at c.US$ 800, compared to the OECD average of US$ 11,000. Total spending as a percentage of GDP was 2.1% compared to the OECD average of 4.3%.

Data provided in this section was collated from the following sources unless stated otherwise:

- Geostat
- National Bank of Georgia
- Ministry of Finance of Georgia
- Georgian National Tourism Administration
- Insurance State Supervision Service of Georgia
- National Center for Disease Control and Public Health
- Worldometers
- World Bank
- International Monetary Fund





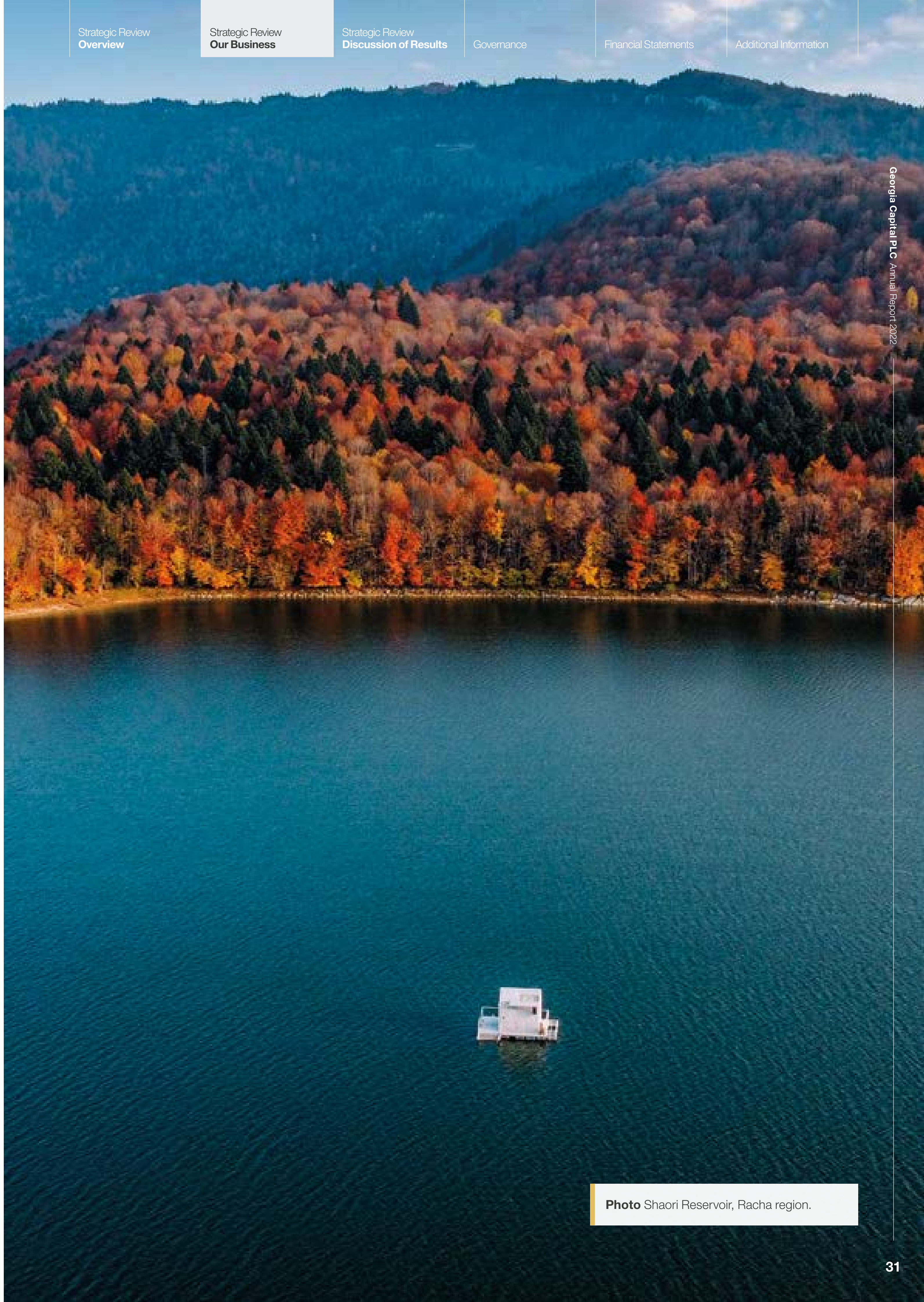


**Photo** Shaori Reservoir, Racha region.

# CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES

Georgia Capital 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. In line with its capital allocation strategy, the Group emphasises capital-light, larger-scale investment opportunities in Georgia, which have the potential to reach at least GEL 300 million equity value over three to five years and to be monetised through exits as they mature. The Group believes that the superior exit opportunities and improved liquidity associated with larger sized investments will support the Group's desire to reduce the current discount to reported NAV per share.

Businesses operating in a frontier economy such as Georgia have limited access to capital and management personnel. Consequently, those with access to these limited resources can make investments in companies which then provide an attractive risk return profile. The Directors seek to generate value for its shareholders by: investing in opportunities in Georgia that are currently not directly accessible to its shareholders; changing management and governance structures; institutionalising and scaling up the Company operations, often to benefit from consolidating fragmented and underdeveloped markets; and unlocking value by exiting these companies over time. The Group's approach to investing and managing companies entails the following principles:

**Highly disciplined entry approach**
The Georgian economy entered into a period of significant development and growth approximately 15 years ago and different sectors and businesses are therefore at early stages of formation.

Access to capital and management personnel is limited and as a result, Georgia Capital can pursue attractive investment opportunities and acquire assets on relatively attractive terms with a view to consolidating fragmented and underdeveloped sectors of the economy, particularly targeting high-multiple service industries, not requiring significant capital commitments. The Group believes that in the long run Georgia will become a service hub of the region. Since the Group is under no time pressure to invest, it takes a selective and opportunistic approach to new investments. The Group's key principle is to buy assets at affordable prices and to remain very disciplined in this regard. To evaluate new acquisition opportunities Georgia Capital has developed a 360-degree analysis framework.

**360-degree analysis – a strong foundation for value creation**
GCAP share price is at the core of decision-making when it comes to new investments. The Group performs a 360-degree analysis each time it makes a capital allocation decision and compares: a) the investment opportunity versus buyback opportunity; and b) the sale opportunity versus buyback opportunity. The Group intends to buy assets/companies at a higher discount to their listed peers than GCAP's fair value discount. Georgia Capital is targeting to invest in opportunities which produce greater returns than returns created by buying back GCAP shares.

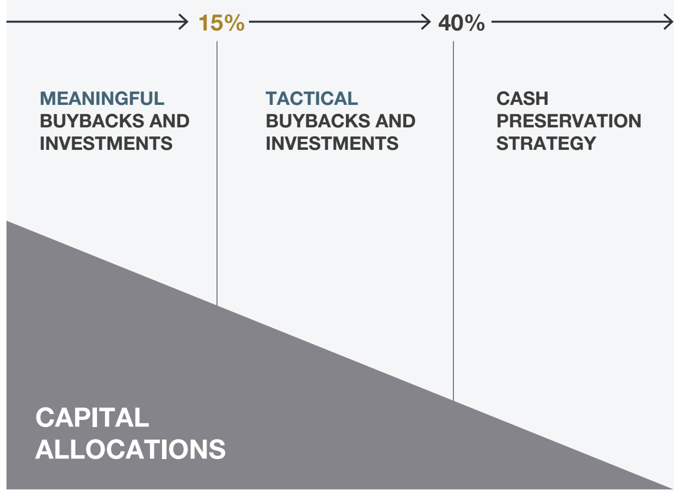
In 2022, the Group introduced an NCC (Net Capital Commitment) Navigation Tool, which is an integral part of the GCAP's existing 360-degree framework and drives the Group's share buyback and investment decisions. NCC represents an aggregated view of all confirmed, agreed and expected capital outflows at the GCAP holding company level. An NCC ratio (NCC as a percentage of the total portfolio value) between 15%-40% guides us to tactical share buybacks/investments, an NCC ratio below 15% would be expected to lead to more meaningful share buybacks/investments, whilst a ratio above 40% would lead us to implement a cash preservation strategy as we did during the active phases of the COVID-19 pandemic.

## 360-DEGREE FRAMEWORK – A STRONG FOUNDATION FOR VALUE CREATION

### GCAP SHARE PRICE IS AT THE CORE OF OUR INVESTMENT DECISION-MAKING


**We perform 360-degree analysis each time we make a capital allocation decision and compare:**
- Investment opportunity vs. buyback opportunity
- Sale opportunity vs. buyback opportunity

### NCC RATIO NAVIGATION TOOL




Since its inception, GCAP has bought back 6.4 million shares with the total value of US$ 70 million under its buyback programmes. The US$ 45 million share buyback programme, which commenced in June 2018, was completed in August 2019. Under the programme we bought back 3,336,843 shares, of which 2,650,375 shares were cancelled and 686,468 shares were transferred to the management trust. In August 2019, Georgia Capital initiated a US$ 20 million share purchase programme for the management trust. The management trust programme has repurchased 1,550,084 shares. There was no buyback programme in 2020 in light of the cash preservation strategy due to COVID-19. In August 2021, Georgia Capital commenced a US$ 10 million share buyback and cancellation programme, which was extended by an additional US$ 15 million in 2022. Since the commencement of the buyback programme in August 2021, 3,075,923 shares have been repurchased and cancelled, corresponding to GEL 76.2 million (US$ 25.0 million) in value.

The table below summarises GCAP's share buybacks in 2022.

**Georgia Capital's share buyback highlights**

| | Value of shares repurchased (US$ million) | Number of shares repurchased (million) |
|---|---|---|
| Georgia Capital share buybacks | 27.9 | 3.5 |
| Of which, programme | 18.1 | 2.3 |
| Of which, management Trust | 9.8 | 1.2 |
| Number of Georgia Capital shares cancelled | | 2.3 |

**Entering a new industry with a small ticket size**
Another core principle of the Group's investment philosophy is to be mindful about the size of potential investments in new industries. Georgia Capital typically starts with a small ticket size and tests and develops a management track record before stepping up the investment.

**Liquidity is important**
In order for the strategy to succeed, GCAP must be disciplined in unlocking the value of companies in which it invests and that it manages. In particular, it is crucial to set an exit strategy prior to making an investment. A low investment entry point becomes even more important in a small frontier economy, with limited exit opportunities. The Group aims to have two potential liquidity events for each of its assets:
- The first exit: when entering a new industry Georgia Capital intends to develop and grow portfolio companies. GCAP's key focus areas at the portfolio company level are the ability to grow operating cash and to make efficient capital expenditure investments by targeting an appropriate level of return on invested capital (ROIC). Once the business reaches its late stage of development, GCAP expects to pursue its first exit route, which envisages dividend flows for the Group; and
- The second exit: as businesses mature, Georgia Capital normally seeks to monetise its investment through appropriate exit options, typically within five to ten years from initial investment.

The Chief Strategy Officer is responsible for overseeing the establishment of structured exit processes for the portfolio companies, as Georgia Capital is actively engaged in the price discovery of portfolio assets held.

**Focus on cash generation**
Cash generation at both Georgia Capital and portfolio company level is a key success factor for Georgia Capital.

**Focus on management development**
By developing top talent in Georgia Capital the Group can add value for the Company's shareholders. Investing time in growing and developing management continues to be critical for the success of the Group's strategy.

**Good corporate governance**
The Company believes that robust corporate governance is a source of value creation for its shareholders. The Company believes that alignment of the interests of shareholders and management by awarding long-term deferred share awards to the Group's senior executives enhances value creation.

**IRR AND MOIC ARE THE KEY DRIVERS FOR GCAP TO INVEST IN NEW OPPORTUNITIES**

**KEY MONEY MULTIPLES AT GCAP LEVEL**

**IRR**

**MOIC**

**ROIC IS AT THE CORE OF DECISION-MAKING WHEN OUR PORTFOLIO COMPANIES ARE INVESTING OR DIVESTING ASSETS/BUSINESSES**

**KEY METRIC FOR REINVESTMENT DECISION-MAKING AT PORTFOLIO COMPANIES' LEVEL**

**ROIC**
- ROIC should exceed weighted average cost of capital (WACC) for new investments.
- Portfolio companies to continue divestment of low ROIC and/or non-core assets and businesses to enhance ROIC.

### GCAP ROLE VIS-À-VIS PORTFOLIO COMPANIES
- Approval of all capital allocation decisions: equity, debt, profit reinvestment, divestment, etc.
- Strategy setting, business plan approval and monitoring.
- Human capital (CEO and CFO) allocation and KPI setting.
- Approval and monitoring of the ESG strategy.

# CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED

## CAPITAL ALLOCATION OUTLOOK

Georgia Capital expects to allocate US$ 52.3 million net equity capital in the renewable energy and education businesses over the next three to five years.

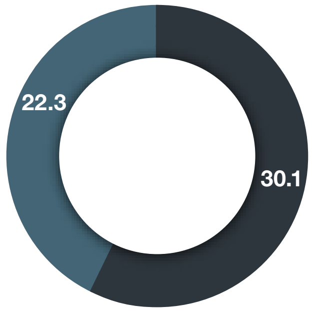
Other than already identified greenfield projects in the renewable energy and education businesses, the Group expects to focus on acquisitions. By driving the development of these two businesses, the Group expects to realise at least 2.0x MOIC at each investment level, 20%+ IRR in the renewable energy business and 25%+ IRR in the education business.

## PLANNED INVESTMENTS FROM GCAP IN OUR INVESTMENT STAGE PORTFOLIO COMPANIES:

**US$ 52.3**
MILLION IN 2022

**TOTAL NET INVESTMENT IDENTIFIED FROM GCAP OVER THE NEXT 3-5 YEARS.**

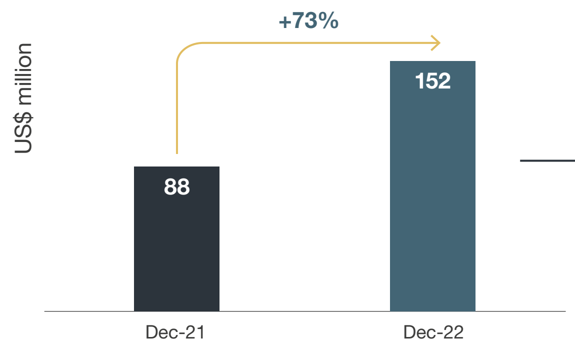
**Remaining investments as of 31-Dec-22**
US$ million

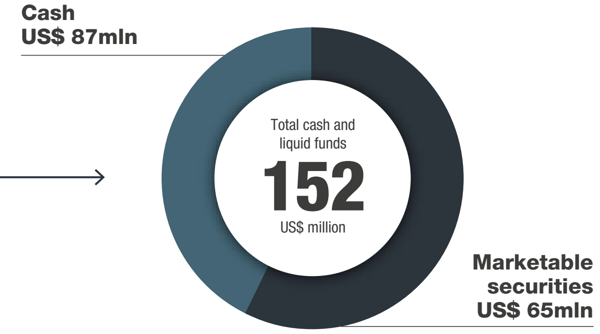



No investments are expected in the clinics and diagnostics business from GCAP.
Detailed information on the investments in these businesses are set out on pages 38-63 of this report.

## STRONG BALANCE SHEET AND CASH MANAGEMENT AT GEORGIA CAPITAL

**Total cash and liquid funds**

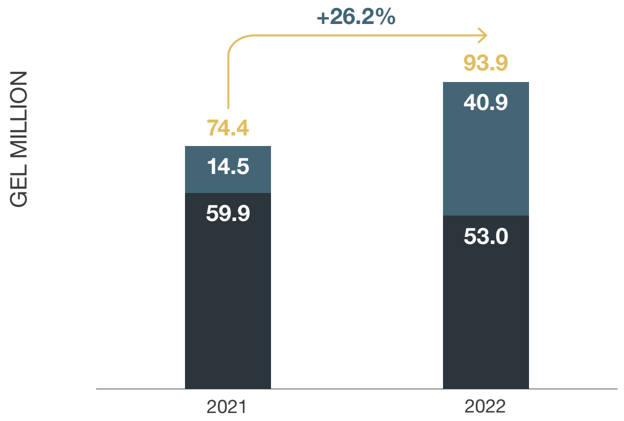



- Cash and liquid funds balance up 73.4% y-o-y at 31 December 2022, reflecting the cash receipt from the water utility business sale.
- Liquid asset buffer: Georgia Capital holds liquid assets of at least US$ 50 million at all times.

## STRONG DIVIDEND INCOME FROM PORTFOLIO COMPANIES

DIVIDEND INCOME PER SHARE (GEL) 1.6 → 2.1 (+32.2%)




**ROBUST DIVIDEND INCOME IN 2022**

**94**
GEL MILLION IN 2022

**Dividends income**

| (GEL million) | 2022 |
|---|---|
| BoG | 40.9 |
| Retail (Pharmacy) | 16.0 |
| Hospitals | 13.0 |
| P&C Insurance | 14.7 |
| Renewable Energy | 8.2 |
| Medical Insurance | 1.0 |
| Total | 93.9[1] |

1 Including the buyback dividend of GEL 29 million from BoG, the total dividend income in 2022 stands at GEL 123 million.

## ALIGNING OUR OPEX RATIO WITH NAV

**CURRENT TARGET** c.2% OF MARKET CAPITALISATION

**TARGET FROM 2024** 0.75% OF NAV

Management fee expense ratio:

1.8% 2019
1.8% 2020
1.7% 2021
2.7% 2022

# OUR MANAGEMENT TEAM



Georgia Capital

### Irakli Gilauri, Chairman and CEO

Irakli Gilauri formerly served as the CEO of BGEO Group from 2011 to May 2018. He joined as CFO of Bank of Georgia in 2004 and was appointed as Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Formerly, he was an EBRD (European Bank for Reconstruction and Development) banker. Mr Gilauri has up to 20 years of experience in banking, investment and finance. Over the last decade, Irakli's leadership has been instrumental in creating major players in a number of Georgian industries, including banking, healthcare, utilities and energy, real estate, insurance and wine. Holds an MSc in banking from Cass Business School and a certificate in winemaking from the University of California, Davis.

### Avto Namicheishvili, Deputy CEO

In addition to his deputy CEO role at JSC Georgia Capital, Avto also serves as chairman of the Group's renewable energy, beverages, housing development and hospitality businesses. Formerly he was BGEO Group General Counsel. He was General Counsel of the Bank of Georgia from 2007 to 2018 and has played a key role in all of the Group's equity and debt raises on the capital markets, and over 25 mergers and acquisitions. Prior, he was a Partner at a leading Georgian law firm. Holds LLM in an international business law from Central European University, Hungary.

### Irakli Gogia, Portfolio Manager

CEO at Retail (pharmacy), Hospitals, Medical Insurance, and Clinics and Diagnostics businesses. Formerly Deputy CEO, Finance at GHG. Prior to that Irakli was a deputy chairman of the supervisory board of Evex Medical Corporation and Insurance Company Imedi L. He has ten years of experience in the financial industry. Previously, he served as CFO of Insurance Company Aldagi and Liberty Consumer, prior to which he was a senior auditor at Ernst & Young and Deloitte. Holds a Bachelor of Business Administration degree from the European School of Management in Tbilisi.

### Giorgi Alpaidze, Chief Financial Officer

Formerly BGEO Group CFO. Joined BGEO as Head of Group's Finance, Funding and Investor Relations in 2016. He has extensive international experience in banking, accounting and finance. Previously, he was a senior manager in Ernst & Young LLP's Greater New York City's assurance practice. Holds a BBA from the European School of Management in Georgia. US Certified Public Accountant.

### Ia Gabunia, Chief Strategy Officer

Formerly Investment Director at Georgia Capital. Joined BGEO as an Investment Director in 2017. Ia has over ten years of experience in banking and investment management. Prior to joining BGEO Ia served as Head of Corporate Banking at Bank Republic, Société Générale Group. Previously, she held numerous executive positions in leading Georgian companies. Ia holds a BSc degree from London School of Economics and Political Science, UK.

### Giorgi Ketiladze, Director, Investments

Formerly Investment Officer at BGEO Group. Joined BGEO in 2017. Previously, worked at Deutsche Bank in Corporate Finance department and at KPMG consulting in Germany. Giorgi holds a master's degree from London Business School.

### Nino Vakhvakhishvili, Chief Economist

Joined Georgia Capital in 2018. Before joining the Company, she spent over five years at the Macroeconomic and Statistics Department at the National Bank of Georgia. Nino was IMF's short-term expert and participated in TA missions in East African countries (Rwanda, Tanzania) in 2019. She was a visiting lecturer at the University of Georgia, conducted lectures on Macroeconomics during 2015-2019. Nino holds a master's degree in economics from the International School of Economics (ISET).

### Levan Dadiani, General Counsel

Formerly Senior Group Lawyer at BGEO Group. Joined BGEO in 2012. Levan has an extensive experience in commercial law, equity investments, corporate and project financing and energy projects. Previously, he was a Partner at a leading Georgian law firm. Holds an LLM degree in International Business Law from University of Texas at Austin, USA.



**Photo** Svaneti, Georgia, with Caucasus peaks in the background.

Georgia Capital PLC Annual Report 2022

# BANKING

**Overview**
Bank of Georgia Group is a Georgia-focused banking business with an impressive track record of delivering superior returns and maximising shareholder value. Diversified revenue sources, a growing loan book, robust asset quality, efficient cost performance and fee income growth are the main drivers of Bank of Georgia Group's profitability. JSC Bank of Georgia, a systemically important and leading universal Georgian bank, is the core entity of Bank of Georgia Group. It offers: a) retail banking and payment services (Retail Banking), and b) corporate and investment banking operations (Corporate and Investment Banking) in Georgia. BoG is well-positioned to benefit from the growth of the Georgian economy through both its Retail Banking and Corporate and Investment Banking services and aims to deliver on its growth strategy with strong capital and liquidity positions.

Bank of Georgia Group has two primary segments: Retail Banking and Corporate and Investment Banking. In Retail Banking, the prominent component of the banking business, BoG runs a client-centric digital multi-brand offering with the aim of reaching the entire spectrum of retail customers through its mass retail and affluent segment (through its SOLO brand) and high-net-worth individuals (through its Wealth Management private banking services in Georgia and internationally through representative offices). Bank of Georgia is a digital banking and payments leader, with a strong retail and corporate banking franchise in Georgia. Focusing on customer satisfaction and enhancing its digital and advanced analytics capabilities, BoG aims to increase customer engagement and maintain its relevance in customers' daily lives.
In addition, BoG serves micro, small and medium-sized enterprises (MSME) under the Retail Banking business. In Corporate and Investment Banking, given the scale, a rich portfolio of banking products and services, and the industry and product expertise that it possesses, BoG is a universal bank of choice and top-of-mind advisor for Georgian corporates. In the brokerage business, under the Corporate and Investment Banking business, BoG is focused on profitable growth, through unlocking retail brokerage potential and fully digitalising brokerage services.

**Performance and strategy**
Bank of Georgia Group delivered strong results in 2022. Excellent top and bottom-line growth and outstanding ROAE were supported by the improving macroeconomic environment in Georgia. Both Retail Banking and Corporate and Investment Banking businesses delivered excellent results. Lending activity was robust, operating income increased, particularly net foreign currency gains and net fee and commission income generation, and loan book quality remained strong in 2022. BoG continued its focus on customer satisfaction, employee empowerment and improving its digital banking and payments business franchise, while maintaining a healthy cost to income structure. As a result, Bank of Georgia Group delivered a ROAE of 32.4% (adjusted for one-offs) in 2022, while maintaining robust liquidity and capital positions.

Bank of Georgia Group's medium-term strategic priorities are the following:
- 20%+ ROAE.
- Loan book growth of c.10%.
- Robust capital management:
  - Maintain regular progressive semi-annual dividend payouts: aiming 30%-50% dividend/share buyback payout ratio;
  - Under its ongoing share buyback and cancellation programme the Bank repurchased 1,670,446 ordinary shares at a total cost of GEL 112.7 million in 2022. The programme was further extended to an additional GEL 148 million in February 2023.
  - In 2022, BoG paid an interim dividend of GEL 1.85 per ordinary share in respect of the period ended 30 June 2022.
  - On 16 February 2023, the Bank announced its Board's intention to recommend a final dividend for 2022 of GEL 5.80 per ordinary share at the Bank's 2023 Annual General Meeting. This will make a total dividend paid in respect of the Bank's 2022 earnings of GEL 7.65 per share.

## INVESTMENT RATIONALE

The first entity from Georgia to be listed on the premium segment of the Main Market of the London Stock Exchange (LSE: BGEO), since February 2012.

High standards of transparency and governance.

Leading market position[1] in Georgia by assets (37.8%), loans (36.1%), client deposits (38.9%) and equity (34.7%) as at 31 December 2022.

Strongest retail banking franchise: 44% market share in deposits of individuals, 39% market share in loans to individuals.

Digital leader in Georgian banking sector with a strong retail banking franchise: 68.7% share of monthly active digital users in total active individuals.

Growing market: The banking sector's assets growth rate at 23.2% (CAGR over 2003-2022).

Sustainable growth combined with strong capital, liquidity and robust profitability.

Outstanding ROAE performance.

## OWNERSHIP

Georgia Capital owns 20.6% of Bank of Georgia Group PLC, as of 31 December 2022. As long as Georgia Capital's stake in BoG is greater than 9.9%, it will exercise its voting rights in Bank of Georgia Group in accordance with the votes cast by all other shareholders on all shareholder votes at any general meeting.

## VALUE CREATION POTENTIAL

Loan book growth c.10%.

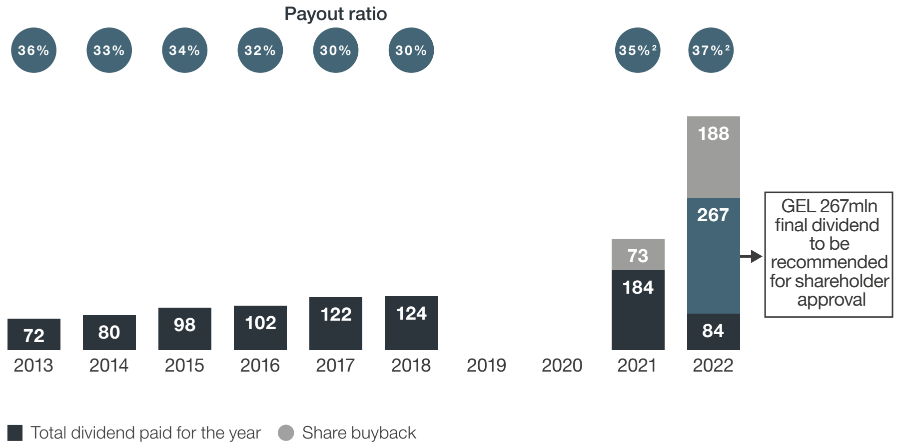
Regular progressive semi-annual capital distribution with 30%-50% dividend/share buyback payout ratio.

20%+ ROAE.

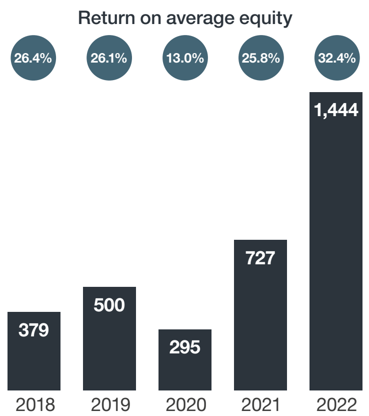
1 Market data based on standalone JSC Bank of Georgia accounts as of 31 December 2022 published by the NBG www.nbg.gov.ge.

## PERFORMANCE TRACK RECORD[1]

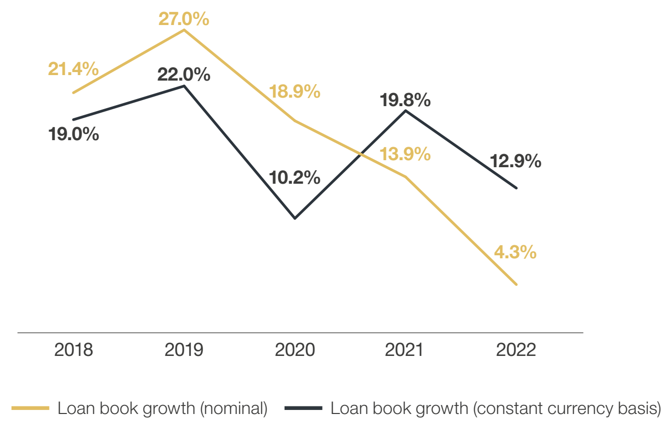
**Dividend record**
**GEL million**




**Profits and ROAE[3]**
**GEL million**




**Loan book growth**



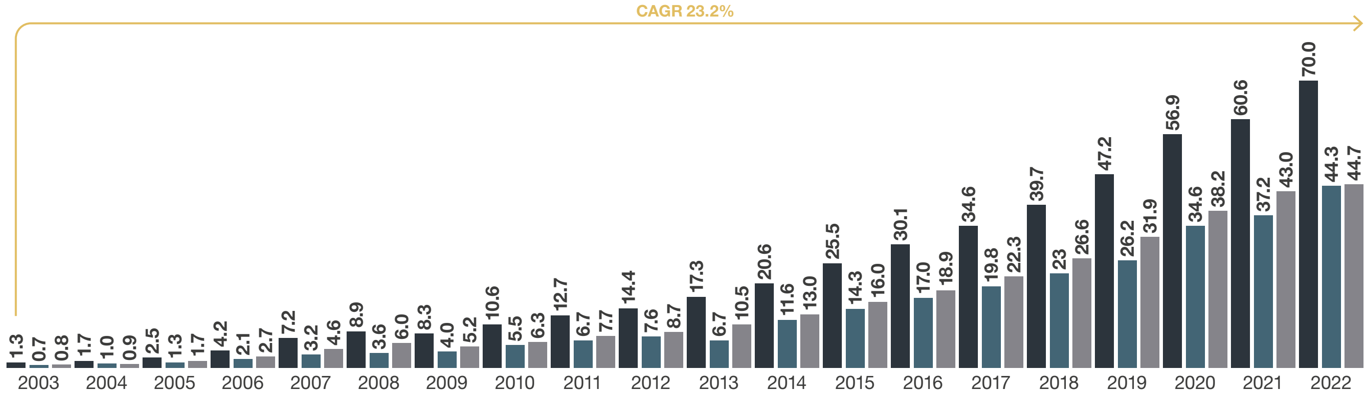

1 Numbers are derived from the business's unaudited IFRS accounts.
2 For the purpose of payout ratio calculation, total buyback amount is divided by outstanding shares before the beginning of the programme for the respective year.
3 2018, 2019 and 2022 ROAE is adjusted for one-offs.

# OUR PORTFOLIO OVERVIEW CONTINUED
# LISTED AND OBSERVABLE PORTFOLIO CONTINUED



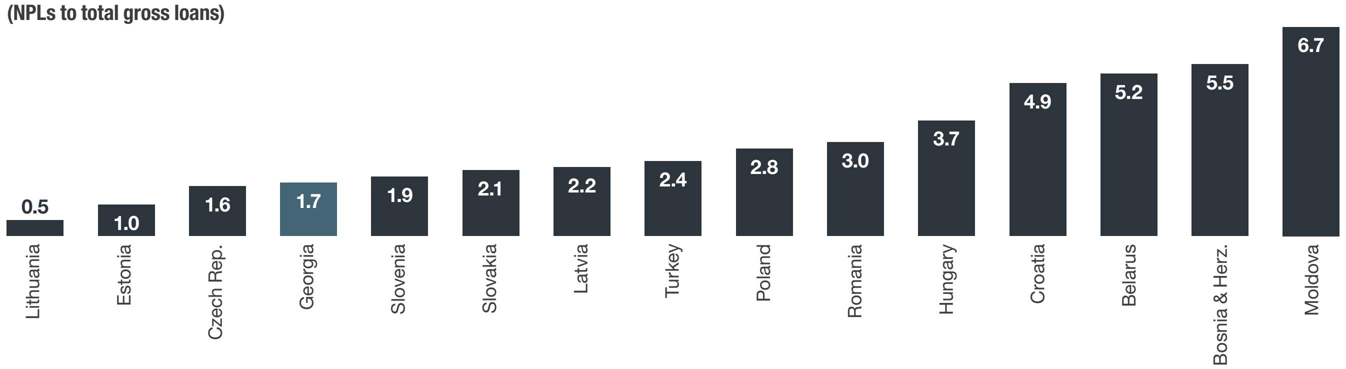
## MARKET OPPORTUNITY

**Banking sector assets, loans and deposits**
**GEL billions**




Source: NBG

**One of the lowest levels of non-performing loans (NPLs) worldwide, latest 2022**
**(NPLs to total gross loans)**




Source: IMF

## FINANCIAL METRICS[1]

| Banking business loan book (GEL million) | Deposit portfolio (GEL million) | ROAE[2] | Net Interest Margin |
|---|---|---|---|
| 16,862 +4.3% y-o-y | 18,261 +30.1% y-o-y | 32.4% +6.6 ppts y-o-y | 5.4% +0.5 ppts y-o-y |

| Cost/Income[2] | NPL coverage adjusted for discounted value of collateral | Tier 1 capital adequacy ratio | Liquidity coverage ratio |
|---|---|---|---|
| 32.0% -5.2 ppts y-o-y | 128.9% -18.8 ppts y-o-y | 14.7% +1.5 ppts y-o-y | 132.4% +8.4 ppts y-o-y |

## OPERATING METRICS

| Number of monthly active retail customers (thousands) | Number of monthly active digital users, individual clients (thousands) | % of monthly active users in total active individuals | Number of mobile and internet banking transactions (millions) |
|---|---|---|---|
| 1,632 +17.1% y-o-y | 1,121 +31.5% y-o-y | 68.7% +7.6 ppts y-o-y | 174.1 +52.6% y-o-y |

## VALUATION HIGHLIGHTS

**Stock price performance**
**GBP**


**Implied multiple highlights at 31-Dec-22**

| LTM P/E | P/B |
|---|---|
| 2.8x -1.9x y-o-y | 1.11x NMF |

1 Numbers are derived from the business's unaudited IFRS accounts.
2 ROAE and Cost/Income ratios are adjusted for one-offs.

Georgia Capital PLC Annual Report 2022

**OUR PORTFOLIO OVERVIEW** CONTINUED
**LISTED AND OBSERVABLE PORTFOLIO** CONTINUED

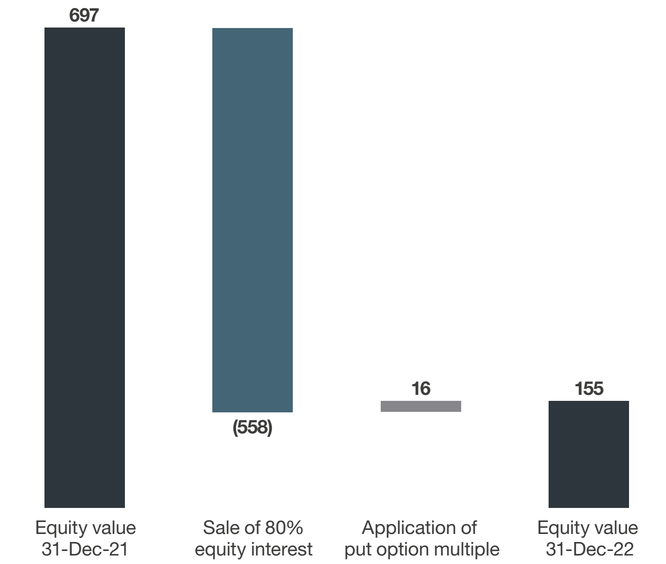


# WATER UTILITY

The water utility business is a regulated natural monopoly in Tbilisi and the surrounding area, providing water and wastewater supply services to approximately 1.4 million residents and approximately 39,900 legal entities. The business also operates hydro power plants (HPPs) with a total installed capacity of 149MW. The water utility business uses a portion of the power generated by its HPPs associated with the water infrastructure for internal consumption at regulated electricity tariffs to power its water distribution network, while the remaining electricity is sold on the market. Revenues come from two main streams (water and electricity sales), where the business benefits from both earning fair regulatory returns on invested capital made in upgrading the water utility network and average electricity sales price growth due to electricity market deregulation in 2019.

In 2022, GCAP completed the sale of 80% interest in the water utility business for total consideration of US$ 180 million as set out on page 12 of this report. In 2022, the remaining 20% equity interest in business was valued by the application of pre-agreed put option multiple to the normalised LTM EBITDA of the business, leading to GEL 15.6 million value creation. As of 31 December 2022, the fair value of GCAP's 20% holding in the water utility business was assessed at GEL 155.0 million.

**Value development overview**[1]
**GEL million**




**GCAP and Aqualia have put and call options at pre-agreed multiples for the minority 20% equity interest in the water utility business.**

| GCAP'S PUT OPTION | AQUALIA'S CALL OPTION |
|---|---|
| **8.25x** EV/EBITDA | **8.90x** EV/EBITDA |
| Exercisable in 2025-2026. | Exercisable on the date of expiry of the put option in 2026 and expiring six months thereafter. |

1 The detailed valuation overview and related drivers are described on pages 103-122 of this report.



## PRIVATE LARGE PORTFOLIO COMPANIES

# RETAIL (PHARMACY)

**Overview**
The retail (pharmacy) business is the largest pharmaceuticals retailer and wholesaler in the country, with a c.35% market share by revenue. The business consists of a retail pharmacy chain and a wholesale business that sells pharmaceuticals and medical supplies to hospitals and other pharmacies. The business operates two brands, Pharmadepot and GPC, with a total of 372 pharmacies (of which 362 are in Georgia, and ten are in Armenia) and 12 franchise stores.

**Performance and strategy**
The retail (pharmacy) business successfully continued the growth of its retail segment. Continued expansion of the pharmacy chain and franchise stores and improvement in the economic activities partially offset the recalibration of product prices in 2022, triggered by the GEL's appreciation against the basket of foreign currencies (the FX effect is directly transmitted into the pricing as c.70% of the inventory purchases are denominated in foreign currencies). The decline in the wholesale business line in 2022 was due to the continuing gradual transfer of the hospitals business' procurement department from pharma to hospitals (which began in January 2021 and was completed in December 2022).

Going forward the business strategy is to deliver its targeted double-digit compound annual growth rate in EBITDA over the next five years by focusing on: the further expansion of its local pharmacy chains, where in the last four years 92 new pharmacies were added; upgrading store format of its GPC pharmacies to retail pharma drugstores that offer an extensive range of health, beauty and perfume products, as well as integrated health hub services incorporating lab retail points, ophthalmology and dermatology cabinets; increasing sales from e-commerce; commencement of the new growth projects related to beauty and opticians; and international expansion.

The business already entered the beauty retail market by signing a franchise agreement with The Body Shop, a leading British cosmetic, skincare and perfume company, and Alain Afflelou SA, one of the leading optical retailers in France. In 2022, in line with strategy to expand the product mix at shop-in-shop model pharmacies, the business signed a four-year exclusive sales agreement with Carter's Inc (a major American designer and marketer of children's apparel). The business operates five standalone The Body Shop stores and two Afflelou opticians in Georgia, as well as shop-in-shop model in its GPC pharmacies.

In line with its international expansion strategy, in 2022 the business has expanded its GPC pharmacy chain in Armenia by adding six new pharmacies and a new stand-alone The Body Shop store, arriving at ten pharmacies and two The Body Shop stores in total. It also entered Azerbaijan market in 2022 by opening its first The Body Shop store.

Effective from 15 January 2023, the Ministry of Health, Labour and Social Affairs of Georgia (the "Ministry") implemented an External Reference Pricing model on the pharmaceuticals market, only related to prescribed medicines that are financed by the State. Reference Pricing is an approach where prices are set according to the benchmark prices for the same or similar medicines in comparable countries. According to the new initiative, the Ministry introduced the maximum retail price on targeted pharmaceutical products, in two directions: Generic and Original drugs. The price caps are set based on the average of such medicine prices in the following countries: Bulgaria, Latvia, Macedonia and Montenegro. In order to minimise the impact, the business intends to renegotiate the contractual terms with its suppliers.

The business targets to maintain its EBITDA margin at 9%+ supported by double-digit compound annual growth rate in its revenues and EBITDA over the coming five years.

## INVESTMENT RATIONALE

- Largest retailer in the country with over eight hundred thousand loyalty card holders and over two million customer interactions per month.
- Retail business with 95% out-of-pocket payment.
- Supported by the country's growing macroeconomic environment.

## OWNERSHIP

Georgia Capital owns 77%[1] of the retail (pharmacy) business.

## VALUE CREATION POTENTIAL

- The largest player and purchaser of pharma products in the Georgian market with a cost advantage due to the scale of operations: higher discounts from manufacturers and elimination of distributor margins.
- High-growth potential driven by growing macroeconomic environment, expansion of the local and international chains, and adding highly synergetic products and services.

1 In October 2021, GHG signed a share purchase agreement to acquire the then remaining 33% minority interest in its retail (pharmacy) business by 2027. The buyout will be executed in six annual tranches at a 5.25x EV/EBITDA multiple. The first tranche of 10% was acquired in 2022. The second tranche of 11% is expected to be acquired in 2023. For details, please see page 12 of our Annual Report 2021.

# OUR PORTFOLIO OVERVIEW CONTINUED
# PRIVATE LARGE PORTFOLIO COMPANIES CONTINUED



## KEY FOCUS AREAS IN MEDIUM AND LONG TERM

**1 Expanding retail footprint in Georgia**
c.400 pharmacies
- c.80-100 new format GPC stores in five years
- c.280-300 pharmadepot pharmacies in five years

**2 International expansion**
Armenia, Azerbaijan, etc.
- c.30+ GPC stores in Armenia in five years
- Entering Azerbaijan market

**3 Increase sales from E-commerce**
Georgia, Armenia and Azerbaijan
- c.GEL 80mln+ sales in Georgia in five years
- Operating e-commerce in Armenia and Azerbaijan

**4 Supporting the core**
Expanding the mix of synergetic products and services
- Adding international franchises on different beauty and other synergetic retail products
- Expanding highly synergetic product and service mix in a new format GPC drugstores
- Adding lab collection points in GPC pharmacies – c.100 points in five years (currently 16)

## FIVE-YEAR FINANCIAL TARGETS

2021-2026

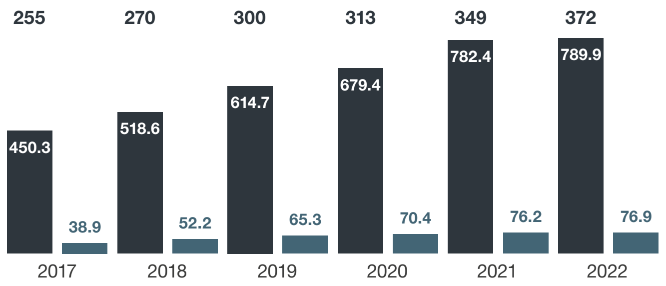
**Double-digit revenue CAGR**

**Double-digit EBITDA CAGR**

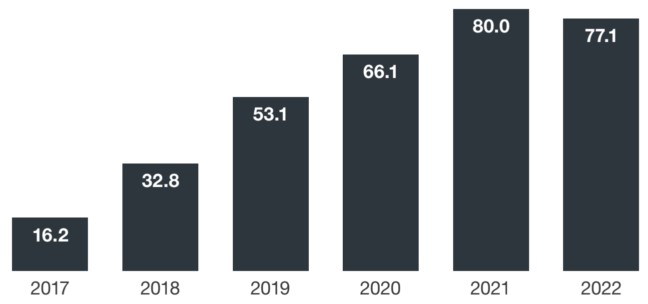
**9%+ EBITDA margin**

## PERFORMANCE TRACK RECORD[1]

**Revenue and EBITDA**
**GEL million**
**Number of pharmacies**




**Operating cash flow (excl. IFRS 16)**
**GEL million**




## FINANCIAL METRICS[1]

| | | | |
|---|---|---|---|
| Revenue (GEL million)<br>**789.9** +1.0% y-o-y | EBITDA excluding IFRS 16 (GEL million)<br>**76.9** +1.0% y-o-y | Operating cash flow excluding IFRS 16 (GEL million)<br>**77.1** -3.6% y-o-y | Free cash flow excluding IFRS 16 (GEL million)<br>**15.0** -76.3% y-o-y |
| Gross profit margin (%)<br>**29.3%** +3.3 ppts y-o-y | EBITDA margin excluding IFRS 16 (%)<br>**9.7%** NMF | EBITDA to cash conversion excluding IFRS 16 (%)<br>**100.2%** -4.8 ppts y-o-y | Dividend paid to GCAP (GEL million)<br>**16.0** +39.8% y-o-y |

## OPERATING METRICS

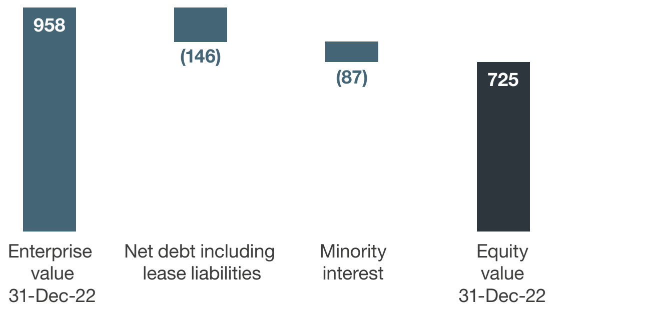
| | | | |
|---|---|---|---|
| Number of pharmacies<br>**372** +24 over 2021 | Number of bills issued (million)<br>**31.0** +6.9% y-o-y | Average bill size (GEL million)<br>**19.0** +0.6% y-o-y | Same store revenue growth (%)<br>**-0.8%** -11.4 ppts y-o-y |

1 Numbers are derived from the business's unaudited IFRS accounts.

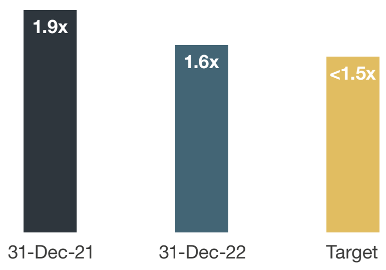


## VALUATION HIGHLIGHTS[1]

**Value development overview at 31-Dec-22**
**GEL million**




**Adjusted net debt to EBITDA[2]**




**Implied multiple highlights at 31-Dec-22**

LTM EV/EBITDA
**9.1x**

LTM FCF/EV
**4.5%**

**Peer companies**
- NEUCA S.A. | Poland
- Sopharma Trading AD | Bulgaria
- S.C. Ropharma S.A. | Romania
- SALUS, Ljubljana, d. d. | Slovenia
- Great Tree Pharmacy Co., Ltd. | Taiwan
- Dis-Chem Pharmacies Limited | South Africa
- Clicks Group Limited | South Africa

1 The detailed valuation overview and related drivers are described on pages 103-122 of this report.
2 Included the application of the minority buyout agreement.

**OUR PORTFOLIO OVERVIEW** CONTINUED
**PRIVATE LARGE PORTFOLIO COMPANIES** CONTINUED



# HOSPITALS BUSINESS

**Overview**
Our hospitals business is the single largest healthcare market participant accounting for around 15% of the country's total hospital bed capacity, as of 31 December 2022. The business operates 16 referral hospitals with a total of 2,524 beds. These hospitals are located in Tbilisi and major regional cities and provide secondary or tertiary-level outpatient and inpatient diagnostic, surgical and treatment services.

**Performance and strategy**
Over the course of the last two years, the hospitals business was actively engaged in supporting the COVID-19 pandemic response in Georgia and mobilised seven hospitals to receive COVID patients, with a total aggregate number of c.800 beds across the country. The Government of Georgia fully reimbursed costs associated with COVID-19 treatments and paid a fixed fee amount per bed designated for COVID patients. As the COVID cases declined substantially in Georgia starting from 2022, the Government suspended the COVID contracts with hospitals in mid-March 2022. Restructuring the cost base of COVID hospitals, and phasing out from Government contracts, temporarily suppressed the business margins in 2022. The business expects to return to normal operating levels starting from 2023.

Going forward the business will continue to focus on improving operational and financial performance and delivering growth by developing new strategic projects which include: developing a commercial ambulance service (currently only state owned); developing a high technology Oncology Centre in Tbilisi; creating Tbilisi Referral Hospital as Georgia's Transplantology Centre, adding a bone marrow transplant unit, both paediatric and adult (currently offering liver and kidney transplantology services); developing and enhancing aesthetic services; resuming medical tourism strategy, previously on hold due to the COVID pandemic; and expanding the number of clinical trials and post-COVID programmes.

From the operational performance perspective, the business is focusing on improving the capacity utilisation of hospitals, increasing patient and employee satisfaction across the chain, and driving efficiency through digitalisation of clinical processes.

These, together with the improved cash flow generation and allocating resources to high ROIC-generating investments, will help the business to achieve its goal to generate mid-teens compound annual growth rate in EBITDA over the coming five years that is expected to support a 13%+ ROIC in the medium to long term.

From a clinical perspective, the business continues to grow a new generation of doctors and nurses, while building robust clinical quality management processes. The medium-term goals remain knowledge and expertise advancement through education and professional development of our physicians and nurses. Quality assurance through the introduction and improvement of various activities and processes at hospitals remains a top priority for us so that the business delivers better care to its patients.

To streamline the state funding financing in healthcare and improve the reimbursement process, the Georgian Government introduced an initiative to implement a DRG financing system. The DRG system categorises inpatient case types that are clinically similar and expected to use the same or similar resources into groups by applying various criteria (age, sex, intervention needed, comorbidity, etc.). The roll-out of the DRG system started on 1 November 2022 and was in the testing phase until 1 January 2023. While it is too early to estimate its impact on the financial performance of our hospitals business, the implementation of the DRG system aims to increase the efficiency of state financing and improve the quality of healthcare services in the market. The system is expected to better reflect inflation and other price pressures that are present in the healthcare sector.

## INVESTMENT RATIONALE

Very low base: healthcare services spending per capita only US$ 291 (EU average is US$ 3,211).

Growing market: healthcare spending growth estimated at 8% CAGR 2018-2021.

In-depth knowledge of the local market: Strong business management team – increased market share by beds from under 1% in 2009 to 15% currently.

## OWNERSHIP

Georgia Capital owns 100% of the hospitals business as at 31 December 2022 (31 December 2021: 100%).

## VALUE CREATION POTENTIAL

The single largest participant (next competitor has only 7% market share) with a cost advantage due to the scale of operations.

High-growth potential driven by the opportunity to develop new services, strategic directions and medical tourism.

## KEY FOCUS AREAS IN MEDIUM AND LONG TERM

**1 Adding new services and strategic projects**
- Ambulance service, oncology centre, transplantology centre, radiology hub, medical tourism clinical trials, post-COVID programmes

**2 Quality projects**
- Nursing reform
- CRM development
- Quality education programmes

**3 Digitalisation of clinical processes**
- Automation of clinical processes in hospitals
- Digitalisation of clinical KPIs
- Use of statistical methods

**4 Improve key operational data**
- Inpatient
- Outpatient
- Clinical
- Employee and customer satisfaction

## FIVE-YEAR FINANCIAL TARGETS

2021-2026

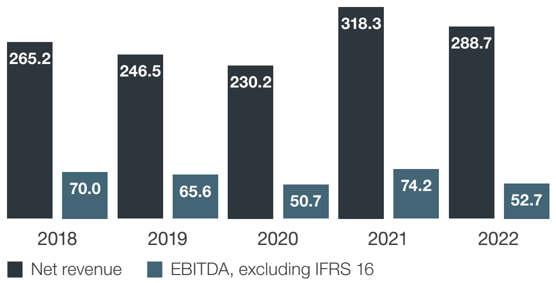
**EBITDA CAGR 10%+**

**EBITDA to operating cash c.85%+**

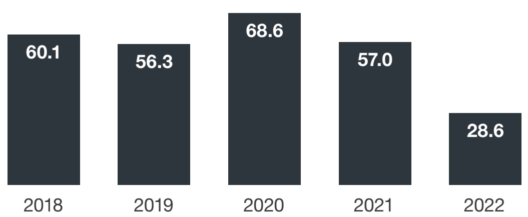
**ROIC: c.13%+**

## PERFORMANCE TRACK RECORD[1]

**Net revenue and EBITDA**
**GEL million**

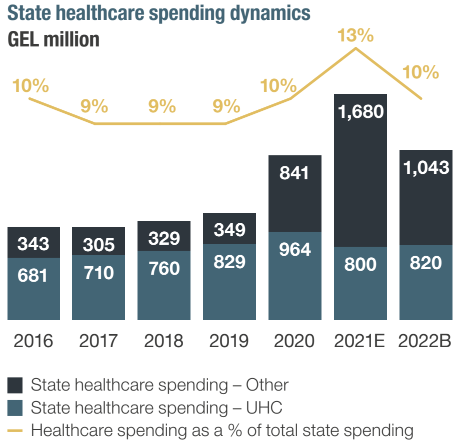



**Operating cash flow (excl. IFRS 16)**
**GEL million**




## MARKET OPPORTUNITY

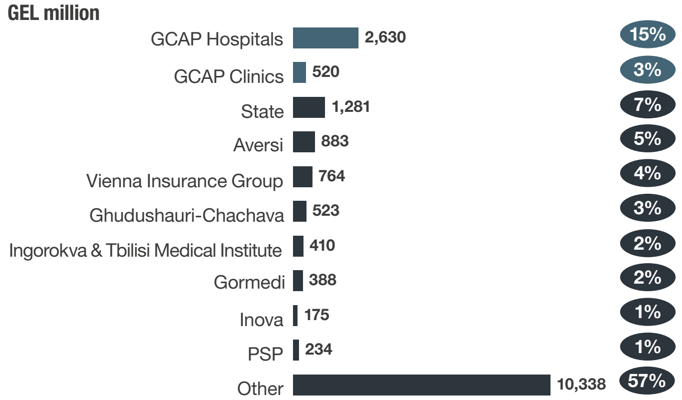
**State healthcare spending dynamics**
**GEL million**




Source: Ministry of Finance of Georgia.

- Since 2020, Government spending increased to manage the COVID-19-related situation in the country.
- Country's expenditure on healthcare – 3.7% of GDP in 2020 (from 2.4% in 2019).
- Government spending on healthcare accounts c.13% of total budget in 2021.

**Market share by number of beds[2]**
**GEL million**




Source: NCDC, data as of December 2021, excluding specialty beds.

- The largest healthcare service provider in Georgia: 15% market share by number of hospital beds.
- Covering three-quarters of Georgia's population.

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The number of beds for the hospitals and clinics businesses includes the beds mobilised for the COVID-19 patients.

## OUR PORTFOLIO OVERVIEW CONTINUED
## PRIVATE LARGE PORTFOLIO COMPANIES CONTINUED

### FINANCIAL METRICS[1]

Revenue (GEL million)
**288.7** -9.3% y-o-y

EBITDA margin excluding IFRS 16 (%)
**18.0%** -5.0 ppts y-o-y

EBITDA to cash conversion excluding IFRS 16 (%)
**54.2%** -22.5 ppts y-o-y

Net debt (GEL million)
**178.2** +7.6% y-o-y

EBITDA excluding IFRS 16 (GEL million)
**52.7** -29.0% y-o-y

Operating cash flow excluding IFRS 16 (GEL million)
**28.6** -49.9% y-o-y

Free cash flow excluding IFRS 16 (GEL million)
**11.1** -54.2% y-o-y

Dividend paid to GCAP (GEL million)
**13.0** +12.7% y-o-y

### OPERATING METRICS

Revenue per bed (GEL)
**115.2** -7.2% y-o-y

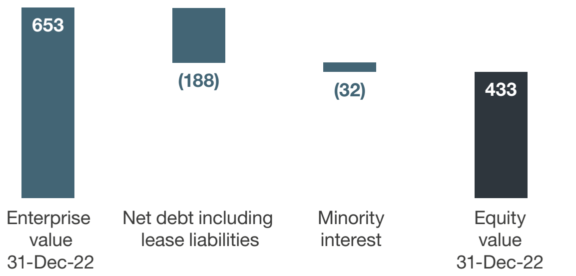
Number of referral hospitals
**16** -1 over 2021

Number of referral beds
**2,524** -72 over 2021

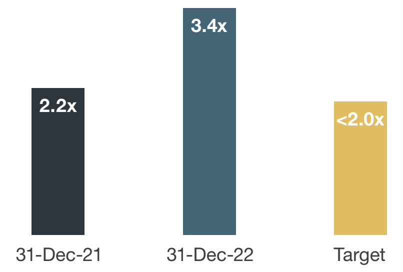
Referral hospital bed occupancy rate (%)
**54.3%** -11.0 ppts y-o-y

### VALUATION HIGHLIGHTS[2]

**Value development overview at 31-Dec-22**
**GEL million**




**Net debt to EBITDA**




**Implied multiple highlights (incl. IFRS 16) at 31-Dec-22**

LTM EV/EBITDA[2]
**12.2x**

LTM FCF/EV
**1.7%**

**Peer companies**

- Medicover AB (publ) | Sweden
- EMC Instytut Medyczny SAEMC SA | Poland
- Med Life S.A. | Romania
- Netcare Limited | South Africa
- Mediclinic International plc | South Africa
- MLP Saglik Hizmetleri A.S. | Turkey
- Life Healthcare Group Holdings Limited | South Africa

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The detailed valuation overview and related drivers are described on pages 103-122 of this report.



# INSURANCE

The insurance business comprises a) Property and Casualty (P&C) insurance business and b) medical insurance business.

## P&C INSURANCE

**Overview**
Over nearly three decades in the Georgian property and casualty insurance market, Aldagi has achieved almost universal brand awareness, leading positions in retail insurance services, with the largest product portfolio and exceptional financial strength. The company has almost doubled its retail portfolio over the last four years, outperformed market growth, delivered an average annual ROAE of c.32% in 2014-2022 and consistently distributed dividends within a 50%-90% payout ratio each year since 2014. Based on the latest available market data as at 30 September 2022, Aldagi continues to be the most profitable insurance company in the local market with a 42% share of the insurance industry profit and a market share of 27% based on gross premiums written[1].

The current low level of insurance market penetration in Georgia (1.3%, of which 0.8% relates to property and casualty insurance and 0.6% to medical insurance) provides enormous potential for growth and Aldagi is well-equipped to capture these opportunities. The company plans to increase the P&C insurance business profitability by strategically focusing on each of its three main business lines set out below:

- **Retail customers.** The Georgian retail insurance market offers ample room for growth, as most of its potential is yet to be unlocked. Motor insurance accounts for 56% of the total retail insurance market in Georgia, of which 17% represents border MTPL insurance, effective from March 2018. Moreover, the motor insurance segment has great potential to increase, as only 7% of registered cars are insured on the local market. A new law requiring local MTPL for all vehicles registered in Georgia is expected be passed in the next few years which will significantly boost retail market penetration. Overall, Aldagi's market share in voluntary retail insurance stands at 35% and Aldagi expects to grow its retail segment concentration by developing simple products for mass retail as well as developing a unique customer experience through exclusive premium line services. Aldagi aims to further strengthen customer retention and its market leadership position by continued development of its digital insurance platform.
- **SME segment.** Georgia's insurance market for SMEs is currently in its infancy. Aldagi sees significant potential to grow this segment of the portfolio by developing tailor-made products and providing them with established multi-channel distribution networks and digital portals, created especially for SME clients. A separate SME sales division was established by the end of 2019 as a part of this strategy. As a result, Aldagi's SME gross revenues have grown by 43% in FY22 (from GEL 2.5 million to GEL 3.5 million).
- **Large corporates.** Although the level of insurance penetration within the corporate segment is relatively high compared to retail and SME segments, a combination of favourable Georgian macroeconomic conditions, a good investment climate, stable economic growth and an increase in infrastructure projects will further increase customer demand for insurance products.

**Performance and strategy**
Despite the existing regional geopolitical situation, performance of the business in FY22 was exceptional, reflecting extremely low dependence on the Russian reinsurance market, which has already been substituted. Revenue of the business was up by 13.9%, mainly reflecting the growth in the credit life, agricultural and border MTPL insurance lines Loss and combined ratios improved by 2.2 ppts and 1.1 ppts, respectively, reflecting robust revenue growth, decrease in COVID-19-related credit life insurance claims, as well as agricultural insurance claims and revised underwriting practices in retail motor insurance portfolio.

Aldagi's medium-term strategic focus remains unchanged. The business targets to gain a strategic edge by focusing on underwriting excellence and portfolio profitability backed by key five pillars: 1. Strengthening customer retention; 2. Introducing new digital insurance products; 3. Improving customer experience; 4. Advancing employee recognition; and 5. Getting ready for local MTPL insurance launch.

As part of the strategy, Aldagi has the following financial targets through 2023-2025:

- Market share of 25%-30%.
- ROAE of 20%-25%.
- Dividend payout of 50%-60%.
- Combined ratio of 80%-85%.
- Solvency ratio of 180%+.
- Retail concentration of 60%+.

1 Source: ISSSG.

# OUR PORTFOLIO OVERVIEW CONTINUED
# PRIVATE LARGE PORTFOLIO COMPANIES CONTINUED



## INVESTMENT RATIONALE

- Significantly underpenetrated insurance market in Georgia (0.8% penetration in property and casualty insurance market).
- Market leader with a powerful distribution network of point of sale and sales agents.

## OWNERSHIP

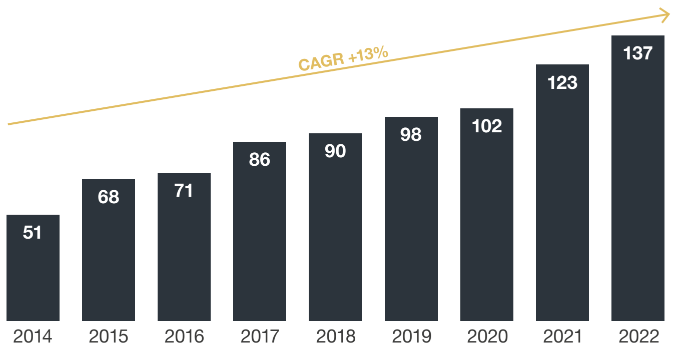
The P&C insurance business is 100% owned through Aldagi.

## VALUE CREATION POTENTIAL

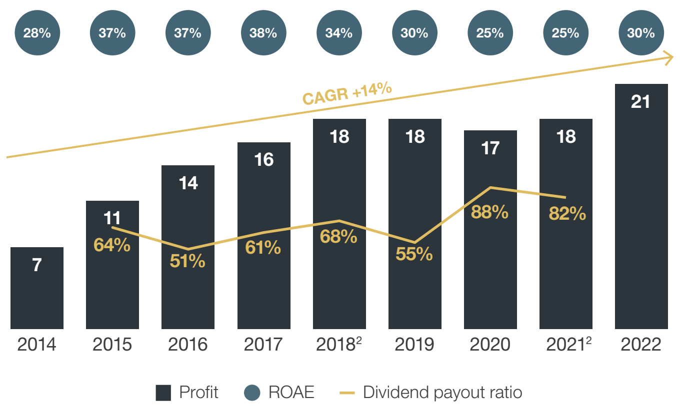
- Compulsory border MTPL effective from 1 March 2018.
- Local MTPL is expected to kick in and provide access to untapped retail CASCO insurance market with only 5% existing penetration.
- Increasing footprint in untapped MSME sector, where Aldagi's gross revenues have grown by 43% in FY22 (from GEL 2.5 million to GEL 3.5 million).
- Digitalisation.
- Undisputed leader in providing insurance solutions to corporate clients.

## PERFORMANCE TRACK RECORD[1]

**Earned premiums, gross**
GEL million

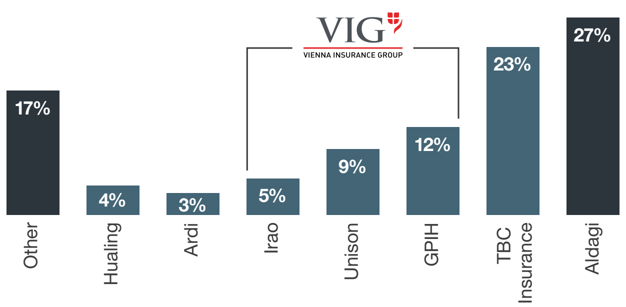



**Profit and dividend payout ratio**
GEL million



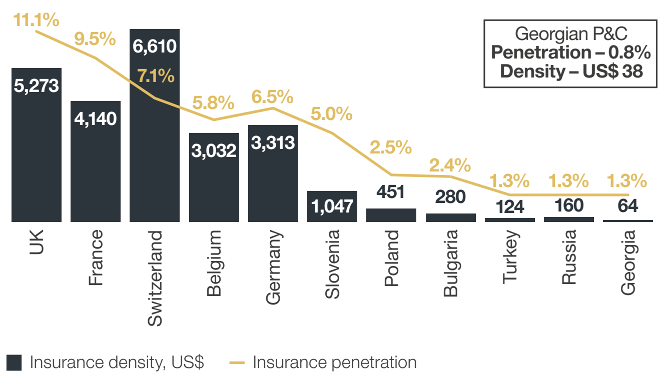

## MARKET OPPORTUNITY

**Market share, YTD Sep-22**
Gross Premiums Written




Source: Insurance State Supervision Service of Georgia

**Insurance penetration and density[3]**

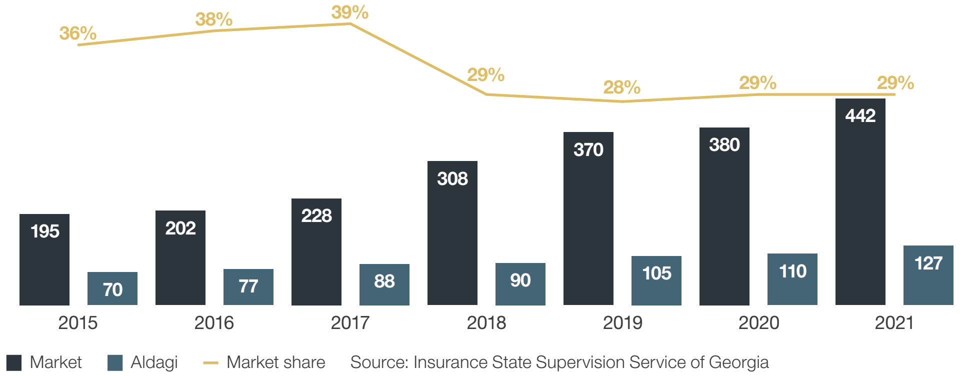



Source: Swiss Re Institute

1 Numbers are derived from the business's unaudited IFRS accounts.
2 Adjusted for non-recurring items.
3 Penetration and density are stated including healthcare insurance (as of latest available data).



**Market and Aldagi gross written premiums[1]**
GEL million




YTD Sep-22
Market Gross Premiums
GEL 384 million
**Aldagi share 27%**

CAGR 2015-2021
**Market – 15%**
**Aldagi – 10%**

Source: Insurance State Supervision Service of Georgia

## FINANCIAL METRICS[2]

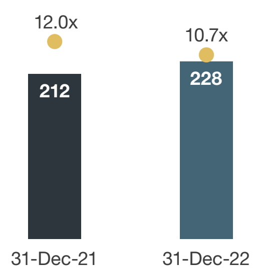
| | | |
|---|---|---|
| Earned premiums, gross (GEL million)<br>**137.5** +12.0% y-o-y | Net income (GEL million)<br>**21.2** +16.2%y-o-y | Combined ratio<br>**79.7%** -1.1 ppts y-o-y |
| Dividend paid to GCAP (GEL million)<br>**14.7** -0.9% y-o-y | ROAE[3]<br>**29.5%** +4.8 ppts y-o-y | |

## OPERATING METRICS

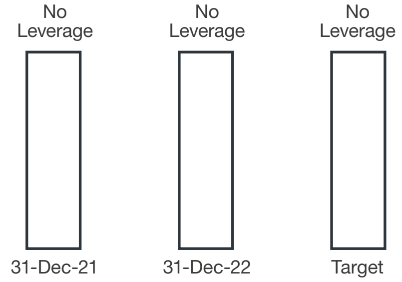
| | | |
|---|---|---|
| Number of policies written (corporate)<br>**85,236** -2.6% y-o-y | Number of policies written (retail)<br>**165,773** +13.2% y-o-y | Number of claims reported<br>**16,522** -13.6% y-o-y |

## VALUATION HIGHLIGHTS[3]

**Value and LTM P/E multiple development overview**
GEL million




**Net debt to EBITDA**




| GEL million, unless otherwise noted | 31-Dec-22 | 31-Dec-21 | Change |
|---|---|---|---|
| LTM net income[4] | 21.2 | 17.6 | 3.6 |
| Implied P/E multiple | 10.7x | 12.0x | (1.3x) |
| Equity fair value | 228.0 | 211.5 | 16.5 |
| LTM ROAE[5] | 29.5% | 24.7% | +4.8 ppts |

**Peer companies**
- Dhipaya Insurance | Thailand
- Zavarovalnica Triglav | Slovenia
- Pozavarovalnica Sava | Slovenia
- Aksigorta | Turkey
- Anadolu Sigorta | Turkey
- Bao Minh Insurance | Vietnam
- Turkiye Sigorta | Turkey

1 Calculated in line with the market approach.
2 Numbers are derived from the business's unaudited IFRS accounts.
3 The detailed valuation overview and related drivers are described on pages 103-122 of this report.
4 Adjusted for non-recurring items.
5 Calculated based on net income, adjusted for non-recurring items and average equity, adjusted for preferred shares.

# MEDICAL INSURANCE

**Overview**
Our medical insurance business is one of Georgia's largest providers of private medical insurance, with a 19% market share based on 9M22 net insurance premiums. The business has a wide distribution network and offers a variety of medical insurance products primarily to Georgian corporate and state entities and also to retail clients.

**Performance and strategy**
The modest growth in 2022 in earned premiums, reflects the combined effect of an increase in the price of insurance policies and a decrease in the number of insured clients for the same period.

The main focus for the medical insurance business is to increase its number of insured customers and maintain the leading position in the medical insurance market, while delivering profitable growth.

## INVESTMENT RATIONALE

Being presented in whole healthcare ecosystem for any further potential market structural changes.

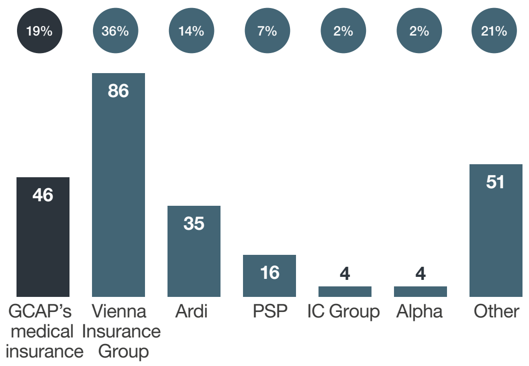
## OWNERSHIP

The medical insurance business is 100% owned by Georgia Capital.

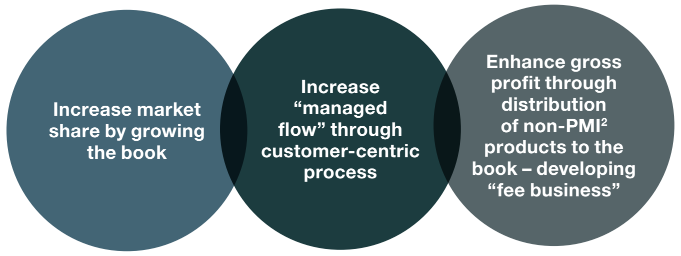
## VALUE CREATION POTENTIAL

The potential to increase its market share through growing book and expanding in non-PMI products.

**Competitive landscape, market share by net premium revenue[1]**
**GEL million**

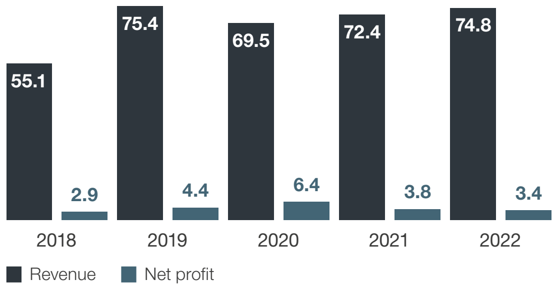



**Key focus areas in medium and long term**

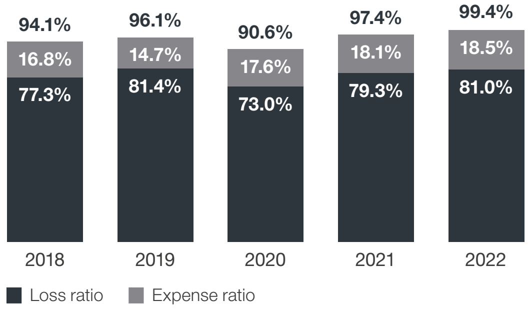



## PERFORMANCE TRACK RECORD[3]

**Revenue and net profit**
**GEL million**




**Combined ratio (%)**




1 ISSSG as of 30 September 2022.
2 PMI – private medical insurance.
3 Numbers are derived from the business's unaudited IFRS accounts.

## FINANCIAL METRICS[1]

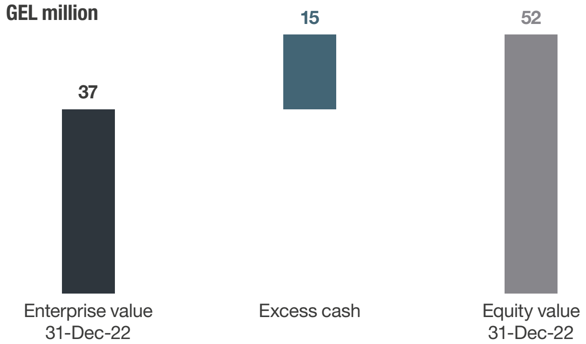
| | | |
|---|---|---|
| Net premiums earned (GEL million)<br>**74.8** +3.4% y-o-y | Combined ratio (%)<br>**99.4%** +2.0 ppts y-o-y | Dividend paid to GCAP (GEL million)<br>**1.0** -49.8% y-o-y |
| Loss ratio (%)<br>**81.0%** +1.7 ppts y-o-y | Net profit (GEL million)<br>**3.4** -10.1% y-o-y | |

## OPERATING METRICS

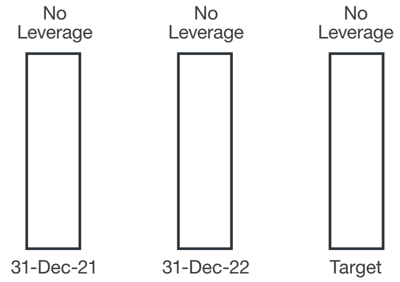
| | |
|---|---|
| Number of insured<br>**163,721** -0.9% y-o-y | Renewal rate (%)<br>**77.4%** -0.6 ppts y-o-y |

## VALUATION HIGHLIGHTS[2]

**Value development overview at 31-Dec-22**
**GEL million**




**Net debt to EBITDA**




**Implied multiple highlights at 31-Dec-22**

| IMPLIED LTM P/E[3] | LTM ROAE (adjusted for non-recurring items) |
|---|---|
| **10.6x** | **10.2%** |

**Peer companies**
- Powszechny Zaklad Ubezpieczen SA | Poland
- UNIQA Insurance Group AG | Austria
- Ageas SA/NV | Belgium

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The detailed valuation overview and related drivers are described on pages 103-122 of this report.
3 Adjusted for the excess cash.

# RENEWABLE ENERGY

**Overview**
Our renewable energy business represents a leading platform for developing and operating HPPs and wind power plants (WPPs) across the country. The business operates commissioned renewable assets with 71MW installed capacity in aggregate and with average capacity factors of more than 40%: 30MW Mestiachala HPP, 20MW Hydrolea HPPs and 21MW Qartli WPP. 30MW Mestiachala HPP was developed and constructed by Renewable Energy, while the latter two assets represent successful acquisitions made by the business at the end of 2019. All power plants (except for the Akhmeta HPP, whose PPA expired in February 2022) benefit from long-term power purchase agreements (PPAs) formed with the Government-backed entity, resulting in predictable dollar-linked cash flows, as PPAs as well as market sales are denominated in US dollars. The renewable energy business is wholly-owned by Georgia Capital.

The renewable energy business aims to capitalise on favourable electricity market conditions in Georgia, on the back of the ongoing gradual harmonisation of the current energy market structure with EU directives, leading to a more liquid, competitive and transparent market. Following the electricity market deregulation in 2019, the Government of Georgia adopted a new electricity market model concept in 2020, creating the path towards launching day-ahead and intraday trading markets in the coming years. Overall, the renewable energy business expects planned reforms in the Georgian electricity market to have a further positive impact on electricity sales prices.

**Performance and strategy**
The renewable energy business delivered a strong performance in FY22. Revenue from electricity sales were up by 8.1% y-o-y to US$ 14.6 million. Higher sales were backed by favourable weather conditions, which resulted in higher electricity generation. Around 55% of electricity sales were covered by PPAs with the Government, while the remaining was supported by favourable market selling prices, which amounted to US$ 46.1 MWh. The renewable energy business benefited from the high EBITDA margin of 76.6% and as a result delivered US$ 11.2 million EBITDA (up by 7.9% y-o-y). Cashflow from operating activities was up 12.9% y-o-y to US$ 11.3 million and EBITDA to cash conversion rate was over 100%. Overall, on the back of solid financial performance of the power generating assets, the business made US$ 2.8 million dividend distribution to Georgia Capital.

In October 2022, the renewable energy business successfully closed a US$ 80 million green secured bond offering. The notes are US$-denominated with 5-year bullet maturity (callable after two years) and carry a 7.00% coupon (75 basis points improvement compared to the previous notes issued by the business). The proceeds from the transaction were fully used to refinance the shareholder loan from GCAP. The issuance represents the first-ever green secured bond placement and the largest corporate bond placement on the Georgian capital market.

The renewable energy business plans to develop 172MW installed capacity power plants in the medium term: Zoti HPP (46MW), Tbilisi and Kaspi WPPs (108MW) and Darchi HPP (18MW). The business aims to establish a renewable energy platform with growing dollar-linked cash flows and solid profitability, expected to enable it to sponsor steadily increasing dividend payouts while progressing against its medium-term strategic priorities:

- Robust profitability with ~80% EBITDA margin.
- 10%+ ROIC in US$.
- ~100% EBITDA to cash-conversion rate.

## INVESTMENT RATIONALE

Favourable supply-demand dynamics pushing the power prices up.

Georgia is on track for the harmonisation of current energy market structure with EU directives leading to a liquid, competitive and transparent market.

Favourable mix of merchant sales and government PPAs, providing high visibility and significant upsides in cash flows.

Natural cashflow hedge with fully dollarised revenues.

Inherently green projects aligned with the international best practices of environmental and social (E&S) standards.

## OWNERSHIP

The renewable energy business is 100% owned by Georgia Capital.

## VALUE CREATION POTENTIAL

Opportunity to establish a renewable energy platform with up to ~240MW installed capacity over the medium term and capitalise on favourable electricity market conditions.

Diversified portfolio of HPPs and WPPs with c.40%+ capacity factors, benefiting from long-term fixed price PPAs formed with the Government-backed entity.

Availability of competitive green funding from both international and local financial markets.

High margins and dollar-linked cash flows.

Stable dividend provider capacity in the medium term.



## RENEWABLE ENERGY PROJECTS OVERVIEW

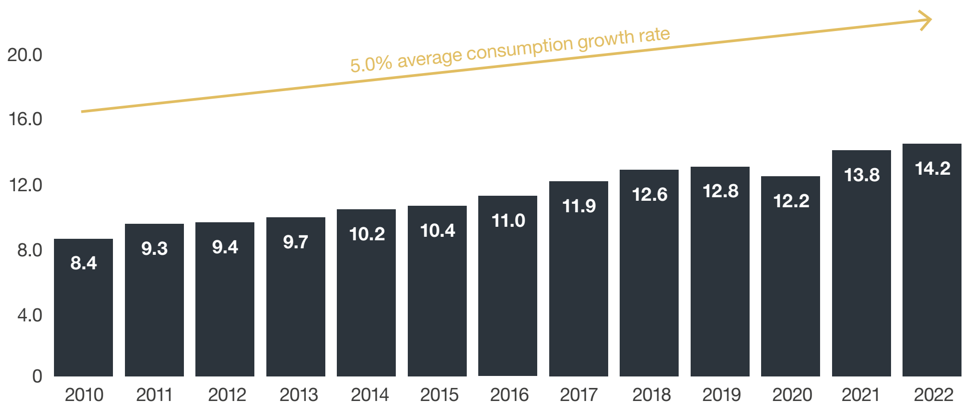
**Targeting to earn on average 10%+ US dollar ROICs from renewable energy projects**

| Commissioned/acquired projects | Installed capacity, MWs | Capacity factor | PPA expiration | PPA tariff, US¢/kWh |
|---|---|---|---|---|
| Mestiachala HPP | 30.0 | 40% | 1H34 | 5.5 |
| Hydrolea HPPs | 20.4 | 64% | 1H22-2H28 | 5.5-5.6 |
| Qartli Wind Farm | 20.7 | 47% | 1H30 | 6.5 |
| **Total operating** | **71.1** | | | |
| **Pipeline projects** | | | | |
| Zoti HPP | 46.0 | 43% | TBD | 5.1 |
| Darchi HPP | 18.0 | 60% | TBD | 5.7 |
| Tbilisi Wind Farm | 54.0 | 38% | TBD | TBD |
| Kaspi Wind Farm | 54.0 | 37% | TBD | TBD |
| **Total pipeline** | **172.0** | | | |
| **Total** | **243.1** | | | |

Note 1: Mestiachala HPP was commissioned in 1H19; Qartli Wind Farm and Hydrolea HPPs were acquired in 2H19 by GCAP. Target commissioning date of Darchi HPP is 1H24.
Note 2: PPA terms for Tbilisi and Kaspi WPPs are under the discussion with the Government of Georgia.

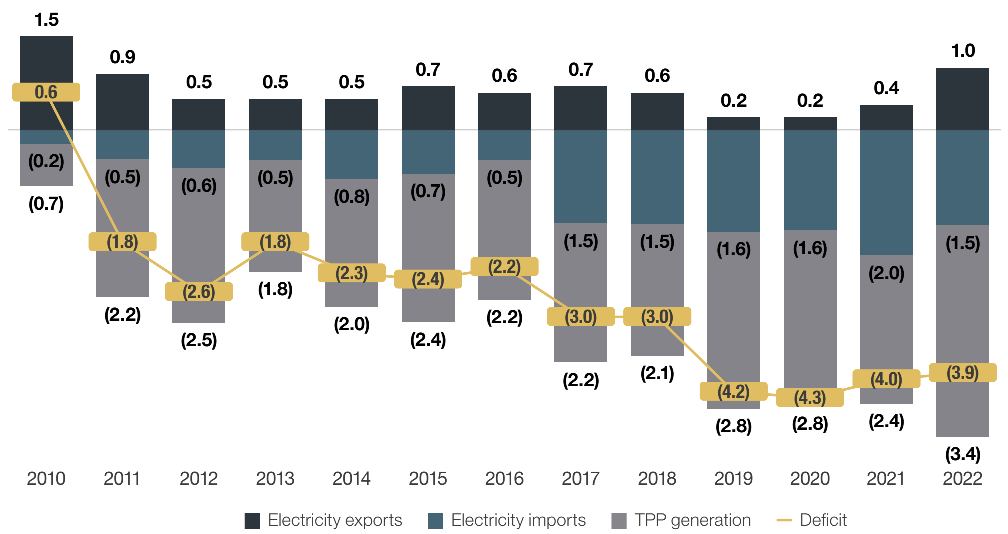
## MARKET OPPORTUNITY

**Electricity consumption (TWh)**




- 21.5% of total consumption produced by gas-fired TPPs, 9.7% – imported.
- 2022 electricity consumption up by 16.7% and 3.1% from 2019 and 2020 respectively.
- More than 30% of consumed electricity was either import or generated by gas-fired TPPs.
- In 2022 weighted average ESCO balancing price reached 55.5 US$/MWh, up by 12.7% y-o-y.

**Electricity import and export dynamics (TWh)**




- 2022 net electricity deficit stood at 3.9 TWh, whereas in 2010, electricity surplus was at 0.6 TWh.

# OUR PORTFOLIO OVERVIEW CONTINUED
# INVESTMENT STAGE PORTFOLIO COMPANIES CONTINUED

## FINANCIAL METRICS[1]

Revenue (US$ million)
**14.6** +6.6% y-o-y

EBITDA margin (%)
**76.6%** +0.9 ppts y-o-y

Dividend paid to GCAP (US$ million)
**2.8** -55.2% y-o-y

EBITDA (US$ million)
**11.2** +7.9% y-o-y

Operating cash flow (US$ million)
**11.3** +12.9% y-o-y

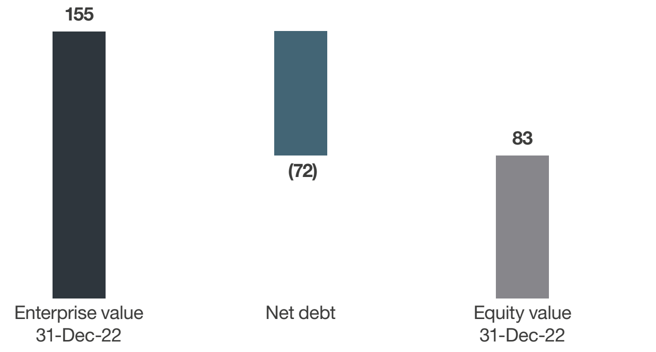
## OPERATING METRICS

Electricity generation (kWh million)
**268.3** 0.9% y-o-y

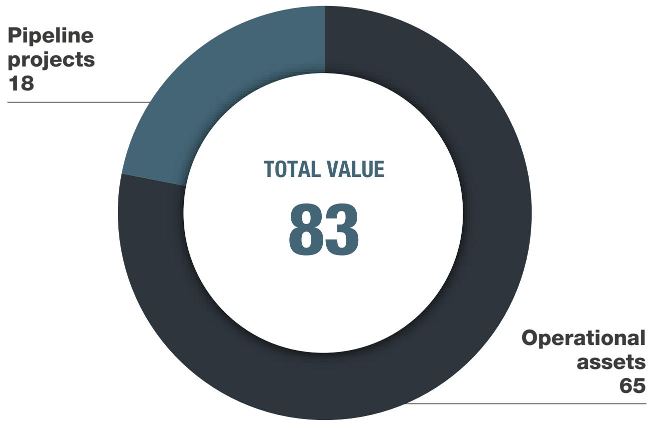
Average electricity sales price per US¢/kWh
**5.4** +7.1% y-o-y

## VALUATION HIGHLIGHTS[2]

**Value development overview at 31-Dec-22**
**US$ million**

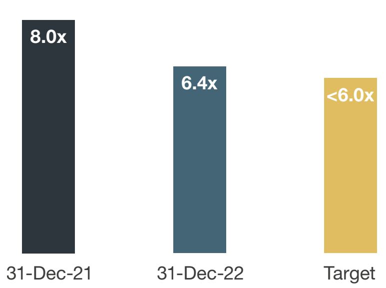



**Equity fair value composition at 31-Dec-22**
**US$ million**




| US$ million, unless otherwise noted | 31-Dec-22 | 31-Dec-21 | Change |
|---|---|---|---|
| Enterprise value (EV) | 154.7 | 138.3 | 16.4 |
| EBITDA[3] | 12.2 | 11.3 | 0.9 |
| Imp lied EV/EBITDA multiple | 11.4x | 11.1x | 0.3x |
| Investments at cost (EV)[4] | 15.1 | 13.5 | 1.6 |
| Net debt | (71.4) | (82.3) | 10.9 |
| Equity fair value | 83.3 | 55.9 | 27.4 |

**Net debt to EBITDA[5]**




**Peer companies**
- BCPG Public Company Limited | Thailand
- ERG S.p.A | Italy
- Polenergia S.A. | Poland
- Terna Energy Societe Anonyme | Greece

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The detailed valuation overview and related drivers are described on pages 103-122 of this report.
3 Implied EV/EBITDA is calculated based on normalised LTM EBITDA.
4 Investments at cost include the pipeline projects.
5 Ratio is calculated in US$ terms.



# EDUCATION

**Overview**
The private education market's revenues across kindergarten to 12th grade (K-12) in Georgia has grown at 12.6% CAGR over 2013-2022. Currently, there are c.63,500 learners in private schools in Georgia, representing 10% of the total school education market. The private general education market enjoys growth in enrolments with CAGR of 2.3% over 2013-2022 and rising tuition fees with CAGR of 9.1% over 2013-2022.

Management expects that the private general education market will increase by 1.5x in value over the next three years, driven by factors such as the large gap in quality in public schools as compared to private schools, growing household income and a decreasing unemployment rate. Georgia has relatively low average annual spending per K-12 learner, creating further room for growth together with globally trending demand on private K-12 education. Additionally, if the market grew at pre-pandemic CAGR of 3.4%, there would have been c.67,600 learners in private schools compared to c.60,300 in 2021, the decrease driven by the pandemic. With COVID recovery and learners returning to school facilities, we expect that these c.7,200 learners will return to private schools in the short term, resulting in private market growth above historic CAGR. Based on number of learners in 2022-2023 academic year, the gap between market with pre-pandemic growth and actual growth decreased from c.7,200 to c.6,400 learners.

The private general education market in Georgia is currently very fragmented with an increasing average school size and 9% less schools over the last decade. Currently, Georgia Capital is the largest player on the market with a 5.8% market share in terms of learners, while the second largest player holds 2.3%. Only 5% of private schools have 1,000+ learners, while 61% have less than 250 learners. Private school learners are consolidated in four cities with populations larger than 100,000.

The education business is managed with a partnership model. The business currently combines majority stakes in four private school brands operating across five campuses, acquired in 2019-2021: British-Georgian Academy and British International School of Tbilisi (70% stake), the leading schools in the premium and international segments; Buckswood International School (80% stake), well-positioned in the mid-level segment; and Green School (80%-90% ownership[1]), the leading school brand in affordable education segment. The education business has expanded from the capacity in 2021 of 5,060 learners to 5,670 learners in 2022 through investments in capacity expansion of the operational campuses of 1) Buckswood by 260 learners, and 2) British-Georgian Academy by 350 learners.

All five schools have a combined utilisation rate of 73% compared to 62% last year, taking into account the new capacity addition of 610 learners in premium and midscale segments in 2022. We expect the utilisation rate to return to 80%+ in the following years. Annual tuition fees range from US$ 1,900 to US$ 18,400 across all three segments.

**Performance and strategy**
The business saw significant growth in 1st grader enrolments in 2022-2023 academic year with 99.6% growth y-o-y from 276 to 551 translating in a 98.4% utilisation rate. Overall, the total number of learners was up by 32.2% y-o-y to 4,162 learners. Average cash collection rates remained at last year's levels and were in line with the schools' cash collection policies. This combined with enhanced revenue streams, resulted in operating cash flow generation in the business being up 38.5% y-o-y in FY22.

The business has a strong platform to facilitate growth and scale to become the leading integrated education player with up to 22,000 learners by 2025.

## INVESTMENT RATIONALE

- Highly fragmented general education market with consolidation opportunity.
- Market with strong growth potential.
- Low dependency on the Government.
- High resilience to crisis.
- Predictable and sticky revenue.
- Strong profitability.
- Capex efficient business.
- High trading multiples.
- Positive ESG impact.

## OWNERSHIP

Majority stakes (70%-90%) across different schools.

## VALUE CREATION POTENTIAL

- Scaling up to capacity of 22,000 learners through expansion plans in existing schools, greenfield projects and M&As by 2025.
- Strong organic growth at existing schools is expected to drive solid growth in run-rate EBITDA, on top of expansion plans and M&As.
- Stable dividend provider capacity in the medium term.

1 80% equity stake in the campus acquired in 3Q19 and 90% in two campuses launched under the existing affordable brand in 3Q21.

# OUR PORTFOLIO OVERVIEW CONTINUED
## INVESTMENT STAGE PORTFOLIO COMPANIES CONTINUED



### TARGETING FOR 2025…

**1 EBITDA MARGIN**
40%+
Currently: 30%+

**2 EQUITY VALUE**
GEL 0.5BLN
Currently: GEL 164mln

**3 ROIC**
20%+
Currently: 20%+

**4 RAMP-UP OF NEW CAPACITY**
3-5 YEARS

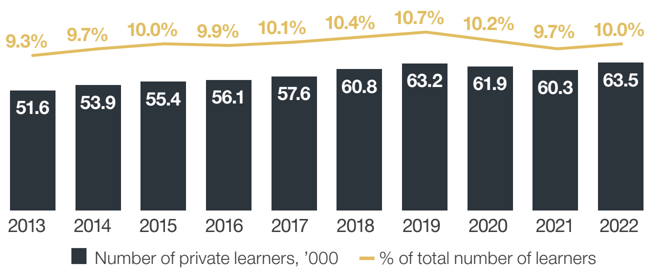
### …THROUGH

| REMAINING GCAP NEW EQUITY INVESTMENT | 22 US$ million | BUILT LEARNER CAPACITY | 22 thousand | EBITDA | 50 GEL million |
|---|---|---|---|---|---|
| **TOTAL REMAINING INVESTMENT**, in US$mln | 53 | **TOTAL BUILT LEARNER CAPACITY**, in thousands | 21.9 | **TOTAL EBITDA**, in GEL mln | 50 |
| **Debt** | **17** | **Currently operational campuses** | **5.7** | **Currently operational campuses** | **21** |
| **Equity** | **36** | **Secured pipeline projects** | **2.4** | As of 2021-22 academic year | 12 |
| Reinvestment | 12 | **M&A** | **13.8** | Organic growth | 9 |
| GCAP new equity investment | 22 | **Out of 21.9 capacity**: 14.9 Affordable; 4.6 Midscale; 1.9 Premium; 0.6 International. | | **Secured pipeline projects** | **9** |
| Minority equity investment | 2 | | | **M&A** | **20** |

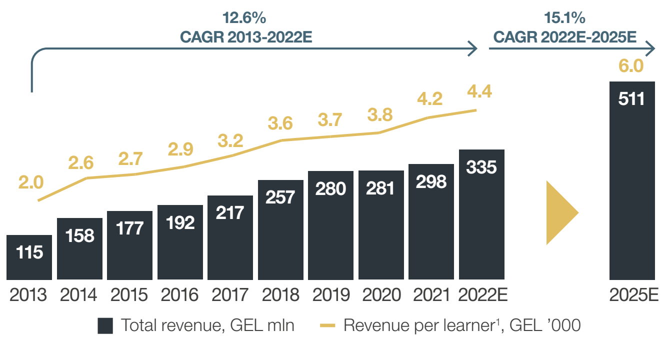
- **With new equity investment of US$ 22mln GCAP can expand to 22,000 learner capacity and generate GEL 50mln EBITDA by 2025 through: 1) currently operational campuses, 2) secured pipeline projects, and 3) M&A.**
- Out of US$ 22mln new equity investment, US$ 21mln is attributable to M&A and US$ 1mln is attributable to investments in secured pipeline projects with operational schools.
- In addition to US$ 22mln new equity investment by GCAP, growth will be financed through, reinvestments, debt, and equity contribution by minorities – total remaining investment for Education is US$ 53mln.

## MARKET OPPORTUNITY

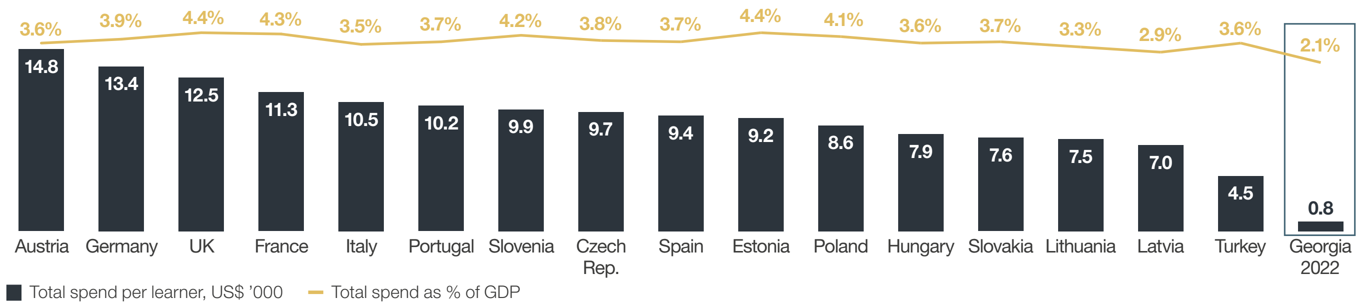
**Number of learners in private K-12 market**




**Turnover of private K-12 market**




**Total spending on K-12 education**




Source: G&T, GCAP estimates, OECD, Ministry of Finance of Georgia (latest available data)

**Demand for private education is trending globally, with growth attributable to regions with lower spending on education.**

1 Revenue per learner excludes kindergarten learners.

## FINANCIAL METRICS[1]

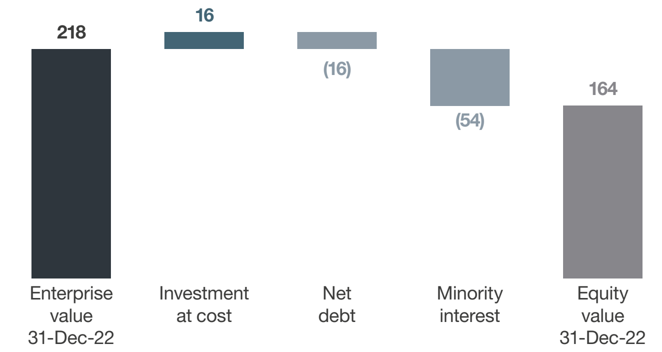
| Revenue (GEL million) | EBITDA (GEL million) | EBITDA margin (%) | Operating cash flow (GEL million) |
|---|---|---|---|
| 42.6 +36.5% y-o-y | 13.6 +34.8% y-o-y | 32.0% -0.4 ppts y-o-y | 16.5 +38.5 % y-o-y |

## OPERATING METRICS

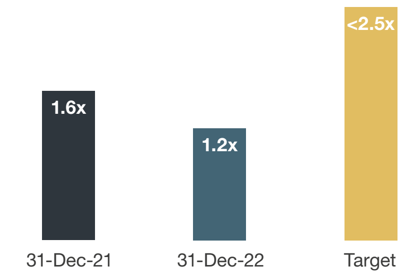
| Capacity utilisation (%) | Number of learners | Learner to teacher ratio |
|---|---|---|
| 73.4% +11.2 ppts y-o-y | 4,162 +32.2% y-o-y | 8.7 +9.7% y-o-y |

## VALUATION HIGHLIGHTS[2]

**Value development overview 31-Dec-22**
**GEL million**




**Net debt to EBITDA**




| GEL million, unless otherwise noted | 31-Dec-22 | 31-Dec-21 | Change |
|---|---|---|---|
| Enterprise value (EV) | 218.2 | 139.9 | 78.4 |
| EBITDA (LTM)[3] | 12.9 | 11.2 | 1.7 |
| Implied EV/EBITDA multiple | 16.9x | 12.5x | 4.4x |
| Net debt | (16.3) | (8.4) | (7.9) |
| Investments at cost | 16.3 | 34.9 | (18.6) |
| **Total equity value of GCAP's share** | **164.2** | **129.8** | **34.4** |

**Peer companies**
- SISB Public Company Limited | Thailand
- Curro Holdings Limited | South Africa
- Overseas Education Limited | Singapore
- Cairo For Investment & Real Estate Development S.A.E | Egypt
- Cogna Educação S.A. | Brazil
- Colegios Peruanos S.A. | Peru
- Educational Holding Group K.S.C.P | Kuwait
- ADvTECH Limited | South Africa

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The detailed valuation overview and related drivers are described on pages 103-122 of this report.
3 LTM EBITDAs used for valuation purposes includes functional currency adjustment in schools, where applicable.

**OUR PORTFOLIO OVERVIEW** CONTINUED
**INVESTMENT STAGE PORTFOLIO COMPANIES** CONTINUED



# CLINICS AND DIAGNOSTICS BUSINESS

**Overview**

**Clinics**

The clinics business incorporates 17 polyclinics and 19 community clinics. Community clinics are located in regional towns and municipalities, and provide outpatient and inpatient diagnostic, basic surgical and treatment services to the local population. For complicated cases, their primary goal is to stabilise the patient and redirect them to the nearest referral hospital for secondary or tertiary care. Polyclinics are located in Tbilisi and major regional cities and provide basic and full-scale outpatient diagnostic and treatment services. The business is the leader in the outpatient market with 21% market share by number of registered patients.

**Diagnostics**

The diagnostics business was launched in 2018 by opening the largest laboratory in the entire Caucasus region – "Mega Lab". The multi-disciplinary laboratory, equipped with the latest infrastructure and state-of-the-art technology, covers 7,500 square metres. In addition to basic laboratory tests, Mega Lab offers complex tests for oncology and molecular lab, some of which have never been available in Georgia and for which blood samples used to be sent abroad. On July 2022, Mega Lab got the Joint Commission International (JCI) accreditation. JCI, the highest healthcare accreditation body in the USA, ensures the correct management of clinical processes. Its goal is to continuously improve the quality and safety of patient care. Mega Lab is the first laboratory in the Caucasus region with JCI accreditation and 38th worldwide.

**Performance and strategy**

The clinics business was actively engaged in supporting the COVID-19 pandemic response in Georgia, allocating 12 community clinics, with a total of c.300 beds across the country. The Government of Georgia fully reimbursed costs associated with COVID-19 treatments and paid a fixed fee amount per bed designated for COVID patients. In March 2022, similar to the hospitals business, the Government suspended the COVID contracts with clinics which temporarily suppressed the business' margins and revenue. These are expected to get back to normal operating levels starting from 2023. Decrease in diagnostics revenue is also attributable to the reduced number of COVID cases in the country and the suspension of Government contracts from March 2022 for COVID lab tests.

Going forward, the clinics business will continue to further increase the base of registered customers, expand its polyclinics chain (two new polyclinics were launched in 2022) and lab retail points (currently, 17 lab collection points are held in GPC pharmacies), expand the presence of medical and personal care services and develop distance channels such as a call centre, web page and app, for greater customer convenience and better user experience.

The diagnostics business will focus on increasing its utilisation (currently at c.60%) through expansion of its retail chain, attracting more B2B contracts and adding new services and technologies such as Next Generation sequencing, while from a clinical perspective the business will continue to provide the highest standards of clinical processes, and in the long-term become a platform for education through an accredited training centre, residency programme and scientific research and studies centre.

The businesses target to deliver double-digit compound annual growth rate in revenues and combined EBITDA of c.GEL 35-40 million over the coming five years.

## INVESTMENT RATIONALE

Very low base: Georgia still lags behind most of the developed countries in terms of the number of outpatients visits per capita – at 3.7 (c.6.0 in Europe).

Low Government expenditure on primary healthcare: The Government is aiming to pay more attention to primary care in the future.

## OWNERSHIP

Georgia Capital owns 100% of the clinics and diagnostics business as at 31 December 2022 (100% as at 31 December 2021).

## VALUE CREATION POTENTIAL

The single largest participant with 21% by number of registered patient (next competitor has 11% market share) with a cost advantage due to the scale of operations.

High-growth potential driven by the regulatory changes that aim to increase Government financing on primary healthcare: only c.12% of Government expenses goes on primary care from total Government expense on healthcare.

High-growth potential driven by market consolidation through chain expansion, adding new services and increasing customer base.

## KEY FOCUS AREAS IN THE MEDIUM AND LONG TERM

**Clinics**

1. **Adding new services** – Expansion of medical and personal care service presence
2. **Geographic expansion** – Adding new polyclinics and lab retail points
3. **Developing distance channels** – Best user experience
4. **Adding customer base** – Increased convenience and quality, increasing number of registered patients; increasing provider insurance companies and corporate client base

**Diagnostics**

1. **Expansion of retail** – Number of retail branches: c.15 in Georgia; tapping neighbouring countries
2. **Attract B2B contracts** – Total number of tests performed: c.5 million annually
3. **Digitalisation**

## FIVE-YEAR FINANCIAL TARGETS

Combined financial targets for Clinics and Diagnostics: 2021-2026

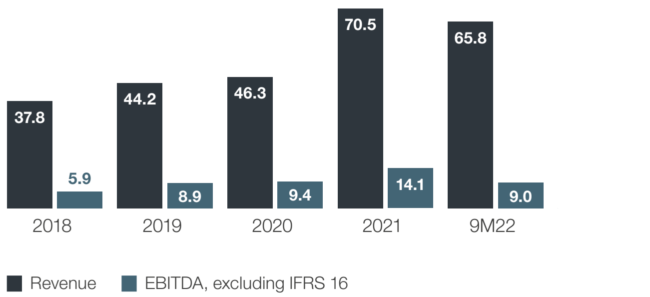
Clinics:
- Double-digit revenue CAGR
- EBITDA c.GEL 30+ million
- ROIC: c.13.0%+

Diagnostics:
- Double-digit revenue and EBITDA CAGR
- ROIC: c.20.0%+

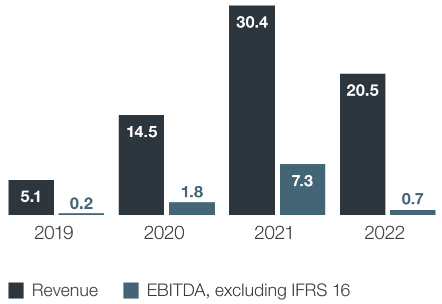
Combined:
- Double-digit revenue CAGR
- EBITDA c.GEL 35-40+ million

## PERFORMANCE TRACK RECORD[1]

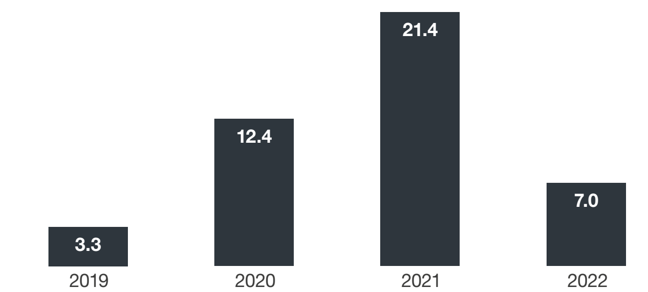
**Net revenue and EBITDA – Clinics**
**GEL million**




**Net revenue and EBITDA – Diagnostics**
**GEL million**




**Operating cash flow (excl. IFRS 16) – Clinics and Diagnostics**
**GEL million**




1 Numbers are derived from the business's unaudited IFRS accounts.

# OUR PORTFOLIO OVERVIEW CONTINUED
# INVESTMENT STAGE PORTFOLIO COMPANIES CONTINUED



## FINANCIAL METRICS[1]

Revenue (GEL million)
**80.6** -15.2% y-o-y

EBITDA margin excluding IFRS 16 (%)
**11.9%** -10.5 ppts y-o-y

EBITDA to cash conversion excluding IFRS 16 (%)
**73.1%** -27.0 ppts y-o-y

Net debt (GEL million)
**50.8** +24.2% y-o-y

EBITDA excluding IFRS 16 (GEL million)
**9.6** -55.0% y-o-y

Operating cash flow excluding IFRS 16 (GEL million)
**7.0** -67.1% y-o-y

Free cash flow excluding IFRS 16 (GEL million)
**(2.2)** NMF

## OPERATING METRICS – CLINICS

Number of community clinics
**19** NMF

Number of community clinics beds
**353** NMF

Number of polyclinics
**17** +2 over 2021

Number of registered patients at polyclinics
**615,664** +4.6% y-o-y

## OPERATING METRICS – DIAGNOSTICS

Number of patients served ('000)
**981** -18.3% y-o-y

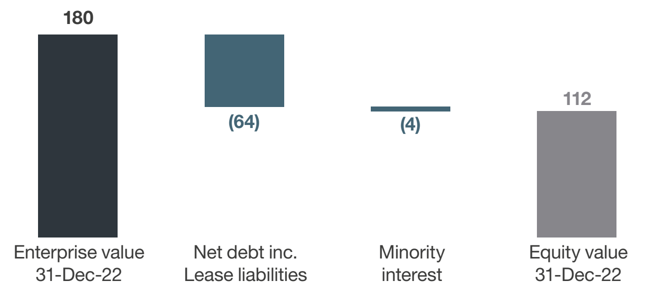
Number of tests performed ('000)
**2,426** -5.5% y-o-y

Average revenue per test GEL
**8.4** -28.8% y-o-y

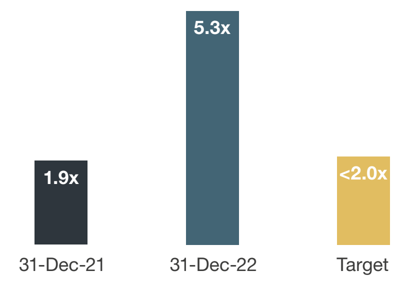
Average number of tests per patient
**2.5** +15.7% y-o-y

## VALUATION HIGHLIGHTS[2]

**Value development overview at 31-Dec-22**
**GEL million**




**Net debt to EBITDA**




**Implied multiple highlight (incl. IFRS 16) at 31-Dec-22**

LTM EV/EBITDA
**16.5x**

**Peer companies**
- EMC Instytut Medyczny SA | Poland
- Medicover AB (publ) | Sweden
- Med Life S.A. | Romania
- Mediclinic International plc | South Africa
- Fleury S.A. | Brazil
- Instituto Hermes Pardini S.A. | Brazil

1 Numbers are derived from the business's unaudited IFRS accounts.
2 The detailed valuation overview and related drivers are described on pages 103-122 of this report.



# OTHER PORTFOLIO COMPANIES

**Overview**
Georgia Capital's other portfolio companies (8.6% of total portfolio value at 31 December 2022) consist of its auto service, beverages, housing development, and hospitality businesses.

## AUTO SERVICE

The Group's auto service business includes a periodic technical inspection (PTI) business, a car services and parts business under the Amboli brand, and a secondary car trading business. The business commenced the construction of PTI centres in the first half of 2018 and launched the PTI business in March 2019 under the name Greenway Georgia (GWG). As part of the Georgia-EU Association Agreement, Georgia commenced the implementation of a mandatory vehicle inspection programme in several phases, starting from January 2018. In July 2018, GWG won a state tender to launch and operate 51 PTI lines across Georgia with a ten-year licence. GWG is the only player on the market with support from an international partner, Applus+, a Spanish headquartered worldwide leader in testing, inspection and certification services with a market presence in more than 70 countries. GWG serviced 362,194 cars (of which, 289,452 were primary checks) in 2022, giving it a market share of 37%. Georgia Capital acquired an 80% interest in Amboli at the end of June 2019, increasing its shareholding to 90% in February 2020. Amboli is an importer, distributor, wholesaler and retailer of car consumables and spare parts with a c.8% share in the target market, making it the second largest player in a highly fragmented market.

## BEVERAGES

The beverages business combines three business lines: a wine business, a beer business and a distribution business. The wine business produces and sells wine locally and exports it to 24 countries. The wine business owns three top-class wineries across Kakheti's three wine-making regions and is in the top five wine producers by vineyard base in Georgia. The vast majority of the vineyards grow Georgia's flagship red wine grape, Saperavi. The wine business sold 8.4 million bottles of wine in 2022, with approximately 81% of sales coming from exports. The business has a market share of 4.7% in the Georgian wine export market. The ongoing war negatively impacted the wine business, which had significant exposure to the Russian and Ukrainian markets (61% and 56% of the FY21 and FY22 net revenues, respectively, were generated from sales in these markets). The beer business produces beer and lemonade and holds a ten-year exclusive license from Heineken to produce and sell Heineken beer brands in Georgia. The beer business had c.22% market share in 2022. The business' brands include Heineken, ICY (its flagship mainstream beer brand), Black Lion (the leading Georgian craft beer producer which the Group acquired in 2018), Kazbegi, which was acquired in 2019, Amstel and Krusovice beer, for which the business acquired a licence in 2019, and Kayaki (the Group's light beer brand). In 2019, the business received a licence to brew commercial batches of Heineken, and locally brewed Heineken beer has been available in stores since August 2019. Starting from the second half of 2019, the beer business relaunched its brands and improved its product mix, which helped it to increase its share in the beer market and allowed the business to achieve break-even EBITDA in the second half of 2019 and positive EBITDA in 2021 and 2022. The business also started to export its beer and lemonade brands to the international markets.

## HOUSING DEVELOPMENT

The Group's housing development business is a leading real estate developer in the Georgian real estate market, targeting mainly mass-market customers by offering affordable, high quality and comfortable housing. The business is wholly owned through Georgia Real Estate, previously known as m2. The housing development business has four ongoing projects, m3 Saburtalo (previously known as Digomi), Nutsubidze, Mirtskhulava and Chkondideli (Sveti projects). In connection with the m3 Saburtalo project, the business has sold 121,436 square metres with US$ 114.5 million sales value as of 31 December 2022. Regarding the three other projects, the business assumed responsibility to support the completion of three suspended projects of the Sveti construction company, adding 173,267 square metres of the sellable area to its inventory. The projects are ongoing in three locations in Tbilisi and the construction and development will continue for approximately three years. The business started construction and sales for the Sveti project in April 2020 and has sold 125,334 square metres with a US$ 89.4 million sales value as of 31 December 2022. In 2022, the housing development business successfully placed a US$ 35 million bond on the local market, as discussed on page 13 of this report.

## HOSPITALITY

The hospitality business has three operational hotels, Ramada Encore Kazbegi Tbilisi, Ramada Encore Melikishvili and Gudauri Lodge, with 398 rooms. The business is wholly-owned through Georgia Real Estate.

# S172 STATEMENT

**Statement by the Directors on of their duties under Section 172 of the UK Companies Act 2006 (the "Act")**
In accordance with the requirements of section 172 of the Act, the Directors consider that, during the financial year ended 31 December 2022, they have acted in a way that they consider, in good faith, would most likely promote the success of the Company for the benefit of its members, having regard to the likely consequences of any decision in the long term and the broader interests of other stakeholders, as required by the Act. Some examples of the Board's engagement in 2022 are set out below.

The Directors have identified key stakeholders who are essential to the success of the Company: investors; employees; and the wider community and the environment. Our key stakeholders and the primary ways which we engage with them are set out on pages 132-134. Stakeholder issues are an integral part of the Board's decision-making and we seek to embed this as part of overseeing the management of our portfolio companies. The Company endeavours to balance any conflicting shareholder needs to ensure all are treated consistently and fairly.

Other steps the Board has taken to meet its Section 172 responsibilities can be seen in this report:

| Section 172 factor | Examples | Page |
|---|---|---|
| The likely consequences of any decision in the long term | Investment Committee Report | 137 |
| Interests of employees | Investment Committee Report | 137 |
| Fostering the company's business relationships with suppliers, customers and others | Corporate Governance Framework | 128 |
| Impact of operations on the community and the environment | Resources and Responsibilities | 82 |
| | Sustainability Report 2022 | (see separate document) |
| Maintaining a reputation for high standards of business conduct | Resources and Responsibilities | 82 |
| | Sustainability Report 2022 | (see separate document) |
| Acting fairly between members of the company | Georgia Capital Strategy | 20 |

The framework detailing the authority for decision-making, where the Board delegates to management, is discussed in the Company's Corporate Governance Framework on pages 128-136 and it mandates consideration of these stakeholder responsibility factors as a critical part of delegated authorities.

The Board engages with certain stakeholders directly on certain issues, and their feedback is considered when we discuss and make decisions relating to matters concerning the Board, such as financial and operational performance or strategic matters. This information is usually fed back through presentations and reports to the Board, within Committee or Board meetings. More information on how Directors take into consideration the interests of stakeholders can be found in the Directors' Governance Statement on pages 124-125.

**Principal decisions**
We have processes in place to capture and consider stakeholders' views (including the matters contained in Section 172 of the Act) and feed them into Board decision-making.

Material business decisions considered by the Board include an analysis of stakeholder considerations, anticipated impact and the risk controls. This is a rigorous process, which helps the Board to perform the duties outlined in section 172 of the Act and provides assurance to the Board that potential impacts on stakeholders have been considered in the development of the proposal.

Set out below are some case studies of principal decisions that have been taken by the Board:

## ENHANCED STRATEGY FOR 2022 ONWARDS

The Group has introduced an updated strategy, where Georgia Capital will focus on: investing in capital-light opportunities only; adapting its capital management framework; and putting ESG at the core of its strategy.

Key stakeholder interests considered:
- Investors: the Group is able to take advantage of attractive investment opportunities.
- Local community and the environment: our portfolio is concentrated across structurally important industries in Georgia, connecting Georgia Capital to the country's sustainable development, through our investments in positive impact businesses.

**Establishing ESG metrics and targets on the Group and portfolio company levels and further enhancing ESG reporting**

During 2022, the Company enhanced its TCFD disclosures and established metrics and targets on the Group and portfolio company levels, in line with best practices and global sustainability standards.

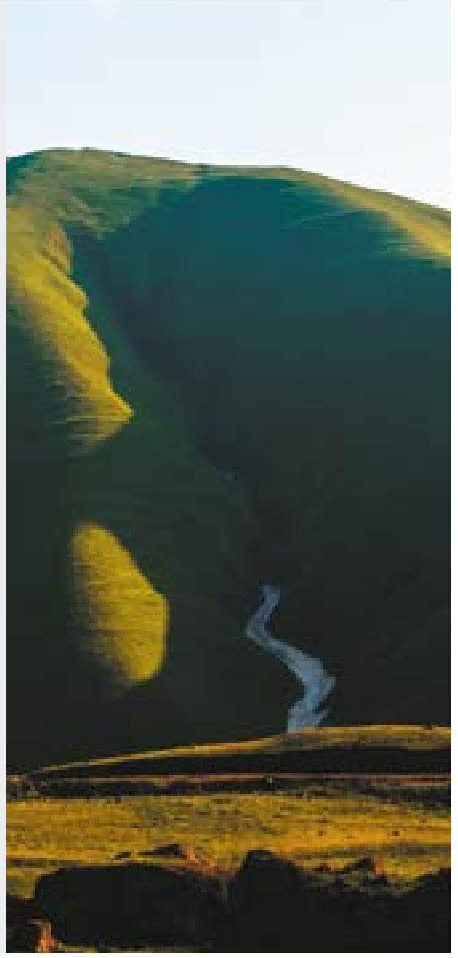
To further enhance the ESG disclosure transparency, Georgia Capital submitted its first Carbon Disclosure Project (CDP) climate change questionnaire.

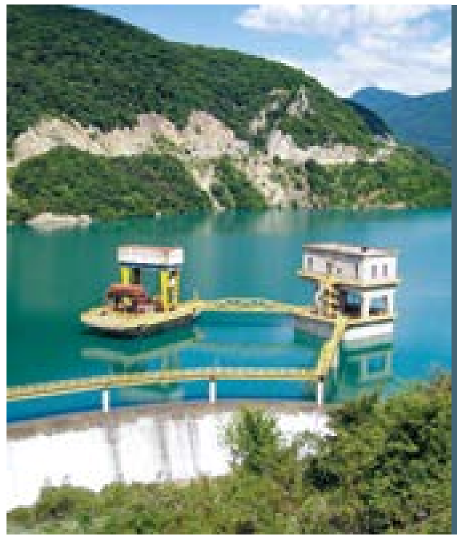
A second standalone sustainability report has been published alongside these accounts, for FY22. The report contains the background methodology and disclosures in line with the TCFD recommendation. The Sustainability Report 2022 can be found on the link: **https://georgiacapital.ge/ir/sustainability-reports**.

A key factor in determining how the Company builds a sustainable business, that addresses the wider concerns and needs of the communities in which it operates, is the execution of its ESG strategy. Our strategy was adopted in 2021 and is aligned with the portfolio companies' strategies as detailed in the Company's Responsible Investment Policy. It is our aim that this ESG strategy addresses the needs of all stakeholders and the importance of the global challenges of climate change.

For more details on the Company's ESG developments please see page 82 of this report and the Company's Sustainability Report.

Key stakeholder interests considered:
- Investors: strong ESG practices can reduce investment risk, and transparent disclosures can help investors make more informed decisions.
- Local communities and non-governmental organisations: ESG matters affect the day-to-day lives of the people in our local communities.
- Clients: we seek to uphold high ethical standards end-to-end in the supply chain.
- Employees: aware of health and safety risk management and take pride in being part of our commitment to ESG.





**Completion of second stage of disposal of water utility business**

On 31 December 2021, the Company announced that its wholly-owned subsidiary JSC Georgia Capital agreed to sell an initial 80% of its equity interest in the water utility business to Aqualia, by way of a two-stage transaction.

Both stages of the transaction were successfully completed in 2022. For more details on the transaction please see our website: **https://georgiacapital.ge/ir/water-utility-disposal** and page 12 of this report.

The disposal is a Class 1 transaction and therefore, in accordance with the UK Listing Rules, key stakeholder interests were considered:
- Investors – the approval of the Company's shareholders was sought and obtained at a General Meeting held on 31 January 2022. The necessary notice was provided to shareholders by way of a shareholder circular. The disposal realised US$ 180 million cash proceeds in February 2022 and created substantial value for our shareholders and further validates GCAP's NAV. Shareholders approved the transaction in a General Meeting on 31 January 2022, with 100% votes in favour.

**Buyback of GCAP Eurobonds**

In October 2022, we conducted a Modified Dutch Auction (MDA) through which we bought back US$ 29.2 million GCAP Eurobonds. In addition to the tendered amount, we had accumulated US$ 87.0 million GCAP Eurobonds through repurchases on the open market. Upon completion of the MDA we cancelled US$ 65.0 million notes.

For more details on the transaction please see page 14 of this report.

Key stakeholder interests considered:
- Investors – Upon completion of the MDA US$ 65.0 million notes were cancelled, decreasing the outstanding gross debt balance to US$ 300.0 million and leaving US$ 51.0 million GCAP Eurobonds in treasury. The transaction enabled willing debt investors to cash out and is in line with the key strategic priority to deleverage Georgia Capital's balance sheet and create significant value for shareholders.

# S172 STATEMENT CONTINUED



**Georgia Capital share buyback and cancellation programme (the "buyback programme")**

In line with Company's capital allocation programme, in August 2022, the Company announced the extension of a US$ 25 million buyback programme until 31 December 2022.

This decision was influenced by the Company's robust liquidity levels, supported by a strong dividend income from the portfolio companies and c.50% discount to the reported NAV per share.

The purpose of the programme was to create more value through share buybacks than we could have through new investments, taking into consideration the share price discount to the reported NAV per share. Shares repurchased were cancelled, reducing the number of outstanding shares and delivering greater per share value to the remaining shareholders.

For more details on the transaction please see page 15 of this report.

Key stakeholder interests considered:

- Investors: balancing the desire of shareholders for immediate returns against the need to preserve liquidity and ensure the sustainability of the business. The maximum number of shares that were allowed to be repurchased is 6,944,294, being the number of shares the Company is authorised to repurchase under the authority granted by the shareholders at the 2022 Annual General Meeting (AGM).

Since the commencement of the buyback programme in August 2021, 3,075,923 shares (6.4% of issued capital) have been repurchased and cancelled. The total value of shares amounted to GEL 76.2 million (US$ 25.0 million).

**Refinancing the portfolio companies**

In October 2022, Georgian Renewable Power Operations JSC (GRPO), the holding company of the Group's operational renewable energy assets (previously owned by Georgia Global Utilities JSC (GGU)), successfully closed a US$ 80 million green secured bond offering.

Also in October, JSC Georgia Real Estate (GRE), the holding company of the Group's housing development and hospitality businesses, successfully closed a US$ 35 million local bond offering.

In September 2022, Georgia Healthcare Group (GHG) and its 100% subsidiary JSC Evex Hospitals (Evex) signed a US$ 35 million, 5-year financing package with European Bank for Reconstruction and Development (EBRD).

For more details on these transactions please see our website: **https://georgiacapital.ge/ir/news/georgia-healthcare-group-signs-us-35-million-financing-package-ebrd** and pages 13 of this report.

Key stakeholder interests considered:

- Investors, employees, local community and the environment: it is crucial to the value and sustainability of our businesses for our investors and our employees that they be financed at appropriate leverage ratios. GRPO obtained a second-party opinion from Sustainalytics, a leading provider of ESG research and analysis, for its Green Bond Framework. The issuance of the first ever green secured bonds provides significant contribution to the development of the Georgian capital market.

The refinancing with EBRD highlights how the Company still plays a significant role in ensuring Georgia's ability to fight the COVID-19 pandemic. The Evex loan will also contribute to the enhancement of the Georgian healthcare infrastructure.

The Board continues to believe that, whilst recognising that the mechanism will evolve over time, the operation of the designated Non-Executive Director for workforce engagement (DNED) has been and continues to be an effective means of engaging with the workforce, to help the Board understand the matters that concern the workforce and their specific interests, whilst having regard to these in the decisions that are made at Board level.

Similarly, the informal and formal channels in which the Group has adopted to engage with its investors, the local communities and the environment, through a variety of media platforms, has performed well and flexibly.

For the coming year, the Board will ensure that stakeholder engagement continues to develop and will embed effective and formal ways of engagement with its various stakeholders, ensuring frequency of interaction is maintained and reviewed (where appropriate) over matters that are considered material to the Group, such as its revised strategy and ESG considerations.



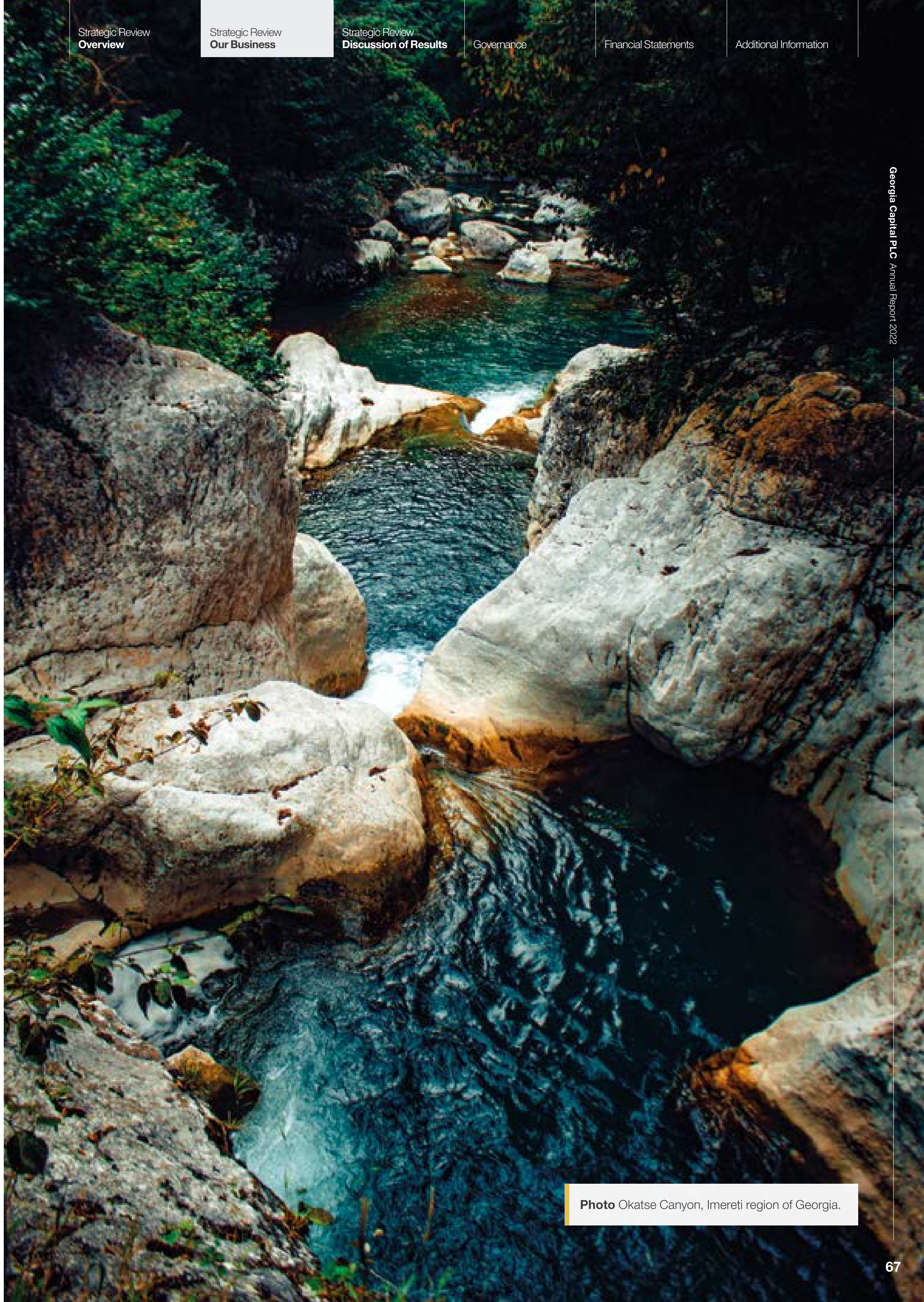


**Photo** Okatse Canyon, Imereti region of Georgia.

# RISK MANAGEMENT



We believe that effective risk management underpins the successful delivery of our strategy. We identify, evaluate, manage and monitor the risks that we face through an integrated control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year under review and to the date of approval of this Annual Report and is integrated into both our business planning and viability assessment processes.

**Overview**

Our Board, supported by our Audit and Valuation and Investment Committees and executive management, is ultimately responsible for the Group's risk management and internal controls with a view to maintaining ongoing sustainability.

As an investor, Georgia Capital is in the business of taking risks in order to achieve its targeted returns for investors and shareholders. The Board approves the strategic objectives that determine the level and types of risk that Georgia Capital is prepared to accept and reviews the Group's strategic objectives and risk appetite at least annually. We believe that, in order to have an effective risk management framework, there needs to be a strong risk management culture within the Group. We have worked to ensure that managing risk is ingrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks and where business managers are accountable for the risk management and internal control processes associated with their activities. Our culture also aims to ensure that risk management is responsive, forward-looking and consistent. Georgia Capital's risk culture is built on rigorous and comprehensive investment procedures and disciplined capital management.

**Risk appetite**

Our risk appetite is defined by our strategic objectives. We invest capital and develop businesses that will have strong capital returns. Georgia Capital applies the following investment criteria:

- Geographic focus: only investing in and developing businesses in Georgia, the country we know – a diversified, resilient, fast-growing economy across the last decade.
- Focus on liquidity: the Group will be predominantly investing only in capital-light, larger-scale investment opportunities in Georgia, which have the potential to reach at least GEL 300 million equity value over the next three to five years. The Group believes a larger size will provide improved liquidity and superior exit opportunities, to support the Group's desire to reduce the current discount to reported NAV per share.
- Sector focus: investing mostly in fragmented and underdeveloped markets, particularly targeting high-multiple service industries.
- Return target: combination of the ROIC, MOIC, IRR and GCAP share price value versus investments return is the key decision-making matrix used in the investment decision-making process:
  - MOIC and IRR are determined at GCAP level, as the Group evaluates achievable money multiples with all acquisitions and analyses them in combination with the expected IRR.
  - ROIC is evaluated for financing projects and reinvestment at each portfolio company level. Different yields are appropriate for different industries. ROIC is at the core of decision-making when the portfolio companies are investing or divesting assets or businesses. ROIC should be more than WACC for new investments. As part of ROIC enhancement initiatives across our portfolio, our businesses are aiming to continue divestment of low ROIC and/or non-core assets and businesses.
  - GCAP share price is at the core of decision-making when it comes to new investments. The Group performs 360-degree analysis each time GCAP makes a capital allocation decision and compares: a) the investment opportunity versus buyback opportunity; and b) the sale opportunity versus buyback opportunity. The Group intends to buy assets/companies at a higher discount to their listed peers than GCAP's fair value discount. Georgia Capital is targeting to invest in opportunities which produce greater returns than returns offered by buying back GCAP shares.

**Capital management**

Georgia Capital adopts a highly disciplined approach to managing its capital resources as follows:

- 360-degree analysis, when evaluating capital returns, new investment opportunities or divestments.
- Georgia Capital allocates capital such that it does not depend on premature sales of listed portfolio investments. Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. As such, it focuses on shareholder returns and on opportunities which meet its investment return and growth criteria.
- The Board regularly reviews any major investment and divestment opportunities.

**Our framework and approach to risk governance**

The Board is responsible for setting the right tone and encouraging characteristics and behaviours which support a strong risk culture and effective risk management process across the Group. The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. Non-executive oversight is also exercised through the Audit and Valuation Committee which focuses on upholding standards of integrity, financial reporting and valuation framework, risk management systems, going concern, internal control and assurance frameworks. The Audit and Valuation Committee's activities are discussed further on pages 139 to 144. The Investment Committee ensures a centralised process-led approach to investment and the overriding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns. The Investment Committee's activities are discussed further on pages 137 to 138.

At the Board, Committee and executive management levels, we develop formal policies and procedures which set out the way in which risks are systematically identified, assessed, quantified, managed and monitored. Our Investment Committee, which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to embedding our institutional approach across the business. It ensures consistency and compliance with Georgia Capital's financial and strategic requirements, cultural values and appropriate investment behaviours. Each business participates in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Group are identified through this process, as are the emerging risks.

On a day-to-day basis, management is responsible for the implementation of the Group's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function. For each risk identified at any level of the business, the risk is measured and mitigated (if possible) in accordance with our policies and procedures. Middle level managers, both at each portfolio company and Georgia Capital level, are required to report on identified risks and responses to such risks on a consistent and frequent basis. Executive and senior management regularly review the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures.

Our reporting process enables key risks and emerging risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary, on an ad hoc basis, outside of the regular reporting process) by the Audit and Valuation and Investment Committees, as appropriate, as well as the Board.

A description of emerging and principal risks and uncertainties, including recent trends and outlook, as well as mitigation efforts, can be found on pages 73 to 81 of the Strategic Review.

**Risk governance structure**

**BOARD**

- Determines the Group's risk appetite as part of strategy setting.
- Overall responsibility for maintaining a system of internal controls that ensures an effective risk management and oversight process across the Group.
- Assisted by the Board Committees with specific responsibility for key risk management areas.

| Audit and Valuation Committee | Investment Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| • Responsible for managing financial reporting risk and internal control and the relationship with the external auditor.<br>• Reviews and challenges risk management reports from Group Finance and Internal Audit.<br>• Specific and primary responsibility for the Valuation Policy and valuation of the investment entity subsidiaries.<br>• Provides oversight and challenge of underlying assumptions on the valuation of the private portfolio companies (69.2% of portfolio value at 31 December 2022). All private large and investment stage portfolio companies (60.6% of the total portfolio) are valued externally by an independent valuation company on a semi-annual basis.<br>• Direct engagement with the external auditors, who involve their specialist valuations team. | • Principal Committee for managing the investment entity subsidiaries and its most material risks.<br>• Strict oversight of each step of the investment lifecycle.<br>• Approves all investment, divestment and material portfolio decisions.<br>• Monitors investments against original investment case.<br>• Ensures investments are in line with the Group's investment policy and risk appetite. | • Reviews and recommends to the Board the Directors' Remuneration Policy to ensure that remuneration is designed to promote the long-term success of Georgia Capital (and see that management is appropriately rewarded for their contribution to the Group's performance in the context of wider market conditions and shareholder views).<br>• Approves variable compensation schemes for our investment professionals that are in line with market practice and enable the Group to attract and retain the best talent.<br>• Ensures that remuneration is aligned with shareholder returns. | • Responsible for ensuring that the Board has the necessary skills, experience and knowledge to enable the Group to deliver its strategic objectives.<br>• Leads the process for appointing Directors and senior management positions. |

**MANAGEMENT BOARD**

The Management Board is led by the Chief Executive Officer and has:

- Delegated responsibility for management of the Group.
- Delegated responsibility for investment decisions.
- Delegated responsibility for risk management.

# **RISK MANAGEMENT** CONTINUED



**Bodies implementing the risk management system**
As mentioned on page 69, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, market and operational risks, amongst others. Certain matters, including but not limited to the approval of major capital expenditure, significant acquisitions or disposals and major contracts, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website at: **https://georgiacapital.ge/governance/cgf/schedule**. With respect to other matters, the Board is often assisted by both the Audit and Valuation and Investment Committees.

The Management Board has overall responsibility for the Group's assets, liabilities, risk management activities, respective policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Group, as described below.

**Internal Audit department**
The Group has an established Internal Audit department, which is responsible for the regular review/audit of the Group's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Group's operations.

The Group's Internal Audit department is independent of the Management Board. The Head of the Group's Internal Audit department is appointed by, and has a direct reporting line to the Chairman of the Audit and Valuation Committee. In 2022, the new Head of the Group's Internal Audit department was appointed. The Group's Internal Audit department discusses the results of all assessments with the Group's Management Board and reports its findings and recommendations to the Group's Audit and Valuation Committee.

The purpose of the Internal Audit department is to determine whether the Group's risk management, internal controls and corporate governance processes, which are designed and implemented by the Management Board, are adequate such that:

- material risks including strategic, market, liquidity and operational risks, are appropriately identified, measured, assessed and managed across the Group, including its outsourced activities;
- interaction with the various internal governance groups occurs appropriately;
- significant financial, managerial and operating information is accurate, reliable and timely;
- the Group and its employees act with integrity and their actions are in compliance with the policies, standards, procedures and applicable laws and regulations;
- resources are acquired economically, used efficiently and protected adequately;
- programmes, plans and objectives are achieved; and
- significant legislative or regulatory issues that impact the organisation are recognised and addressed in a timely and proper manner.

In order to fulfil its function, the Group's Internal Audit department has unrestricted access to all the Group's functions, records, property and personnel.

**Investment team**
The Group's investment team has formalised procedures of risk analysis. As part of the procedures, qualitative and quantitative downside risks are identified and measured and risk adjusted returns are assessed for the investment opportunity.

For each capital allocation decision an independent risk team is formed and no member of the risk team is involved in developing investment thesis. The risk team identifies major risk areas of the proposed investment, assesses potential impact if the risks materialise and estimates returns based on stress test scenarios and sensitivity analysis. The team also evaluates the fit of the investment within the Group's investment policy and challenges the executability of the proposed business plan.

The risk analysis process involves desktop research as well as field work, including interviewing sector experts and senior executives. ROIC and equity IRR are the most common return metrics which are stressed in the risk analysis. For every capital allocation decision, the risk team issues a written capital allocation recommendation based on the risk reward profile of the proposed investment.

Together with the investment thesis, the risk analysis is reviewed by the Capital Allocation & Strategy committee, consisting of members of the Group's management team, which is responsible for recommending investment decisions to the Board.

**Legal department**
The Legal department's principal purposes are to ensure that the Group's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Group's activities in a timely manner, the monitoring and investigation of the Group's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Group where necessary and the investigation of possibilities for increasing the effectiveness of the Group's legal documentation and its implementation in the Group's daily activities. The Legal department is also responsible for providing legal support to structural units of the Group.

**Finance department**
The Group's risk management system is implemented primarily by the Finance department, which is supervised by the Chief Financial Officer and is responsible for the Financial Risks Management function. It implements the Group's financial and tax risks policies by ensuring compliance with: liquidity management thresholds; limits on possible losses from the foreign currency risks; tax legislation; and all financial policies and procedures set by the Management Board. The Finance department, which reports to the Management Board, also focuses on the Group's relationship with the tax authorities, provides practical advice and tax optimisation plans for the Group and also assesses the entire Group's tax risks and exposures.

The Finance department also manages foreign currency exchange, money market and derivatives operations and monitors compliance with the limits set by the Management Board for these operations. The Finance department is also responsible for the management of the long-term and short-term liquidity and cash flow and monitors the volumes of cash on the Group's accounts for the purposes of sufficiency. Further, the Finance department actively monitors performance of portfolio companies on a regular basis and delivers daily NAV development reports, weekly liquidity reports and monthly management reports to the Management Board.

The Management Board reviews the performance of each portfolio business company on a monthly basis and takes actions, as necessary.



**IFRS technical accounting group**
The IFRS technical accounting group, part of the Finance department, is responsible for monitoring the Group's compliance with relevant International Financial Reporting Standards (IFRS). The IFRS technical accounting group is involved in the development process of the Group's accounting policies by leading new accounting standards implementation projects, monitoring new IFRS developments, and preparing an impact assessment on reporting, systems and processes across the Group.

In order to increase the understanding of IFRS, the IFRS technical accounting group delivers training on new IFRS standards, issues Group accounting policies, produces general guidance memos on the application of IFRS and memoranda on complex, one-off transactions and also prepares quarterly reports to the Audit and Valuation Committee summarising material transactions across the Group, with respective financial impact.

**Valuation workgroup**
The Group has established a valuation workgroup, consisting of members of the Finance department, which is responsible for the development and oversight of fair value assessment of the Group's private portfolio companies at each reporting date. The workgroup engages third-party professionals to assist with the fair value determination of large and investment stage investments (44.9% and 15.7% of total portfolio value at 31 December 2022, respectively) in order to provide more transparency of Georgia Capital's portfolio valuations.

The oversight of the third-party professionals is within the scope of the valuation workgroup. The valuation workgroup also estimates fair values of other portfolio companies (8.6% of total portfolio value at 31 December 2022) in-house by applying an appropriate valuation technique in compliance with IFRS 13. The workgroup reports to the Management Board. In order to ensure compliance with IFRS 13 requirements, increase the transparency of valuation and to ensure that a consistent approach is applied in similar facts and circumstances, the workgroup developed a Valuation Policy and monitors compliance across all investments. The applied valuation methodology makes use of market-based information, is consistent with models generally used by market participants and is applied consistently from period to period, except where a change would result in a better estimation of fair value. The workgroup recommends fair values of private portfolio investments at each reporting date and prepares quarterly valuation reports for the Management Board and the Audit and Valuation Committee, describing valuation techniques applied and inputs used, with particular focus on the assumptions supporting the unquoted investments, any valuation uncertainties and the proposed disclosure in the financial statements. The valuation workgroup applies care in exercising judgement and making necessary estimates due to uncertainties inherent in estimating fair value for private companies.

**Internal control**
Georgia Capital's internal control over financial reporting is focused primarily on ensuring efficient and reliable control of valuation of private portfolio companies. With respect to internal control over financial reporting, our financial procedures include a range of system, transactional and management oversight controls. The board and management of each private portfolio company is responsible for ensuring the efficiency of the private portfolio company's internal control structures, risk management and financial reporting. The private portfolio companies' boards ensure that Georgia Capital's Board receives information on any issues that could affect Georgia Capital's business or financial reporting. Our businesses prepare detailed monthly management reports that include analyses of their results along with comparisons, relevant strategic plans, budgets, forecasts and prior results.

These are presented to and reviewed by executive management. Each quarter, the CFO of the Group and other members of the Finance department discuss financial reporting, valuations and associated internal controls with the Audit and Valuation Committee, which reports significant findings to the Board. The Audit and Valuation Committee also reviews the quarterly, half-year and full-year financial statements and corresponding press releases and provides feedback to the Board. The external and internal auditors attend each Audit and Valuation Committee meeting and the Audit and Valuation Committee meets regularly both with and without management present.

**Going Concern Statement**
The Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives and performance are set out on pages 2 to 122. Comprehensive going concern assessment analysis is disclosed in Note 2 within the IFRS financial statements. The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that Georgia Capital has the resources to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue, i.e. the period ending 31 March 2024. After making enquiries, the Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence and, therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

**Viability Statement**
In accordance with the Corporate Governance Code, the Directors are required to assess the prospects of the Company to meet its liabilities by taking into account its current position and principal risks. Georgia Capital runs an in-depth annual business planning process, involving both the management of portfolio companies and Group management with Board input and oversight. In line with the UK Corporate Governance Code, the process includes a viability assessment conducted by the Board over a three-year period beginning 1 January 2023, being the first day after the end of the financial year to which this report relates. In determining the appropriate period over which to make their assessment, the Directors considered: the duration of strategic plans and financial forecasts; the diverse nature of the Group's activities; the evolving nature of the regulatory environment in which the Group's businesses operate; the inherent uncertainty surrounding future capital allocation projections; and the Group's objective, in line with its updated strategy. A period of three years beyond the balance sheet date was therefore considered the most appropriate viability period for the Group.

In order to consider the Group's viability, the Board considered a number of key factors, including:

- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 8 to 36;
- the Group's principal and emerging risks and uncertainties, principally those related to regional instability, the war in Ukraine, portfolio company strategic and execution risk, investment risk, adverse economic conditions, the depreciation of the Lari, lack of liquidity, and climate change-related risk, and how these risks and uncertainties are managed, as set out on pages 73 to 81;
- the effectiveness of our risk management framework and internal control processes; and
- stress testing, as described on the next page.

# **RISK MANAGEMENT** CONTINUED



The key factors on the previous page have been reviewed in the context of our current position and strategic plan. Since there are no legal guarantees or constructive commitments in place for Georgia Capital to fund losses or activities at portfolio companies' level (with the exception of a financial guarantee of EUR 6.4 million issued to a portfolio company owned by JSC Georgia Capital), a stress test analysis was prepared on a holding company level.

The viability assessment involved a risk identification process which included recognition of the principal risks to viability (risks that could impair the Group's business model, future performance, solvency or liquidity), excluding risks not sufficiently severe over the period of assessment for the Group. The principal risks and uncertainties identified by the Group are regional instability, regulatory, investment, liquidity, portfolio company strategic and execution, and currency and macroeconomic environment-related risks. Further, the Group has identified climate change-related risk as an emerging risk.

We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe and plausible risks in separate and combined adverse scenarios. The stress test scenario was then reviewed against the Group's current and projected liquidity position. The Group prepared a single reasonable worst case scenario which assumes the inability of private portfolio companies to pay dividends or meet any other obligations towards the holding company, the reason for which could be economic consequences of regional instability, the war in Ukraine, GEL depreciation against the US dollar, market competition and/or operational underperformance. Supported by strong operating performance in 2021, the Bank of Georgia restored payment of dividends to shareholders and announced a dividend policy providing for a 30%-50% payout ratio. In 2023, BoG announced that it intends to recommend a final dividend of GEL 5.80 per share, which together with the interim dividend of GEL 1.85 per share paid would make a total of GEL 7.65 per share for 2022.

On that basis, the stress case scenario includes dividend payments from the listed asset. The Directors also considered the maturity of Eurobonds issued by the Group which are due in 1Q24. GCAP has repurchased US$ 116 million Eurobonds, out of which US$ 65 million was cancelled. As of 31 December 2022, outstanding gross balance of Eurobonds issued was US$ 300 million, leaving US$ 51 million repurchased notes in treasury. In addition, the Group has repurchased US$ 20 million Eurobonds so far in 2023 as of 17 March 2023. Directors remain confident that given the Group's track record of proven access to capital even during market turbulence, the Group will be able to roll over the US$ 300 million Eurobonds. The Group demonstrated its superior access to capital through the successful placement of US$ 65 million Eurobonds in March 2021.

The Directors have also satisfied themselves that existing cash and highly liquid debt and equity investment securities will be sufficient to cover the expected cash outflows of the holding companies for the viability assessment period. They have also collected necessary evidence to support the statement below in terms of the effectiveness of the Group's risk management framework and internal control processes in place to mitigate risk. As at 31 December 2022, Georgia Capital holds GEL 439 million assets across cash, marketable debt securities and loans issued to portfolio companies. Additionally, the Group also holds GEL 830 million equity securities of London Stock Exchange listed BoGG PLC as at 31 December 2022. In 1H22, the Group received US$ 180 million sale proceeds from successful completion of the water utility business sale transaction. Therefore, in a worst-case scenario, with risks modelled to materialise simultaneously and for a sustained period of time, the likelihood of the Group having insufficient resources to meet its financial obligations is very low. Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period from 1 January 2023 to 31 December 2025.



# **RISK OVERVIEW**



**Understanding our risks**
We continuously monitor our internal and external environment to ensure that any new principal or emerging risk is identified in a timely manner and responded to appropriately. The Directors have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. We define our principal risks as those that have the potential to impact the delivery of our strategic objectives materially. We also monitor risks which include new and emerging risks which may have the potential to become principal risks but are not yet considered to be so. Emerging risks usually have large uncertain outcomes which may become certain in the longer term (beyond one year) and which could have a material effect on the business strategy if they were to occur.

**Principal risks and uncertainties**
The table below describes the principal risks and uncertainties faced by the Group and their potential impact, as well as the trends and outlook associated with these risks and the mitigating actions we take to address these risks. If any of the following risks were to occur, the Group's business, financial condition, results of operations or prospects could be materially affected. The risks and uncertainties described below may not be the only ones the Group faces. The order in which the principal risks and uncertainties appear does not denote their order of priority. Additional risks and uncertainties, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities.

<table>
<tr><th colspan="2">REGIONAL INSTABILITY RISK</th></tr>
<tr><td>PRINCIPAL RISK/ UNCERTAINTY</td><td>The Georgian economy and our business may be adversely affected by regional tensions. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey, and has two breakaway territories, Abkhazia and the Tskhinvali/South Ossetia regions. In addition to strong political and geographic influences, regional countries are highly linked to Georgian economy representing its significant historical trading partners.<br><br>Following a significant Russian military build-up near the Russia-Ukraine border and months of rising tensions, Russian troops crossed the border on 24 February 2022, and the situation escalated into a war. In response to the invasion, all G-7 countries, the EU and many other countries have announced severe economic sanctions on Russia, including selected high-profile Russian banks, Russian entities and Russian individuals. At the start of the war, there was a significant depreciation of the Russian Ruble against foreign currencies, although the Ruble has since recovered. The market value of Russian securities has also decreased significantly. As the situation grinds on, the already steep humanitarian costs and economic losses for Ukraine, Russia and the rest of the world are likely to deepen. Ukraine and Russia are particularly important trade partners of Georgia, and spillover risks remain. The length and outcome of the war are clearly uncertain, but it is possible that the negative impact of the war will become more pronounced in the medium to longer term and could continue to have a material impact on market confidence, affecting all regional countries. Various tensions have also existed between Russia and Georgia for more than 15 years, and the two countries also had a brief armed conflict in 2008, which led to Russia's control of the two breakaway territories. Finally, there has also been ongoing geopolitical tension, political instability, economic instability and military conflict between other regional countries, with the latest flare-up culminating in a six-week war (September-November 2020) between Armenia and Azerbaijan over the disputed Nagorno-Karabakh region. Despite the peace agreement, skirmishes are reported to have occurred on several occasions, most recently in September 2022. The continuation or escalation of the war, political instability, geopolitical conflict, the economic decline of Georgia's trading partners and any further tension with Russia, including border and territorial disputes, may have a negative impact on the political or economic stability of Georgia, which in turn may affect our business unfavourably, including putting adverse pressure on our business model, our revenues, our financial position and the valuations of our listed and private portfolio companies.</td></tr>
<tr><td>KEY DRIVERS/TRENDS</td><td>The Russian invasion of Ukraine has resulted in extraordinary economic disruption, as market confidence has plunged, unprecedented sanctions have been imposed upon the Russian economy, food and energy prices have surged and spillover risks have been substantially aggravated, with further economic consequences to follow as the situation develops. While food and energy prices have been relatively stabilising since 2H22, markets remain highly unpredictable in light of the ongoing conflict.<br><br>The war has negatively affected the operating performance of our wine (c.60% sales exposure to Russia and Ukraine in 2021) and housing development businesses (significant growth in construction materials costs). The magnitude of the impact on these businesses cannot be reliably measured at this stage. Due to their size, however, it is not expected to be material overall for the Group (the value of the wine and housing development business represented approximately 2% of the total portfolio value as at 31 December 2022).<br><br>Regional instabilities also affected the discount rates and listed peer multiples used in our DCF and multiple-based valuation assessments. Discount rates were up by 2.0-3.0 ppts on average in 2022, while the listed peer multiples demonstrated a declining trend. These developments are reflected in the private portfolio companies' valuations in 2022, as described earlier in this report.<br><br>While GCAP's exposure to liquid funds such as debt securities issued by affected countries is not material, our Insurance business' investment results were negatively affected during the first half of the year. As the war is still waging, it is impossible to reliably assess the impact this may have on the Group's business as there is uncertainty over the magnitude of the impact on the economy in general.</td></tr>
</table>

# **RISK OVERVIEW** CONTINUED



## REGIONAL INSTABILITY RISK CONTINUED

**KEY DRIVERS/TRENDS** CONTINUED

Although a ceasefire agreement ended the six-week Armenia-Azerbaijan war in November 2020, the conflict has not been conclusively resolved. Russian peacekeeping forces were deployed for an initial period of five years. Despite peacekeeping efforts, tensions flared up again in September 2022, resulting in a high number of fatalities on both sides and risking another major escalation. The EU has deployed civilian monitors on the Armenian side of the border, aiming to aid in keeping peace. The risks of a further flare-up depend on the success of the peacekeeping mission. The war has also worsened the economic and political outlook for Armenia, an important trading partner of Georgia, and created significant spillover risks in the region, with the rising influence of Russia and Turkey altering the regional balance. Risks of aggressive action remain particularly elevated in light of the changing status-quo following the Russian invasion of Ukraine.

Russia imposed economic sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed Georgian borders and recognised the independence of Abkhazia and the Tskhinvali/South Ossetia regions. Russian troops continue to occupy the regions, and tensions between Russia and Georgia persist. The introduction of a preferential trade regime between Georgia and the EU in 2016, the European Parliament's approval of a proposal on visa liberalisation for Georgia in 2017, and Georgia's recently attaining "European perspective" for EU candidacy could potentially intensify tensions between the countries. Russia banned direct flights in July 2019 and recommended stopping the sale of holiday packages to Georgia. The decision was made in response to anti-Putin protests in Tbilisi, which started after a member of the Russian parliament addressed the Georgian parliament in Russian from the speaker's chair. Sanctions were imposed on several Russian individuals and entities in March 2021 by the US and the EU, relating to the use of chemical weapons against Russian opposition figure Alexei Navalny, amplifying tensions in the region.

**MITIGATION**

The Group actively monitors significant developments in the region and risks related to political instability and the Georgian Government's response thereto. It also develops responsive strategies and action plans of its own. The Georgian export market shifted significantly away from the Russian market after Russia's 2006 embargo, and the Group participated in that shift. In 2022, Russia accounted for 12% of Georgian exports, as opposed to 17.8% in 2005.

Since the beginning of the war, the migration effect from Russia, Ukraine and Belarus has altered the composition of foreign currency inflows from remittances and international visitors. The migration effect has resulted in an 86% y-o-y increase in remittance inflows in 2022, including a fivefold increase up to US$ 2.2 billion from Russia. Moreover, international travel receipts have increased substantially from the three countries. With most of the migrants expected to have arrived for long-term stays, it is currently impossible to estimate the long-term impact of the migration effect. Whilst elevated foreign currency inflows effectively constitute rising external demand in the short run, the medium to long-term effects remain highly uncertain, depending on the timing and terms of the eventual conclusion of the war in Ukraine. Despite this surge in foreign currency inflows predominantly from Russia, both remittance inflows and tourism receipts remain diversified, with the EU having emerged as the top foreign currency provider since 2019 before the Russia-Ukraine war. As travel resumes globally, it is hoped that the rising trend of tourism revenues from the EU will continue.

While financial market turbulence and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes, including DCFTA with the EU and FTA with China, support the country's resilience against regional external shocks. Enhancing linkages with the EU market will further be supported by a new recovery plan for Eastern Partnership countries, including ambitious investments in improved connectivity and unlocked potential to get full benefits from the DCFTA. Following Ukraine's plea to join the EU as it battles Russia's invasion, Georgia and Moldova on 3 March 2022 submitted their applications to join the EU. Georgia previously planned to apply to join the European Union in 2024. The European Council granted a conditional European perspective to all three countries, with Ukraine and Moldova receiving the candidate status pre-emptively and Georgia set to receive that status as the conditions are satisfied. The Georgian parliament has begun working on adopting the Council recommendations. In February 2023, the European Commission published analytical reports assessing the stance of Georgia, Ukraine and Moldova with respect to their alignment with the EU acquis and offering guidance for the steps ahead. The report for Georgia was widely regarded as favourable, with the EU ambassador to Georgia congratulating the Government for "a very positive report".

Merchandise exports also remain diversified, relatively insulating foreign demand from regional risks, and new destination countries have emerged as top trading partners in 2022, such as Peru, Kazakhstan and Kyrgyzstan. China has kept the position of the top destination country for Georgian exports in 2022 since claiming the position in 2020, accounting for 13.2% of total exports in 2022 (14.5% in 2021), as well as being the largest destination country of domestically produced Georgian exports with a 18.8% share (18.6% in 2021).



## CORONAVIRUS (COVID-19) RISK

**PRINCIPAL RISK/ UNCERTAINTY**

The Georgian Government took significant actions at the early stage of the COVID-19 outbreak, with border checks and travel restrictions followed by the first lockdown in March-May 2020. After gradually lifting restrictions since late April, the epidemiological situation worsened in Autumn, and a two-month partial lockdown was imposed spanning the period from end-November 2020 to February 2021. Since February, the economy fully reopened for the better part of the year. Despite new COVID-19 cases rising again periodically, most notably in August and November 2021, as well as at the beginning of 2022 due to the spread of the Omicron variant, no new major restrictions have been imposed.

As discussed below, lockdown and other significant restrictions had a serious adverse effect on almost all of our businesses, and as the virus is still considered a pandemic, any new serious outbreak of COVID-19 or a similar pandemic that required significant new restrictions could do so again.

- Our hospitals and clinics and diagnostics businesses faced a number of COVID-19 related risks, among these are:
  - The health of our own medical personnel affected businesses' ability to continue to deliver their services, and they were on the front line, especially in the event of a renewed outbreak or a new, vaccine-resistant variant;
  - Adjusting to the new mix between COVID-19 related care and other care as COVID-19 recedes. Currently, our hospitals and clinics and diagnostics businesses are experiencing an organic transition to the post-pandemic economy. Suspension of COVID contracts by the Government in 1Q22 and restructuring of the cost base of COVID facilities temporarily impacted the performance of the hospitals and clinics businesses, while substantially lower COVID cases during the quarter resulted in a significant decrease in diagnostics business revenues. The growth is expected to rebound in the coming quarters as the businesses pass through the transition period.
- The Group's education business was also significantly affected in 2020 by the lockdown and subsequent restrictive measures and adjusted to distance learning which involved offering tuition discounts and rollovers of fees for transportation and catering services. Given the improved epidemiological developments in Georgia, the schools provided on-campus learning during most of 2021. Schools in Tbilisi were reopened from 15 February 2021 and continued on-campus learning till the end of the year, except for September. During the distance learning period, schools offered 15%-25% discounts for tuition fees and rollover of fees for transportation/catering services. While the education business seems to have developed a model for coping with COVID-type restrictions, it is not as effective, attractive and profitable when distance learning is imposed.
- The Group's hospitality business is the business that has been most affected by the COVID-19 outbreak, reflecting pandemic-related uncertainties in the tourism and real estate sectors. We reacted quickly to the change in the environment and are in the process of exiting from this business (we have already exited from the commercial real estate business, which was also significantly affected by the pandemic). Any serious deterioration of the epidemiological situation could adversely affect our ability to sell the remaining properties at attractive prices.

**KEY DRIVERS/TRENDS**

Although vaccine development and the ongoing immunisation process have raised hopes of global recovery, exceptional uncertainty persists with respect to new COVID variants and vaccine take-up rates. The coronavirus has proven to be a significant challenge for the Georgian economy, especially the tourism sector. While tourism revenues have displayed signs of rebounding, a significantly delayed recovery in tourism revenues or a major fall in foreign investment sentiment would impact growth prospects substantially, raising the risk premium and upsetting the balance of payments.

Furthermore, there can be no assurance on the effectiveness of Government measures in preventing the further spread of COVID-19, reducing its negative economic impact or that more restrictive measures will not be introduced, any of which could have a material adverse effect on macroeconomic conditions and, in turn, the Group's business.

# RISK OVERVIEW CONTINUED

| CORONAVIRUS (COVID-19) RISK CONTINUED | |
|---|---|
| **MITIGATION** | The Georgian economy remains vulnerable to external shocks due to a mix of its historically high current account deficit, low domestic savings rate and high level of dollarisation. The external balance deteriorated following the onset of the COVID-19 pandemic, with the current account deficit amounting to 12.5% of GDP in 2020, as tourism revenues, a major source of foreign currency inflows, evaporated. However, in 2021 the deficit improved to 10% of GDP and in 9M22 reached a record low of -2.7% of GDP, including a record high 5.9% surplus in 3Q22, as external inflows have accelerated significantly, with the migration effect supplementing higher external demand from neighbour countries. Major sources of financing the current account deficit are remittance inflows (up 86% y-o-y in 2022), merchandise exports (up 32% y-o-y), including a particularly strong performance from domestic merchandise exports (up 18.4% y-o-y), and tourism revenues (108% of respective 2019 levels in 2022, including 135% in 2H22). The National Bank of Georgia (NBG) sold US$ 94 million and bought US$ 80 million on foreign currency auctions in 2022, but also bought a net amount of US$ 580 million through direct participation in the foreign exchange market, taking advantage of surging FX inflows. Subsequently, official reserve assets reached a record-high level of US$ 4.9 billion by the end of December 2022, up 15% y-o-y.<br><br>A large part of Georgia Capital's portfolio is concentrated across defensive countercyclical sectors: healthcare and retail (pharmacy) businesses. Georgia Capital has a strong liquidity position, with GEL 439 million liquid assets and loans issued as of 31 December 2022. We are also satisfied that Georgia Capital's liquidity forecast adequately accounts for the novel coronavirus risk. Further, Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. Therefore, capital allocations to portfolio companies may be suspended, if needed. The Group identified the following mitigating actions in 2020: suspension of capital allocations together with optimisation of cash operating expenses. However, the improved epidemiological environment and strong economic recovery during 2021, have allowed for a smooth and gradual transition from the cash accumulation and preservation strategy, implemented in 2020 as our response to the pandemic, towards capturing business growth opportunities across all our businesses. |

| CURRENCY AND MACROECONOMIC ENVIRONMENT RISKS | |
|---|---|
| **PRINCIPAL RISK/ UNCERTAINTY** | Unfavourable dynamics of major macroeconomic variables, including depreciation of the Lari against the US dollar may have a material impact on the Group's performance. |
| **KEY DRIVERS/TRENDS** | The Group's operations are primarily located in, and most of its revenue is sourced from Georgia. Factors such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income, tourist numbers and the financial situation of companies can have a material impact on customer demand for its products and services.<br><br>The Lari floats freely against major currencies. After depreciating in 2020 due to capital outflows from the emerging and frontier markets, a sudden stop in tourism revenues and shrinking merchandise exports, as well as rapidly deteriorating expectations, the Lari has gained back a lot of ground, appreciating to higher than pre-COVID levels by the end of 2022. Following a period of stabilisation, the Lari began strengthening since mid-May 2021 and continued strengthening into 2022, appreciating by 19.6% compared to the beginning of 2022 as of 17 March 2023. Currency appreciation has been aided by surging foreign currency inflows, driven by the migrant effect, strong external demand, improving terms of trade and worldwide travel resumption, as well as tight monetary policy, stronger than expected economic growth, foreign currency lending and improved expectations. Following rate cuts in 2020 to respond to the COVID-19 shock, NBG reversed the stance and hiked the policy rate by 300 basis points cumulatively since March 2021 to 11% as of February 2023, responding to high inflation and subsequent rising inflationary expectations. With COVID-19-induced supply-side bottlenecks and rising costs exacerbated by global food, energy and commodity prices surging to record-high levels after the Russian invasion of Ukraine, inflation was elevated throughout 2022 in Georgia like elsewhere around the world, but has begun decelerating and is expected to continue descent in 2023. According to preliminary Government projections, the fiscal deficit fell to -3.1% of GDP in 2022, and public debt fell to under 40% of GDP, aiding disinflation on the domestic side and reducing vulnerabilities on the external side.<br><br>On the macro-level, the free-floating exchange rate works well as a shock absorber, but on the micro-level, the currency fluctuation has affected and may continue to adversely affect the Group's results. There is a risk that the Group incurs material losses or loses material amounts of revenue and, consequently, deteriorates its solvency in a specific currency or group of currencies due to the fluctuation of exchange rates. The risk is mainly caused by significant open foreign currency positions in the balance sheets.<br><br>Real GDP continued rapid growth in 2022, with the economy growing by 10.1% y-o-y in 2022 following a 10.5% expansion in 2021, finishing among top 10 performers around the world with respect to economic growth in 2022 according to IMF and the World Bank. The above-mentioned external factors as well as strong domestic demand, continued credit expansion and moderated but still expansionary fiscal policy have all been supporting economic growth. The current account reached a record high surplus of 5.9% of GDP in 3Q22 as a result of surging foreign currency inflows from remittances, merchandise exports and tourism receipts, despite rising imports as a result of strong economic activity. Foreign direct investments also increased substantially throughout the year, totalling US$ 1.7 billion in 9M22, up by 100% y-o-y.<br><br>As a result of the improved macroeconomic environment, Fitch Ratings revised Georgia's sovereign credit rating outlook to positive from stable in January 2023. The agency cited macroeconomic performance, including "exceptionally strong" GDP growth coupled with strong fiscal and monetary discipline, as the main driver behind the improved outlook. A new three-year executive stand-by arrangement worth US$ 280 million was approved with the IMF in June 2022, focusing on structural reforms and anchoring macroeconomic policy. |
| **MITIGATION** | The Group continually monitors market conditions, reviews market changes and also performs stress and scenario testing to test its position under adverse economic conditions, including adverse currency movements.<br><br>The currency risk management process is an integral part of the Group's activities; currency risk is managed through regular and frequent monitoring of the Group's currency positions and through the timely and efficient elaboration of responsive actions and measures. Senior management reviews the overall currency positions of the Group several times during the year and elaborates on respective overall currency strategies; the Finance department monitors the daily currency position for stand-alone Georgia Capital, weekly currency positions on a portfolio company level and manages short-term liquidity of the Group across different currencies. Control procedures involve regular monitoring and control of the currency gap and currency positions, running currency sensitivity tests and elaborating response actions/steps based on the results of the tests. |

# RISK OVERVIEW CONTINUED

| REGULATORY AND LEGAL RISKS | |
|---|---|
| **PRINCIPAL RISK/ UNCERTAINTY** | The Group owns businesses operating across a wide range of industries: banking, healthcare, retail (pharmacy) and distribution, property and casualty insurance, medical insurance, real estate, water utility and electric power generation, hydro and wind power, beverages, education and auto service. Many of these industries are highly regulated. The regulatory environment continues to evolve, and we cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.<br><br>Georgia Capital and its businesses may be adversely affected by risks related to litigations arising from time to time in the ordinary course of business. |
| **KEY DRIVERS/TRENDS** | Each of our businesses is subject to different regulators and regulation. Legislation in certain industries, such as banking, healthcare, energy, insurance and utilities is continuously evolving. Different changes, including but not limited to governmental funding, licensing and accreditation requirements and tariff structures, may adversely affect our businesses.<br><br>Except as disclosed on page 208, there were no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which GCAP is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on either GCAP and/or its portfolio companies' financial position or profitability. |
| **MITIGATION** | Continued investment in our people and processes enable us to meet our current regulatory requirements and means that we are well-placed to respond to any future changes in regulation. Further, our investment portfolio is well diversified, limiting exposure to particular industry-specific regulatory risks.<br><br>In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage where possible in constructive dialogue with regulatory bodies and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by Internal Audit and external assurance providers.<br><br>Our integrated control framework also ensures the application and development of mechanisms for identifying legal risks in the Group's activities in a timely manner, the monitoring and investigation of the Group's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Group where necessary and the investigation of possibilities for increasing the effectiveness of the Group's legal documentation and its implementation in the Group's daily activities. The framework also considers the engagement of the external legal advisors, when appropriate. |

| INVESTMENT RISK | |
|---|---|
| **PRINCIPAL RISK/ UNCERTAINTY** | The Group may be adversely affected by risks in respect of specific investment decisions. |
| **KEY DRIVERS/TRENDS** | An inappropriate investment decision might lead to poor performance. Investment risks include inadequate research and due diligence of new acquisitions and bad timing of the execution of both acquisition and divestment decisions. The valuation of investments can be volatile in line with the market developments. |
| **MITIGATION** | The Group manages investment risk with established procedures and a thorough evaluation of target acquisitions. Investment opportunities are subject to rigorous appraisal and a multi-stage approval process. Target entry and exit event prices are monitored and updated regularly in relation to market conditions and strategic aims. The Group performs due diligence on each target acquisition including on financial and legal matters. Subject to an evaluation of the due diligence results an acceptable price and funding structure is determined, and the pricing, funding and future integration plan is presented to the Investment Committee (consisting of the full Board) for approval. The Committee reviews and approves or rejects proposals for development, acquisition and sale of investments and decides on all major new business initiatives, especially those requiring a significant capital allocation. The Investment Committee focuses on both investment strategy and exit processes, while also actively managing exit strategies in light of the prevailing market conditions. |

| LIQUIDITY RISK | |
|---|---|
| **PRINCIPAL RISK/ UNCERTAINTY** | Risk that liabilities cannot be met, or new investments made, due to a lack of liquidity. Such risk can arise from not being able to sell an investment due to lack of demand from the market, from suspension of dividends from portfolio companies, from not holding cash or being able to raise debt. |
| **KEY DRIVERS/TRENDS** | The Group predominantly invests in private portfolio businesses, potentially making the investments difficult to monetise at any given point in time. There is a risk that the Group will not be able to meet its financial obligations and liabilities on time due to a lack of cash or liquid assets or the inability to generate sufficient liquidity to meet payment obligations. This may be caused by numerous factors, such as: the inability to refinance long-term liabilities; suspended dividend inflows from the investment entity subsidiaries; excessive investments in long-term assets and a resulting mismatch in the availability of funding to meet liabilities; or failure to comply with the creditor covenants causing a default. |
| **MITIGATION** | The liquidity management process is a regular process, where the framework is approved by the Board and is monitored by senior management and the Chief Financial Officer. The framework models the ability of the Group to fund under both normal conditions (Base Case) and during stressed situations. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The Finance department monitors certain liquidity measures on a daily basis and actively analyses and manages liquidity weekly. Senior management is involved at least once a month and the Board on a quarterly basis. Such monitoring involves a review of the composition of the cash buffer, potential cash outflows and management's readiness to meet such commitments. It also serves as a tool to revisit the portfolio composition and take necessary measures, if required. JSC Georgia Capital successfully issued US$ 300 million bonds in March 2018, which was followed by a US$ 65 million tap issuance on 16 March 2021. GCAP has adopted the following measures to manage its standalone credit profile:<br>• GCAP depends on dividend inflows from its portfolio companies, on its ability to sell its listed securities on the public markets at favourable prices, and on its ability over the longer term to monetise its private portfolio investments. To limit this dependency, the Group has adopted a policy to maintain a cash buffer of at least US$ 50 million in highly-liquid assets in order to always have sufficient capacity for potential downside scenarios as well as for potential acquisition opportunities. Additionally, the Group will maintain at least US$ 50 million in marketable securities which can be converted into cash within three to four weeks (this includes BoG shares).<br>• Recourse debt and guarantees are limited at GCAP and at each portfolio company level.<br><br>In May 2022, the Group adapted the capital management framework, with significant prominence being given to deleveraging. Deleveraging the Group's balance sheet, at a time of significant potential economic and regional instabilities, is a key priority to safeguard our portfolio, and enables the Group to take advantage of attractive investment opportunities that may arise as a result of those instabilities. The Group has introduced an NCC Ratio Navigation Tool, which will drive the Group's share buyback and investment policy; an NCC ratio between 15%-40% will lead to tactical share buybacks/investments, whilst an NCC ratio below 15% is expected to generate more meaningful share buybacks/investments. The Group targets the bringing down the NCC ratio below 15% by December 2025. The deleveraging strategy was also implemented across our private portfolio companies, where individual leverage targets have been developed.<br><br>In 2022, GCAP's corporate credit ratings were upgraded to "B1" by Moody's and "B+" by S&P (from "B2" and "B", respectively).<br><br>In October 2022, Georgia Capital conducted a Modified Dutch Auction (MDA) through which the Group bought back US$ 29 million GCAP Eurobonds. In addition to the tendered amount, GCAP had accumulated US$ 87 million GCAP Eurobonds through repurchases on the open market. Upon completion of the MDA US$ 65 million notes were cancelled, decreasing CGAP's outstanding gross debt balance to US$ 300 million and leaving US$ 51 million GCAP Eurobonds in the treasury. The transaction is in line with Georgia Capital's key strategic priority to deleverage Georgia Capital's balance sheet. |

# RISK OVERVIEW CONTINUED



| PORTFOLIO COMPANY STRATEGIC AND EXECUTION RISKS | |
|---|---|
| **PRINCIPAL RISK/ UNCERTAINTY** | Market conditions may adversely impact our strategy and all our businesses have their own risks specific to their industry. Our businesses have growth and expansion strategies and we face execution risk in implementing these strategies.<br><br>The Group will normally seek to monetise its investments, primarily through strategic sale, typically within five to ten years from acquisition, and we face market and execution risk in connection with exits at reasonable prices. |
| **KEY DRIVERS/TRENDS** | Each of our private portfolio companies and our listed assets (Bank of Georgia) face its own risks. These include risks inherent to their industry, or to their industry particularly in Georgia, and each faces significant competition. They also face the principal risks and uncertainties referred to in this table.<br><br>Macroeconomic conditions, the financial and economic environment and other market conditions in international capital markets may limit the Group's ability to achieve a partial or full exit from its existing or future businesses at reasonable prices. It may not be possible or desirable to divest, including because suitable buyers cannot be found at the appropriate times, or because of difficulties in obtaining favourable terms or prices, or because the Group has failed to act at the appropriate time. |
| **MITIGATION** | For each business, we focus on building a strong management team and have successfully been able to do so thus far. Management succession planning is regularly on the agenda for the Nomination Committee which reports to the Board on this matter. The Board closely monitors the implementation of strategy, financial and operational performance, risk management and internal control framework, and corporate governance of our businesses. We hold management accountable for meeting targets.<br><br>For each industry in which we operate, we closely monitor industry trends, market conditions and the regulatory environment. We have also sought, and continue to seek, advice from professionals with global experience in relevant industries. We carry our private portfolio companies at fair value in our NAV Statement. The valuations are audited, increasing the credibility of fair valuation and limiting the risk of mispricing the asset. In addition, the valuation of private large and investment portfolio companies (60.6% of total portfolio value) is performed by an independent valuation company on a semi-annual basis.<br><br>The Group has a strong track record of growth and has accessed the capital markets on multiple occasions as part of the BGEO Group PLC, prior to the demerger in May 2018. JSC Georgia Capital, the Georgian holding company of the Group's businesses, successfully priced a US$ 65 million tap issue under the Group's existing US$ 300 million 6.125% senior unsecured notes due 2024, listed on the Global Exchange Market of the Irish Stock Exchange. Our acquisition history has also been successful, and we have been able to integrate businesses due to our strong management with integration experience.<br><br>In 2022, GCAP successfully completed the water utility business disposal, which represents our most significant monetisation event to date and marks the completion of the full investment cycle for one of our large portfolio businesses as set out on page 12 of this report.<br><br>In October 2022, our renewable energy and housing development businesses successfully completed bond placements on the Georgian capital market, once again demonstrating our superior access to capital (see page 13 for details). |

**Emerging risks**

The Group's risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors, and is designed to consider and capture the following risks: current risks which have not yet fully crystallised and which the Group do not have previous known experience of against which they can be assessed, and risks which are expected to crystallise in future periods, typically beyond one year.

Since 2021, the Group has identified climate change as an emerging risk. Since the Group's businesses are very much dependent on such climate elements as precipitation, wind speed and air temperature, the Group's development will be affected by climate change. This is critical to protecting and enhancing the value of our assets and we monitor our governance and risk management framework to ensure that sustainability-related risks in our portfolio remain an important part of our agenda and are treated as a priority by our portfolio company management teams.

Risks and opportunities of our portfolio companies from climate change are discussed on pages 91-92 of this report. Our portfolio companies' approach and the mitigants to climate risk are discussed further under Resources and Responsibilities section on pages 82-94 and pages 39-46 of the Sustainability Report.

Potential UK regulatory changes affecting UK listed companies and other UK public interest entities is identified as a possible emerging risk. This may include changes in UK corporate governance requirements, adding additional responsibilities to our existing legal and regulatory compliance risk.

The Group has also identified cyber security as an emerging risk, due to the increasing sophistication of hackers and in turn, the likelihood a data security breach occurring. A cyber security incident can result in unauthorised access to, or misuse of, our information systems, technology, or data. This could lead to leakage of sensitive information, disruption of operations and reputational damage.

In March 2023, the government proposed a new law on registration of foreign agents. The proposed law was widely criticized by many sectors of society and led to large demonstrations that ultimately led to the withdrawal of the proposal. In light of this most recent discord, the Group has identified Georgian political polarisation as an emerging risk.

Georgia Capital PLC Annual Report 2022

# RESOURCES AND RESPONSIBILITIES

## ESG ("ENVIRONMENTAL, SOCIAL AND GOVERNANCE") PRINCIPLES LIE AT THE HEART OF OUR BUSINESS

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors have adopted a Code of Conduct and Ethics, as well as policies that relate to environmental and social matters, responsible investing, employees, anti-corruption and anti-bribery. We invite you to read more about these initiatives in the sections below and in conjunction with our Sustainability Report and the rest of the Annual Report. The non-financial information detailed under section 414CB of the Companies Act 2006, which aims to provide material and relevant information on the developments in Georgia Capital PLC's ESG practices for the financial year ending 31 December 2022, is also cross referenced below.

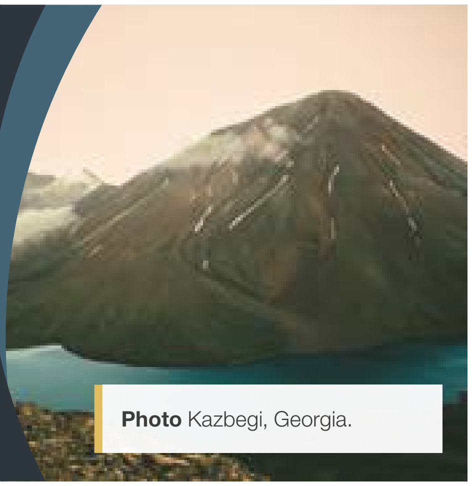


**Photo** Kazbegi, Georgia.

### KEY TAKEAWAYS

**01**

**Updated strategy**
At the 2022 Investor Day, Georgia Capital presented its updated strategy, which considered the enhancement of ESG matters in the Group's core operations.

**02**

**Delivery on the strategic priority**
Georgia Capital delivered on its strategic priority of setting measurable ESG targets and established the ESG action plan.

**03**

**Committing to the Net-Zero Initiative**
In 2022, Georgia Capital committed to the Net-Zero Initiative and expressed its willingness to reach Net-Zero across Scope 1 and 2 emissions at both GCAP HoldCo and portfolio company levels by 2050.

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 our carbon footprint into account.

With a portfolio of GEL 3.2 billion, we recognise that our decisions have the potential to impact a broad range of stakeholders, particularly within Georgia. Although as an investment holding company with c.45 employees, Georgia Capital has a limited direct impact on the environment and the community in which it operates, we understand that the indirect impact of our investment undertakings may be an important consideration for our stakeholders. To ensure the Group's commitment to sustainable finance, and 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.

**Task Force on Climate-related Financial Disclosures (TCFD)**
The Group has complied with the requirements of LR 9.8.6R by including climate-related disclosures consistent with the TCFD recommendations and recommended disclosures.

TCFD disclosures on the pages 89-94 present the Company's perspective on four core pillars of governance, strategy, risk management and metrics and targets related to climate-change mitigation.

Further detailed information can be found in our Sustainability Report, a supplement to our Annual Report which enables the Group to provide more detailed and comprehensive reporting of our ESG operations in alignment with the TCFD recommendations and recommended disclosures.

Our Sustainability Report is available on our website: **https://georgiacapital.ge/ir/sustainability-reports**.

Copies of the Company's policies can be found on our website: **https://georgiacapital.ge/governance/cgf/policies**.



**Non-Financial Information Statement**
The Company is required to disclose certain information on the way we operate and manage social and environmental challenges. The following table summarises where you can find further information on each of the key areas of disclosure. Information on our policies can be found on our website at: **https://georgiacapital.ge/governance/cgf/policies**.

| Reporting requirement | Further detail | Annual Report page reference | Sustainability Report page reference | Relevant policies |
|---|---|---|---|---|
| **Social matters** | Promoting local community | Page 84 | Page 12 | Environmental and Social Policy |
| | Sponsorship and charity | Page 84 | Page 13 | Responsible Investment Policy |
| | Promoting and enhancing a healthy lifestyle | Page 84 | Page 15 | |
| | Sustainable procurement | Page 84 | Page 26 | |
| **Employee matters** | Our employees | Page 85 | Page 17 | Code of Conduct and Ethics |
| | Talent attraction, training and development | Page 85 | Page 18 | Diversity Policy |
| | Diversity | Page 86 | Page 21 | Whistleblowing Policy |
| | Human Rights Policy | Page 86 | Page 27 | Human Rights Policy |
| | Code of Conduct and Ethics | Page 86 | Page 27 | Anti-Bribery and Anti-Corruption Policy |
| **Environmental matters** | Emission disclosure and calculation methodology | Page 87 | Page 30 | Environmental and Social Policy |
| | Measures undertaken to improve the energy efficiency | Page 88 | Page 33 | Responsible Investment Policy |

## INVESTING IN SOCIALLY AND ENVIRONMENTALLY ORIENTED INDUSTRIES

Our Group and portfolio companies, as the largest employer in the Georgian private sector, are trusted to improve the future of our community by building sustainable businesses for 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 been supportive of investments in socially and environmentally-oriented businesses since 2008, when our businesses first entered the healthcare market with the aim of modernising the healthcare infrastructure, closing service gaps in the country and increasing overall quality of care. As a result, we have contributed to the development of the Georgian healthcare system and our society. Today our healthcare businesses are market leaders in the country in each operating segment: Hospitals, accounting for 15% of the county's total hospital bed capacity; Clinics, with 21% by registered patients; Retail (Pharmacy), with 35% market share by revenue; and medical insurance, with 19% market share based on 9M22 net insurance premiums.

Currently we invest in two key sectors that benefit the sustainable development of Georgia: renewable energy and education. Our renewable energy business has contributed to the transition towards a more sustainable and lower-carbon economy in Georgia. Through its green projects, the business has supported climate change mitigation, natural resources conservation and pollution prevention. Going forward, the launch of 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. We acknowledge the importance and the substantial positive impact of quality education on society and are committed to responsibly conducting our business activities and supporting sustainable economic growth. Despite being a small share of our total portfolio, our subscale 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 37% of the existing market. The business is directly engaged in GHG emissions and road accidents reduction in the country.

## ALIGNING OUR FOOTPRINT WITH THE SUSTAINABLE FUTURE

At the 2022 Investor Day, Georgia Capital presented its updated strategy, which considered the enhancement of ESG matters in the Group's core operations. GCAP also introduced its strategic priority of setting measurable ESG targets at both GCAP HoldCo and portfolio company levels; this initiative has been successfully executed over the course of 2022.

In order to deliver on its strategy and drive change toward a sustainable future, in 2022, Georgia Capital and its portfolio companies deployed resources for developing relevant ESG roadmaps for GCAP HoldCo and portfolio companies. The process considered a comprehensive analysis of the relevant ESG frameworks and guidelines, as well as determining the materiality of ESG matters across business operations.

As part of the comprehensive analysis of the frameworks and regular discussions with international experts, Georgia Capital achieved its strategic priority of setting measurable ESG targets, which are based on the Net-Zero Initiative, and established the ESG action plan.

For details regarding the target-setting process please refer to pages 6-8 in our Sustainability Report 2022 or the "Metrics and targets" section in our TCFD disclosures on page 94.

In 2022, the Group submitted its first CDP climate-change questionnaire and demonstrated its willingness enhance the ESG transparency on well-established ESG platforms.

At the portfolio company level, our renewable energy business successfully placed US$ 80 million green secured bonds on the local market. The second-party opinion was obtained by a leading provider of ESG research and analysis, which approved the framework and acknowledged its capacity of increasing the renewable energy share in Georgia. This is the second successful issuance of green bonds from the business.

For details on our recent ESG developments please refer to pages 6-10 of our Sustainability Report.

# RESOURCES AND RESPONSIBILITIES CONTINUED



## GOVERNANCE

Georgia Capital recognises the importance of maintaining sound corporate governance practices and supports high standards of corporate governance in delivering value to our stakeholders. For full details of our governance structure and processes, please see the Corporate Governance section of the Annual Report.

Our Responsible Investment Policy is integrated into the investment and portfolio management processes and procedures and is supported by enhanced due diligence questionnaires. This Policy covers Georgia Capital's responsible investment approach and ongoing monitoring of ESG re-assessments of portfolio companies. Georgia Capital monitors the portfolio companies' ESG performance and uses its resources to encourage the adoption of ESG best practices. It is supplemented with an Environmental and Social Policy. Through the Responsible Investment Policy, ESG considerations are embedded into the deal process, from the initial investment stage to active ownership. Details on how we implement the Responsible Investment Policy can be found in our Sustainability Report.

In 2022, the Company engaged Amandla UK Limited (Amandla) to facilitate a review of the Board's effectiveness. The review was intended to look more closely at boardroom dynamics.

The assessment included a series of qualitative diagnostic interviews designed to ascertain from each of the Board members several different components:

1. The individual strengths of each member.
2. The areas which other Board members felt there could be a greater contribution.
3. The dynamics in the team that allowed for healthy challenge and debate.
4. The areas that might need attention.

Amandla observed a Board meeting and concluded that the atmosphere was healthy. Amandla also concluded that the diversity of thought and experience met industry standards, and in terms of oversight the Board was fit for purpose.

## SOCIAL MATTERS

### 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 the Sustainability Report.

### Sponsorship and charity

In 2022, the Group and its portfolio companies spent a total of GEL 2.6 million in financing sponsorship and charitable activities. 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 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.

Georgia Capital continued to support the Fulbright programme in 2022 and covered the education and travel expenses of one high-achieving student. The selected winner was given the opportunity to pursue a master's degree at a top US university.

In 2022, Georgia Capital continued the sponsorship programme to support the Caucasus Nature Fund (CNF), whose purpose is nature protection in the South Caucasus. The fund helps to support the effective long-term management of the nature in the biologically rich, protected territories of Armenia, Azerbaijan and Georgia. GCAP contributes GEL 10,000 annually under the programme.

In 2022, our portfolio companies contributed approximately GEL 1.4 million for the support of the Ukrainian citizens, impacted by the Russia-Ukraine war.

For more information on our portfolio companies' charitable activities please refer to our Sustainability Report.

**Total sponsorship and charitable expenditure of the Group and portfolio companies in 2022 (GEL million)**


### Promoting and enhancing a healthy lifestyle

Georgia Capital acknowledges the importance of a healthy lifestyle for its employees. 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.

Georgia Capital is aware of the damaging impact of stress and anxiety on the individual. 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 arrangements. Respective teams at GCAP track the workload of the employees to identify if hiring additional staff is required.

### Sustainable procurement

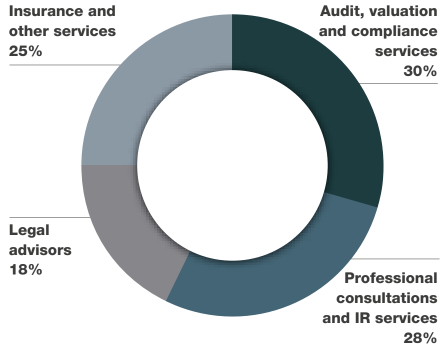
At Georgia Capital, we strive to exercise good corporate citizenship and we take into account the ESG practices of our suppliers. A large majority of GCAP's suppliers are professional advisors and consultants, predominantly blue-chip, reputable international organisations with sound ESG policies and procedures, which, therefore, have lower exposure to ESG-related risks. 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 2022, significant items for Georgia Capital procurement expenditures were audit, valuation and compliance services, as well as services sourced from 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 (FY22)**




### Modern slavery

The Group has zero tolerance against modern slavery and human trafficking. We believe in doing business ethically, transparently and in full compliance with all applicable laws and regulations. Even though we are an investment holding company and the risk of modern slavery and human trafficking at our own business operations is low, we recognise that our supply chain could potentially pose such risks. 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. 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.

We note that in accordance with our Responsible Investment Policy, we expressly do not invest in businesses which have activities involving forced or child labour. Evaluation of risk is carried out at the pre-investment or pre-engagement stage through due diligence and control, and with post-investment implementation and management of risk through monitoring and reporting predominantly by the Legal and Finance departments, who report to the Management Board and ultimately the Board of Directors.

## EMPLOYEE MATTERS

### 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.

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 the Board level, which ensure that the opinions of our employees are taken into account when making decisions that are likely to affect their interests.

In 2022, we conducted our third employee satisfaction survey at the holding company level. According to the survey results, more than 92% of the participants enjoy working at Georgia Capital, more than 85% 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.

Despite the cessation of the pandemic, Georgia Capital maintains a hybrid working environment, since the practice showed that the hybrid approach fostered the well-being of the employees.

Georgia Capital values the exchange of upward, downward and peer feedback when it comes to performance management. Through the performance evaluation and talent management process, several staff members were promoted in 2022.

In 2022, the Group conducted various team building activities. In October, the Group's middle and upper management teams participated in strategic meetings in Rome, which apart from the discussion sessions included the city tour and attendance at a football game. In December, a two-day off-site event was organised in which management updated Georgia Capital's staff on its strategy and goals. The off-site event also included various networking events.

### 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 are engaged under an 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 locally and internationally. Georgia Capital continues its talent acquisition project for its Investment Officer positions which was launched in 2016.

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.

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 2022, Georgia Capital expanded its strategy team. To help the newcomers adapt to the new working environment, our strategy team had comprehensive introductory and cross-department meetings.

In addition to specific training courses, regular workshops are held in the Company which are linked to more complex matters, such as business approaches and the best practices in related fields. Besides in-house training, Georgia Capital provides designated training and certification programmes for various departments through third-party resources.

# RESOURCES AND RESPONSIBILITIES CONTINUED

For details on how our portfolio companies train and enable the continuous development of their employees, please read our Sustainability Report.

| Total number and rate of GCAP's new employee hires and employee turnover (%) | New hires | New hires rate | Full turnover | Turnover rate |
|---|---|---|---|---|
| 2021 | 4 | 9% | 5 | 12% |
| 2022 | 5 | 10% | 3 | 6% |

**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. 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. In line with Georgia Capital's Diversity Policy, diversity of gender, social and ethnic backgrounds, age, disability, race, religion or belief, sex or sexual orientation, 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 2022, Georgia Capital had a total of 48 employees, of which 28 are female, and 20 are male.

We are supportive of the ambition shown in 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 therefore representing an ethnically diverse background. We are also supportive of the Hampton-Alexander Review and the 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. However, the Board recognises the importance of all forms of diversity, and remains committed to striving for further progress in the space.

**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.

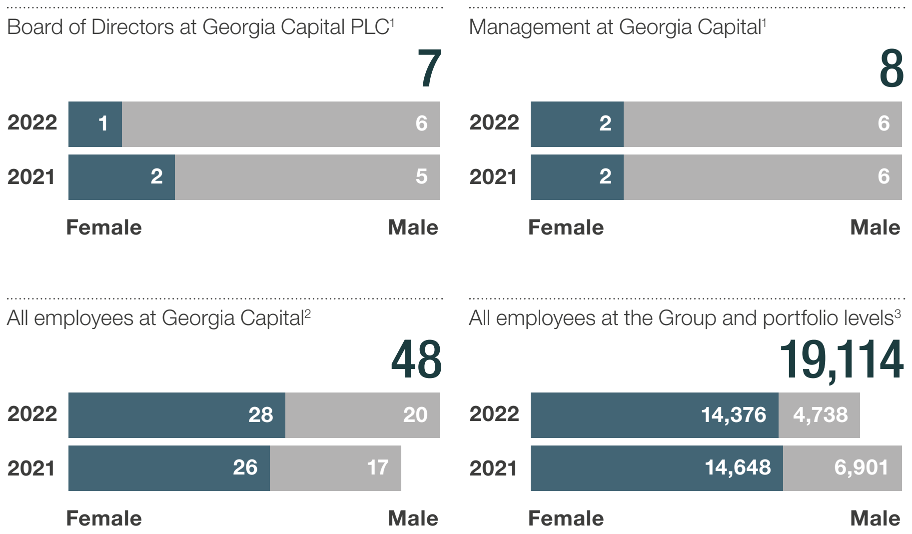
We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, 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 2022.

## GENDER DIVERSITY




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 Georgia Capital JSC and Georgia Capital PLC levels.
3 Excluding temporary employees.



## ENVIRONMENTAL MATTERS

**Committing to the Principles of the UN Global Compact**
In February 2022, we became a signatory of the UN Global Compact and officially expressed our commitment to its ten Principles, which are then sub-divided into 17 Sustainable Development Goals (SDGs). Georgia Capital introduced an initiative to align the portfolio companies' performance with the UN SDGs, which requires our portfolio companies to determine relevant SDGs and implement respective procedures to track their progress towards the identified goals.

For the individual SDGs of our portfolio companies please refer to page 29 in our Sustainability Report.

**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 2022". 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 three employees and the annual consumption is less than 5MWh (in 2022, the UK office's annual consumption was 3.5MWh, and for 2021, 4.1MWh), the costs of which are included within the lease fees. The electricity consumption of the UK office is included in the Scope 2 emissions calculation.

**The Group's portfolio**
Data from our portfolio companies' Scope 1, 2 and 3[1] emissions have been aggregated and presented as a separate line item under Scope 3 emissions in accordance with the Greenhouse Gas Protocol. Scope 3 emissions for the year ended 31 December 2019, 31 December 2020 and 31 December 2021 have been updated retrospectively to reflect our approach. These have been reported for all our 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 at: **https://bankofgeorgiagroup.com/reports/annual**.

**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 during 2020 and 2021.

**Summary of GHG disclosure:**
The table below summarises the various elements of our disclosure and details the particular GHG emissions and whether they are included or excluded.

| Element | Description | Included/Excluded |
|---|---|---|
| Scope 1 – Static fossil fuel | 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 Group. |
| Scope 1 – Mobile fossil fuel | Combustion of petrol, diesel and aviation fuel in owned/operated vehicles. | Business travel has been included. |
| Scope 1 – Other emissions | Process emissions and refrigerant leakage. | Excluded – No such processes/equipment owned or operated by Group. |
| Scope 2 – Consumption of electricity | 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. |
| Scope 2 – Consumption of thermal energy | Direct consumption of heat, steam or cooling generated by others. | Excluded – No such thermal energy supplies are consumed by the Group. |
| Scope 3 | 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 at GCAP HoldCo level. |
| | Investments | Included – Scope 1, 2 and 3[1] of our portfolio companies where we have a majority stake. |

1 Portfolio company Scope 3 emissions reported for business travel and employee commuting.

# RESOURCES AND RESPONSIBILITIES CONTINUED

**Total greenhouse gas emissions (tonnes $CO_2e$)**

| 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** |
| FTEs at GCAP HoldCo level | 44 | 43 | **48** |
| Total greenhouse gas emissions per FTE[2] (GCAP HoldCo) | 866.7 | 945.2 | **587.1** |
| FTEs at GCAP HoldCo and portfolio company levels | 20,314 | 21,549 | **19,114** |
| Total GHG emissions per FTE[2] (GCAP HoldCo and portfolio company levels) | 1.88 | 1.89 | **1.47** |

1 Investment portfolio companies' total Scope 1 and 2 emissions are: 32,125 $tCO_2e$ in 2020, 31,292 $tCO_2e$ in 2021 and 22,759 $tCO_2e$ in 2022.
2 FTE is stated excluding temporary employees.

### 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 GHG emissions herein relate to those where we have operational control, i.e. those relating to our corporate offices in both London and Tbilisi.

### Greenhouse gas emissions and energy data

The following table reports upon GHG and energy data for the period December 2021 to December 2022. The prior reporting year has been included for comparative purposes.

| Energy consumption (in kilowatt hours, kWh) | Prior reporting year (2021) | Current reporting year (2022) |
|---|---|---|
| Purchased electricity | 27,852 | 34,272 |
| Gas combustion | – | – |
| Transport fuel | 199,457 | 219,355 |
| Refrigerants | – | – |
| Total energy consumption (kWh)[3] | 227,309 | 253,627 |

| Emissions (per metric tons of $CO_2$ equivalent, $tCO_2e$) | Total (2021) | Scope | Total (2022) | Scope |
|---|---|---|---|---|
| Purchased electricity | 2.6 | 2 | 3.6 | 2 |
| Gas combustion | – | 1 | – | 1 |
| Transport[4] | 3 | 3 | 76 | 3 |
| Refrigerant emissions | – | 2 | – | 2 |
| Total gross emissions | 5.5 | – | 79.5 | – |
| **Intensity ratio ($tCO_2e$ per FTE)** | **1.57** | | **3.08** | |

### Quantification and reporting methodology

The GHG and energy data presented above has been collated, calculated, and presented using methodology following the Greenhouse Gas Reporting Protocol, and uses the 2022 Government Emission Conversion Factors for Company Reporting.

### Intensity ratio

The intensity ratio used in the table above displays total gross emissions ($tCO_2e$) per FTE.

### Our environmental activities

### Measures undertaken to improve energy efficiency

Over the last periods, Georgia Capital has introduced and implemented energy-efficient solutions to further reduce energy consumption by conducting various activities across the Group and portfolio companies. 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. Our 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 our other educational infrastructures will follow in due course. Our beverages business reduced energy consumption and carbon footprint through its $CO_2$ recovery plant, alongside the wastewater treatment plant. In addition, the company also introduced the Green Fridge policy which reduces the carbon footprint of cooling bottled and canned products.

Details of environmental activities of our portfolio companies are reported in our Sustainability Report at **https://georgiacapital.ge/ir/sustainability-reports**.

3 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.
4 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.



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

The following section reflects Georgia Capital's response to the TCFD recommendations. The disclosures have been prepared in line with the all-sector guidance and, where applicable, reflect the supplementary recommendations for the asset managers. In this section, we present the Company's perspective on four core pillars of governance, strategy, risk management and metrics and targets related to climate-change mitigation.

## 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 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.

In 2022, the Board supported the initiative of incorporating ESG as one of the core pillars of GCAP's strategy.

The Board also reviewed the alignment of GCAP's portfolio operations with the UN sustainable development goals and supported the enhancement of ESG transparency. In 2022 GCAP submitted the first climate change questionnaire to the CDP platform. Selected Board members were also involved in the submission process.

The Board is responsible for the approval of the climate-related metrics and targets that have been established by GCAP in 2022. It is also responsible for ensuring progress against agreed metrics and targets.

**Management oversight**
Within the management team, the Chief Financial Officer, 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, supported by the Investment Officers, is responsible for identifying specific risks and opportunities at the initial investment stage.

The Chief Financial Officer and Director of Investments 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.

## 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 were completed. The process was followed by a comprehensive quantitative assessment, specifically on GHG inventory management.

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 potential material risk implications of such findings (examples of which are provided below in the 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, 7.0% share of the portfolio at 31 December 2022).

**Scenario analysis of plausible futures**
Network for Greening the Financial System (NGFS[1]) was 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 invests over a three to five year horizon. With this in mind, 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 will 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 an increasing frequency of heat waves.
- **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

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

# RESOURCES AND RESPONSIBILITIES CONTINUED
## TCFD CONTINUED

urgent response in the 2030s. Consequently, transition risks, especially those relating to regulation, occur mid-2030s and are swiftly implemented (not gradually 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 changes 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 $CO_2$ 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.

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

| | Projected carbon price | | | |
|---|---|---|---|---|
| NGFS modelled scenario | Year 2025 | Year 2030 | Year 2035 | Year 2050 |
| Current Policies | 3 | 3 | 3 | 4 |
| Delayed transition 1.8°C | <1 | <1 | 224 | 497 |
| Net Zero 1.5°C | 148 | 204 | 272 | 603 |

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.

Based on the early-stage scenario modelling 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.

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.

**Table 2: Portfolio 2022: Qualitative presence of potential climate-related physical or transition risks under Delayed Transition 1.8°C**

| | Physical risks[1] | | | | Transition risks[2] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Acute | | Chronic | | Legal/ regulation | | Market | | Reputation | | Technology/ digital | |
| Portfolio company (% value of total portfolio) | Risk | Opp. | Risk | Opp. | Risk | Opp. | Risk | Opp. | Risk | Opp. | Risk | Opp. |
| Bank of Georgia (26.0%) | | | | | | | | | | | | |
| Water Utility (4.8%) | | | | | | | | | | | | |
| Renewable Energy (7.0%) | | | | | | | | | | | | |
| Healthcare businesses: Hospitals (13.5%) and Clinics and Diagnostics (3.5%) | | | | | | | | | | | | |
| Retail (Pharmacy) (22.7%) | | | | | | | | | | | | |
| Medical Insurance (1.6%) | | | | | | | | | | | | |
| P&C Insurance (7.1%) | | | | | | | | | | | | |
| Education (5.1%) | | | | | | | | | | | | |
| Auto Service | | | | | | | | | | | | |
| Beverages (Beer and Wine) | | | | | | | | | | | | |
| Housing Development and Hospitality | | | | | | | | | | | | |

Key: The red blocks indicate potentially material risk areas and the blue 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).



The percentage value of the portfolio company within the portfolio is provided as a broad indicator of likely weighting.

**Bank of Georgia (26.0% 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 energy expenditure and generate a financial benefit, especially where renewable energy is utilised. Additionally, the Bank has adopted digital technology to enable all forms of digital banking, potentially further reducing the need for fixed assets.

Since 2021, Bank of Georgia Group PLC completes its own TCFD assessments. The results are available publicly in Bank of Georgia Group PLC's Annual Report and Accounts which can be viewed or downloaded at: **https://bankofgeorgiagroup.com/reports/annual**.

**Retail (Pharmacy) (22.7% of total portfolio)**
- **Risks** – The principal risks arise from physical aspects of climate change and may impact the physical assets. 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 the retail (pharmacy) business. 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 energy expenditure and generate a financial benefit but will also reduce the carbon footprint of the operations.

**Healthcare businesses – Hospitals, and Clinics and Diagnostics (17.1% 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 (for example, low carbon hospitals) could have material benefits. A reduction in the portfolio's carbon intensity will mitigate future costs associated with increasing carbon prices.

**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 and 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 to climate risks, for example through premium incentives to have healthy lifestyles, may contribute positively to the business reputation and customer base.

**P&C Insurance (7.1% of total portfolio)**
- **Risks** – Carbon pricing is a fundamental component of the EU's 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. Beginning with transition risks, some lines of business may see changes in claims patterns as government policy and regulation relating to carbon emissions evolve. This might result in fluctuating loss ratios and profitability. The steep rise in carbon prices can lead to reduced profitability, obsolete assets and impairments in sectors that are difficult to decarbonise and where additional costs cannot be passed on to customers. The transition will shift demand toward low-carbon technologies and create new opportunities for companies that provide innovative solutions and are able to reduce their emissions more efficiently than competitors. Failure to manage potentially detrimental impacts will result in damage to a company's reputation.
- **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. Commercial opportunities are also likely to arise by creating targeted products that address climate change and energy transition.

**Water Utility (4.8% of total portfolio)**
- **Risks** – Acute physical risks may impact 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.

# RESOURCES AND RESPONSIBILITIES CONTINUED
## TCFD CONTINUED



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 (7.0% 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 (5.1% 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 for all real estate.

**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, there may 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 and Hospitality**
- **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 three 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 within TCFD disclosures, on page 93.

Climate change is also reflected in the valuation assessments of the portfolio companies, as described in the Risk Management section within TCFD disclosures, on page 93. 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 are evaluated by the investment and finance teams in discussion with the portfolio companies to determine their financial materiality (impact on financial performance including revenues and expenditures, and impact on the financial position, assets and liabilities, capital and financing).



## RISK MANAGEMENT

Climate change risk has been recognised by GCAP as an emerging risk. The risk management approaches for the initial investment stage and the existing portfolio companies are provided below.

**Investment stage**
In 2022, 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 and investment stage 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 and investment stage 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 other portfolio companies as set out in the Valuation Methodology on page 101 of the Annual Report 2022.

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

**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). The process included 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 the cost of supplied materials, ability to pass through costs and potential capex among other aspects.

The 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.

**Monitoring and reporting:**
Environment (including climate) and social risks and opportunities are managed through regular semi-annual engagement with the portfolio companies. 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 Investment Managers with respect to climate change terminology, risks and opportunities during 2023 and beyond.

# RESOURCES AND RESPONSIBILITIES CONTINUED
## TCFD CONTINUED



### METRICS AND TARGETS

In 2022, Georgia Capital committed to the Net-Zero Initiative and expressed its willingness to reach Net-Zero across Scope 1 and 2 emissions at both GCAP HoldCo and portfolio company levels by 2050.

In May 2022, GCAP commenced the ESG target-setting initiative with the goal of setting GHG emission reduction targets. Over a four-month period, GCAP conducted comprehensive research on relevant ESG standards, frameworks and guidelines, and engaged in discussions with global experts on different environmental platforms.

In September, GCAP, with its portfolio companies, engaged in comprehensive individual and group workshops where the ESG frameworks were discussed and participants shared their progress towards setting individual environmental targets. Some of the portfolio companies also engaged local third-party experts in the target-setting initiative to ensure the effectiveness of the process.

Through its ESG targets, GCAP 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.

**GHG inventory**

Measuring GHGs is the initial step in preventing the global warming.

GCAP has collated Scope 1, 2 and limited Scope 3 GHG 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.

Since 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). We aggregate and present portfolio companies' Scope 1, 2 and 3 emissions under our Scope 3. The data set has been re-reported for 2020.

GCAP considers that all material categories of Scope 3 have been included in our emissions calculation. For further details, please refer to the emission disclosure and calculation methodology, on page 87 of the Annual Report.

**GHG reduction targets**

Georgia Capital commits to 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.

2022 has been chosen as a base year for two major reasons:
- 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 normalisation of economic activities compared to the abnormal environment in 2020-2021 years due to COVID-19-related implications.

In 2022, the full GHG inventory analysis revealed that the portfolio companies' GHG emissions accounted for 99.5% of the Group and portfolio companies' aggregated emissions, which were derived from the following sources:
- Combustion of natural gas (Scope 1) – 33% of the total GHG emissions.
- Combustion of petrol and diesel (Scope 1) – 25% of the total GHG emissions.
- Consumption of electricity (Scope 2) – 23% of the total GHG emissions.
- Other emissions (Scope 3) – 19% of the total GHG emissions.

GHG emissions reduction roadmaps were developed at both the GCAP holdCo and portfolio business' levels to support GCAP in transferring to a low-carbon economy, consequently lowering its environmental footprint.

The roadmap captures the fundamental activities to minimise any adverse impact on the environment, whilst simultaneously highlighting benefits for the Group and its portfolio companies:
- c.80% of the Georgian electricity is sourced from the renewable energy power, having relatively modest adverse impact on the environment.
- GCAP's updated strategy of having considerable exposure to capital-light portfolio companies provides a chance to progressively transition to a low-carbon economy.

| Target[1] | KPIs | Base year 2022 | Target by 2030 | Target by 2050 |
|---|---|---|---|---|
| | **GHG emissions reduction targets** | | | |
| Reach Net-Zero across Scope 1 and 2 emissions at both GCAP HoldCo and portfolio company levels by 2050 | Reduce GCAP HoldCo Scope 1 and 2 emissions | 70 $TCO_2e$ | 30% | 95% |
| | Reduce GCAP's Scope 3 emissions: | | | |
| | *Reduce portfolio companies' Scope 1 and 2 emissions | 22,759 $TCO_2e$ | 30% | 95% |
| | *Offset the GCAP HoldCo's direct Scope 3 emissions[2] that cannot be avoided or reduced further, starting from 2030. | 78 $TCO_2e$ | Yes | Yes |
| | Georgia Capital plans to reduce its direct GHG emissions by:<br>• Implement Net-Zero awareness campaigns across the Group and its portfolio companies;<br>• Organise annual ESG workshops with the portfolio companies;<br>• Replace the natural gas heating systems with efficient electric heating solutions;<br>• Promote electric vehicle deployment in order to reduce the consumption of petrol and diesel; and<br>• Gradually transfer electricity consumption to 100% renewable energy, either by installing renewable energy solutions at our facilities or purchasing electricity from renewable energy providers. | | | |

1 Since GCAP's portfolio is subject to regular asset rotation, the targets may be recalibrated in the future.
2 Emissions related to air travel and ground transportation provided by third parties and electricity, heat/steam, cooling provided within lease and service agreements.



**Photo** Snowcapped mountain Ushba, Svaneti, Georgia.

# ALTERNATIVE PERFORMANCE MEASURES



**Alternative Performance Measures (APMs) overview**
Management assesses the Group's performance using a variety of measures that are not specifically defined under IFRS and are, therefore, referred to as APMs internally and throughout this document. Management monitors the Group's performance on a regular basis based on developments in the Income Statement and NAV Statement prepared under the methodologies described below. Management believes that such statements provide an important view on Georgia Capital's strategy and helpful insights into management's decision-making. Management dedicates time to ensuring that the Group's APMs are reported in a consistent and transparent way in accordance with the European Securities and Markets Authority (ESMA) published guidelines.

Under IFRS 10, Georgia Capital PLC meets the "investment entity" definition and does not consolidate its portfolio companies, instead the investments are measured at fair value.

Our Group level discussion is, therefore, based on the IFRS 10 investment entity accounts.

The NAV Statement, as included in the notes to the IFRS financial statements, summarises the Group's equity value and drivers of related changes between the reporting periods. Georgia Capital holds a single investment – in JSC Georgia Capital (an investment entity on its own) – which in turn owns a portfolio of investments, each measured at fair value. Georgia Capital measures its investment in JSC Georgia Capital at fair value through profit and loss, estimated with reference to JSC Georgia Capital's own portfolio value as offset against its net debt.

The Income Statement presents the Group's results of operations for the reporting period. As we conduct most of our operations through JSC Georgia Capital, through which we hold our portfolio companies, the IFRS results provide little transparency on the underlying trends. To enable a comprehensive view of the combined operations of Georgia Capital PLC and JSC Georgia Capital (together referred to herein as "GCAP") as if it were one holding company, we adjust the accounts ("adjusted IFRS 10 Income Statement"). A full reconciliation of the adjusted Income Statement to the IFRS Income Statement is provided on page 99.

Additionally, for the majority of our portfolio companies the fair value of our equity investment is determined by the application of a market approach (listed peer multiples and precedent transactions) and an income approach (DCF). Under the market approach, listed peer group earnings multiples are applied to the trailing 12-month (LTM) stand-alone IFRS earnings of the relevant business. Under the 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. As such, the stand-alone IFRS results and developments behind IFRS earnings of our portfolio companies are key drivers in their valuations. Following the Group discussion, we therefore also present unaudited IFRS financial statements for each portfolio company and a related brief results discussion.

Our adjusted IFRS 10 Income Statement and the stand-alone IFRS results for our portfolio companies may be viewed as APMs.

**Net asset value (NAV) Statement**
The Group makes indirect investments in portfolio companies, held through intermediate Georgian holding company, JSC Georgia Capital, which is the principal subsidiary of Georgia Capital PLC. The application of IFRS 10 requires us to fair value the intermediate holding company JSC Georgia Capital. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our equity capital investments and associated transactions occurring in the intermediate holding company. The financial effect from the valuation of the underlying portfolio companies are aggregated into a single value. The breakdown of the value of JSC Georgia Capital is presented in Note 12 within the IFRS financial statements. To maintain transparency in our report and aid understanding we present a NAV Statement and respective reconciliation to the IFRS Balance Sheet in Note 5 (Segment information) of the IFRS financial statements. NAV disclosed under the NAV Statement is the same as IFRS equity value as at 31 December 2022. The NAV Statement is simply a "look through" of the IFRS 10 Balance Sheet to present the underlying performance.

The NAV Statement breaks down NAV into its components and provides roll-forward of the related changes between the reporting periods, including a snapshot of the Group's financial position at the opening and closing dates. The NAV Statement provides a value of Georgia Capital that management uses as a tool for measuring its investment performance. Management closely monitors NAV in connection with capital allocation decisions. The following methodology underlies the presentation of the NAV for period-end dates:

- NAV is calculated at stand-alone GCAP level, which represents the aggregation of the stand-alone assets and liabilities of Georgia Capital PLC and JSC Georgia Capital.
- Holdings in listed and private portfolio companies are carried based on the following methodology:
  - Listed portfolio companies are carried at the period-end market values based on closing share prices on respective stock exchanges.
  - Private portfolio companies are carried at fair value based on a valuation technique believed to be most appropriate to that investment as described in the valuation methodology on page 101.
  - NAV per share represents total NAV divided by the number of outstanding shares at the end of the period, i.e. the number of issued shares at the end of the period less unawarded shares in GCAP's management trust.

**Management Income Statement**
The Income Statement is an aggregation of GCAP's stand-alone Profit and Loss Statement and fair value change of portfolio companies during the reporting period. The following methodology underlies the preparation of the Income Statement:

- The top part of the Income Statement (GCAP net operating income) represents the aggregation of the two stand-alone holding company accounts, which we call GCAP (i.e. the UK holding company Georgia Capital PLC and the Georgian holding company JSC Georgia Capital), the performance of which reflects the net result of a) dividend income accrual based on distributed or declared annual dividend proceeds from portfolio companies during the reporting period, b) interest income on liquid funds and loans issued, c) interest expenses on debt incurred at GCAP level (which consists of the bonds issued) and d) expenses incurred at GCAP level.
- Fair value change of portfolio companies (total investment return) represents fair value changes in the value of portfolio companies during the reporting period, as valued in the period-end NAV Statement. A detailed valuation methodology is described on page 101. We view fair value changes of portfolio companies as a metric to measure the total investment return of Georgia Capital's holdings, which itself reflects value creation for shareholders.
- Following the aggregation of GCAP net operating income and total investment return, we arrive at management income before foreign exchange movements for the period.
- Below the income before foreign exchange movements line, to arrive at management net income, we present GCAP gains or losses from foreign exchange movements and other costs such as non-recurring or transactions costs if there are any in a reportable period.

**APM summary**
In October 2015, ESMA published guidelines about the use of APMs. These are financial measures such as key performance indicators (KPIs) that are not defined under IFRS. In the Strategic Review section of the Annual Report on pages 2 to 122, Georgia Capital describes its financial performance under the adjusted IFRS 10 Income Statement and also discloses the stand-alone IFRS results for the portfolio companies, which themselves can be viewed as APMs. A number of other measures are used which are also APMs, since they are derived from the management accounts. The applicable reconciliations to the IFRS equivalent where appropriate, is provided below and should be read alongside the adjusted IFRS 10 Income Statement to IFRS reconciliation.

The table below lists all the APMs used within the Annual Report.

Read more on **financial performance** in the **Strategic Review** on pages **103 to 122**.

Read more on about the **use of APMs** in the **Discussion of Results** on pages **96 to 98**.

| APM | Purpose | Calculation | Reconciliation to IFRS |
|---|---|---|---|
| NAV per share | The measure of per-share value of Georgia Capital. | NAV per share is calculated as NAV divided by the number of outstanding shares at the end of the period, i.e. issued shares at the end of the period less unawarded shares in management trust. | N/A |
| GCAP net operating income | A measure to reflect performance of the stand-alone GCAP and evaluate cash generating capacity on a holding company level. | GCAP net operating income reflects the net result of: a) dividend income accrual based on paid or declared annual dividend proceeds from portfolio companies to be collected during the year; b) interest income on liquid funds and senior loans issued; c) interest expenses on debt incurred at GCAP level; and d) operating expenses incurred at GCAP level. | The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Income Statement. |
| Total investment return | A metric to measure the value creation power of Georgia Capital from its investments. | Fair value change of portfolio companies (total investment return) represents fair value changes in the value of portfolio companies during the reporting period, as valued in the period-end NAV Statement. | The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Income Statement. |
| Net income | A performance metric to measure the value creation power of Georgia Capital during the period. | Aggregation of GCAP net operating income and total investment return less GCAP gains or losses from foreign exchange movements. | The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Income Statement. |

## ALTERNATIVE PERFORMANCE MEASURES CONTINUED



| APM | Purpose | Calculation | Reconciliation to IFRS |
|---|---|---|---|
| EBITDA | Management uses EBITDA as a tool to measure the portfolio companies' operational performance and the profitability of those companies' operations. The Company considers EBITDA to be an important indicator of representative recurring operations. | Earnings before interest, taxes, non-recurring items, FX gain/losses, depreciation and amortisation. | N/A |
| GCAP net debt | A measure of the available cash to invest in the business and an indicator of the financial risk at GCAP level. | Net debt is calculated at GCAP level as follows: cash and liquid funds plus loans issued less gross debt; loans issued does not include investment type mezzanine loans. | N/A |
| Net capital commitment (NCC) ratio | A metric to measure Georgia Capital's balance sheet leverage. | NCC ratio is calculated at the GCAP HoldCo level by dividing NCC by total portfolio value. NCC represents an aggregated view of all confirmed, agreed, and expected capital outflows at the GCAP holding company level. | N/A |
| Internal rate of return (IRR) | A metric to evaluate the historical track record of investments. | IRR for investments is calculated based on: a) historical contributions to the investment; less b) dividends received; and c) market value of the investment. | N/A |
| Multiple of invested capital (MOIC) | A measure to evaluate Georgia Capital's efficiency in allocating capital. | MOIC is calculated as follows: a) the numerator is the cash and non-cash inflows from dividends and sell-downs plus fair value of investment at reporting date; and b) the denominator is the gross investment amount. | N/A |
| Return on invested capital (ROIC) | To evaluate a company's efficiency at allocating the capital under its control to profitable investments. | ROIC is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds. | N/A |
| Return on average total equity (ROAE) | To measure the performance of a company based on its average shareholders' equity outstanding. | ROAE equals profit for the period attributable to shareholders divided by monthly average equity attributable to shareholders for the same period. | N/A |
| Value creation/investment return | To measure the annual shareholder return on each portfolio company for Georgia Capital. | Aggregation of: a) change in beginning and ending fair values; b) gains from realised sales (if any); and c) dividend income during period. The net result is then adjusted to remove capital injections (if any) to arrive at the total value creation/investment return. | N/A |
| GCAP's liquid funds | A measure to evaluate the Company's liquidity. | Includes marketable debt securities and issued loans. | |



## RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES

**Reconciliation of adjusted Income Statement to IFRS Income Statement**

The table below reconciles the adjusted Income Statement to the IFRS Income Statement. Adjustments to reconcile adjusted Income Statement with IFRS Income Statement mainly relate to eliminations of income, expense and certain equity movement items recognised at JSC Georgia Capital, which are subsumed within gross investment (loss)/income in IFRS Income Statement of Georgia Capital PLC.

| GEL thousands, unless otherwise noted (Unaudited) | Adjusted IFRS Income Statement | Adjustment | IFRS Income Statement |
|---|---|---|---|
| Dividend income | 93,875 | (93,875) | – |
| Interest income | 32,955 | (32,955) | – |
| Realised/unrealised (loss)/gain on liquid funds / Gain on Eurobond buybacks | (2,717) | 2,717 | – |
| Interest expense | (69,774) | 69,774 | – |
| **Gross operating income/(loss)** | **54,339** | **(54,339)** | **–** |
| Operating expenses (administrative, salaries and other employee benefits) | (39,996) | 39,996 | – |
| **GCAP net operating income/(loss)** | **14,343** | **(14,343)** | **–** |
| **Total investment return / (loss)/gain on investments at fair value** | **(59,802)** | **60,727** | **925** |
| Administrative expenses, salaries and other employee benefits | – | (6,763) | (6,763) |
| **(Loss)/income before foreign exchange movements and non-recurring expenses** | **(45,459)** | **39,621** | **(5,838)** |
| Net foreign currency gain/(loss) | 47,550 | (53,625) | (6,075) |
| Non-recurring expenses | (627) | 387 | (240) |
| **Net income/(loss)** | **1,464** | **(13,617)** | **(12,153)** |

Subtotals in the "adjustment" columns may not add up as they provide a reconciliation to the statements with different structures and subtotals.

**Retail (Pharmacy) – Reconciliation to IFRS 16 (2022)**

| GEL thousands, unless otherwise noted (Unaudited) | Before IFRS 16 | *IFRS 16 effects* | After IFRS 16 |
|---|---|---|---|
| **Income Statement** | | | |
| Gross profit | 231,270 | – | 231,270 |
| Operating expenses | (154,343) | 28,545 | (125,798) |
| **EBITDA** | **76,927** | **28,545** | **105,472** |
| Depreciation and amortisation | (6,845) | (23,491) | (30,336) |
| Net interest (expense)/income | (5,852) | (7,652) | (13,504) |
| Net gains/(losses) from foreign currencies | 9,931 | 10,856 | 20,787 |
| Net non-recurring (expense)/income | (8,617) | – | (8,617) |
| **Profit before income tax expense** | **65,544** | **8,258** | **73,802** |
| Income tax (expense)/benefit | (1,639) | – | (1,639) |
| **Profit for the year** | **63,905** | **8,258** | **72,163** |
| **Cash flow statement** | | | |
| Net cash flow from operating activities | 77,099 | 28,545 | 105,644 |
| Net cash flow from investing activities | (58,367) | – | (58,367) |
| Net cash flow from financing activities | 3,392 | (28,545) | (25,153) |
| Exchange (losses)/gains on cash equivalents | (1,461) | – | (1,461) |
| **Total cash inflow** | **20,663** | **–** | **20,663** |
| **Cash balance** | | | |
| Cash, beginning balance | 54,616 | – | 54,616 |
| **Cash, ending balance** | **75,279** | **–** | **75,279** |

# RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES CONTINUED

**Hospitals – Reconciliation to IFRS 16 (2022)**

| GEL thousands, unless otherwise noted (Unaudited) | Before IFRS 16 | *IFRS 16 effects* | After IFRS 16 |
|---|---|---|---|
| **Income Statement** | | | |
| Gross profit | 105,401 | – | 105,401 |
| Operating expenses | (52,707) | 902 | (51,805) |
| **EBITDA** | **52,694** | **902** | **53,596** |
| Depreciation and amortisation | (27,937) | (2,556) | (30,493) |
| Net interest (expense)/income | (19,909) | (305) | (20,214) |
| Net gains/(losses) from foreign currencies | 4,367 | 783 | 5,150 |
| Net non-recurring (expense)/income | (10,325) | – | (10,325) |
| **Profit before income tax expense** | **(1,110)** | **(1,176)** | **(2,286)** |
| Income tax benefit/(expense) | – | – | – |
| **Profit for the year** | **(1,110)** | **(1,176)** | **(2,286)** |
| | | | |
| **Cash flow statement** | | | |
| Net cash flow from operating activities | 28,563 | 902 | 29,465 |
| Net cash flow from investing activities | (16,049) | – | (16,049) |
| Net cash flow from financing activities | (35,160) | (902) | (36,062) |
| Exchange (losses)/gains on cash equivalents | (1,862) | – | (1,862) |
| **Total cash (outflow)/inflow from continuing operations** | **(24,508)** | **–** | **(24,508)** |
| | | | |
| **Cash balance** | | | |
| Cash, beginning balance | 46,131 | – | 46,131 |
| **Cash, ending balance** | **21,623** | **–** | **21,623** |

**Clinics – Reconciliation to IFRS 16 (2022)**

| GEL thousands, unless otherwise noted (Unaudited) | Before IFRS 16 | *IFRS 16 effects* | After IFRS 16 |
|---|---|---|---|
| **Income Statement** | | | |
| Gross profit | 28,058 | – | 28,058 |
| Operating expenses | (19,091) | 1,293 | (17,798) |
| **EBITDA** | **8,967** | **1,293** | **10,260** |
| Depreciation and amortisation | (6,598) | (946) | (7,544) |
| Net interest (expense)/income | (5,099) | (765) | (5,864) |
| Net gains/(losses) from foreign currencies | 1,104 | 1,811 | 2,915 |
| Net non-recurring (expense)/income | (3,091) | – | (3,091) |
| **Profit before income tax expense** | **(4,717)** | **1,393** | **(3,324)** |
| Income tax benefit/(expense) | – | – | – |
| **Profit for the year** | **(4,717)** | **1,393** | **(3,324)** |
| | | | |
| **Cash flow statement** | | | |
| Net cash flow from operating activities | 6,998 | 1,293 | 8,291 |
| Net cash flow from investing activities | (8,636) | – | (8,636) |
| Net cash flow from financing activities | 4,329 | (1,293) | 3,036 |
| Exchange (losses)/gains on cash equivalents | (15) | – | (15) |
| **Total cash inflow/(outflow) from continuing operations** | **2,676** | **–** | **2,676** |
| | | | |
| **Cash balance** | | | |
| Cash, beginning balance | 3,148 | – | 3,148 |
| **Cash, ending balance** | **5,824** | **–** | **5,824** |



# VALUATION METHODOLOGY

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. Fair value, as defined in IFRS, is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

**Equity investments in listed and observable portfolio companies**
Equity instruments listed on an active market are valued at the price within the bid/ask spread, that is most representative of fair value at the reporting date, which usually represents the closing bid price. Listed and observable portfolio also includes instruments for which there is a clear exit path from the business, e.g. through a put and/or call options at pre-agreed multiples. In such cases, pre-agreed terms are used for valuing the company.

**Equity investments in private portfolio companies**
**Large and investment stage portfolio companies** – An independent third-party valuation firm is engaged to assess fair value ranges of large private portfolio companies at the reporting date starting from 2020 and investment stage private portfolio companies starting from 2022. The independent valuation company possesses excellent reputation, extensive relevant industry and emerging markets experience. Valuation is performed by applying several valuation methods described below that are weighted to derive fair value range, with income approach being more heavily weighted than market approach. Management selects the most appropriate point in the provided fair value range at the reporting date.

**Other portfolio companies** – Fair value assessment is performed internally using one of the valuation methods described below.

**Valuation methods**
Fair value assessment is performed internally as described below. Equity investments in private portfolio companies are valued by applying an appropriate valuation method, which makes maximum use of market-based public information, is consistent with valuation methods generally used by market participants and is applied consistently from period to period, unless a change in valuation technique would result in a more reliable estimation of fair value. The value of an unquoted equity investment is generally crystallised through the sale or flotation of the entire business. Therefore, the estimation of fair value is based on the assumed realisation of the entire enterprise at the reporting date. Recognition is given to the uncertainties inherent in estimating the fair value of unquoted companies and appropriate caution is applied in exercising judgements and in making the necessary estimates. Fair value of equity investment is determined using one of the valuation methods described below.

**Listed peer group multiples**
This 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. The earnings multiple used in valuation is determined by reference to listed peer group multiples appropriate for the period of earnings calculation for the investment being valued. Peer group is identified 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. Some peer-group companies' multiples may be more heavily weighted during valuation if their characteristics are closer to those of the company being valued than others. As a rule of thumb, LTM earnings will be used for the purposes of valuation. Earnings are adjusted where appropriate for exceptional, one-off or otherwise adjustable items.

**a. Valuation based on enterprise value**
Fair value of equity investments in private companies can be determined as their enterprise value less net financial debt (gross face value of debt less cash) appearing in the most recent financial statements. Enterprise value is obtained by multiplying measures of a company's earnings by the listed peer group multiple (EV/EBITDA) for the appropriate period. The measures of earnings generally used in the calculation is recurring/adjusted EBITDA for the last 12 months (LTM EBITDA). In some cases, forward-looking peer EV/EBITDA multiple can be applied to forward-looking EBITDA or peer EV/Sales (enterprise value to sales) multiple may be applied to LTM recurring/adjusted sales revenue of the business (LTM sales) to estimate enterprise value.

Once the enterprise value is estimated, the following steps are taken:
- Net financial debt appearing in the most recent financial statements is subtracted from the enterprise value. If net debt exceeds enterprise value, the value of shareholders' equity remains at zero (assuming the debt is without recourse to Georgia Capital).
- The resulting fair value of equity is apportioned between Georgia Capital and other shareholders of the company being valued, if applicable.
- Valuation based on enterprise value using peer multiples is used for businesses within non-financial industries.

**b. Equity fair value valuation**
Fair value of equity investment in companies can also be determined using the price to earnings (P/E) multiple of similar listed companies. The measure of earnings used in the calculation is recurring/adjusted net income (net income adjusted for non-recurring items and FX gains/losses) for the last 12 months (LTM net income). The resulting fair value of equity is allocated between Georgia Capital and other shareholders of the portfolio company, if any. Fair valuation of equity using peer multiples can be used for businesses within the financial sector (e.g. insurance companies).

**Discounted cash flow**
Under the 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. Under the DCF analysis unobservable inputs are used, such as estimates of probable future cash flows and an internally-developed discounting rate of return.

# VALUATION METHODOLOGY CONTINUED



**Net asset value**

The net assets (NAV) methodology involves estimating the fair value of equity investment in a private portfolio company based on its book value at the reporting date. This method is appropriate for businesses whose value derives mainly from the underlying value of its assets and where such assets are already carried at their fair values (fair values determined by professional third-party valuation companies) on the balance sheet.

**Price of recent investment**

The price of a recent investment resulting from an orderly transaction, generally represents fair value as of the transaction date. At subsequent measurement dates, the price of a recent investment may be an appropriate starting point for estimating fair value. However, adequate consideration is given to the current facts and circumstances to assess at each measurement date whether changes or events subsequent to the relevant transaction imply a change in the investment's fair value.

**Exit price**

Fair value of a private portfolio company in a sales process, where the price has been agreed but the transaction has not yet settled, is measured at the best estimate of expected proceeds from the transaction, adjusted pro-rata to the proportion of shareholding sold.

**Validation**

Fair value of investments estimated using the valuation methods described above is cross-checked using several other valuation methods as follows:

- Listed peer group multiples – peer multiples such as P/E, P/B (price to book) and dividend yield are applied to respective metrics of the investment being valued depending on the industry of the company. The Company develops fair value range based on these techniques and analyses whether the fair value estimated above falls within this range.
- DCF – DCF valuation method is used to determine fair value of equity investment. Based on DCF, the Company might make the upward or downward adjustment to the value of the valuation target as derived from the primary valuation method. If fair value estimated using DCF analysis significantly differs from the fair value estimate derived using the primary valuation method, the difference is examined thoroughly, and judgement is applied in estimating fair value at the measurement date.
- In line with our strategy, from time to time, we may receive offers from interested buyers for our private portfolio companies, which would be considered in the overall valuation assessment, where appropriate.

**Valuation of equity investments in private portfolio companies**

The table below summarises fair valuation of equity investments in our private portfolio companies as at 31 December 2022.

| GEL thousands | Valuation performed externally or internally | Valuation method | Multiple applied | Fair value |
|---|---|---|---|---|
| **Large companies** | **Externally** | | | **1,437,610** |
| Retail (Pharmacy) | Externally | DCF and EV/EBITDA | 9.1x | 724,517 |
| Hospitals | Externally | DCF and EV/EBITDA | 12.2x | 433,193 |
| Insurance | Externally | DCF and P/E | 10.6x-10.7x | 279,900 |
| **Investment stage companies** | **Externally** | | | **501,407** |
| Renewable Energy | Externally | DCF and EV/EBITDA | 11.4x[1] | 224,987 |
| Education | Externally | DCF and EV/EBITDA | 16.9x | 164,242 |
| Clinics and Diagnostics | Externally | DCF and EV/EBITDA | 16.5x[2] | 112,178 |
| **Other companies** | **Internally** | **EV/EBITDA, NAV, DCF** | | **274,147** |

1 11.4x is the blended multiple for Hydrolea HPPs, Mestiachala HPP and Qartli WPP.
2 16.5x is the blended multiple for Clinics and Diagnostics.





# FINANCIAL REVIEW



**Financial performance highlights (IFRS)[1]**

GEL thousands, unless otherwise noted (Unaudited)

| Georgia Capital NAV overview | Dec-22 | Dec-21 | Change |
|---|---|---|---|
| NAV per share, GEL | 65.56 | 63.03 | 4.0% |
| NAV per share, GBP | 20.12 | 15.10 | 33.2% |
| Net asset value (NAV)[2] | 2,817,391 | 2,883,622 | -2.3% |
| Liquid assets and loans issued | 438,674 | 426,531 | 2.8% |
| NCC ratio[3] | 21.1% | 31.9% | -10.8 ppts |
| **Georgia Capital performance** | **FY22** | **FY21** | **Change** |
| Total portfolio value creation | 34,073 | 756,436 | -95.5% |
| *of which, listed and observable businesses* | *205,783* | *164,109* | *25.4%* |
| *of which, private businesses* | *(171,710)* | *592,327* | *NMF* |
| Investments | 195,949 | 18,296 | NMF |
| *of which, conversion of issued loans into equity* | *169,943* | – | *NMF* |
| Divestments | (557,568) | – | NMF |
| Buybacks[4] | 83,108 | 25,089 | NMF |
| Dividend income | 93,875 | 74,362 | 26.2% |
| Net income | 1,464 | 681,393 | -99.8% |
| **Private portfolio companies' performance[1,5]** | **FY22** | **FY21** | **Change** |
| **Large portfolio companies** | | | |
| Revenue | 1,251,988 | 1,259,628 | -0.6% |
| EBITDA | 152,508 | 171,348 | -11.0% |
| Net operating cash flow | 144,916 | 157,975 | -8.3% |
| **Investment stage portfolio companies** | | | |
| Revenue | 165,371 | 170,056 | -2.8% |
| EBITDA | 55,724 | 64,692 | -13.9% |
| Net operating cash flow | 56,298 | 65,373 | -13.9% |
| **Total portfolio[6]** | | | |
| Revenue | 1,901,776 | 1,767,266 | 7.6% |
| EBITDA | 243,010 | 257,128 | -5.5% |
| Net operating cash flow | 206,047 | 246,737 | -16.5% |

**Key points**

- Record FY22 NAV per share of GEL 65.56, up 4.0% y-o-y, mainly driven by strong value creation across our portfolio companies and the accretive impact from share buybacks.
- NAV per share (GBP) increased by 33.2% in FY22, reflecting GEL's 28.1% appreciation against GBP in FY22.
- NCC ratio decreased by 10.8 ppts to 21.1% in FY22, resulting from strong growth in the portfolio value and robust liquidity at GCAP.
- GEL 93.9 million regular dividend income from the portfolio companies in FY22, up 26.2% y-o-y.

1 Please read more about APMs on pages 96-98. Private portfolio companies' performance includes aggregated stand-alone IFRS results for our portfolio companies, which can be viewed as APMs for Georgia Capital, since Georgia Capital does not consolidate its subsidiaries and instead measures them at fair value under IFRS.
2 See page 195 for the reconciliation of NAV to IFRS financial statements as at 31 December 2022.
3 Please see definition in glossary on page 213.
4 Includes both the buybacks under the share buyback and cancellation programme and for the management trust.
5 Private portfolio companies' performance highlights are presented excluding the water utility business. Aggregated numbers are presented on a like-for-like basis.
6 The results of our four smaller businesses included in other portfolio companies (described on page 122) are not broken out separately. Performance totals, however, include the other portfolio companies' results (and are therefore not the sum of large and investment stage portfolio results).

# FINANCIAL REVIEW CONTINUED

## Discussion of Group results

The NAV Statement summarises the Group's IFRS equity value (which we refer to as net asset value or NAV in the NAV Statement below) at the opening and closing dates for the full year (31 December 2021 and 31 December 2022). The NAV Statement below breaks down NAV into its components and provides a roll-forward of the related changes between the reporting periods.

| GEL '000, unless otherwise noted | Dec-21 | 1. Value creation[1] | 2a. Investment and Divestments | 2b. Buyback | 2c. Dividend | 3. Operating expenses | 4. Liquidity/ FX/Other | Dec-22 | Change % |
|---|---|---|---|---|---|---|---|---|---|
| **Listed and observable portfolio Companies** | | | | | | | | | |
| Bank of Georgia (BoG) | 681,186 | 190,175 | – | – | (40,898) | – | – | 830,463 | 21.9% |
| Water Utility | – | 15,608 | 139,392 | – | – | – | – | 155,000 | NMF |
| **Total listed and observable portfolio value** | **681,186** | **205,783** | **139,392** | **–** | **(40,898)** | **–** | **–** | **985,463** | **44.7%** |
| ***Listed and observable portfolio value change %*** | | ***30.2%*** | ***20.5%*** | ***0.0%*** | ***-6.0%*** | ***0.0%*** | ***0.0%*** | ***44.7%*** | |
| **Private portfolio companies** | | | | | | | | | |
| **Large companies** | **2,249,260** | **(70,728)** | **(696,960)** | **–** | **(44,783)** | **–** | **821** | **1,437,610** | **-36.1%** |
| Retail (Pharmacy) | 710,385 | 30,150 | – | – | (16,018) | – | – | 724,517 | 2.0% |
| Hospitals | 573,815 | (127,607) | – | – | (13,015) | – | – | 433,193 | -24.5% |
| Water Utility | 696,960 | – | (696,960) | – | – | – | – | – | -100.0% |
| Insurance (P&C and Medical) | 268,100 | 26,729 | – | – | (15,750) | – | 821 | 279,900 | 4.4% |
| *of which, P&C Insurance* | *211,505* | *30,468* | – | – | *(14,749)* | – | *821* | *228,045* | *7.8%* |
| *of which, Medical Insurance* | *56,595* | *(3,739)* | – | – | *(1,001)* | – | – | *51,855* | *-8.4%* |
| **Investment stage companies** | **461,140** | **13,266** | **34,196** | **–** | **(8,194)** | **–** | **999** | **501,407** | **8.7%** |
| Renewable Energy | 173,288 | 31,040 | 27,854 | – | (8,194) | – | 999 | 224,987 | 29.8% |
| Education | 129,848 | 28,052 | 6,342 | – | – | – | – | 164,242 | 26.5% |
| Clinics and Diagnostics | 158,004 | (45,826) | – | – | – | – | – | 112,178 | -29.0% |
| **Other companies** | **224,645** | **(114,248)** | **161,753** | **–** | **–** | **–** | **1,997** | **274,147** | **22.0%** |
| **Total private portfolio value** | **2,935,045** | **(171,710)** | **(501,011)** | **–** | **(52,977)** | **–** | **3,817** | **2,213,164** | **-24.6%** |
| ***Private portfolio value change %*** | | ***-5.9%*** | ***-17.1%*** | ***0.0%*** | ***-1.8%*** | ***0.0%*** | ***0.1%*** | ***-24.6%*** | |
| **Total portfolio value (1)** | **3,616,231** | **34,073** | **(361,619)** | **–** | **(93,875)** | **–** | **3,817** | **3,198,627** | **-11.5%** |
| ***Total portfolio value change %*** | | ***0.9%*** | ***-10.0%*** | ***0.0%*** | ***-2.6%*** | ***0.0%*** | ***0.1%*** | ***-11.5%*** | |
| **Net debt (2)** | **(711,074)** | **–** | **394,986** | **(83,108)** | **93,875** | **(21,520)** | **(54,064)** | **(380,905)** | **-46.4%** |
| *of which, cash and liquid funds* | *272,317* | – | *531,562* | *(83,108)* | *93,875* | *(21,520)* | *(381,282)* | *411,844* | *51.2%* |
| *of which, loans issued* | *154,214* | – | *(136,576)* | – | – | – | *9,192* | *26,830* | *-82.6%* |
| *of which, gross debt* | *(1,137,605)* | – | – | – | – | – | *318,026* | *(819,579)* | *-28.0%* |
| **Net other assets/(liabilities) (3)** | **(21,535)** | **–** | **(33,367)** | **–** | **–** | **(18,476)** | **73,047** | **(331)** | **-98.5%** |
| *of which, share-based comp.* | – | – | – | – | – | *(18,476)* | *18,476* | – | *0.0%* |
| **Net asset value (1)+(2)+(3)** | **2,883,622** | **34,073** | **–** | **(83,108)** | **–** | **(39,996)** | **22,800** | **2,817,391** | **-2.3%** |
| ***NAV change %*** | | ***1.2%*** | ***0.0%*** | ***-2.9%*** | ***0.0%*** | ***-1.4%*** | ***0.8%*** | ***-2.3%*** | |
| Shares outstanding[1] | 45,752,362 | – | – | (3,442,863) | – | – | 663,963 | 42,973,462 | -6.1% |
| **Net asset value per share, GEL** | **63.03** | **0.74** | **(0.00)** | **3.16** | **(0.00)** | **(0.88)** | **(0.49)** | **65.56** | **4.0%** |
| ***NAV per share, GEL change %*** | | ***1.2%*** | ***0.0%*** | ***5.0%*** | ***0.0%*** | ***-1.4%*** | ***-0.8%*** | ***4.0%*** | |

NAV per share (GEL) increased by 4.0% in FY22, reflecting a) value creation across our portfolio companies with a 1.2 ppts positive impact, b) share buybacks (+5.0 ppts impact) and c) the Georgian Lari's appreciation against US$ by 14.6%, resulting in a foreign currency gain of GEL 47.6 million on GCAP net debt (+1.6 ppts impact). The NAV per share increase was partially offset by management platform related costs (-1.4 ppts impact) and net interest expenses (-1.3 ppts impact).

1 Please see definition in glossary on page 213.



## Portfolio overview

The total portfolio value decreased by GEL 417.6 million (11.5%) in FY22.

- The value of the water utility business decreased by GEL 542.0, reflecting the net impact of the disposal of an 80% equity interest in the business and the application of the pre-agreed put option multiple to GCAP's remaining 20% holding in the business, the latter leading to GEL 15.6 million value creation in FY22.
- The value of GCAP's holding in BoG was up by GEL 149.3 million, reflecting the net impact of a GEL 190.2 million value creation and GEL 40.9 million dividend receipt from the Bank in FY22.
- The value of the private portfolio decreased by GEL 24.9 million in FY22.

### 1) Value creation

Total portfolio value creation amounted to GEL 34.1 million in FY22.

- A 56.2% increase in BoG's share price was partially offset by GEL's 28.1% appreciation against GBP in FY22, resulting in a GEL 190.2 million value creation.
- GEL 15.6 million value was created at our water utility business in FY22, reflecting the strong operating performance and the application of the put pre-agreed put option multiple to GCAP's 20% holding.
- The negative value creation across our private portfolio amounted to GEL 171.7 million, resulting from a) GEL 316.2 million operating performance related value reduction and b) GEL 144.5 million value creation due to GEL's appreciation against foreign currencies and changes in valuation multiples in FY22.
  a) Operating performance related value decrease reflects the dampening effect of the gradual organic return to a pre-pandemic environment for our hospitals and clinics and diagnostics businesses as described earlier in this report and the spillover effect of the Russia-Ukraine war on our wine (c.60% sales exposure to Russia and Ukraine in 2021) and real estate businesses (significant growth in construction materials costs).
  b) The value creation due to changes in valuation multiples and FX reflects the strong outlook of our private portfolio companies, supported by the resilience of the Georgian economy, notwithstanding the continued uncertainties surrounding the regional geopolitical tensions, the latter leading to approximately 2.0-3.0 ppts increase in discount rates and the reduction of listed peer multiples in FY22.

The table below summarises value creation drivers in our businesses in FY22:

| Portfolio businesses | Operating performance[1] | Greenfields/ buy-outs/ exits[2] | Multiple change and FX[3] | Value creation |
|---|---|---|---|---|
| **GEL thousands, unless otherwise noted (Unaudited)** | **(1)** | **(2)** | **(3)** | **(1)+(2)+(3)** |
| **Listed and observable portfolio** | | | | **205,783** |
| BoG | | | | 190,175 |
| Water Utility | | | | 15,608 |
| **Private portfolio** | **(316,175)** | **(13)** | **144,478** | **(171,710)** |
| **Large portfolio companies** | **(133,234)** | **–** | **62,506** | **(70,728)** |
| *Retail (Pharmacy)* | *34,828* | – | *(4,678)* | *30,150* |
| *Hospitals* | *(221,546)* | – | *93,939* | *(127,607)* |
| *Insurance (P&C and Medical)* | *53,484* | – | *(26,755)* | *26,729* |
| *of which, P&C Insurance* | *57,223* | – | *(26,755)* | *30,468* |
| *of which, Medical Insurance* | *(3,739)* | – | – | *(3,739)* |
| **Investment stage portfolio companies** | **(41,238)** | **–** | **54,504** | **13,266** |
| *Renewable Energy* | *38,576* | – | *(7,536)* | *31,040* |
| *Education* | *30,937* | – | *(2,885)* | *28,052* |
| *Clinics and Diagnostics* | *(110,751)* | – | *64,925* | *(45,826)* |
| **Other portfolio companies** | **(141,703)** | **(13)** | **27,468** | **(114,248)** |
| **Total portfolio** | **(316,175)** | **(13)** | **144,478** | **34,073** |

1 Change in the fair value attributable to the change in actual or expected earnings of the business, as well as the change in net debt.
2 Greenfields/buy-outs represent the difference between fair value and acquisition price in the first reporting period in which the business/greenfield project is no longer valued at acquisition price/cost. Exits represent the difference between the latest reported fair value and the value of the disposed asset (or assets in the process of disposal) assessed at a transaction price.
3 Change in the fair value attributable to the change in valuation multiples and the effect of exchange rate movement on net debt.

# FINANCIAL REVIEW CONTINUED

The EV and equity value development of our businesses in FY22 are summarised in the following table:

| GEL thousands, unless otherwise noted (Unaudited) | Enterprise value (EV) | | | Equity value | | | |
|---|---|---|---|---|---|---|---|
| | 31-Dec-22 | 31-Dec-21 | Change % | 31-Dec-22 | 31-Dec-21 | Change % | % share in total portfolio |
| **Listed and observable portfolio companies** | | | | **985,463** | **681,186** | **44.7%** | **30.8%** |
| BoG | | | | 830,463 | 681,186 | 21.9% | 26.0% |
| Water Utility | | | | 155,000 | – | NMF | 4.8% |
| **Private portfolio** | **3,310,981** | **4,633,145** | **-28.5%** | **2,213,164** | **2,935,045** | **-24.6%** | **69.2%** |
| **Large portfolio companies** | **1,875,688** | **3,126,186** | **-40.0%** | **1,437,610** | **2,249,260** | **-36.1%** | **44.9%** |
| Retail (pharmacy) | 957,686 | 952,269 | 0.6% | 724,517 | 710,385 | 2.0% | 22.7% |
| Hospitals | 653,335 | 791,756 | -17.5% | 433,193 | 573,815 | -24.5% | 13.5% |
| Water Utility | – | 1,129,902 | NMF | – | 696,960 | NMF | NMF |
| Insurance (P&C and Medical) | 264,667 | 252,259 | 4.9% | 279,900 | 268,100 | 4.4% | 8.8% |
| *of which, P&C Insurance* | *228,045* | *211,505* | *7.8%* | *228,045* | *211,505* | *7.8%* | *7.1%* |
| *of which, Medical Insurance* | *36,622* | *40,754* | *-10.1%* | *51,855* | *56,595* | *-8.4%* | *1.6%* |
| **Investment stage portfolio companies** | **816,023** | **779,824** | **4.6%** | **501,407** | **461,140** | **8.7%** | **15.7%** |
| Renewable Energy | 417,903 | 428,248 | -2.4% | 224,987 | 173,288 | 29.8% | 7.0% |
| Education[1] | 218,264 | 139,947 | 56.0% | 164,242 | 129,848 | 26.5% | 5.1% |
| Clinics and Diagnostics | 179,856 | 211,629 | -15.0% | 112,178 | 158,004 | -29.0% | 3.5% |
| **Other portfolio companies** | **619,270** | **727,135** | **-14.8%** | **274,147** | **224,645** | **22.0%** | **8.6%** |
| **Total portfolio** | | | | **3,198,627** | **3,616,231** | **-11.5%** | **100.0%** |

### Private large portfolio companies (44.9% of total portfolio value)

**Retail (Pharmacy) (22.7% of total portfolio value)** – the EV of Retail (Pharmacy) was largely flat, up by 0.6% y-o-y to GEL 957.7 million in FY22, resulting from the continued strong outlook of the business driven by the expansion of the retail chain and the resilience of the Georgian economy. FY22 revenues were up by 1.0% y-o-y, reflecting a) the recalibration of product prices due to GEL's appreciation against foreign currencies (the FX effect is directly transmitted into the pricing as c.70% of the inventory purchases are denominated in foreign currencies), b) gradual transfer of the hospitals business' procurement department from pharmacy to hospitals (which began in January 2021 and was completed in December 2022), and c) the continued expansion of the pharmacy chain and franchise stores. EBITDA (excl. IFRS 16) was up by 1.0% y-o-y in FY22, reflecting the increased operating expenses in line with the expansion and inflation. See page 111 for details. LTM EBITDA (incl. IFRS 16) was up by 2.5% to GEL 105.5 million in FY22. Net debt (incl. IFRS 16) was up by 23.2% y-o-y to GEL 145.9 million in FY22, reflecting the buyout of the 10% minority stake in the business in 2022. As a result, the fair value of GCAP's stake in Retail (Pharmacy) amounted to GEL 724.5 million, up by 2.0% y-o-y in FY22. The implied LTM EV/EBITDA valuation multiple (incl. IFRS 16) decreased to 9.1x as at 31 December 2022 (down from 9.3x as of 31 December 2021).

**Hospitals (13.5% of total portfolio value)** – Hospitals' EV decreased by 17.5% to GEL 653.3 million in FY22. Revenue and EBITDA (excl. IFRS 16) were down by 9.3% and 29.0% y-o-y, respectively, in FY22, reflecting a) the suspension of COVID contracts by the Government in 1Q22, b) the temporary closure of Iashvili Paediatric Tertiary Referral Hospital due to mandatory renovation works, and c) the absence of revenues from the Traumatology Hospital, which was divested in April 2022. See page 113 for details. This led to a 28.7% decrease in LTM EBITDA (incl. IFRS 16) to GEL 53.6 million in FY22. Net debt was up by 5.4% y-o-y to GEL 188.1 million as of 31 December 2022. As a result, the equity value of the business decreased to GEL 433.2 million in FY22, translating into an implied LTM EV/EBITDA multiple (incl. IFRS 16) of 12.2x at 31 December 2022 (up from 10.5x at 31 December 2021).

**Insurance (P&C and Medical) (8.8% of total portfolio value)** – The insurance business combines: a) P&C Insurance valued at GEL 228.0 million and b) Medical Insurance valued at GEL 51.9 million.

**P&C Insurance** – Net premiums earned increased by 13.9% y-o-y to GEL 98.5 million in FY22, mainly reflecting the growth in the credit life, agricultural, and border MTPL insurance lines. The combined ratio was down 1.1 ppts y-o-y in FY22, reflecting a) a 1.1 ppts increase in expense ratio due to the increase in salaries and other operating expenses in line with the business growth, and b) a 2.2 ppts decrease in loss ratio on the back of the robust revenue growth and reduction in COVID-19-related credit life as well as agricultural insurance claims. Consequently, FY22 net income was up 16.2% y-o-y to GEL 21.2 million. See page 115 for details. LTM net income[2] was up by 20.5% to GEL 21.2 million in FY22. The business paid GEL 14.7 million dividends in FY22. As a result, the equity value of the P&C insurance business was assessed at GEL 228.0 million at 31 December 2022 (up 7.8% y-o-y). The implied LTM P/E valuation multiple decreased y-o-y to 10.7x in FY22 from 12.0x as of 31 December 2021.

**Medical Insurance** – Net premium earned increased by 3.4% y-o-y to GEL 74.8 million in FY22, reflecting the combined effect of a c.5% price increase and a decrease in the average number of insured clients during a year. The combined ratio was at 99.4% in FY22 (up 2.0 ppts y-o-y). The net income of the medical insurance business was down by 10.1% y-o-y to GEL 3.4 million in FY22. See page 116 for details. LTM net income[2] was down 8.4% to GEL 3.5 million in FY22. As a result, the equity value of the business was assessed at GEL 51.9 million at 31 December 2022 (down 8.4% y-o-y). The implied LTM P/E valuation multiple adjusted for the excess cash was at 10.6x in FY22, down from 10.8x as of 31 December 2021.

1 EV of the education business excludes non-operational assets, which are added to the equity value of the business at cost. EV as at 31 December 2022 includes the recently launched schools (Pesvebi and Tkekultura), which were previously valued at cost.
2 Adjusted for non-recurring items.



### Private investment stage portfolio companies (15.7% of total portfolio value)

**Renewable Energy (7.0% of total portfolio value)** – EV in US$ terms was up by 11.9% to US$ 154.7 million in FY22, reflecting the impact of the upward dynamics in electricity selling prices on our valuations. In US$ terms, FY22 revenue and EBITDA were up by 6.6% and 7.9% y-o-y, respectively. This reflects the increase in the average electricity selling price (up 7.1% y-o-y to 54.3 US$/MWh in FY22), while the electricity generation levels remained flat (up 0.9% y-o-y in FY22). Revenue and EBITDA in GEL terms were down by 3.9% and 2.7% y-o-y in FY22, respectively. See page 117 for details. The pipeline renewable energy projects continued to be measured at an equity investment cost (GEL 48.1 million in aggregate as at 31 December 2022). Net debt was down by 13.3% to US$ 71.4 million in FY22 (in GEL terms, down by 24.3% to GEL 192.9 million), mainly reflecting a) conversion of US$ 10 million shareholder loan from GCAP into equity in 2022, and b) receipt of US$ 3.0 million remaining proceeds from the sale of the Mestiachala 1 HPP. The business paid GEL 8.2 million dividends to GCAP in 2022. As a result, the equity value of Renewable Energy was assessed at GEL 225.0 million in FY22 (up by 29.8% y-o-y), (up 48.8% y-o-y to US$ 83.3 in US$ terms). The blended EV/EBITDA valuation multiple of the operational assets stood at 11.4x in FY22, up from 11.1x in FY21.

**Education (5.1% of total portfolio value)** – EV of Education was up by 56.0% to GEL 218.3 million in FY22, reflecting the strong operating performance of the business. Revenue and EBITDA of the business were up by 36.5% and 34.8% y-o-y, respectively, in FY22, reflecting strong intakes and ramp-up of utilisation in line with both the organic growth and expansion of the business. In FY22, GCAP's investments in the business amounted to GEL 6.3 million. See page 118 for details. Consequently, LTM EBITDA was up by 15.4% to GEL 12.9 million in FY22. Net debt was up by GEL 7.9 million to GEL 16.3 million in FY22, reflecting cash outflows for the development of the premises of our mid-scale and premium schools. As a result, GCAP's stake in the education business was valued at GEL 164.2 million in FY22 (up 26.5% y-o-y). This translated into the implied valuation multiple of 16.9x in FY22 (up from 12.5x in FY21), which also reflects increased EV due to the first-time valuation of the recently acquired/launched schools in the affordable segment, which were previously valued at cost (additional EBITDA is expected to derive in the 2023-2024 academic year, as the utilisation rate picks up gradually). The forward-looking implied valuation multiple is estimated at 11.2x for the 2023-2024 academic year.

**Clinics and Diagnostics (3.5% of total portfolio value)** – The EV of the business decreased by 15.0% y-o-y to GEL 179.9 million in FY22. Similar to the hospitals business, our clinics business was also impacted by the suspension of COVID contracts by the Government, which led to a 6.7% y-o-y decrease in revenues in FY22. The revenue of our diagnostics business, which apart from regular lab tests was actively engaged in COVID-19 testing, was impacted by substantially lower COVID cases and was down by 32.7% y-o-y in FY22. Consequently, the combined FY22 revenue of the clinics and diagnostics business was down by 15.2% y-o-y leading to a 55.0% y-o-y decrease in FY22 EBITDA (excl. IFRS 16). See page 119 for details. LTM EBITDA (incl. IFRS 16) of the business was down by 51.1% to GEL 10.9 million in FY22. As a result, the equity value of the business was assessed at GEL 112.2 million, down 29.0% y-o-y in FY22, translating into an implied LTM EV/EBITDA multiple (incl. IFRS 16) of 16.5x at 31 December 2022, up from 9.5x at 31 December 2021.

### Other businesses (8.6% of total portfolio value)

The "other" private portfolio (Auto Service, Beverages, Housing Development and Hospitality) is valued based on LTM EV/EBITDA except for the housing development (DCF), wine (DCF) and hospitality (NAV) businesses. See performance highlights of other businesses on page 122. The portfolio had a combined value of GEL 274.1 million at 31 December 2022, up by 22.0% y-o-y, mainly reflecting the conversion of GEL 142.6 million loans issued predominantly to our beverages and real estate businesses into equity in 2022, due to the adverse financial impact of the Russia-Ukraine war on these businesses.

### Listed and observable portfolio companies (30.8% of total portfolio value)

**BoG (26.0% of total portfolio value)** – In FY22, BoG delivered an annualised ROAE of 32.4% and a 4.3% loan book growth y-o-y (on a constant currency basis, the loan portfolio increased by 12.9% y-o-y). In 2022, BoG's share price demonstrated robust recovery and was up by 56.2% y-o-y to GBP 26.05 at 31 December 2022. This reflects the strong growth in BoG's earnings, supported by the accretive impact from the Bank's share buybacks, the latter leading to an increase in GCAP's holding in BoG to 20.6% at 31 December 2022 (up from 19.9% at 31 December 2021). LTM P/E valuation multiple was at 2.8x at 31 December 2022 (down from 4.1x at 31 December 2021). As a result, the market value of our equity stake in BoG increased by 21.9% to GEL 830.5 million in FY22. On 16 February 2023, the Bank announced its board's intention to recommend a final dividend for 2022 of GEL 5.80 per ordinary share at the Bank's 2023 Annual General Meeting. This will make a total dividend paid in respect of the Bank's 2022 earnings of GEL 7.65 per share. BoG also announced the new share buyback and cancellation programme of GEL 148 million. BoG's public announcement of its FY22 results is available on **https://www.bankofgeorgiagroup.com/results/earnings**.

**Water Utility (4.8% of total portfolio value)** – In FY22, the fair value of GCAP's 20% holding in the water utility business, where GCAP has a clear exit path through a put and call structure at pre-agreed EBITDA multiples, was valued at GEL 155.0 million. The FY22 valuation assessment reflects the application of the pre-agreed put option multiple to the normalised[1] LTM EBITDA of the business as at 31 December 2022.

### 2) Investments[2]

In FY22, GCAP's cash investments amounted to GEL 53.4 million, of which:

- GEL 6.3 million was invested in the education business, in line with GCAP's capital allocation outlook.
- GEL 19.2 million was allocated to Housing Development for the bridge financing of business.
- GEL 27.4 million represents the conversion of the US$ 10 million shareholder loan to Renewable Energy into equity.

The investments presented in the FY22 NAV Statement also reflect the following non-cash operations: a) the transfer of the remaining 20% equity interest in the water utility business to the listed and observable portfolio (GEL 139.4 million), and b) the conversion of loans issued predominantly to our beverages and real estate businesses into equity (GEL 142.6 million).

1 Normalised for the items as set out in the terms of the disposal.
2 Investments are made at JSC Georgia Capital level, the Georgian holding company.

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**3) Share buybacks**
During FY22, 3,442,863 shares were bought back for a total consideration of GEL 83.1 million.
- 1,190,522 shares were repurchased for the management trust.
- 2,252,341 shares were repurchased under the US$ 25 million share buyback and cancellation programme. The total value of shares repurchased under the programme amounted to GEL 54.3 million (US$ 18.1 million) in FY22.

Since the commencement of the buyback programme in August 2021, 3,075,923 shares (6.4% of issued capital) have been repurchased and cancelled. The total value of shares amounted to GEL 76.2 million (US$ 25.0 million).

**4) Dividends[1]**
In FY22, Georgia Capital collected GEL 93.9 million dividends in aggregate from the portfolio companies, of which:
- GEL 40.9 million was received from BoG;
- GEL 16.0 million was received from Retail (Pharmacy);
- GEL 13.0 million was received from Hospitals;
- GEL 14.7 million was received from P&C Insurance;
- GEL 8.2 million was received from Renewable Energy;
- GEL 1.0 million was received from Medical Insurance.

### Net capital commitment (NCC) overview
Below we describe the components of NCC as of 31 December 2022. NCC represents an aggregated view of all confirmed, agreed and expected capital outflows at the GCAP HoldCo level.

#### Components of NCC

| GEL thousands, unless otherwise noted (Unaudited) | 31-Dec-22 | 31-Dec-21 | Change |
|---|---|---|---|
| Cash at banks | 235,255 | 132,580 | 77.4% |
| Liquid funds | 176,589 | 139,737 | 26.4% |
| *of which, internationally listed debt securities* | *173,395* | *137,215* | *26.4%* |
| *of which, locally listed debt securities* | *3,194* | *2,522* | *26.6%* |
| **Total cash and liquid funds** | **411,844** | **272,317** | **51.2%** |
| Loans issued | 26,830 | 21,540[2] | 24.6% |
| Gross debt | (819,579) | (1,137,605) | -28.0% |
| **Net debt (1)** | **(380,905)** | **(843,748)** | **-54.9%** |
| **Guarantees issued (2)** | **(18,460)** | **(55,297)** | **-66.6%** |
| ***Net debt and guarantees issued (3)=(1)+(2)*** | ***(399,365)*** | ***(899,045)*** | ***-55.6%*** |
| **Planned investments (5)** | **(141,396)** | **(131,933)** | **7.2%** |
| *of which, planned investments in Renewable Energy* | *(81,205)* | *(101,834)* | *-20.3%* |
| *of which, planned investments in Education* | *(60,191)* | *(30,099)* | *100.0%* |
| **Announced buybacks (6)** | **–** | **(9,330)** | **NMF** |
| **Contingency/liquidity buffer (7)** | **(135,100)** | **(154,880)** | **-12.8%** |
| ***Total planned investments, announced buybacks and contingency/ liquidity buffer (8)=(5)+(6)+(7)*** | ***(276,496)*** | ***(296,143)*** | ***-6.6%*** |
| **Net capital commitment (3)+(8)** | **(675,861)** | **(1,195,188)** | **-43.5%** |
| **Portfolio value** | **3,198,626** | **3,748,905[2]** | **-14.7%** |
| **NCC ratio** | **21.1%** | **31.9%** | **-10.8 ppts** |

**Cash and liquid funds.** In FY22, total cash and liquid funds' balance was up 51.2%, reflecting a) the receipt of GEL 526.7 million (US$ 173 million) cash proceeds (net of transaction fees) from the disposal of an 80% equity interest in the water utility business, and b) dividend and interest receipts of GEL 93.9 million and GEL 27.5 million, respectively. The increase was partially offset by a) GEL 180.4 million cash outflow for the buyback and cancellation of US$ 65.0 million GCAP Eurobonds, b) GEL 89.2 million cash outflow for share buybacks, c) GEL 70.0 million coupon payment, and d) GEL 54.0 million capital allocations.

**Loans issued.** Issued loans' balance primarily refers to loans issued to our private portfolio companies and are lent at market terms. The balance was up by 24.6% to GEL 26.8 million as of 31 December 2022, mainly reflecting loans issued to our wine and real estate businesses, negatively affected by spillover effect of the Russia-Ukraine war.

**Gross debt.** Following the repurchase through the Modified Dutch Auction, in October, GCAP cancelled US$ 65.0 million Eurobonds reducing the outstanding amount of six-year Eurobonds due in March 2024 to US$ 300 million. In GEL terms, the outstanding balance of the gross debt was at GEL 819.6 million as of 31 December 2022, down by 28.0% y-o-y, further reflecting GEL's appreciation against US$.

**Guarantees issued.** The balance reflects GCAP's guarantee on the borrowing of the beer business. In EUR terms, GCAP's guarantee in FY22 decreased by EUR 9.4 million due to the reduction of the amount of the guarantee agreed with the lenders following the strong operating performance of the business.

1 Dividends are received at JSC Georgia Capital level, the Georgian holding company.
2 Loans issued balance and portfolio value as at 31 December 2021 reflect the retrospective conversions of the loans issued to our other businesses into equity.



**Planned investments.** Planned investments' balance represents expected investments in renewable energy and education businesses over the next 2-3 years. The balance was up by 7.2% y-o-y in 2022.

**Announced buybacks.** The decrease in the announced buybacks compared to the 31 December 2021 balance reflects the completion of the US$ 25 million share buyback and cancellation programme, as described on page 15.

**Contingency/liquidity buffer.** The balance reflects the cash and liquid assets in the amount of US$ 50 million, held by GCAP at all times, for contingency/liquidity purposes. The balance remained unchanged in US$ terms as at 31 December 2022.

As a result of the movements described above, NCC was down by 43.5% y-o-y to GEL 675.9 million (US$ 250.1 million), translating into a 21.1% NCC ratio as at 31 December 2022 (down by 10.8 ppts y-o-y).

### Income Statement (adjusted IFRS / APM)
Net loss under IFRS was GEL 12.2 million in FY22 (GEL 692.9 million net income in FY21). The IFRS Income Statement is prepared on the Georgia Capital PLC level and the results of all operations of the Georgian holding company JSC Georgia Capital are presented as one line item. As we conduct almost all of our operations through JSC Georgia Capital, through which we hold all of our portfolio companies, the IFRS results provide little transparency on the underlying trends.

Accordingly, to enable a more granular analysis of those trends, the following adjusted Income Statement presents the Group's results of operations for the period ending 31 December as an aggregation of (i) the results of GCAP (the two holding companies Georgia Capital PLC and JSC Georgia Capital, taken together), and (ii) the fair value change in the value of portfolio companies during the reporting period. For details on the methodology underlying the preparation of the adjusted Income Statement, please refer to pages 96-98 of this report. A full reconciliation of the adjusted Income Statement to the IFRS Income Statement is provided on page 99.

| GEL thousands, unless otherwise noted (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Dividend income | 93,875 | 74,362 | 26.2% |
| Interest income | 32,955 | 23,140 | 42.4% |
| Realised/unrealised (loss)/gain on liquid funds / Gain on GCAP Eurobond buybacks | (2,717) | (1,142) | NMF |
| Interest expense | (69,774) | (77,392) | -9.8% |
| **Gross operating income** | **54,339** | **18,968** | **NMF** |
| Operating expenses | (39,996) | (36,484) | 9.6% |
| **GCAP net operating income/(loss)** | **14,343** | **(17,516)** | **NMF** |
| **Fair value changes of portfolio companies** | | | |
| **Listed and observable portfolio companies** | **164,885** | **149,628** | **10.2%** |
| *of which, Bank of Georgia Group PLC* | *149,277* | *149,628* | *-0.2%* |
| *of which, Water Utility* | *15,608* | *–* | *NMF* |
| **Private portfolio companies** | **(224,687)** | **532,446** | **NMF** |
| **Large portfolio companies** | **(115,511)** | **385,967** | **NMF** |
| *of which, Retail (pharmacy)* | *14,132* | *157,640* | *-91.0%* |
| *of which, Hospitals* | *(140,622)* | *2,159* | *NMF* |
| *of which, Water Utility* | *–* | *221,179* | *NMF* |
| *of which, Insurance (P&C and Medical)* | *10,979* | *4,989* | *NMF* |
| **Investment stage portfolio companies** | **5,072** | **139,636** | **-96.4%** |
| *of which, Renewable energy* | *22,846* | *(41,463)* | *NMF* |
| *of which, Education* | *28,052* | *23,095* | *21.5%* |
| *of which, Clinics and Diagnostics* | *(45,826)* | *158,004* | *NMF* |
| **Other businesses** | **(114,248)** | **6,843** | **NMF** |
| **Total investment return** | **(59,802)** | **682,074** | **NMF** |
| **(Loss)/income before foreign exchange movements and non-recurring expenses** | **(45,459)** | **664,558** | **NMF** |
| Transaction costs | – | (21,995) | NMF |
| Net foreign currency gain | 47,550 | 39,615 | 20.0% |
| Non-recurring expenses | (627) | (785) | -20.1% |
| **Net income** | **1,464** | **681,393** | **-99.8%** |

# FINANCIAL REVIEW CONTINUED

Gross operating income of GEL 54.3 million in FY22 reflects increased dividend and interest income, up by 26.2% and 42.4% y-o-y, respectively, slightly offset by GEL 2.7 million realised and unrealised loss on liquid funds (also reflecting GEL 9.9 million gain on GCAP Eurobond repurchases). The increase in gross operating income was further supported by a 9.8% y-o-y decrease in interest expense in FY22.

GCAP earned an average yield of 3.4% on the average balance of liquid assets of GEL 411.1 million in FY22 (3.7% on GEL 240.0 million in FY21).

The components of GCAP's operating expenses are shown in the table below.

### GCAP operating expenses components

| GEL thousands, unless otherwise noted (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Administrative expenses[1] | (11,779) | (11,380) | 3.5% |
| Management expenses – cash-based[2] | (9,741) | (10,471) | -7.0% |
| Management expenses – share-based[3] | (18,476) | (14,633) | 26.3% |
| **Total operating expenses** | **(39,996)** | **(36,484)** | **9.6%** |
| *of which, fund type expense[4]* | *(11,334)* | *(12,541)* | *-9.6%* |
| *of which, management fee type expenses[5]* | *(28,662)* | *(23,943)* | *19.7%* |

GCAP management fee expenses have a self-targeted cap of 2% of Georgia Capital's market capitalisation. The LTM management fee expense ratio was 2.69% at 31 December 2022 (1.70%[6] as of 31 December 2021). The total LTM operating expense ratio (which includes fund type expenses) was 3.76% at 31 December 2022 (2.60%[6] at 31 December 2021).

Total investment return represents the increase (decrease) in the fair value of our portfolio. In FY22, total investment return was negative GEL 59.8 million, mainly reflecting the decrease in the value of the private businesses, as described earlier in this report. We discuss valuation drivers for our businesses on pages 106-107. The performance of each of our private large and investment stage portfolio companies is discussed on pages 111-122.

GCAP's net foreign currency liability balance amounted to c.US$ 147 million (GEL 397 million) at 31 December 2022. Net foreign currency gain was GEL 47.6 million in FY22. As a result of the movements described above, GCAP's adjusted IFRS net income was GEL 1.5 million in FY22.

### Discussion of the Statement of Cash Flows

The 2022 IFRS Statement of Cash Flows is prepared at the Georgia Capital PLC level and does not include JSC Georgia Capital's cash flows, since JSC Georgia Capital is measured at fair value under IFRS 10. Net cash flow used in operating activities was GEL 9.8 million in 2022 (GEL 7.6 million in 2021), reflecting salaries, general and administrative expenses and net other expenses paid at the Georgia Capital PLC level. Net cash flow from investing activities was GEL 87.3 million in 2022 (GEL 36.2 million in 2021), reflecting capital redemption to Georgia Capital PLC from JSC Georgia Capital during 2022. Net cash flow used in financing activities was GEL 54.6 million in 2022 (GEL 22.1 million in 2021), mainly reflecting the purchases of treasury shares. The IFRS Statement of Cash Flows is included on page 180 of this report.

1 Includes expenses such as external audit fees, legal counsel, corporate secretary and other similar administrative costs.
2 Cash-based management expenses are cash salary and cash bonuses paid/accrued for staff and management compensation.
3 Share-based management expenses are share salary and share bonus expenses of management and staff.
4 Fund type expenses include expenses such as audit and valuation fees, fees for legal advisors, Board compensation and corporate secretary costs.
5 Management fee is the sum of cash-based and share-based operating expenses (excluding fund-type costs).
6 Ratios are calculated based on period-end market capitalisation due to significant price fluctuations during the respective periods in light of COVID-19 and the Russia-Ukraine war.



### Discussion of portfolio companies' results (stand-alone IFRS)

The following sections present the IFRS results and business development extracted from the individual portfolio company's IFRS accounts for large and investment stage entities, where the 2022 portfolio company's accounts and respective IFRS numbers are unaudited. We present key IFRS financial highlights, operating metrics and ratios along with commentary explaining the developments behind the numbers. For the majority of our portfolio companies the fair value of our equity investment is determined by the application of an income approach (DCF) and a market approach (listed peer multiples and precedent transactions). Under the 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. Under the market approach, listed peer group earnings multiples are applied to the trailing 12 months (LTM) stand-alone IFRS earnings of the relevant business. As such, the stand-alone IFRS results and developments driving the IFRS earnings of our portfolio companies are key drivers of their valuations within GCAP's financial statements. See pages 96-102 for more background.

### Large portfolio companies

#### Discussion of retail (pharmacy) business results

The retail (pharmacy) business, where GCAP owns a 77% equity interest[1], is the largest pharmaceuticals retailer and wholesaler in Georgia, with a 35% market share by revenue. The business consists of a retail pharmacy chain and a wholesale business that sells pharmaceuticals and medical supplies to hospitals and other pharmacies. The business operates a total of 372 pharmacies (of which 362 are in Georgia and ten are in Armenia) and 12 franchise stores.

**FY22 performance (GEL thousands), Retail (Pharmacy)[2] (Unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue, net** | **789,893** | **782,409** | **1.0%** |
| *of which, retail* | *620,936* | *583,465* | *6.4%* |
| *of which, wholesale* | *168,957* | *198,944* | *-15.1%* |
| **Gross profit** | **231,270** | **203,068** | **13.9%** |
| *Gross profit margin* | *29.3%* | *26.0%* | *3.3 ppts* |
| Operating expenses (ex. IFRS 16) | (154,343) | (126,874) | 21.7% |
| **EBITDA (ex. IFRS 16)** | **76,927** | **76,194** | **1.0%** |
| *EBITDA margin, (ex. IFRS 16)* | *9.7%* | *9.7%* | *0.0 ppts* |
| **Net profit (ex. IFRS 16)** | **63,905** | **67,870** | **-5.8%** |
| Cash flow highlights | | | |
| **Cash flow from operating activities (ex. IFRS 16)** | **77,099** | **80,016** | **-3.6%** |
| EBITDA to cash conversion | 100.2% | 105.0% | -4.8 ppts |
| **Cash flow used in investing activities[3]** | **(58,367)** | **(21,741)** | **NMF** |
| **Free cash flow, (ex. IFRS 16)[4]** | **15,016** | **63,470** | **-76.3%** |
| **Cash flow used in financing activities (ex. IFRS 16)** | **3,392** | **(39,243)** | **NMF** |
| Balance sheet highlights | 31-Dec-22 | 31-Dec-21 | Change |
| **Total assets** | **577,494** | **522,814** | **10.5%** |
| *of which, cash and bank deposits* | *75,279* | *54,616* | *37.8%* |
| *of which, securities and loans issued* | *22,857* | *20,922* | *9.2%* |
| **Total liabilities** | **511,671** | **497,954** | **2.8%** |
| *of which, borrowings* | *131,547* | *89,844* | *46.4%* |
| *of which, lease liabilities* | *107,455* | *104,613* | *2.7%* |
| **Total equity** | **65,823** | **24,860** | **NMF** |

**Income statement highlights**

- A y-o-y change in FY22 total revenues reflects the combination of factors:
  - a) The recalibration of product prices due to the GEL's appreciation against the basket of foreign currencies (the FX effect is directly transmitted into the pricing as c.70% of the inventory purchases are denominated in foreign currencies).
  - b) The gradual transfer of the hospitals business' procurement department from pharmacy to hospitals (which began in January 2021 and was completed in December 2022), leading to a decrease in revenues from the wholesale business line.
  - c) The continued expansion of the pharmacy chain and franchise stores and the overall growth in the Georgian economy.
- Robust gross profit margin of 29.3% in FY22 (up 3.3 ppts y-o-y) reflects:
  - The increased sales of high-margin para-pharmacy products in the retail business line (revenue from para-pharmacy, as a percentage of retail revenue, was 36.5% in FY22 (35.3% in FY21).
  - Growing profitability of the wholesale business line, notwithstanding the y-o-y revenue reduction.
  - Successful marketing activities as well as the strong economic recovery compared to 2021 when due to the competitive environment and the general macro backdrop business margins were subdued.

1 In October 2021, GHG signed a share purchase agreement to acquire the then remaining 33% minority interest in its retail (pharmacy) business by 2027. The buyout will be executed in six annual tranches at a 5.25x EV/EBITDA multiple. The first tranche of 10% was acquired in 2022. The second tranche of 11% is expected to be acquired in 2023. For details, please see page 12 of our Annual Report 2021.
2 The detailed IFRS financial statements are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**. See reconciliation to IFRS 16 on page 99.
3 Of which – capex of GEL 20.9 million in FY22 (GEL 14.3 million in FY21); acquisition of minority shares of GEL 41.2 million in FY22.
4 Calculated by deducting capex and acquisition of minority share from operating cash flows.

# FINANCIAL REVIEW CONTINUED



- Negative operating leverage (operating expenses up 21.7% in FY22) reflects inflation and increases in salary and utility expenditures associated with the openings of new pharmacies and franchise stores in Azerbaijan and Armenia. FY22 salary expense growth also reflects the base effect impact of the state income tax subsidy for low-salary range employees which was in effect in 1H21 (the subsidy was in place from May 2020 to June 2021).
- EBITDA margin stood at 9.7% in FY22, flat y-o-y. Excluding the impact of the state income tax subsidy in 2022, the EBITDA margin (excl. IFRS 16) was up 0.3 ppts in FY22, y-o-y.
- Net interest expense was down 29.3% in FY22 y-o-y, due to the lower average net debt balance (excl. IFRS 16).
- FY22 net profit excluding IFRS 16 reached GEL 63.9 million, which also reflects one-off costs associated with the termination of contracts due to changes in management.

**Cash flow and balance sheet highlights**

- Cash flow from operating activities was strong, with a 100.2% EBITDA to cash conversion ratio in FY22. A 4.8 ppts y-o-y decrease in the EBITDA to cash conversion ratio in FY22 reflects the high base effect in FY21.
- Increased cash outflows from investing activities in FY22 reflect a) the payment to minorities to buyout a 10% minority share, b) increased capex investments attributable to the implementation of a new core IT system for improved inventory management (GEL 5.5 million in FY22), c) launch of new projects, such as new large-scale pharmacies and The Body Shop franchise stores in Armenia and Azerbaijan, and d) regular expansion of the chain in Georgia.
- The 133.5% y-o-y increase in net debt in FY22, is attributable to the payment of GEL 41.2 million to complete the buyout of a 10% minority stake.
- The business paid GEL 16.0 million dividends to GCAP in 2022.

**Other valuation drivers and operating highlights**

- In line with our strategy to expand the product mix at our pharmacies, the business signed a four-year exclusive sales agreement with Carter's Inc (a major American designer and marketer of children's apparel). In November 2022, the business launched its first standalone flagship Carter's store in Tbilisi. Carter's products are also available in our "shop-in-shop" model stores. Currently, the business operates seven shop-in-shops and plans to add five in 2023 as well as another flagship standalone store. Adding the Carter's brand to the portfolio upgrades and diversifies our range of retail products, contributes to same-store growth and increases margins.
- The business added 24 pharmacies and five franchise stores (one of which is Carter's) over the last 12 months.

| (Unaudited) | Dec-22 | Dec-21 | Change (y-o-y) |
|---|---|---|---|
| **Number of pharmacies** | **372** | **348** | **24** |
| *of which, Georgia* | *362* | *344* | *18* |
| *of which, Armenia* | *10* | *4* | *6* |
| **Number of franchise stores** | **12** | **7** | **5** |
| *of which, Georgia* | *8* | *6* | *2* |
| *of which, Armenia* | *2* | *1* | *1* |
| *of which, Azerbaijan* | *2* | *–* | *2* |

- Retail (Pharmacy)'s key operating performance highlights for FY22 are noted below:

| Key ratios (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Same store revenue growth | -0.8% | 10.6% | -11.4 ppts |
| Number of bills issued (million) | 31.0 | 29.0 | 6.9% |
| Average bill size (GEL) | 19.0 | 18.9 | 0.6% |

- The y-o-y decrease in the same store revenue growth rates in FY22 is also attributable to GEL's appreciation against foreign currencies and the higher base effect of strong y-o-y revenue growth in FY21, due to the rebound in economic activities following the removal of the COVID-related restrictions.



**Discussion of hospitals business results**

The hospitals business, where GCAP owns a 100% equity, is the largest healthcare market participant in Georgia, comprised of 16 referral hospitals with a total of 2,524 beds, providing secondary and tertiary level healthcare services across Georgia.

**FY22 performance (GEL thousands), Hospitals[1] (Unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue, net[2]** | **288,745** | **318,349** | **-9.3%** |
| **Gross profit** | **105,401** | **123,752** | **-14.8%** |
| *Gross profit margin* | *36.0%* | *38.4%* | *-2.4 ppts* |
| Operating expenses (ex. IFRS 16) | (52,707) | (49,536) | 6.4% |
| **EBITDA (ex. IFRS 16)** | **52,694** | **74,216** | **-29.0%** |
| *EBITDA margin (ex. IFRS 16)* | *18.0%* | *23.0%* | *-5.0 ppts* |
| **Net profit (ex. IFRS 16)[3]** | **1,596** | **26,179** | **-93.9%** |
| **Cash flow highlights** | | | |
| **Cash flow from operating activities (ex. IFRS 16)** | **28,563** | **56,958** | **-49.9%** |
| *EBITDA to cash conversion (ex. IFRS 16)* | *54.2%* | *76.7%* | *-22.5 ppts* |
| **Cash flow used in investing activities[4]** | **(14,528)** | **(26,828)** | **-45.8%** |
| **Free cash flow (ex. IFRS 16)[5]** | **11,092** | **24,226** | **-54.2%** |
| **Dividends and intersegment loans issued/received** | **(1,521)** | **45,653** | **NMF** |
| **Cash flow from financing activities (ex. IFRS 16)** | **(35,160)** | **(115,203)** | **-69.5%** |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **614,727** | **658,071** | **-6.6%** |
| *of which, cash balance and bank deposits* | *21,625* | *46,131* | *-53.1%* |
| *of which, securities and loans issued* | *14,040* | *11,678* | *20.2%* |
| **Total liabilities** | **267,337** | **293,428** | **-8.9%** |
| *of which, borrowings* | *213,880* | *223,433* | *-4.3%* |
| **Total equity** | **347,390** | **364,643** | **-4.7%** |

Over the course of the last two years, the hospitals business was actively engaged in supporting the COVID-19 pandemic response in Georgia and had mobilised seven hospitals to receive COVID patients, with a total aggregate number of c.800 beds across the country. The Government of Georgia fully reimbursed costs associated with COVID-19 treatments and paid a fixed fee amount per bed designated for COVID patients. As the COVID cases declined substantially in Georgia starting from 2022, the Government suspended the COVID contracts with hospitals in mid-March 2022. Restructuring the cost base of COVID hospitals, and phasing out from Government contracts, has temporarily suppressed the business margins in 2022. The business expects to return to normal operating levels starting from 2023.

**Income statement highlights**

- A y-o-y decrease in FY22 revenues reflects:
  - A decrease in the number of admissions and occupancy rate due to the transition to the post-pandemic environment, as described above.
  - Temporary closure of Iashvili Paediatric Tertiary Referral Hospital ("Iashvili Hospital"), the largest paediatric services provider in the country, due to mandatory regulatory-related renovation works. The works commenced in October 2022 and were completed in March 2023.
  - The absence of revenues from the Traumatology Hospital, which was divested in April 2022.
  - Adjusted for the temporary closure of Iashvili Hospital and the absence of revenues from the Traumatology Hospital, the FY22 revenues were down by 6.3% y-o-y.
- The cost of services in the business consists mainly of salaries, materials and utilities. Trends in salary and materials costs are captured in the direct salary and materials rates.[6] The 2.4 ppts decrease in FY22 gross margin y-o-y resulted from the following:
  - A lower base effect resulting from the state income tax subsidy for low salary range employees in effect during 1H21, translated into an increased direct salary rate, up 4.5 ppts to 36.3% in FY22, y-o-y. The salary rate is expected to stabilise as COVID hospitals restructure to a normal operating level.
  - Developing its own procurement department for hospitals coupled with phasing out of COVID, translated into an improved materials rate of 18.0% in FY22 (21.1% in FY21).
  - Utilities and other costs were up in 2022, resulting from inflation pressures, such as increased fuel prices.

1 The detailed IFRS financial statements are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**. See reconciliation to IFRS 16 on page 100.
2 Net revenue – Gross revenue less corrections and rebates. Margins are calculated from gross revenue.
3 FY22 net profit is adjusted for a GEL 2.7 million loss from the sale of the Traumatology Hospital.
4 Of which – capex of GEL 26.2 million in FY22 (GEL 24.1 million in FY21); payment of holdback of GEL 12.1 million in FY21; and proceeds from sale of PPE/subsidiary of GEL 8.7 million in FY22 (GEL 3.4 million in FY21).
5 Operating cash flows less capex, less acquisition of subsidiaries/payment of holdback, plus net proceeds on sale of PPE/subsidiary.
6 The respective costs divided by gross revenues.

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- Negative operating leverage further reflects the increases in administrative salaries (up 3.7% y-o-y in FY22) and the general and administrative expenses (excl. IFRS 16) (up 16.6% in FY22 y-o-y), due to the launch of new product and services and increased marketing costs to support the transition to the post-COVID environment.
- The developments described above resulted in reduced EBITDA (excl. IFRS 16) and EBITDA margins (down 5.0 ppts y-o-y in FY22). Adjusted for the temporary closure of Iashvili Hospital and the absence of revenues from the Traumatology Hospital, the FY22 EBITDA was down 24.8% y-o-y in FY22.
- Increased interest rates on the market led to an increase in net interest expense (excl. IFRS 16) FY22, up by 12.3% y-o-y.
- Overall, the business posted a GEL 1.6 million[1] net profit excluding IFRS 16 in FY22, which also reflects one-off costs associated with the termination of contracts due to changes in management.

**Cash flow and balance sheet highlights**
- Cash flow from operating activities (excl. IFRS 16) was down in 2022, due to the phasing out of Government COVID programmes, the payment term of which was payable within a month of origination, while the universal healthcare coverage (UHC) collection period is around four months. The transition period led to weaker cash collections in 2022, with a 54.2% EBITDA to cash conversion rate (excl. IFRS 16), however, the rate started to recover from 4Q22 when it reached 71.7%.
- Capex investment in FY22 amounted to 26.2 million, mainly attributable to maintenance capex.
- The business paid GEL 13.0 million dividends to GCAP in FY22.

**Other valuation drivers and operating highlights**
- The suspension of the COVID-related Government contracts also translated into a reduction in occupancy rates and the number of admissions. The business key operating performance highlights for FY22 are noted below:

| Key metrics, (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Occupancy rate | 54.3% | 65.3% | -11.0 ppts |
| Number of admissions (thousands) | 1,175.0 | 1,326.6 | -11.4% |

1 FY22 net profit is adjusted for a GEL 2.7 million loss from the sale of the Traumatology Hospital.



## Discussion of insurance (P&C and medical) business results

The insurance business comprises a) Property and Casualty (P&C) insurance business and b) medical insurance business. The P&C insurance business is a leading player in the local insurance market with a 27.4% market share in property and casualty insurance based on gross premiums as of September 30, 2022. The P&C insurance business also offers a variety of non-property and casualty products, such as life insurance. The medical insurance business is one of the country's largest private health insurers, with a 19% market share based on 9M22 net insurance premiums. Medical Insurance offers a variety of health insurance products primarily to corporate and (selectively) to state entities and also to retail clients in Georgia. GCAP owns a 100% equity stake in both insurance businesses.

**FY22 performance (GEL thousands), Insurance (P&C and Medical)[1]**
**(Unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| Earned premiums, net | 173,351 | 158,870 | 9.1% |
| Net underwriting profit | 51,558 | 45,773 | 12.6% |
| Net investment profit | 9,627 | 9,053 | 6.3% |
| **Net profit** | **24,624** | **22,038** | **11.7%** |
| **Cash flow highlights** | | | |
| Net cash flows from operating activities | 42,443 | 24,320 | 74.5% |
| **Free cash flow** | **39,275** | **23,641** | **66.1%** |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **310,682** | **267,627** | **16.1%** |
| **Total equity** | **121,298** | **116,464** | **4.2%** |

**Total insurance business highlights**

P&C and Medical Insurance have a broadly equal share in total revenues, while the combined net profit in FY22 was mainly attributable to P&C Insurance (86.2% share in total net profit in FY22). The loss ratio was down by 1.3 ppts and the expense ratio was up by 1.1 ppts y-o-y in FY22, translating into a 0.2 ppts y-o-y decrease in the combined ratio. As a result, ROAE[2] was 23.3% in FY22 (20.8% in FY21).

## Discussion of results, P&C Insurance
**(GEL thousands, unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| Earned premiums, net | 98,511 | 86,489 | 13.9% |
| Net underwriting profit | 40,930 | 34,216 | 19.6% |
| Net investment profit | 5,733 | 6,099 | -6.0% |
| **Net profit** | **21,232** | **18,265** | **16.2%** |
| **Cash flow highlights** | | | |
| Net cash flows from operating activities | 37,778 | 19,264 | 96.1% |
| **Free cash flow** | **35,575** | **18,972** | **87.5%** |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **214,752** | **188,805** | **13.7%** |
| **Total equity** | **85,717** | **84,234** | **1.8%** |

**Income statement highlights**
- Increased earned premiums net in FY22 reflect the combination of factors:
  - Credit life insurance revenues up by gel 6.0 million y-o-y in FY22, resulting from the growth in the mortgage, consumer loan, and other portfolios by banks.
  - Credit unemployment insurance revenues up by GEL 1.9 million y-o-y in FY22, also attributable to the growth in the banking sector.
  - Agricultural insurance revenues up by GEL 2.7 million y-o-y in FY22, driven by doubled agricultural insurance gross premiums written, up from GEL 6 million in FY21 to GEL 12 million in FY22. Strong performance and market share growth in agricultural insurance were due to the competitors' difficulties in obtaining reinsurance approvals and general lack of expertise in claims settlement.
  - Border MTPL revenues increased by GEL 2.0 million y-o-y in FY22, reflecting the direct impact of migration and the significant recovery in tourism. Border MTPL revenues equalled 100% of the FY19 level.
- P&C Insurance's key performance ratios for FY22 are noted below:

| Key ratios (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Combined ratio | 79.7% | 80.8% | -1.1 ppts |
| Expense ratio | 33.5% | 32.4% | 1.1 ppts |
| Loss ratio | 46.2% | 48.4% | -2.2 ppts |
| ROAE[2] | 29.5% | 24.7% | 4.8 ppts |

1 The detailed IFRS financial statements are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**.
2 Calculated based on net income, adjusted for non-recurring items and average equity, adjusted for preferred shares.

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- The combined ratio was down by 1.1 ppts y-o-y in FY22.
  - Decrease in loss ratios for the respective period reflects the combination of:
    - Revenue growth, as described on page 115.
    - Reduction in COVID-19-related credit life insurance claims. The volume of COVID-19-related credit life insurance claims incurred in FY22 amounted to GEL 1.2 million (GEL 4.3 million in FY21) and represented 9% of total life insurance claims (31% in FY21).
    - Exceptionally low agricultural insurance claims in FY22, due to favourable weather conditions during 2022, which, together with the boost in an agricultural revenues, translated into a lower agricultural loss ratio of 4.3% in FY22 (16.6% in FY21).
    - Revised underwriting standards and improved price segmentations in the retail motor insurance portfolio.
    - An increase in the FY22 expense ratios predominantly resulted from the increase in salary and other operating expenditures reflecting inflation and business growth.
- P&C Insurance's net investment profit was down 6.0% y-o-y in FY22, resulting from the unrealised losses on investments placed in publicly traded debt securities.

**Cash flow and balance sheet highlights**
- P&C insurance's solvency ratio was 183% as of 31 December 2022, significantly above the required minimum of 100%.
- The operating cash flow increase in FY22 is mainly associated with higher underwriting cash flows of the business, as well as the time gap between cash inflows on insurance premiums and respective cash outflows to reimburse the reinsurer's share in agricultural and other insurance lines (cash outflows are expected to occur in the coming quarters).
- GEL 14.7 million dividends were paid to GCAP in FY22 on the back of the strong operating performance.

**Other valuation drivers and operating highlights**
- With its 27.4% market share on the local insurance market, the P&C insurance business remained the largest market player, although market share was down by 1.2 ppts y-o-y due to management's decision to decline participations in certain Government-announced insurance services tenders, which are historically characterised by high loss ratios.

## Discussion of results, Medical Insurance
**(GEL thousands, unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| Earned premiums, net | 74,840 | 72,381 | 3.4% |
| Net underwriting profit | 10,628 | 11,557 | -8.0% |
| Net investment profit | 3,894 | 2,954 | 31.8% |
| **Net profit** | **3,392** | **3,773** | **-10.1%** |
| Cash flow highlights | | | |
| Net cash flows from operating activities | 4,665 | 5,056 | -7.7% |
| **Free cash flow** | **3,700** | **4,669** | **-20.8%** |
| Balance sheet highlights | 31-Dec-22 | 31-Dec-21 | Change |
| **Total assets** | **95,930** | **78,822** | **21.7%** |
| **Total equity** | **35,581** | **32,230** | **10.4%** |

**Income statement highlights**
- The increase in FY22 earned premiums net is due to the combined effect of a price increase and a decrease in the average number of insured clients during a year, compared to 2021.
- In FY22, the net claims expenses were GEL 60.6 million (up 5.5% y-o-y), of which GEL 26.6 million (43.9% of total) was inpatient, GEL 22.1 million (36.5% of total) was outpatient and GEL 11.9 million (19.6% of total) was related to pharmaceuticals.
- The business maintained a targeted loss ratio throughout the year, at 81.0% in FY22.
- The combined ratio was largely flat, up 2.0 ppts to 99.4% for FY22.
- The developments described above led to a 10.1% y-o-y decrease in FY22 net profit.

**Cash flow and balance sheet highlights**
- The 7.7% y-o-y decrease in the operating cash flow in FY22 is associated with the state prepaying insurance policy fees on some of its largest contracts in 4Q21 and a corresponding decrease in 2022.

**Other valuation drivers and operating highlights**
- The number of insured clients was c.164,000 as of 31 December 2022, down 0.9% y-o-y. The business remains one of the largest medical insurers in the market with a 19% market share based on 9M22 net insurance premiums. The insurance renewal rate was down 0.6 ppts to 77.4% in FY22.



## Investment stage portfolio companies
### Discussion of renewable energy business results
The renewable energy business operates three wholly-owned commissioned renewable assets: 30MW Mestiachala HPP, 20MW Hydrolea HPPs and 21MW Qartli Wind Farm. In addition, a pipeline of up to 172MW renewable energy projects is in an advanced stage of development. The renewable energy business is 100% owned by Georgia Capital. As electricity sales in Georgia is a dollar business, the financial data below is presented in US$.

**FY22 performance (US$ thousands), Renewable Energy[1]**
**(Unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue** | **14,583** | **13,684** | **6.6%** |
| *of which, PPA* | *8,962* | *9,834* | *-8.9%* |
| *of which, non-PPA* | *5,621* | *3,656* | *53.7%* |
| *of which, BI reimbursement* | *–* | *194* | *NMF* |
| Operating expenses | (3,408) | (3,324) | 2.5% |
| **EBITDA** | **11,175** | **10,360** | **7.9%** |
| *EBITDA margin* | *76.6%* | *75.7%* | *0.9 ppts* |
| **Net profit/(loss)** | **933** | **(14,064)** | **NMF** |
| Cash flow highlights | | | |
| **Cash flow from operating activities** | **11,344** | **10,044** | **12.9%** |
| **Cash flow from investing activities** | **2,961** | **(4,827)** | **NMF** |
| **Cash flow used in financing activities** | **(18,255)** | **(12,383)** | **47.4%** |
| *Dividends paid out* | *(2,800)* | *(6,250)* | *-55.2%* |
| Balance sheet highlights | 31-Dec-22 | 31-Dec-21 | Change |
| **Total assets** | **122,645** | **131,047** | **-6.4%** |
| *of which, cash balance* | *9,468* | *13,074* | *-27.6%* |
| **Total liabilities** | **84,288** | **101,520** | **-17.0%** |
| *of which, borrowings* | *80,570* | *98,636* | *-18.3%* |
| **Total equity** | **38,357** | **29,527** | **29.9%** |
| Income Statement highlights (GEL thousands) | FY22 | FY21 | Change |
| **Revenue** | **42,221** | **43,914** | **-3.9%** |
| **EBITDA** | **32,311** | **33,211** | **-2.7%** |

**Income statement highlights**
- A y-o-y increase in revenue from electricity sales in FY22 resulted from:
  - A 0.9% y-o-y increase in electricity generation in FY22. This reflects the net impact of a) a 4.6% y-o-y decrease in electricity generation at Hydrolea HPPs as two of the power-generating units were temporarily taken offline due to previously planned rehabilitation works, and b) a 2.1% and 4.9% y-o-y increase in electricity generation at Mestiachala 2 HPP and Qartli Wind Farm due to the favourable weather condition in 2022.
  - The average electricity selling price was up 7.1% y-o-y to 54.3 US$/MWh in FY22.
  - The average market selling price (excluding PPAs) reached 46.1 US$/MWh in FY22, up by 30.3% y-o-y.
- Approximately 55% of electricity sales during FY22 were covered by long-term fixed-price power purchase agreements (PPAs) formed with a Government-backed entity.

**Revenue and generation breakdown by power assets**

| | FY22 | | | |
|---|---|---|---|---|
| US$ thousands, unless otherwise noted (Unaudited) | Revenue from electricity sales | Change y-o-y | Electricity generation (MWh) | Change y-o-y |
| 30MW Mestiachala HPP | 5,083 | +19.1% | 104,408 | +2.1% |
| 21MW Qartli wind farm | 5,676 | +4.9% | 87,321 | +4.9% |
| 20MW Hydrolea HPPs | 3,824 | +0.4% | 76,600 | -4.6% |
| **Total** | **14,583** | **+8.1%** | **268,329** | **+0.9%** |

- As a result, in US$ terms, FY22 EBITDA was up by 7.9% y-o-y in FY22.

1 The detailed IFRS financial statements (in both US$ and GEL) are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**.

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**Cash flow and balance sheet highlights**

- A 12.9% y-o-y increase in FY22 operating cash flow is in line with the EBITDA growth in 2022.
- The increase in FY22 cash flow from investing activities is mainly attributable to:
  - US$ 3.0 million cash consideration received from the Mestiachala 1 HPP sale in FY22.
  - In 2022, the business collected the remaining final portion of US$ 0.6 million from the sale of the project rights of pre-construction of Bakhvi 2 HPP. The total transaction was valued at US$ 2.1 million, out of which, US$ 1.5 million was collected in 2021.
  - In 2022, the renewable energy business sold US$ 2.4 million financial securities, previously held for liquidity management purposes.
  - Cash flow from investing activities was partially offset by US$ 2.0 million PPE purchases in FY22.
- An increase in cash outflow from financing activities in FY22 (up 47.4% y-o-y) was related to refinancing its borrowings by the issuance of green bonds on the local market. Net proceeds from the bond issuance amounted to US$ 79 million.
- An increase in total equity in 2022 reflects the conversion of a US$ 10 million shareholder loan from GCAP into equity.

## Discussion of education business results

Our education business currently combines majority stakes in four private school brands operating across five campuses, acquired in 2019-2021: British-Georgian Academy and British International School of Tbilisi (70% stake), the leading schools in the premium and international segments; Buckswood International School (80% stake), well-positioned in the midscale segment; and Green School (80%-90% ownership), well-positioned in the affordable segment.

**FY22 performance (GEL thousands), Education[1]**
**(Unaudited)**

| Income statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue** | **42,577** | **31,196** | **36.5%** |
| Operating expenses | (28,953) | (21,090) | 37.3% |
| **EBITDA** | **13,624** | **10,106** | **34.8%** |
| *EBITDA margin* | *32.0%* | *32.4%* | *-0.4 ppts* |
| **Net profit** | **11,338** | **11,489** | **-1.3%** |
| **Cash flow highlights** | | | |
| Net cash flows from operating activities | 16,454 | 11,881 | 38.5% |
| Net cash flows used in investing activities | (24,079) | (22,956) | 4.9% |
| Net cash flows from financing activities | 5,500 | 14,303 | -61.5% |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **156,320** | **138,080** | **13.2%** |
| *of which, cash* | *5,709* | *9,096* | *-37.2%* |
| **Total liabilities** | **52,168** | **51,764** | **0.8%** |
| *of which, borrowings* | *21,740* | *25,585* | *-15.0%* |
| **Total equity** | **104,152** | **86,316** | **20.7%** |

In 2022, the education business increased its capacity by 610 learners to 5,670 learners by expanding the operational campuses of Buckswood (additional 260 learner capacity) and British-Georgian Academy (BGA) (additional 350 learner capacity). Since the commencement of the expansion programme in Education in 3Q21, the business added 2,860 learner capacity, in line with Georgia Capital's capital allocation outlook.

The total number of learners increased significantly in the 2022-2023 academic year, as the business transitioned to the post-COVID environment. In total, 1,014 learners were added (up by 32.2% y-o-y to 4,162 learners as of 31 December 2022), where growth in 1st grader intakes was 275 learners (up by 2.0x y-o-y), growth of intakes in the kindergartens and pre-schools was 243 learners (up by 2.2x y-o-y) and growth in the number of 2-to-12 graders was 496 learners (up 18.6% y-o-y).

1 The detailed IFRS financial statements are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**.



**Income statement highlights**

- Strong intakes and a ramp-up of the utilisation, led to a 36.5% y-o-y increase in revenue in FY22, in line with both the organic growth and expansion of the business.
- EBITDA was up 34.8% y-o-y in FY22, demonstrating robust growth, while EBITDA margin remained flat at 32.0% in FY22 notwithstanding the addition of two new campuses in the affordable segment, which are in early ramp-up stages and currently have a relatively low utilisation rate of 53.7%.
- The business posted GEL 11.3 million net income in FY22, down by 1.3% y-o-y.

**Cash flow and balance sheet highlights**

- Strong cash collection rates (at 80.4% as of 31 December 2022, largely at last year's level of 80.9%), combined with enhanced revenue streams, led to a 38.5% y-o-y increase in the operating cash flow generation of the business in FY22.
- A GEL 24.1 million cash outflow on investing activities in FY22 reflects the capacity expansion of the campuses as described above and investments for the development of the premises at our premium and mid-scale schools.

**Other valuation drivers and operating highlights**

- In September 2022, BGA (premium segment) completed the authorisation stage, required for switching to the International Baccalaureate (IB) and Cambridge Education programmes. With this switch, BGA's offering of international curriculums/programmes will be more tailored towards existing demand on the market. Cambridge Education and IB programmes are global leaders in international education.
- The utilisation rate for the total 5,670 learner capacity was up by 11.2 ppts y-o-y to 73.4% as of 31 December 2022.
  - The utilisation rate for the pre-expansion 2,810 learner capacity (i.e. excluding the new capacity addition of 2,860 learners since 3Q21) was up by 6.2 ppts y-o-y to 100% as of 31 December 2022.
  - The utilisation of the newly added capacity of 2,860 learners was 47.3% as of 31 December 2022.

## Discussion of clinics and diagnostics business results

The clinics and diagnostics business, where GCAP owns a 100% equity interest, is the second largest healthcare market participant in Georgia after our hospitals business. The business comprises two segments: 1) Clinics: 19 community clinics with 353 beds (providing outpatient and basic inpatient services); 17 polyclinics (providing outpatient diagnostic and treatment services) and 17 lab retail points at GPC pharmacies; 2) Diagnostics, operating the largest laboratory in the entire Caucasus region – "Mega Lab".

**FY22 performance (GEL thousands), Clinics and Diagnostics[1]**
**(Unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue, net[2]** | **80,573** | **95,029** | **-15.2%** |
| *of which, clinics* | *65,794* | *70,512* | *-6.7%* |
| *of which, diagnostics* | *20,477* | *30,441* | *-32.7%* |
| *of which, inter-business eliminations* | *(5,698)* | *(5,924)* | *-3.8%* |
| **Gross profit** | **32,696** | **42,598** | **-23.2%** |
| *Gross profit margin* | *40.4%* | *44.6%* | *-4.2 ppts* |
| Operating expenses (ex. IFRS 16) | (23,061) | (21,201) | 8.8% |
| **EBITDA (ex. IFRS 16)** | **9,635** | **21,397** | **-55.0%** |
| *EBITDA margin (ex. IFRS 16)* | *11.9%* | *22.4%* | *-10.5 ppts* |
| **Net (loss)/profit (ex. IFRS 16)** | **(5,369)** | **9,134** | **NMF** |
| **Cash flow highlights** | | | |
| **Cash flow from operating activities (ex. IFRS 16)** | **7,045** | **21,423** | **-67.1%** |
| *EBITDA to cash conversion (ex. IFRS 16)* | *73.1%* | *100.1%* | *-27.0 ppts* |
| **Cash flow used in investing activities** | **(9,349)** | **(11,130)** | **-16.0%** |
| **Free cash flow (ex. IFRS 16)[3]** | **(2,222)** | **12,107** | **NMF** |
| **Cash flow from financing activities (ex. IFRS 16)** | **2,993** | **(10,320)** | **NMF** |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **190,767** | **178,592** | **6.8%** |
| *of which, cash balance and bank deposits* | *6,966* | *6,292* | *10.7%* |
| *of which, securities and loans issued* | *3,107* | *3,699* | *-16.0%* |
| **Total liabilities** | **94,786** | **80,613** | **17.6%** |
| *of which, borrowings* | *60,832* | *50,854* | *19.6%* |
| **Total equity** | **95,981** | **97,979** | **-2.0%** |

1 The detailed IFRS financial statements are included in a supplementary excel file, available at **https://georgiacapital.ge/ir/financial-results**. See reconciliation to IFRS 16 on page 100.
2 Net revenue – Gross revenue less corrections and rebates. Margins are calculated from gross revenue.
3 Operating cash flows less capex.

# FINANCIAL REVIEW CONTINUED

## Discussion of results, Clinics

The clinics business was actively engaged in supporting the COVID-19 pandemic response in Georgia, allocating 12 community clinics, with a total c.300 beds across the country. The Government of Georgia fully reimbursed costs associated with COVID-19 treatments and paid a fixed fee amount per bed designated for COVID patients. In March 2022, similarly to the hospitals business, the Government suspended the COVID contracts with clinics which temporarily suppressed the business' margins and revenue. These are expected to return to normal operating levels starting from 2023.

**(GEL thousands, unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue, net[1]** | **65,794** | **70,512** | **-6.7%** |
| *of which, polyclinics* | *40,942* | *37,165* | *10.2%* |
| *of which, community clinics* | *24,852* | *33,347* | *-25.5%* |
| **Gross profit** | **28,058** | **31,313** | **-10.4%** |
| *Gross profit margin* | *42.4%* | *44.1%* | *-1.7 ppts* |
| Operating expenses (ex. IFRS 16) | (19,091) | (17,175) | 11.2% |
| **EBITDA (ex. IFRS 16)** | **8,967** | **14,138** | **-36.6%** |
| *EBITDA margin (ex. IFRS 16)* | *13.5%* | *19.9%* | *-6.4 ppts* |
| **Net (loss)/profit (ex. IFRS 16)** | **(4,717)** | **3,244** | **NMF** |
| **Cash flow highlights** | | | |
| **Cash flow from operating activities (ex. IFRS 16)** | **6,998** | **15,607** | **-55.2%** |
| *EBITDA to cash conversion (ex. IFRS 16)* | *78.0%* | *110.4%* | *-32.4 ppts* |
| **Cash flow used in investing activities[1]** | **(8,636)** | **(8,462)** | **2.1%** |
| **Free cash flow (ex. IFRS 16)[2]** | **(1,494)** | **7,559** | **NMF** |
| **Cash flow from financing activities (ex. IFRS 16)** | **4,329** | **(6,426)** | **NMF** |
| **Balance sheet highlights** | **31-Dec-22** | **31-Dec-21** | **Change** |
| **Total assets** | **160,691** | **147,368** | **9.0%** |
| *of which, cash balance and bank deposits* | *5,825* | *3,149* | *85.0%* |
| *of which, securities and loans issued* | *3,379* | *3,947* | *-14.4%* |
| **Total liabilities** | **83,531** | **69,387** | **20.4%** |
| *of which, borrowings* | *56,908* | *46,417* | *22.6%* |
| **Total equity** | **77,160** | **77,981** | **-1.1%** |

### Income statement highlights

- FY22 revenues of the polyclinics were up 10.2% y-o-y, reflecting the net impact of a) a 22.1% y-o-y increase in the revenues from non-COVID, regular ambulatory services, resulting from the expansion of the business (adding two new polyclinics in 2022), and b) a 47.3% y-o-y decrease in COVID-related revenues.
- FY22 revenues of the community clinics were down by 25.5% y-o-y, reflecting 62.7% decrease in COVID-related revenues and 11.1% increase in revenues from non-COVID services. The top-line growth is expected to rebound starting from 2023, as the business passes through the COVID transition period.
- The cost of services in the business consists mainly of materials, salaries and utilities. Trends in materials and salary costs are captured in the direct materials and salary rates[3]. The 1.7 ppts y-o-y decrease in the FY22 gross profit margin resulted from the combination of the following factors:
  - The transition from COVID was reflected in the improved materials rate (COVID treatments have a high materials rate) at 8.6% in FY22 (10.6% in FY21).
  - Due to the opening of a new polyclinic and the suspension of the COVID clinics' contracts in March and the related decrease in revenue, coupled with the low base effect from the expiration of the state income tax subsidy that was in effect in 2021, and the fact that a significant portion of direct salaries is fixed, the direct salary rate was up 5.0 ppts y-o-y to 34.9% in FY22.
  - Adjusted for the impact of state income tax subsidy, the gross profit margin was down 0.1 ppts in FY22, y-o-y.
- Operating expenses (excl. IFRS 16), mainly comprising of salaries and other employee benefits (up 10.4% y-o-y in FY22) and general and administrative expenses (excl. IFRS 16) (up 9.0% y-o-y in FY22), were up in 2022 mainly due to the increased cost structure for COVID clinics and the expansion of the business.
- As a result, the EBITDA margin (excl. IFRS 16) was down by 6.4 ppts y-o-y in FY22. Excluding the impact of the absence of the state income tax subsidy, the EBITDA margin (excl. IFRS 16) was down 4.8 ppts y-o-y in FY22.
- The increase in net debt position (up 21.3% y-o-y) to GEL 47.7 million due to the opening of new polyclinics, coupled with increased interest rates, led to an increase in FY22 net interest expense (excl. IFRS 16), up 16.4%, y-o-y.

### Cash flow and balance sheet highlights

- 78.0% EBITDA to cash conversion ratio in FY22, reflecting weaker cash collections in 1H22.
- The business spent GEL 8.5 million on capex in FY22, of which GEL 1.7 million was maintenance capex and GEL 6.8 million was growth capex, primarily related to the opening of two new polyclinics in Tbilisi.

1 Of which – capex of GEL 8.5 million in FY22 (GEL 8.0 million in FY21).
2 Operating cash flows less capex.
3 The respective costs divided by gross revenues.



### Other valuation drivers and operating highlights

- Our community clinics and (to a lesser extent) our polyclinics were both affected due to the reduced traffic for COVID services, such as COVID tests and vaccinations in FY22:

| (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Number of admissions (thousands) | 2,172.7 | 2,401.2 | -9.5% |
| *of which, polyclinics* | *1,689.6* | *1,818.6* | *-7.1%* |
| *of which, community clinics* | *483.1* | *582.6* | *-17.1%* |

- The number of registered patients in Tbilisi increased by c.21,000 y-o-y to c.277,000 and by c.27,000 y-o-y to c.616,000 across the country as of 31 December 2022 y-o-y (in Georgia citizens register with a local clinic that becomes the main outpatient provider and receives a small annual fee for the administrative effort).

## Discussion of results, Diagnostics

**(GEL thousands, unaudited)**

| Income Statement highlights | FY22 | FY21 | Change |
|---|---|---|---|
| **Revenue, net[1]** | **20,477** | **30,441** | **-32.7%** |
| *of which, from COVID-19 tests* | *6,060* | *16,448* | *-63.2%* |
| *of which, from regular lab tests* | *14,417* | *13,993* | *3.0%* |
| **Gross profit** | **4,632** | **11,285** | **-59.0%** |
| *Gross profit margin* | *22.6%* | *37.1%* | *-14.5 ppts* |
| Operating expenses (ex. IFRS 16) | (3,964) | (4,026) | -1.5% |
| **EBITDA (ex. IFRS 16)** | **668** | **7,259** | **-90.8%** |
| *EBITDA margin (ex. IFRS 16)* | *3.3%* | *23.8%* | *-20.5 ppts* |
| **Net (loss)/profit (ex. IFRS 16)** | **(652)** | **5,890** | **NMF** |

### Income statement highlights

- A 32.7% y-o-y decrease in the FY22 revenue of the business, which apart from regular diagnostics services was also actively engaged in COVID-19 testing, reflects a significantly reduced number of COVID cases in the country and the suspension of Government contracts from March 2022. This led to a 63.2% y-o-y decrease in revenues from COVID-19 tests in FY22.
- The impact of the COVID-19 transition on total revenue was partially offset by increased revenues from regular lab tests, up 3.0% y-o-y in FY22.
- A decrease in total revenue translated into reduced gross profit and EBITDA. The growth is expected to rebound starting from 2023, from the launch of the new ambulatory services as well as referrals and tests ordered from the expanded polyclinics chain.

### Other valuation drivers and operating highlights

- The business opened two new retail collection points in 2022 and the total number reached five. The launch of the retail points will bring in additional revenue from regular lab tests as well as attract business-to-business (B2B) contracts.
- The key operating performance highlights for FY22 are noted below:

| (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Number of non-COVID tests performed (thousands) | 2,174 | 2,079 | 4.5% |
| Average revenue per non-COVID test (GEL) | 6.6 | 6.7 | -1.4% |

1 Net revenue – Gross revenue less corrections and rebates.

# **FINANCIAL REVIEW** CONTINUED



**Discussion of other portfolio results**

The four businesses in our "other" private portfolio are Auto Service, Beverages, Housing Development, and Hospitality. They had a combined value of GEL 274.1 million at 31 December 2022, which represented 8.6% of our total portfolio.

**FY22 aggregated performance highlights (GEL thousands), Other Portfolio**

| (Unaudited) | FY22 | FY21 | Change |
|---|---|---|---|
| Revenue | 484,417 | 337,581 | 43.5% |
| EBITDA | 34,778 | 21,088 | 64.9% |
| Net cash flows from operating activities | 4,834 | 23,390 | -79.3% |

- **Auto Service** – The auto service business includes a car services and parts business, and a periodic technical inspection (PTI) business.
  - **Car services and parts business** – In FY22, revenue was up by 39.1% y-o-y to GEL 49.2 million, reflecting an increase in retail, corporate and wholesale segments. Similarly, the gross profit was up by 50.1% y-o-y to GEL 11.9 million in FY22. As a result, the business posted GEL 3.6 million EBITDA in FY22, up by 47.0% y-o-y.
  - **Periodic technical inspection (PTI) business** – the PTI business revenue was up by 8.6% y-o-y to GEL 16.8 million in FY22. Revenue growth was supported by an increase in total cars serviced, up by 4.3% y-o-y in FY22. As a result, the EBITDA of the PTI business was up by 2.5% y-o-y to GEL 8.7 million in FY22.
- **Beverages** – The beverages business combines three business lines: a beer business, a distribution business and a wine business.
  - **Beer business** – The net revenue of the beer business increased by 43.8% y-o-y to GEL 81.1 million in FY22, reflecting the impact of the strong recovery in tourism and increased product prices due to higher demand. Beer and lemonade y-o-y sales (in hectolitres) were up 17.2% and 40.0%, respectively in FY22. The average FY22 GEL price per litre (average for beer and lemonade) increased by 16.4% y-o-y. Consequently, the EBITDA of the business increased by 3.1x y-o-y to GEL 15.2 million in FY22.
  - **Distribution business** – Revenue of the distribution business increased by 52.6% y-o-y to GEL 174.1 million FY22, driving FY22 EBITDA up by 2.2x y-o-y to GEL 9.5 million.
  - **Wine business** – The wine business had significant exposure to the Russian and Ukrainian markets as 62% of the FY21 net revenues were generated from sales in these markets (56% of revenues in FY22). Due to the implications of the Russia-Ukraine war, the net revenue of the wine business was down by 21.0% y-o-y to GEL 47.4 million in FY22. The decrease in revenue was also impacted by GEL's appreciation against foreign currencies, translating into subdued revenues from exports. The number of bottles sold was down by 10.5% y-o-y, resulting from the decreased export in Ukraine during the year. Consequently, FY22 EBITDA was GEL 1.1 million.
- **Housing development and hospitality businesses** – In light of the increased sales and construction progress, FY22 revenue of the housing development business was up by GEL 95.4 million y-o-y to GEL 180.0 million in FY22. FY22 EBITDA increased by GEL 15.2 million to GEL 2.0 million in FY22. In October 2022, the business closed a US$ 35 million local bond offering. Full proceeds of the notes were used to refinance the three-year US$ 35 million local bonds that matured on 7 October 2022. The revenue of the hospitality business decreased by 12.7% y-o-y in FY22, affecting the hospitality business' FY22 EBITDA (down by GEL 5.3 million y-o-y to negative GEL 2.4 million in FY22).

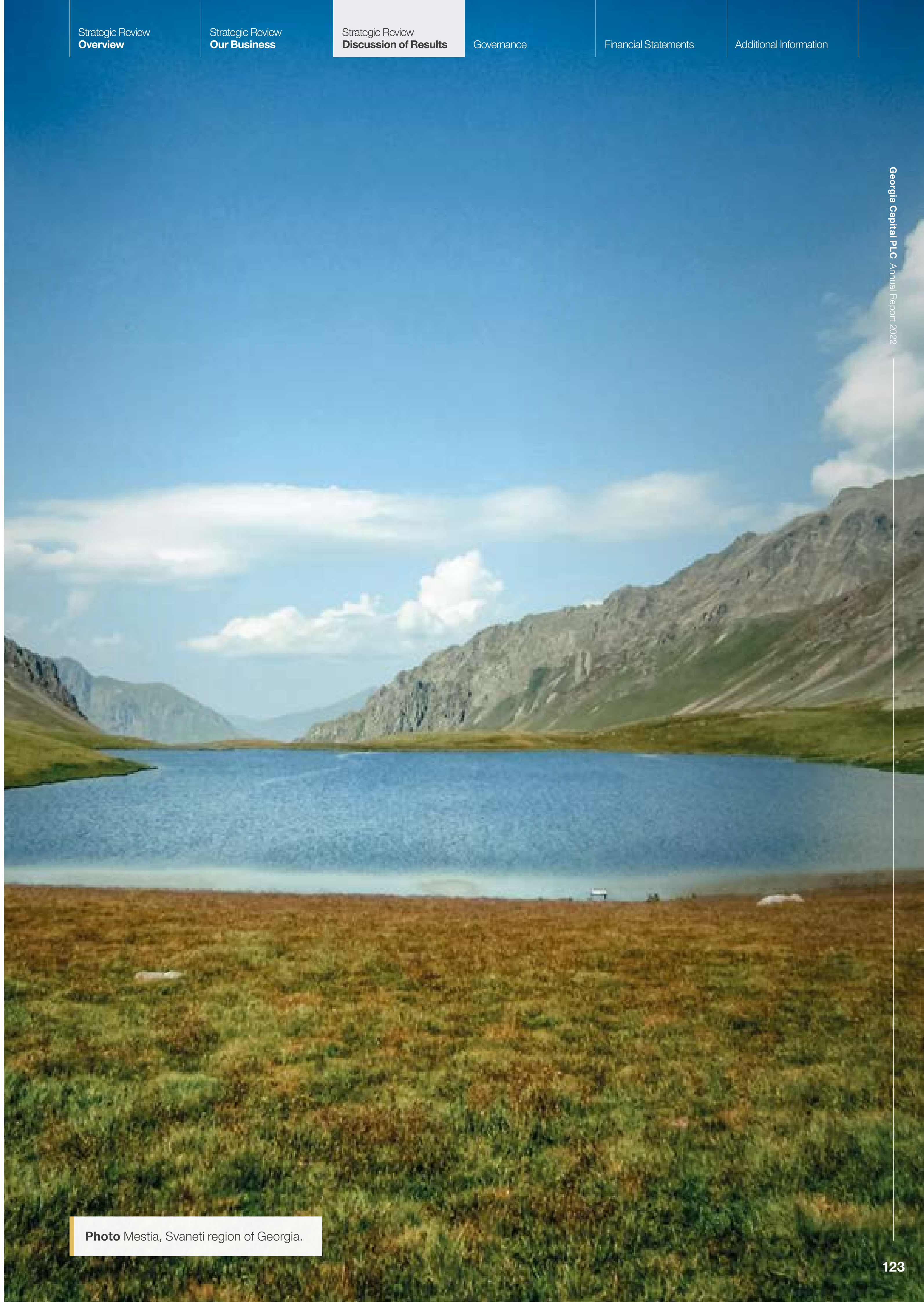


**Photo** Mestia, Svaneti region of Georgia.

**Georgia Capital PLC** Annual Report 2022

# DIRECTORS' GOVERNANCE STATEMENT



**Irakli Gilauri**
Chairman and
Chief Executive Officer

**David Morrison**
Senior Independent
Non-Executive Director

**Dear Shareholders**

We are delighted to present this year's Governance Statement. Following the successful disposal of GGU (see page 12 for details), the Board focused on reviewing and updating its strategy and was able to set this out to investors in May 2022 (more details on our updated strategy are available in the "Strategic Review" section). A move from the premium listed segment of the LSE to the standard listed segment of the LSE will help the Company deliver on this strategy.

A key element of our governance structure is the direct engagement by the Investment Committee with our portfolio companies. All Directors are members of the Investment Committee. During 2020 and 2021, due to the COVID-19 pandemic, the Investment Committee was unable to have face-to-face meetings with the management teams of our portfolio companies nor was it able to carry out site visits, which the Investment Committee finds particularly useful. We were pleased to be able to recommence these visits in 2022. We were also delighted to be able once again meet investors face to face in London at the Investor Day in May, in addition to regular quarterly earnings reports and calls.

The Board remains focused on the Company's responsibilities to its stakeholders and the wider expectations of society. In 2021 we devoted significant time to establishing an initial approach to ESG which was supported by the adoption of the Responsible Investment Policy. This year we further enhanced our ESG activities by setting ESG targets for GCAP and our portfolio companies. For Further information please refer to our Resources and Responsibilities section on page 82. Details of our ESG activities are set out in our Sustainability Report. The Board takes the view that good ESG processes are fundamental to the Company's business.

Caroline Brown did not seek re-election to the Board at the 2022 AGM and ceased to be a Director of the Company from the conclusion of the AGM on 20 May 2022. On 17 October 2022, we were delighted to welcome Neil Janin to the Board. As described below, we believe that Neil Janin's unique skill set will enhance the Board's capabilities.

The Board continues to apply the UK Corporate Governance Code 2018 ("the Code") in its entirety except for combining the roles of Chairman and CEO. The Nomination Committee and the Board continue to monitor the appropriateness of this structure as discussed below and in the Report of the Nomination Committee on pages 164-166, which shareholders are encouraged to read for more background to this matter.

In 2023, we look to adapting our board structure to the new context of our transfer to a standard listing (expected in April) without compromising on the continuing high standards of governance we will continue to apply.

**Statement of Compliance with the UK Corporate Governance Code**

The Company is committed to maintaining standards of corporate governance which enhance performance, reduce risks and promote the protection of our shareholders' interests. The Board recognises that good corporate governance is essential in building a successful business for the longer term and for ensuring positive relationships with our key stakeholders.

The Board has overall responsibility for governance and is accountable to its shareholders. This Governance Report describes how during 2022 the Board has applied the main principles and complied with the relevant provisions of the Code. The Code is publicly available at the website of the Financial Reporting Council at www.frc.org.uk.

During the year we have undertaken a number of steps to ensure ongoing compliance with the Code, including receiving an analysis from the Company Secretary on the Company's application of the provisions and principles throughout the year. We also continue to monitor our governance framework and underlying governance structures to ensure that they meet the needs of the business.

Throughout 2022, the Board considers that the Company has complied in full with the provisions of the Code with the exception of provision 9 which states that the roles of chair and chief executive should not be exercised by the same individual.

The Company's Chairman, Irakli Gilauri, also serves as the Company's Chief Executive Officer and is not considered by the Board to be independent. We set out below why we regard the joint Chairman and Chief Executive Officer position to be appropriate for our Company and we also explain some of the measures we have put in place to ensure that no one individual is able to dominate the Board's decision-making. For more information on the CEO succession planning, please see the Nomination Committee report on pages 164–166.

This statement, and the reports from the Board Committees, set out how we applied the Main Principles of the Code as required by LR 9.8.6. The Directors' Report also contains information required to be disclosed under the FCA's Listing Rules (LR) and Disclosure Guidance and Transparency Rules (DTR). To the extent necessary, certain information is incorporated into this Governance Report by reference.

**Irakli Gilauri**
Chairman and Chief Executive Officer
23 March 2023

**David Morrison**
Senior Independent Non-Executive Director
23 March 2023



**Combined CEO and Chairman role**

We acknowledge that our decision for the roles of Chairman and CEO to be exercised by one individual is not compliant with provision 9 of the Code. This matter continues to be reviewed by the Nomination Committee and the Board at least annually as part of the Board effectiveness evaluation exercise. On page 125 you will find the results of the Board evaluation conducted since the last Annual Report was published. An inherent part of the evaluation was the consideration of how the current structure of the combined Chairman/CEO role contributes to the effectiveness of the operation of the Board and more widely to the Company as a whole. The Board continues to believe that at present this structure best serves our Company and its stakeholders. The basis for this conclusion is summarised below.

*First and foremost Georgia Capital is a holding company focused on investing in and developing businesses, with the result that we hold and operate a highly diversified group of companies.*

- Our central group management structure is quite small (head office has around 45 employees). It is principally at the level of the central management team at which the Board and Investment Committee provide challenge, most importantly, on investment/divestment decisions through the Investment Committee as discussed below.
- The highly diverse portfolio of businesses, except for the very early stage ones, have an unusually strong measure of operational independence. Each of the private portfolio companies also has its own strong CEO who operates their business with a significant degree of operational independence.

*The Board is highly experienced and almost entirely independent.*

- Other than the CEO, our Board is composed solely of Independent Non-Executive Directors. As there is only one Executive Director, and each Non-Executive Director approaches the Company with true independence, it is considered extremely unlikely that the Executive Director could form a block by convincing a sufficient number of independent Directors to support him. Our decisions at the Board level and the decisions of the Investment and Nomination Committees (on which the CEO sits) are typically reached through consensus, but ultimately it is a majority decision: the CEO does not have a veto and is outnumbered by Independent Non-Executive Directors.
- The independent Non-Executive Directors are experienced business people of particular high quality for a FTSE Small/MidCap company and we would invite shareholders to consider their biographies and note the degree of real expertise and experience they bring to the Board. They have a diverse range of backgrounds and nationalities and each brings a fresh view and particular expertise to Board discussions. The Senior Independent Non-Executive Director, a former partner at a major US law firm, is highly experienced in the region and is the governance lead for the Board and the Non-Executive Directors. He also chairs the Audit and Valuation Committee. Previous roles for the other Non-Executive Directors (as detailed in the biographies later in this section) include:
  - investment officer at a major investment fund;
  - career in banking, investment funds and investor relations;
  - experienced non-executive director of Georgian groups listed on the London Stock Exchange; and
  - extensive management consulting and private equity experience.

*The Investment Committee has a central role in the Company's governance framework.*

- The Investment Committee plays the key role in making decisions on portfolio investments and exits and managing all aspects of investment policy and strategy. It scrutinises, challenges and ultimately either approves or disapproves of investment and divestment proposals and initiatives, including significant add-on investment for the existing portfolio companies. It also considers the commercial terms of major transactions (i.e. over GBP 2.5 million). All Board members sit on the Investment Committee, but it is chaired by a Non-Executive Director, not the Chairman/CEO. As reported last year, the Investment Committee, not management, had the final say on the sale of the water utility business. More detail can be found in the Investment Committee report on pages 137 to 138.

*The Group's NAV is set by the Audit and Valuation Committee.*

- The Group's key financial and investor communications metric is its net asset value as approved by the Audit and Valuation Committee, a committee comprised of all Independent Directors on which the CEO does not sit.

*The Non-Executive Directors exercise key secondary oversight of the private portfolio businesses.*

- We delegate regular monitoring of our portfolio companies and ongoing strategic advice to the Group Chairman/CEO and his central team. We nevertheless engage with the private portfolio companies' CEOs and top management, who also present directly to the Board and Investment Committee to update them and to seek approvals of the most important capital allocation and strategic matters, so that the most important decisions of our private portfolio companies are reserved for the Board.
- The Directors also engage directly with senior management and the workforce in Georgia so that there are further unfiltered channels of access. As part of the two regular quarterly meeting schedules of the Investment Committee that are held each year in Georgia, all Directors normally visit facilities and projects of the portfolio companies and meet with one or more of the portfolio companies' CEO/executive management which provides direct and open access.

Given the structure of the Group and the key role that Irakli Gilauri plays in it, the Board continues to believe the current combined Chairman/CEO structure best suits the Group, especially after the departure of Mr Gamkrelidze. The structure has been overwhelmingly supported by shareholders since the time of the demerger from BGEO Group PLC in 2018, with shareholder approval of this structure at the 2022 AGM amounting to 91% in favour of the CEO. Ongoing dialogue with our shareholders confirms that they understand and support this approach.

# BOARD OF DIRECTORS



**Irakli Gilauri**

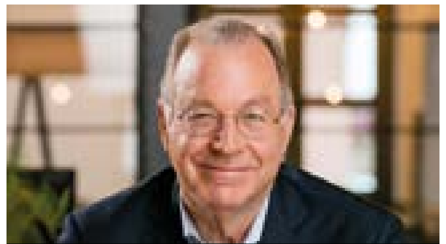
## Chairman and Chief Executive Officer

Irakli Gilauri was appointed CEO and Chairman on 24 February 2018. He also serves as a member of the Nomination and Investment Committees.

**Skills and experience:** Irakli Gilauri formerly served as the CEO of BGEO Group from 2011 to May 2018. He joined as CFO of Bank of Georgia in 2004 and was appointed as Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Prior, he was an EBRD (European Bank for Reconstruction and Development) banker. Mr Gilauri has more than 20 years of experience in banking, investment and finance. He also served from 2015 as a Director of Georgia Healthcare Group PLC (which delisted in 2020). Mr Gilauri sits on the Supervisory Board of JSC Georgia Capital. Mr Gilauri is also Non-Executive Director and Chairman of Audit Committee of Consilium Acquisition Corp I, LTD (SPAC).

**Education:** Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance. Mr Gilauri holds a Certificate in Winemaking from the University of California, Davis.

**Reasons for appointment:** Irakli Gilauri brings significant insight of local and international strategic and commercial issues to the Board and has a distinguished career in corporate banking. Over the last decade, Mr Gilauri's leadership has been instrumental in creating major players in a number of Georgian industries, including banking, healthcare, utilities and energy, real estate, insurance and beverages. Mr Gilauri's local expertise and business experience, in working previously with both Georgia Healthcare Group PLC and BGEO Group PLC, alongside his strong understanding of the Georgian political, economic and cultural context, is invaluable to the Board.



**David Morrison**

## Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director of the Company on 24 February 2018. He also serves as the Chairman of the Company's Audit and Valuation Committee and as a member of the Investment Committee. He sits on the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Mr Morrison is a lawyer and spent over 25 years at Sullivan & Cromwell LLP where he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs, and mergers and acquisitions. The author of several publications on securities law-related topics, Mr Morrison was recognised as a leader of his profession in Germany and France. Since withdrawing from his law firm in 2008, Mr Morrison has focused on his roles as a non-executive director on corporate boards and his charitable work. Mr Morrison previously served as the Senior Independent Non-Executive Director of both BGEO Group PLC (from October 2011 until May 2018) and Georgia Healthcare Group PLC (from 2015 until their delisting in 2020); he also served as Chairman of the Audit Committee (amongst other Committee roles) for both companies. In his not-for-profit work, since 2008 Mr Morrison has been closely associated with the Caucasus Nature Fund (CNF), a charitable trust dedicated to wilderness protection in Georgia, Armenia and Azerbaijan. He was CNF's first CEO and now acts as Chair of its supervisory board, as well as serving on the boards of or advisor to three other conservation trusts he helped to create. A principal focus of his role for these charities is financial reporting and the investment of a portfolio of over US$ 500 million in endowment capital. For almost two years in 2019-2020, Mr Morrison also served as Georgia's first Environmental Ombudsman.

**Education:** Mr Morrison received his undergraduate degree from Yale College and his law degree from the University of California, Los Angeles. He was also a Fulbright scholar at the University of Frankfurt.

**Reasons for appointment:** With his background as a corporate finance and securities lawyer advising dozens of clients, including a large number of publicly held companies, David Morrison brings to the Board vast experience in corporate governance and compliance as well as a strong understanding of legal and regulatory issues. His work since 2008 has given him extensive regional experience, which includes in-depth knowledge of ESG matters in Georgia. As an experienced Chairman of Audit Committees of premium listed companies, Mr Morrison has significant direct experience of ensuring integrity in financial reporting and adequate risk management and internal control procedures. This has been enhanced by his primary responsibility as CEO or CFO of the four conservation trusts with which he is involved, where he has been responsible for developing the accounting and controlling systems and being the principal management counterparty for the external auditors. With its significant focus on financial disclosure and reporting, his career has prepared him well for his Audit and Valuation Committee duties.

**Kim Bradley**

## Independent Non-Executive Director

Kim Bradley was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves on the Audit and Valuation Committee, and as Chairman of the Investment Committee, and sits on the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Mr Bradley served as an Independent Non-Executive Director of BGEO Group PLC from December 2013 until May 2018. He also served as Chairman of its Risk Committee, and member of Remuneration and Audit and Nomination Committees. Mr Bradley's prior experience includes 15 years as a professional in Goldman Sach's Real Estate Principal Investments and Realty Management divisions, with a focus on investment in European real estate and distressed real estate and corporate debt, as well as two bank entities. Assets under management reached US$ 25 billion during this period and Mr Bradley's duties included participation on valuation committees on all asset types. In addition, Mr Bradley led Goldman Sachs' asset management affiliates in France, Italy and Germany, where his responsibilities included working closely with the Management and Control Division (internal audit) on both the scope and response to annual audits. He also has extensive experience with bank regulatory supervision and served as President of Societa Gestione Crediti, a Director of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in the United States and Europe. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon. Mr Bradley is Managing Partner at Sabino Capital Partners LLC. Mr Bradley serves as a director of a mental health charity, Gould Farm.

**Education:** Mr Bradley holds an MA in International Affairs from the Columbia University School of International and Public Affairs and an undergraduate degree in English Literature from the University of Arizona. Post graduate education includes bank training in credit analysis and accounting.

**Reasons for appointment:** Kim Bradley has significant experience in governance and strategy, working with investment entities and major banks across Europe, as well as significant experience in investing and valuation and post-investment asset and entity management, including working with internal audit teams on the scope of and response to annual audits. In addition to real estate, Mr Bradley has had extensive experience in various corporate industries through corporate distressed debt resolution including recapitalisation. Mr Bradley's extensive experience and strong understanding of these areas make him well suited to his role as Chairman of the Investment Committee and member of the Audit and Valuation Committee and enable him to make an effective contribution to the oversight and improvement of corporate value of the Group.

**Jyrki Talvitie**

## Independent Non-Executive Director

Jyrki Talvitie was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves as the Chairman of the Nomination and Remuneration Committees and as a member of the Investment Committee. He is also a member of the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Mr Talvitie has worked in the financial industry for 30 years in banks as well as on both the buy and sell side of the markets. Prior to joining the Board, Mr Talvitie worked in Moscow for 14 years, his latest position being a Member of the Management Board of Magnit, a Russian publicly quoted retailer. Prior to Magnit, Mr Talvitie was in charge of Strategic Partners and Investors at Sberbank, one of the largest banks in Russia and top 15 in the world previously. Before Sberbank, Mr Talvitie was a Management Board Member at Russian Direct Investment Fund, Head of Investor Relations at VTB Bank and established and ran the Russian operations of East Capital, a Swedish private equity and asset management company, while also managing a financials fund. Prior to moving to Russia in 2003, Mr Talvitie worked for BNP Paribas in Paris, Bank of New York in London and Moscow as well as several Nordic banks both in Helsinki and Moscow. Mr Talvitie has extensive board experience, having served on over ten boards of both public and private companies in Georgia, Finland, Russia, Kazakhstan and Ukraine.

**Education:** Mr Talvitie holds an Executive MBA from London Business School as well as a Master of Law from Helsinki University. Mr Talvitie also holds a Diploma in Company Direction from the Institute of Directors in London.

**Reasons for appointment:** Jyrki Talvitie has spent his career in the financial industries in the region, including in Georgia, and has a considerable breadth and variety of experience in corporate governance derived from his positions on the boards of various companies in the region. Mr Talvitie has a deep understanding of regional and international strategic issues which, complemented with his extensive board experience, is a valued asset to the Board.

**Neil Janin**

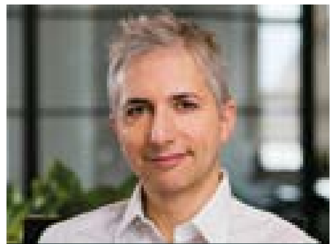
## Independent Non-Executive Director

Neil Janin was appointed as an Independent Non-Executive Director of the Company on 17 October 2022. He also serves on the Investment, Remuneration and Nomination Committees and sits on the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Mr Janin has extensive experience as a Non-Executive Director of Georgian groups that are listed on the premium sector of the London Stock Exchange. He was Chair and Non-Executive Director of BGEO Group PLC from October 2011 until 21 May 2018 and of Bank of Georgia Group PLC from February 2018 until March 2022, and he served as Non-Executive Director of Georgia Capital PLC's (then listed) subsidiary Georgia Healthcare Group PLC from September 2015 until April 2018. He serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America. He is also a Director of Neil Janin Limited, a company through which he provides his ongoing consulting services.

**Education:** Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

**Reasons for appointment:** Neil Janin has extensive experience of serving as a non-executive director of Georgian groups who are also listed on the London Stock Exchange. His career spans Europe, Asia and North America, across the retail, asset management and corporate banking industries, and all areas of organisational practice, including governance, culture, design, leadership, performance enhancement, change and transformation. Mr Janin brings his considerable insight of international strategic and commercial practices, in addition to significant experience of governance and the Georgian investment climate, to the Group's future development.



**Massimo Gesua' sive Salvadori**

## Independent Non-Executive Director

Massimo Gesua' sive Salvadori was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves as a member of the Investment and the Audit and Valuation Committees and is a member of the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Dr Gesua' sive Salvadori is a bank analyst covering banking and other financial stocks globally. He works for Brook Asset Management, a London-based hedge fund, which he joined in 2011. He is responsible for generating investment ideas and understanding broad trends. Dr Gesua' sive Salvadori worked as a management consultant at the London office of McKinsey & Company. between 2002 and 2011, specialising in financial services, and served clients across different geographies in developed and emerging markets as part of the banking strategy practice.

**Education:** Dr Gesua' sive Salvadori, a native of Venice, obtained an M.Phil. and a Ph.D. from Oxford University, where he attended St. Antony's College. He graduated with a B.Sc. in Economics from Warwick University. He attended the United World College of the Adriatic in Duino. His postgraduate studies were funded through scholarships by the Foreign and Commonwealth Office, the Economic Research council, the Fondazione Einaudi and the Ente Einaudi.

**Reasons for appointment:** Massimo Gesua' sive Salvadori's background in investment and his experience as a professional investor with financial markets, strategic issues and valuation techniques brings a breadth of knowledge to and makes him an important asset to the Board and the Investment and Audit and Valuation Committees, of which he is a member. His extensive experience of valuations and value drivers are particularly valuable to the Audit and Valuation Committee since the private portfolio companies' valuation is the key area of focus in Georgia Capital's financial accounting and reporting.

His background as a management consultant is also valued in Board discussions.

**Maria Chatti-Gautier**

## Independent Non-Executive Director

Maria Chatti-Gautier was appointed as an Independent Non-Executive Director of the Company on 19 March 2020. She also serves as a member of the Company's Investment, Remuneration and Nomination Committees and is a member of the Supervisory Board of JSC Georgia Capital.

**Skills and experience:** Ms Chatti Gautier is a senior investment manager with over 25 years of experience in private equity in prominent financial institutions and has sat on the Board of Directors of over 30 companies. She currently serves as Senior Advisor of Trail Management, an Independent Private Equity investment firm that invests in European midcap companies to develop them in China. Ms Chatti-Gautier started her career at Chase Manhattan Bank in Paris before joining BAII (Banque Arabe et Internationale d'Investissement). She spent most of her career (15 years) at Natixis Private Equity, before moving to Oddo Private Equity. Her activities included sourcing, analysing, managing and monitoring a large number of investments and exits. Through her own consulting firm, Ms Chatti-Gautier has also advised various investment and fundraising programmes in Europe, Lebanon and the MENA region, including Drake Star Partners (known as LDA Jupiter previously). Ms Chatti-Gautier currently serves as a board member and member of the Audit Committee of Groupe Pizzorno Environnement, a leading French operator in the waste management business listed on Euronext. She is also a director of Buffet Crampon Group, a major producer of wind musical instruments and of Thés de La Pagode, producer and distributor of high-end organic teas.

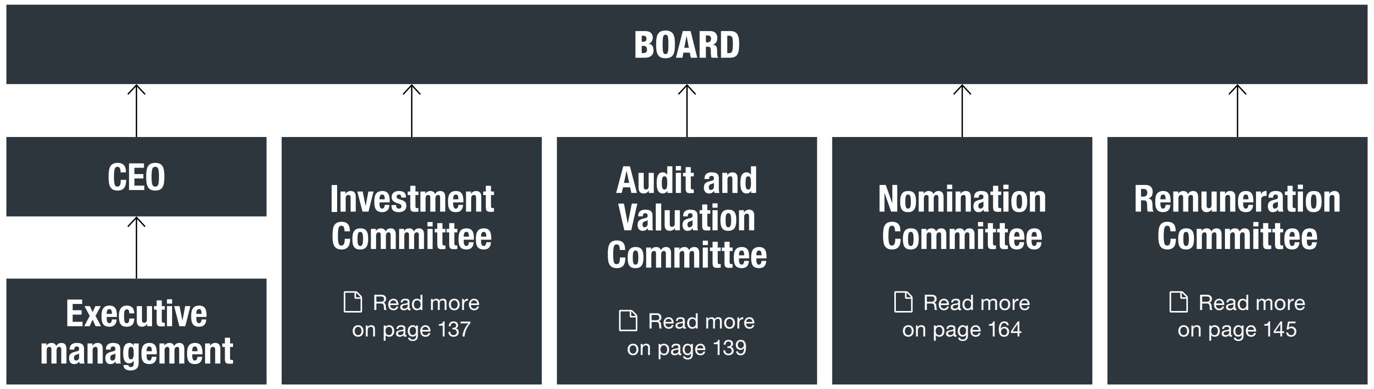
**Education:** Ms Chatti-Gautier holds an MBA with major in Finance from Ecole des Hautes Etudes Commerciales-HEC, with joint MBA programmes from London Business School and NYU Stern.

**Reasons for appointment:** Maria Chatti-Gautier has extensive experience in all types of private equity transactions with a hands-on approach and leadership role in investment execution, build-up and exit strategies. Ms Chatti-Gautier's background in private equity and understanding of investment strategies, alongside her board experience makes her well suited to her role on the Board.

# CORPORATE GOVERNANCE FRAMEWORK



**Our governance structure**




**Board size, composition and independence**
The Board is comprised of seven Directors, six of whom are Independent Non-Executive Directors, and one executive Chairman – Irakli Gilauri, who also acts as the Company CEO. The responsibilities of the Board can be viewed on page 129.

Full Director biographies can also be found here: **https://georgiacapital.ge/governance/board.**

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities, age and gender is important to effectively govern the business. The Board and its Nomination Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

Board appointments are made based on recommendations received from the Nomination Committee. In making these appointments, the Nomination Committee ensures that appointments and succession plans are made based on merit as well as other objective criteria, whilst ensuring the Board maintains the right balance of skills and knowledge needed to address its specific needs. Due consideration is also given to diversity in the wider sense, and the benefits that stem from having a diverse Board.

We believe our overall size and composition to be appropriate, having regard, in particular, to the independence of character and integrity of all of the Directors. As disclosed in the standard listing circular, following the proposed transfer to a standard listing the Company is considering implementing a reduction in the size of its Board from 7 to 5 members. Any such reduction in the size of the Board is not intended to impact appropriate standards of reporting and/or GCAP's corporate governance. The Board believes that, as a result of the transfer to a standard listing, the 5 member Board would be well suited to discharge its duties of overseeing the Company's continuing obligations and leading the Company's success in the most optimal and cost-effective way.

Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making. Some of these skills include:
- Banking, investment and finance sector experience.
- Leadership knowledge.
- Understanding of local and international strategic and commercial issues.
- Investor market knowledge.
- Experience of stakeholder engagement.
- Understanding of governance practices and regulatory framework.
- Familiarity with Georgian political, economic and cultural context.
- Experience of investment execution, exit strategies and private equity.

The relationship between Directors ensures that no individual, or group of individuals, is able to dominate the decision-making process, independence of thought is maintained, and no undue reliance is placed on any individual.

Kim Bradley and Jyrki Talvitie will not be seeking re-election to the Board at the forthcoming AGM and therefore will cease to be a Director of the Company from the conclusion of the AGM. At the time of this report, we have assessed the independence of each of the Non-Executive Directors and are of the opinion that each acts in an independent and objective manner. We consider that, under the Code, all of our Non-Executive Directors are independent and free from any relationship that could impair their judgement.

**Our governance structure**
We understand our responsibility to shareholders and stakeholders. We are dedicated to delivering shareholder value over the long term and promoting the success of the Company for the benefit of all shareholders through the management of the Group's business.

The Georgia Capital Board is assisted in fulfilling its responsibilities by four Committees: Investment, Audit and Valuation, Nomination and Remuneration. The Terms of Reference are approved by each Committee and the Board and reviewed annually, and can be found at: **https://georgiacapital.ge/governance/cgf/terms.**

For further information about the Committees see the Investment Committee report on page 137, the Audit and Valuation Committee report on page 139, the Remuneration Committee report on page 145 and the Nomination Committee report on page 164.

The Board is responsible to shareholders for creating and delivering shareholder value over the long term through the oversight of the Group's operations. Among our responsibilities are setting and overseeing the execution of the Group's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance.

All decisions are made through Directors exercising independent objective judgement, and following open and rigorous challenge. While our ultimate focus is long-term growth, the Company also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

Each Director also recognises their statutory duty to consider and represent the Company's various stakeholders in its deliberations and decision-making. You can read more about how Directors had regard to their duties under section 172(1) of the Companies Act 2006 and how Directors performed these duties on page 64 of the Strategic Report.





**Matters Reserved for the Board**
In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board.

The key matters reserved to the Board are:
- The Group's long-term objectives and strategy.
- Shareholder engagement and general meetings.
- Overall corporate governance arrangements including Board and Committee composition, Committee Terms of Reference, Directors' independence and conflicts of interest.
- Internal controls, governance and risk management frameworks.
- Changes to the corporate or capital structure of the Company.
- Annual Report and Accounts, and financial and regulatory announcements.
- Significant changes in accounting policies or practices.
- Annual budgets and financial expenditure.

A full formal schedule of matters specifically reserved for the Board can be found on our website at: **https://georgiacapital.ge/governance/cgf/schedule**.

Outside of these matters, the Board delegates authority for the day-to-day management of the business to the CEO. The CEO delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Board.

**Operation of the Board**
We maintain a corporate calendar which sets out rolling agenda items that must be considered during the year. This annual schedule of items ensures that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle.

The Chairman/CEO receives regular input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any matters they have raised are on the agenda to be discussed at the meeting. The Senior Independent Non-Executive Director supports the Chairman in his role, acts as an intermediary for other Non-Executive Directors when necessary and liaises with the Non-Executive Directors outside of the Board and Committee meetings. The Senior Independent Non-Executive Director met with the Non-Executive Directors without the Chairman present at least once during the year to appraise the Chairman's performance.

# CORPORATE GOVERNANCE FRAMEWORK CONTINUED



**Board activities during 2022**

Details of the areas that the Board considered this year are set out below and comprise:

| | |
|---|---|
| **Strategy** | • Ongoing consideration of the Company's strategy, including new strategy as announced on Investor Day, and the approval of the Modified Dutch Auction intended to deleverage the Company's balance sheet.<br>• Regularly assessed portfolio company composition.<br>• Approved capital allocations to and discussed the capital allocation outlook for portfolio companies.<br>• Reviewed Group and portfolio company performance against strategy.<br>• Regularly reviewed the Georgian and regional political and economic climate, particularly in light of the conflict between Russia and Ukraine.<br>• Continued with share buyback and cancellation programme of US$ 25 million, under which 3,075,923 shares were repurchased (6.4% of issued capital).<br>• Reviewed the ESG matters, TCFD reporting and ESG target-setting implementation processes. |
| **Governance, assurance and risk management** | • Focused on high level governance issues and developments that may have an effect on the Company strategy.<br>• Received reports from different Committees.<br>• Conducted an externally facilitated Board evaluation looking at Board effectiveness and process.<br>• Considered external legislative and governance developments, including on diversity.<br>• Considered the proxy voting agency approaches and the impact on the Company.<br>• Reviewed and approved governance documents, including Terms of Reference for the Audit and Valuation Committee, Remuneration Committee, Nomination Committee and Investment Committee, and Group level policies. |
| **Financial reporting** | • Received reports on the financial performance of the Group.<br>• On the recommendation of the Audit and Valuation Committee, reviewed and approved financial reporting including approval of accounts, notice of AGM, half year and full year announcements, and trading updates to the market. |
| **ESG** | • See separate Sustainability Report. |
| **Succession** | • Board and Committee succession planning.<br>• CEO succession plan. |
| **Stakeholders** | • Considered and implemented s172 duties:<br>– Re-confirmed identity of key stakeholder groups.<br>– Considered how Board decisions impact the interests and priorities of each group.<br>– Actively engaged with different stakeholders. |
| **Investment matters** | • Endorsed the work undertaken by the Investment Committee. See report on pages 137 to 138 for further detail. |
| **Standing items** | Each quarter the following topics are usually discussed in the Board meeting:<br>• Financial update (with formal financial results announcements and trading updates to the market typically being approved in separate phone meetings).<br>• Monitoring of financial performance against budget.<br>• Macroeconomic developments, including a focus on both the Georgian and regional markets.<br>• An assessment of current and potential future risks to the Company.<br>• Regulatory and legislative updates, including corporate governance as appropriate.<br>• Updates from the Committee meetings, typically including at least an Audit and Valuation Committee report on accounting issues and valuations and Internal Audit.<br>• Business updates from selected portfolio companies. The entire Board sits on the Investment Committee, and every meeting reviews the capital allocation pipeline and takes action as necessary on new investments or divestments. |

**Board and Committee meeting attendance**

Details of Board and Committee meeting attendance in 2022 are as follows:

| Members | Board | Audit and Valuation Committee | Nomination Committee | Remuneration Committee | Investment Committee |
|---|---|---|---|---|---|
| Irakli Gilauri | 4/4 Scheduled<br>5/5 Ad hoc | n/a | 3/3 | n/a | 3/3 |
| David Morrison | 4/4 Scheduled<br>5/5 Ad hoc | 4/4 Scheduled<br>6/6 Ad hoc | n/a | n/a | 3/3 |
| Kim Bradley | 4/4 Scheduled<br>5/5 Ad hoc | 4/4 Scheduled<br>6/6 Ad hoc | 3/3 | 3/3 | 3/3 |
| Massimo Gesua' sive Salvadori | 4/4 Scheduled<br>5/5 Ad hoc | 4/4 Scheduled<br>6/6 Ad hoc | n/a | n/a | 3/3 |
| Neil Janin | 2/2 Scheduled<br>3/3 Ad Hoc | n/a | 1/1 | n/a | 2/2 |
| Jyrki Talvitie | 4/4 Scheduled<br>5/5 Ad hoc | n/a | 3/3 | 3/3 | 3/3 |
| Maria Chatti-Gautier | 4/4 Scheduled<br>5/5 Ad hoc | n/a | 3/3 | 3/3 | 3/3 |
| Caroline Brown | 2/2 Scheduled<br>2/2 Ad Hoc | 3/3 Scheduled<br>1/1 Ad hoc | n/a | n/a | 1/1 |

1 Kim Bradley stepped down as a member of the Nomination and Remuneration Committees on 20 December 2022.
2 Neil Janin joined the Board and the Nomination and Remuneration Committees on 17 October, and the Investment Committee on 20 December 2022.
3 Caroline Brown stepped down as a member of the Board and its Committees from the conclusion of the AGM on 20 May 2022.

For Board and Committee meetings, Directors' attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend.

**Purpose, culture and values**

The Board has a responsibility for the overall purpose, culture and values of the Company and their pursuit/development is at the core of each Board meeting.

The Board believes that there are three features of success that will allow the Company to capitalise on the fast-growing Georgian economy: access to capital, access to management and strong corporate governance. Our culture and values are designed to strengthen all of these.

**Purpose**

Georgia Capital's purpose is to provide investors with an opportunity to invest in the historically fast-growing Georgian economy by giving them access to attractive investments with long-term growth potential. The Company then seeks to develop these into viable independent businesses on which value can be realised through sale or otherwise. By investing in Georgia to create multiple strong private companies/institutions, we will foster Georgia's development and help it succeed.

**Culture**

The Board continued to focus on developing, monitoring and assessing corporate culture and thinking about the ways in which our culture might serve as a long-term differentiator, both in terms of strategy and of recruitment and retention. We are proud of the culture that we have within Georgia Capital and recognise it is important to articulate this culture, drive it and ensure that it permeates the entire business.

Helping Georgia to succeed is at the heart of Georgia Capital, and during the year the Board looked closely at our mission, vision and values and how we could reinforce this in shaping the Company's long-term strategy. The Board is of the view that this will benefit all of the Company's stakeholders.

In order to create strong private business institutions, we will continue with our plan to develop our leaders so that they become future entrepreneurs of Georgia, through personal and professional development. The Chairman/CEO met regularly with key management personnel at Georgia Capital to share this vision and coordinate the Group's actions and priorities. The Chairman/CEO and Georgia Capital's key management personnel monitored portfolio companies' performance on at least a monthly basis, also reinforcing key messages. These messages are cascaded down from the management team to the wider employees.

We plan to develop our culture further in line with our purpose, by better aligning the business leaders' incentives to our value creation and realisation goals and by establishing metrics such as training data or absentee rates, that we can use to begin to form a benchmark. Finally, we will continue to monitor and assess how well our culture and values are embedded across all parts of the Company.

**Values**

**Being entrepreneurial:**

We believe our current culture is entrepreneurial in nature, and this is something that is grounded in our ability to see and seize opportunities and to develop business strategies whilst remaining disciplined and rational. All of our portfolio companies have been founded or substantially developed by entrepreneurs, and this is at the core of what we do. Our objective moving forward is to empower our people, continue to develop this spirit and pursue the execution excellence in our businesses.

**Having a learning mindset:**

We believe we are developing a learning mindset as part of our wider culture; however, we recognise that we need to improve the ways in which we communicate give, provide feedback, and help our people to develop. We approach this by looking at ways we can mentor and coach people throughout the organisation, and we aim to create an environment where independent thinking and curiosity are encouraged.

**Maintaining the high standard of ethics:**

This has been an aspect of our culture that we have maintained since our inception, and it is a priority of ours to ensure it stays this way. In order to maintain a high ethical, we will draw on principles of transparency and accountability and seek to maintain high standards of corporate governance.

# CORPORATE GOVERNANCE FRAMEWORK CONTINUED



Creating a culture relies on the participation and leadership of our Board of Directors, as this vision can then be communicated through executive management and onward to the wider businesses. By setting the tone at the top, establishing the core values of the Company and demonstrating our leadership, we are creating a culture that clearly sets an expectation that every employee acts ethically and transparently in all of their dealings. This, in turn, fosters an environment where business and compliance are interlinked.

**The process for evaluating the Chairman's performance:**
Given his role as Chairman and CEO, Irakli Gilauri's performance was evaluated. In addition, the full Board met to consider the Remuneration Committee's recommendations and Mr Gilauri's performance as Board Chairman. David Morrison as the Senior Independent Non-Executive Director led the overall review. The CEO was not present during the full Board's discussions around his own performance. The Board also reached consensus on his performance as Chairman as reflected in the favourable Board self-evaluation and the decision to recommend the maintenance of the current combined role of Chairman/CEO as discussed above.

**The Board's objectives for 2023 are:**
- Monitoring the implementation of the updated strategy and continuing to adjust as necessary;
- Addressing the uncertainties created by the Russia-Ukraine war as the regional tensions continue;
- Keeping ESG at the forefront of our decision-making, and monitoring and enhancing Key Performance Indicators relating to climate change risks and opportunities;
- Maintaining focus on succession planning;
- Monitoring and assessing culture and how this aligns with our purpose, values and strategy; and
- Assuring continued active shareholder and stakeholder engagement.

**Succession planning:**
**Board appointments and senior management**
As reported in previous years, we believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Company-specific knowledge that is important to retain.

The Board's Nomination Committee is responsible for both Director and senior management succession planning. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, including a review of other significant commitments Directors may have and, typically, a period of service in a board advisory role.

More detail on the role and performance of the Nomination Committee is on pages 164 to 166.

**Non-Executive Directors' terms of appointment**
On appointment, our Non-Executive Directors are provided with a letter which sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. Having reviewed all Directors' current time commitments, we are confident that all Non-Executive Directors are sufficiently able to dedicate the amount of time necessary to contribute effectively to the Board.

The letters of appointment for our Non-Executive Directors are available for inspection at our Company's registered office address during normal business hours.

Prior to accepting any external appointments, Directors are required to seek the Board's approval. The Board believes that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company. Despite our Non-Executive Directors holding external directorships and other external positions, the Board believes they still have sufficient time to devote to their duties as a Director of the Company. In order to form a view of this, we conduct an annual review of individual Director's conflicts, which is recorded in the Conflicts of Interest Register, and as part of the review we consider other appointments held by each Director.

**Stakeholder engagement**
The Code reinforces and expands the requirements of the UK Companies Act for directors to remain mindful of their duties to consider the interests of key stakeholders The Board understands the importance of effective engagement with stakeholders to gain an understanding of the issues that relate to each stakeholder and those that impact the Company so that the Board can appropriately consider these views and their concerns when having Board discussions, when considering the long-term success of the Company.

The Board has structured its meeting agendas to take account of each of the provisions in s172 of the Companies Act 2006, and focused on long-term value generation opportunities, considering political and macroeconomic circumstances and stakeholder considerations. Shareholders' considerations are sought out and then incorporated into our discussions and decisions. For example, members of the Board and management participated in more than 500 online and physical investor meetings. The Company was able to arrange an Investor Day as well as organise several investor road shows this year.

The table on pages 133-134 sets out our key relationships with stakeholders and how we have engaged with them over the financial year. The table also shows examples of how we have considered our stakeholders when making key decisions and how this has influenced certain decisions.

More information about how the Directors have discharged their duty under s172 of the Companies Act 2006 is available in the Strategic Report, on pages 64-67.



| Key stakeholders | Activities undertaken throughout year | How this stakeholder group influenced the Committee/Board agenda and decision-making |
|---|---|---|
| **Investors** | **Types of engagement:**<br>• Meetings with the Chairman/CEO<br>• Meetings and calls with the Advisor to the CEO<br>• Investor Relations team<br>• London Stock Exchange announcements<br>• Investor Day<br>• Investor roadshows<br>• Corporate website with investor section<br>• AGM<br>• Quarterly results<br>• Senior Independent Non-Executive Director as an intermediary<br>• Meeting with Committee Chairs and other Non-Executive Directors<br>• Annual Report<br><br>**How the Board engages with investors:**<br>We will engage with shareholders through the Company's forthcoming AGM to be held in May 2023 but will also continue to communicate with shareholders on important developments throughout the year. Our quarterly results are supported by a combination of presentations and conference call briefings, as was the announcement of our annual results in February 2023.<br><br>The Company has established a comprehensive shareholder engagement programme and encourages an open and transparent dialogue with existing and potential shareholders. For example, our UK General Counsel and our Company Secretary also have an ongoing dialogue with shareholder advisory groups and proxy voting agencies.<br><br>The Company was able to organise the Investor Day and several investor road show visits this year.<br><br>Following the publication of the shareholder circular to transfer the Company's listing from the Premium Listing segment to the Standard Listing segment of the LSE in February 2023, the Company organised an investor road show to consult with major shareholders. | • The Board receives feedback from investors at our Investor Days and during meetings about how they view Georgia Capital within the wider market. Raised matters of interest are then discussed at Board meetings. At our 2022 Investor Day, we received direct feedback that investors liked the enhanced focus on liquidity in particular, which formed a key aspect of the new strategy.<br>• The Board receives feedback from investors via the Chairman/CEO and the CFO who are in regular contact with the Company's major shareholders. This feedback informs the Board's decision-making.<br>• The Chairman/CEO, the CFO, the Advisor to the CEO and the Head of Investor Relations each provide a standing invitation to shareholders to meet and discuss any matters they wish to raise.<br>• The SID acts as an intermediary for shareholders.<br>• Committee Chairs also make themselves available to answer questions from investors. The Non-Executive Directors attend regular Investor Days and are available to answer questions.<br>• The Chairman has overall responsibility for ensuring that the Board understands the views of major shareholders. The Board is regularly kept informed of these views by the Chairman as well as executive management and the Investor Relations team and, to the extent deemed appropriate, the Company has taken active steps to adopt different ways of working in response to feedback received from shareholders and other stakeholders. Informal feedback from analysts and the Company's corporate advisors is also shared with the Board.<br>• We hold regular meetings with JSC Georgia Capital's existing bondholders and actively engage with potential lenders to discuss our funding strategy. The Chairman/CEO, Senior Independent Non-Executive Director and members of the Board make themselves available to meet with institutional investors when requested.<br>• Our comprehensive investor website **https://georgiacapital.ge** is updated and reviewed on a regular basis to ensure that information, including matters relating to sustainability, is up to date. It provides shareholders with access to the Company's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework and our leadership, as well as other information relevant to our shareholders. We also ensure that shareholders can access details of the Company's results and other news releases through the London Stock Exchange's Regulatory News Service.<br>• Please refer to the Resources and Responsibilities section on page 82 of this report and the Sustainability Report for further details on investor-led engagement activities carried out throughout the year and the output of that engagement. |

# CORPORATE GOVERNANCE FRAMEWORK CONTINUED



| Key stakeholders | Activities undertaken throughout year | How this stakeholder group influenced the Committee/Board agenda and decision-making |
|---|---|---|
| **Employees** | **Types of engagement:**<br>• Nominated Non-Executive Director<br>• Regular town halls<br>• Off-site and on-site meetings<br>• Feedback systems, e.g. employee satisfaction surveys at our businesses<br><br>**How the Board engages with employees:**<br>The Board is encouraged to engage with employees outside of formal channels, and workforce engagement includes visits to sites and portfolio company offices. Details of these visits are fed back to the Board so they are aware of any issues.<br><br>We believe that communicating with our employees is vital and we provide information in a number of ways, including via managers, presentations, email, intranet and regular off-site meetings. We communicate information about our corporate culture, the Company's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures.<br><br>The Board has oversight of whistleblowing and routinely receives reports arising from its operation. | • Employee surveys are conducted across the portfolio companies, and this year we conducted an employee survey at the holding company level. Since the survey, actions have been taken on some of the most important issues raised by employees.<br>• Management has been instructed to ensure that proposals to the Board and Investment Committee are made in line with stakeholders' interests.<br>• The Nomination Committee continue to look at succession planning and are conscious of ensuring a diverse pipeline for the future.<br>• Please refer to the Resources and Responsibilities section on page 82 of this report and the Sustainability Report for further details on workforce engagement activities carried out throughout the year, and the output of that engagement. |
| **Wider community and the environment** | **Types of engagement:**<br>• Investments to support diversified economy<br>• Engagement with local communities<br>• Education<br>• Corporate website<br>• Volunteering<br><br>**How the Board engages with the wider community:**<br>The Group considers the interests of its main stakeholders when developing the strategy and the processes to improve its operations. Investing in local businesses helps us to diversify and modernise the Georgian economy, and this can be seen in the development of our different portfolio companies.<br><br>Our hospitals and clinics and diagnostics businesses are driving the modernisation and improvement of healthcare in the country. Our renewable energy business is involved in infrastructure programmes and ongoing structural market reforms. Our auto service business contributes to overall cleaner air and improved vehicle safety.<br><br>The Company believes that educating young people is extremely important for the development of the community as a whole. Georgia Capital is investing in schools to give more learners access to high-quality education and facilities.<br><br>As part of our sponsorship and charitable activities, the Group acts to conserve nature, promote and enhance access to education and supports people with disabilities and special needs. Our Senior Independent Non-Executive Director volunteers as Chairman of the Caucasus Nature Fund, a charitable foundation providing financial and technical support to Georgia's national parks. | • Board agendas from time to time consider governmental issues that influence the wider Georgian market, which can influence key investment decisions.<br>• Investments are made in local businesses that will be beneficial to the Georgian economy. This is evidenced in the Company's Responsible Investment Policy.<br>• Please refer to the Resources and Responsibilities section on page 82 of this report and the Sustainability Report for further details on community engagement activities carried out throughout the year, and the output of that engagement. |

### Directors' responsibilities
Statements explaining the responsibilities of the Directors for preparing the Annual Report and consolidated and separate financial statements can be found on page 167 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

### Division of responsibilities
The Board has adopted written statements setting out the respective responsibilities of the Chairman, Senior Independent Non-Executive Director and Non-Executive Directors. Biographies for the Board members are set out on pages 126 and 127. A summary of the responsibilities of the Directors is set out below.

#### Chairman
- Guardian of the Board's decision-making process.
- Ensures the Board as a whole plays a full and constructive part in strategic decision-making.
- Sets the Board agenda.
- Ensures the Board receives accurate, timely and clear information.
- Shapes the boardroom culture and sets clear expectations.
- Ensures a formal and rigorous evaluation of the Board takes place each year.
- Develops the Group's strategy and commercial objectives.
- Leads communication with stakeholders.
- As CEO, is responsible for the operational and strategic management of the Group and for running the Group's business.

#### Senior Independent Non-Executive Director
- Provides a sounding board for the Chair and serves as a trusted intermediary for the other Directors.
- Responsibility for an orderly succession process for the Chairman.
- Available to Non-Executive Directors and shareholders if they have concerns which normal channels fail to resolve.
- Meets with other Non-Executive Directors for an annual appraisal of the Chairman's performance.

#### Non-Executive Directors
- Provide constructive challenge and specialist advice.
- Provide strategic guidance.
- Take into account the views of shareholders and other stakeholders.
- Scrutinise the performance of management.

### Internal controls and risk management
The Company has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Company's objectives are attained. The Board is accountable for reviewing and approving the effectiveness of internal controls operated by the Company, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Company's risk management process and system of internal control and oversees the activities of the Company's external auditors and the Group's risk management function (supported by the Audit and Valuation Committee), as such the Board conducts a review of its internal controls and risk management framework on an annual basis (including one in the current year of reporting).

A review of the Company's risk management approach is further discussed in the Strategic Report on pages 68 to 72.

For details on the management and mitigation of each principal risk see pages 73 to 81.

The Group's Viability Statement is detailed on pages 71.

Please refer to pages 139-144 for further detail in relation to the role of the Audit and Valuation Committee.

The Group's governance structure for risk management is illustrated on pages 68 to 72.

### Board induction, ongoing training, professional development and independent advice
Board members are advised by the Company Secretary and the UK General Counsel of the legal and regulatory obligations of a Director of a company listed on the London Stock Exchange. All Directors have access to the advice of the Company Secretary and the UK General Counsel, as well as independent professional advice at the Company's expense, on any matter relating to their responsibilities. Details on induction, ongoing training and professional development for Board members are provided in the report of the Nomination Committee, see pages 164-166.

### Company Secretary
The Board has appointed Link Company Matters Limited to act as Company Secretary to Georgia Capital PLC. Link Company Matters Limited is one of the UK's largest professional services secretarial teams.

### Re-election of Directors
All Directors are required under the Code to be elected or re-elected by shareholders at the Company's AGM in May 2023. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for election as applicable.

### Workforce engagement
Directors regularly visit different sites and offices of portfolio companies (as mentioned elsewhere in the report). Due to the COVID-19 pandemic, this was not possible for most of 2020 and 2021, however, we were able to return to in-person site visits in 2022. Additionally, two of the quarterly Board meetings were held in Georgia, and dinners were organised with the management teams of holding company and the portfolio companies, allowing for informal and open exchange.

As Georgia Capital is a relatively small holding company with a diverse number of portfolio companies, and given the relative independence of these companies, the steps and tools used to encourage employee engagement are developed within the companies themselves, and shared with other portfolio companies as required, as oppose to a "top-down" approach directed by Georgia Capital.

The Board recognises the importance of engaging with its workforce and does so through a combination of informal and formal channels. Kim Bradley will remain as the designated Non-Executive Director for employee engagement up until the 2023 AGM. A replacement for Kim is currently under consideration by the Nomination Committee. Mr Bradley was appointed due his history of engagement with portfolio companies in addition to the holding company, his relevant skillset, previous commercial experience and his ability to engage positively with stakeholders in different operational segments across the Group.

During 2022, mostly in the days before and after Board meetings, Mr Bradley was able to hold in-person meetings in Georgia with business leaders from the majority of the portfolio companies, on a company-by-company basis, with the purpose of providing the leaders with a forum in which to raise any matters, and to further understand how employee engagement culture was progressing in-house. Constructive conversations were held on workforce matters, morale, turnover and the business leaders' engagement with their employees. Mr Bradley and the business leaders also discussed how the leaders themselves worked to foster a spirit of open dialogue on workforce matters and build a strong working culture within their organisations. Mr Bradley was encouraged by the positive developments within the portfolio companies' workplace culture, and that this had largely been achieved independently of top-down directives from Georgia Capital. Mr Bradley also met with members of the holding company informally over coffee, at dinners and during walk-arounds of the office to allow them to offer their views and support channels of communication between the Board and Georgia Capital's workforce.

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In order to ensure a two-way communication platform and an effective means by which the views of the workforce can be included in the Board's decision-making, the DNED is responsible for reporting any insights gleaned from any workforce engagement at Board meetings. Mr Bradley noted that off-site visits and similar in-person events were important in facilitating informal exchange between the Board and the workforce, and also between management and the wider workforce. The increase of post-pandemic socialising has also been beneficial to the exchange of views between the different levels of the business, allowing for easier communication and feeding of views from employees up the management chain.

Please refer to the Resources and Responsibilities section on page 82 of this report and the Sustainability Report for further details on workforce engagement activities carried out throughout the year, and the output of that engagement.

**Georgia Capital:** As our people are our main asset, we invest a lot to help engage and motivate our staff. The Company has a small head office (c.45 people) and we encourage an open-door policy – staff can approach management at any time with any concern.

In 2022, attendance at the office was voluntary. For our employees who decided 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. Regular meetings organised by the CEO were held with senior and middle management. Messages from these meetings were cascaded down to all employees.

At our regular Board and Committee meetings, interaction with a number GCAP holding company personnel occurs naturally as part of the meeting where they present to the Board and/or participate in the discussion. The DNED, SID and other Non-Executive Directors also "walk the halls" during their visits and engage informally with the team.

**Annual General Meeting**

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the AGM, where there is an opportunity for individual shareholders to question the Chairman and the Chairs of the principal Board Committees.

After the AGM, shareholders can talk informally with the Directors.

As recommended by the Code, all resolutions proposed at the 2023 AGM will be voted on separately and the voting results will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting. In the event that 20% or more of votes are cast against a resolution, an explanation will be provided in the announcement to the London Stock Exchange of the actions the Company will be taking to address shareholders' concerns. A follow up announcement would then be made within six months of the AGM regarding feedback received from shareholders and the subsequent actions taken by the Company.

See page 213 for further shareholder information and page 126 for further information on shareholder engagement.

**Diversity Policy**

We value diversity in all forms in accordance with our Diversity Policy. More information on the Company's Diversity Policy, its objectives, implementation and results can be found on page 86.

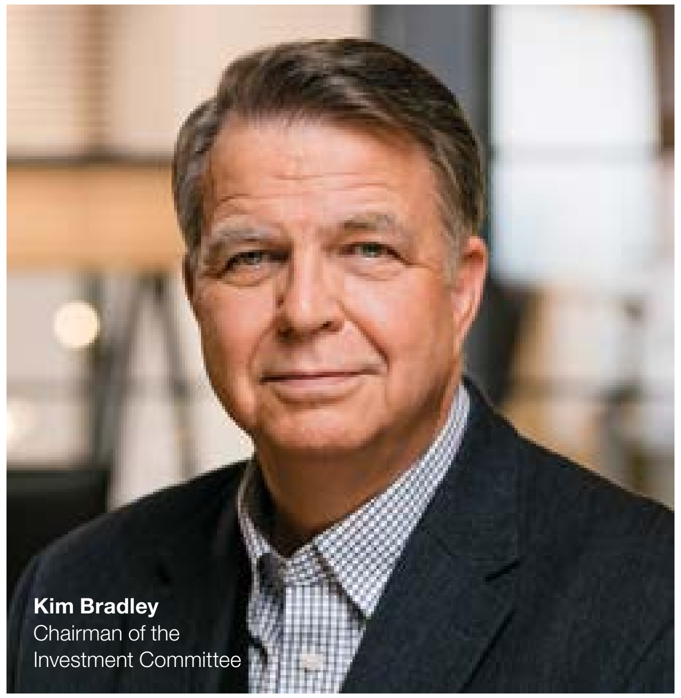
For further information, please see the Company Diversity Policy, which can be found at **https://georgiacapital.ge/governance/cgf/policies**.

For a breakdown of the gender diversity figures for the Company, please refer to the Resources and Responsibilities section on page 86 of this report.





# INVESTMENT COMMITTEE REPORT



**Kim Bradley**
Chairman of the Investment Committee

## INDEPENDENT AND OBJECTIVE REVIEW AND CHALLENGE OF THE GROUP'S INVESTMENTS

**Dear Shareholders**

I am delighted to report on the work of the Investment Committee (the Committee) during 2022. The Investment Committee was established to provide an independent and objective review of investment opportunities and performance, within the scope of its Terms of Reference.

The Investment Committee is central to the Company's investment process. It plays the key role in making decisions on portfolio investments and exits and managing all aspects of investment policy and strategy. It scrutinises, challenges and ultimately either approves or disapproves investment and divestment proposals and initiatives, including significant add-on investment for the existing portfolio companies. It also considers the commercial terms of Major Transactions[1] and reviews the pipeline of investment opportunities ensuring that management retains strategic focus. The Committee is also a key part of Georgia Capital's corporate governance framework – all Directors are members of the Investment Committee, which is chaired by me, an Independent Non-Executive Director, and not by the Chairman/CEO.

This year, the Committee focused on reviewing the strategies and business plans of some of the portfolio companies as well as a number of proposals from management. The Committee also oversaw the implementation of the Company's Responsible Investment Policy and will play a key role in ensuring it is adhered to going forward.

In addition, the Committee assisted with the implementation of the Group's updated 2022 strategy, details of which can be found in the Strategic Review in this report.

**Kim Bradley**
Chairman of the Investment Committee
23 March 2023

**Composition**

The composition of the Investment Committee is a matter for the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Investment Committee. Presently, all Directors are members of the Investment Committee.

At the time of writing, the composition of the Investment Committee is under review.

**Key purpose and responsibilities**

The Investment Committee is responsible for managing all aspects of investment policy and its strategy for the Company and provides oversight of the Company's investments within strategy and risk frameworks. In addition, the Investment Committee's responsibilities include:

- selecting investment opportunities based upon recommendations of the executive management; such recommendations to be based upon in-depth, rigorous analysis (of business plans, financial statements, projections, risks and rewards, fit with the Company's strategy, etc.) as well as the legal structure of the investment;
- ensuring that the Company's Responsible Investment Policy is applied;
- considering divestment opportunities based upon the recommendations of the executive management team; such recommendations to be based upon the review of the potential divestment target, assessment of the potential buyer universe, analysis of the optimal transaction structure and a detailed outline of institutionalised sales process to be followed;
- reviewing the material commercial and legal terms of relevant Major Transactions;
- assessing the risks and rewards and general attractiveness and suitability of proposed Major Transactions;
- where it deems appropriate, making investment recommendations and providing ongoing guidance on pricing, contractual negotiations and other considerations prior to signing;
- reviewing each Major Transaction and its development at least twice per year, or more often if necessary; and
- ensuring that management has the appropriate plans and controls in place, with the necessary resources and capability to manage the investment risk framework.

1 "Major Transaction" is an investment opportunity, acquisition or disposal which is in excess of GBP 2.5 million.

# INVESTMENT COMMITTEE REPORT CONTINUED



**Key activities**
The Investment Committee's role is to provide oversight of investment activity and challenge management where appropriate. As reported elsewhere in this Annual Report on page 129 an important part of this process is the visits to portfolio companies and the meetings with senior management that take place throughout the year, which gives members of the Committee real insight into the operations and is fundamental to the Board's approach to corporate governance. The Committee continued to revisit in detail the business plans and strategy of certain portfolio companies with particular attention on the impact of the current macroeconomic climate.

Elsewhere in this Annual Report, you will read about how the Company is responding to climate change and its new disclosures on Climate change risks, opportunities and overall climate change matters. The Committee has been driving this beyond the requirements, and in February 2022 approved a new Responsible Investment Policy. The Policy is integrated into our investment and portfolio management processes and procedures. This enables environmental and social aspects to be captured where they may directly or indirectly affect corporate and portfolio company performance or impact stakeholders. The policy is available on website at **https://georgiacapital.ge/governance/cgf/policies**.

The Committee reviewed the local bond issuances by JSC Georgia Real Estate (US$ 35 million) and Georgian Renewable Power Operations JSC (US$ 80 million). The transactions, completed during challenging debt capital market conditions, represent milestone achievements for the businesses. More details on these transactions are set out on page 13 of this report.

The Committee also reviewed the Modified Dutch Auction, conducted by JSC Georgia Capital, through which it bought back US$ 29.2 million Eurobonds. In addition to the tendered amount, it had accumulated US$ 87.0 million Eurobonds through repurchases on the open market in 2022.

The Committee reviewed the performance and valuation of the investments in the beer and wine businesses, education, retail and banking sectors. Each of these reviews included a detailed review of the respective markets in which these businesses operate. An important component of these reviews is monitoring of the exit opportunities and where appropriate, an exit strategy.

During the year, the Company's cash investments amounted to GEL 53.4 million, of which:
- GEL 6.3 million was invested in the education business, in line with GCAP's capital allocation outlook.
- GEL 19.2 million was allocated to the housing development business for the bridge financing of the business.
- GEL 27.4 million represents the conversion of the US$ 10 million shareholder loan to the renewable energy business into equity.

The investments in 2022 also include GEL 142.6 million in loans converted into equity, primarily to our beverage and real estate businesses, and GEL 27.4 million in the conversion of a US$ 10 million shareholder loan to the renewable energy business.

In 2022, the Committee was regularly updated and consulted on the underlying operating performances across the Company's private portfolio, noting that it remained solid. In addition, the Committee considered an acquisition in the education business which was expected to complete in 2023.

Under the Committee's oversight, the Company also demonstrated progress on the divestment of assets. In 2022, the Company successfully completed the disposal of an 80% stake in the water utility business, which represents our most significant monetisation event to date and marks the completion of the full investment cycle for one of our large portfolio businesses: from acquisition and development to cash exit.

The disposal realised US$ 180 million cash proceeds in February 2022 and created substantial value for our shareholders. This also further validates GCAP's NAV and marks the delivery of the Company's key strategic priority, announced in November 2020, to dispose of one of our large businesses. At the same time, proceeds from the sale also have a significant positive impact on the Group's leverage profile.

During the year, the Committee has received regular briefings on the impact of the war between Russia and Ukraine, which began in February 2022. The conflict has created significant uncertainties in the economic environment in the region and beyond. However, with limited direct exposure to Russia or Ukraine, our portfolio of high-quality and defensive companies has remained resilient in the face of geopolitical tensions.

In the Strategic Report (page 64), you will find a description of how the Directors discharge their duties under section 172 of the Companies Act 2006 when making decisions such as these. It is also worth noting that at each of its quarterly meetings the Investment Committee receives a detailed update on the regional and Georgian economy and the prevailing political and societal climate. This information is crucial to the Investment Committee's decision-making process.

Since the last Annual Report was published, an external evaluation of the effectiveness of the Board was undertaken which encompassed the Investment Committee. The evaluation concluded that there was appropriate supervision, challenge and robust discussion.

Despite the continued strong recovery of the Georgian economy during 2022, we expect 2023 to still be a challenging year as the uncertainties around political and economic risks still remain.

**Priorities for 2023**
- Closely monitor and collaborate with portfolio companies on recovery pace, given uncertainty over continued fiscal stimulus in 2022.
- Disciplined exits of the subscale portfolio companies over the next two to three years.
- Ongoing in-depth review of portfolio businesses and investment monitoring meetings that will complement the Investment Committee's annual oversight.
- Focus on operational execution.
- Focus on how investments are performing against the basis on which approval was given.
- Deleveraging GCAP HoldCo by bringing down the NCC ratio below 15% by December 2025.
- Reduce and maintain portfolio companies' leverage to respective targeted levels.
- Ensuring portfolio monitoring and review metrics remain valid and appropriate.
- Review the Responsible Investment Policy.



# AUDIT AND VALUATION COMMITTEE REPORT



**David Morrison**
Chairman of the Audit and Valuation Committee

## COMMITMENT TO COMPREHENSIVE AND TRANSPARENT REPORTING

**Dear Shareholders,**
I am pleased to present the Audit and Valuation Committee's (the Committee) report for the year ended 31 December 2022.

The Committee devotes significant time to its tasks and met 10 times during the year. Our principal focus in 2022 was oversight of valuations of private portfolio companies and related valuation policies and procedures. The Committee reviewed in detail quarterly, half-yearly and annual valuations of the Company's private portfolio companies and monitored compliance with the Valuation Policy and fair value measurements under IFRS 13.

I reported last year that the Committee conducted a full tender process for the provision of external audit and audit-related services at the beginning of 2022. The tender exercise and subsequent appointment of PwC is discussed in detail later in this report.

Through the Head of Internal Audit, the Committee, along with management, oversees the Internal Audit functions of the GHG businesses (Hospitals, Retail (pharmacy), Medical Insurance and Clinics and Diagnostics). A new Head of Internal Audit, Giorgi Berishvili, was appointed during the year and the Committee oversaw the appointment process and worked with Mr Berishvili to further develop the Internal Audit function.

Other important areas of focus in 2022 included consideration/monitoring of the financial reporting implications of the disposal of the water utility business, and the implications of the Russia-Ukraine war and the residual impact of the COVID-19 pandemic on the valuations of the Company's unquoted investments. Although the Georgian economy has demonstrated great resilience in 2022, tensions in our region continue to present challenges.

Kim Bradley will not be seeking re-election at the 2023 AGM and the composition of the Committee from that date is under consideration by the Nomination Committee. We were pleased to be able to hold some meetings in person in 2022 following almost two years of travel restrictions due to the COVID-19 pandemic. Further details about our work are set out on the pages 140-144.

**David Morrison**
Chairman of the Audit and Valuation Committee
23 March 2023

# AUDIT AND VALUATION COMMITTEE REPORT CONTINUED



**Introduction and key purposes and responsibilities**
This report outlines the functioning and activities of the Committee during the reporting period, including an overview of the key areas of activity and principal topics covered at each Committee meeting.

On behalf of the Board, the Committee monitors the integrity of the Company's Annual Report and Accounts and oversees the conduct of financial reporting and the valuation process that drives it. The Company is an investment entity as defined in IFRS 10 and, as a result, measures its investments in portfolio companies at fair value (through profit or loss) instead of consolidating them. The Committee also oversees internal controls, risk management and Internal Audit, and supervises the work of our external auditor.

The Chairman of the Committee reports to the Board on how it has discharged its responsibilities at a subsequent Board meeting and makes recommendations to the Board. Details of the Committee's roles and responsibilities are outlined in the Committee's Terms of Reference. These Terms of Reference are subject to annual review.

**Composition and operations of the Committee**
The Committee members are David Morrison (Chairman), Kim Bradley and Massimo Gesua' sive Salvadori, all of whom are Independent Non-Executive Directors. Caroline Brown ceased to be a director following the 2022 AGM and Kim Bradley joined the Committee on the same date.

For the purposes of the Code and of Disclosure, Guidance and Transparency Rule 7.1, the Board is satisfied that all members of the Committee have recent and relevant financial experience and the Committee as a whole has competence relevant to the sector in which the Company operates. Please refer to the detailed biographies of the Committee members on pages 126-127, which include their financial experience and reasons for appointment to the Board and the Committee.

The meeting attendance of the Audit and Valuation Committee can be seen on page 131. The Company Secretary is Secretary to the Committee and attends all meetings. Meetings are also attended by the Chief Financial Officer, the Head of Technical Accounting and Valuation, the Head of Finance and the Head of Internal Audit.

In addition, representatives of PwC, the Company's external auditor, are invited to attend several meetings of the Committee each year. On some occasions, invitations to attend are extended to other members of the Board and management where necessary, to provide a deeper level of insight into key issues and developments. The Committee also meets each year with the external auditor and the Head of Internal Audit without management present to allow discussion of any issues of concern in greater detail.

The Committee works on a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. The Committee also reacts to business developments as they arise. Mr Morrison will be available at the AGM to respond to any questions from shareholders that may be raised on the Committee's activities.

**Activities of the Committee in 2022**
The table below summarises the Committee's activity during 2022.

| Area of focus | Core activities |
|---|---|
| **Financial reporting** | • Reviewed the appropriateness and disclosure of accounting policies and practices.<br>• Reviewed the Annual Report and Accounts content and advised the Board on whether the Annual Report was fair, balanced and understandable.<br>• Reviewed the Company's annual and interim financial statements and quarterly accounts relating to the Company's financial performance, including the significant financial reporting policies and judgements contained in them and, in particular, the valuation of portfolio companies (see below).<br>• Reviewed and recommended to the Board for its approval the Going Concern and Viability Statements.<br>• Reviewed overall presentation of APMs, evaluated clarity of reconciliations and challenged the nature of adjusting items.<br>• Reviewed the accounting for the Modified Dutch Auction executed by JSC Georgia Capital to repurchase and cancel a portion of its outstanding Eurobond, maturing in March 2024.<br>• Reviewed the Company's Sustainability Report and TCFD disclosures and referred it to the Board for approval. |
| **Valuation** | • Ensured that the Valuation Policy is continuously and consistently applied.<br>• Ensured that the Valuation Policy complies with IFRS 13, Fair Value Measurement, and with the obligations within any agreements in place, legislation, regulations, guidance and other policies of the Company.<br>• Reviewed quarterly, half-yearly and annual valuations of the Company's portfolio investments in light of recent market developments and the future business plans of portfolio companies, including for the large and investment stage private portfolio companies, summaries prepared and presented to it by management of reports by an independent valuation firm, and monitored the compliance with the Valuation Policy and IFRS 13.<br>• Considered the extent of valuation disclosure in the Company's annual and interim reports. |
| **Risk and control environment** | • Reviewed and assessed the effectiveness of GCAP internal controls and risk management processes.<br>• Reviewed IFRS 10 requirements and ensured that the Company continues to meet the definition of investment entity.<br>• Reviewed the results of risk identification and assessment work performed by management.<br>• Reviewed the Board's approach to assessing the Company's long-term viability.<br>• Reviewed reports from the external auditor where they have looked at internal controls as part of the annual audit process.<br>• Reviewed the Company's principal risks and uncertainties statement included in the Annual Report and supporting stress test scenarios.<br>• Regularly monitored the internal and external environment to ensure that any new or emerging risk is identified in a timely manner and responded to appropriately. As a result of the principal risks assessment, no new risks relating to the Company or the portfolio businesses were identified. Risks relating to COVID-19 and the Russia-Ukraine war were monitored regularly throughout the year. |



| Area of focus | Core activities |
|---|---|
| **Internal Audit** | • Reviewed reports of internal audits, monitored action points and addressed actions arising from audit visits.<br>• Reviewed and approved the 2022 Internal Audit Plan.<br>• Monitored and reviewed (i) the effectiveness of the Company's Internal Audit function via a quality assessment report which examines the Internal Audit function for conformance with mandatory internal audit training requirements, whether the Audit Committee and management expectations of Internal Audit are being met, and opportunities for improvements are identified; and (ii) implementation of the enhanced Internal Audit function agreed with Internal Audit.<br>• Approved the annual budget for the Internal Audit function.<br>• Reviewed the Internal Audit Charter. |
| **External audit** | • Completed an external audit tender process for 2022 leading to the appointment of PwC.<br>• Monitored the effectiveness and performance of PwC.<br>• Reviewed and confirmed the objectivity and independence of the external auditor.<br>• Reviewed the 2022 Audit Plan including the approach, scope and risk assessments and significant audit risks.<br>• Agreed the terms of the external auditor's engagement and fees.<br>• Approved the policy for non-audit fees. |
| **Governance** | • Reviewed governance processes in place to oversee the valuation of portfolio companies.<br>• Reviewed and approved the Terms of Reference of the Audit and Valuation Committee.<br>• Reviewed and approved the Whistleblowing, Anti-Bribery and Anti-Corruption and Non-Audit Services Policies.<br>• Evaluated the effectiveness of the Committee. |

| Significant accounting and financial judgement matters considered | How the Committee addressed the matter |
|---|---|
| **Portfolio company fair value estimation and disclosure** | Reviewed quarterly, half-yearly and annual valuations of the Company's portfolio investments presented to it by management. Reviewed and challenged assumptions and judgements applied by management and third-party valuation experts and the appropriateness of their scope of work.<br><br>The Committee considered and challenged whether management followed appropriate valuation standards as reflected in the Valuation Policy and used appropriate judgement. The Committee considered in discussions with the external auditor the methods used to account for significant or unusual valuations where different approaches are possible (unusual valuations include first-time valuations of the greenfield projects and valuation of the private portfolio companies at sale price). The Committee also challenged the implications relating to climate change, the impact of the Russia-Ukraine war and global macroeconomic trends in the valuations of the Company's portfolio investments. As a result, the Committee was satisfied with the appropriateness of valuation methods used and the reasonableness of assumptions and judgements applied in valuation. |
| **Going concern and viability** | The Committee considered management's assessment of the Company's ability to continue as a going concern and its long-term viability taking into consideration the ongoing impact of global macroeconomic trends and the Russia-Ukraine war. The Committee reviewed and challenged the inputs and assumptions made during the assessment and ensured that disclosures in the Annual Report and Accounts are appropriate. The Committee was satisfied with the reasonableness of the inputs and assumptions made during the assessment, as well as the sufficiency and appropriateness of disclosures. |
| **Investment entity status** | The committee continued assessing the Company's compliance with IFRS 10 criteria for meeting investment entity status. In making this assessment, the Committee considered each criteria and characteristic described in IFRS 10, as well as developments during the year, and is satisfied that the Company continues to meet the definition of an investment entity as of 31 December 2022. |
| **Fair, balanced and understandable reporting** | See below. |

**Key activity highlights:**
**Financial reporting and valuation**
The following discussion adds colour to the summary of the activities described in the table above. In each area of activity, the Committee considered the financial implications of a number of business developments, with a major focus on the impact of difficult global and regional economic conditions and the Russia-Ukraine war.

A principal responsibility of the Committee is to consider significant areas of complexity, judgement and estimation that have been applied in the preparation of the financial statements. This includes ensuring that the Annual Report and Accounts and the quarterly and half-year reporting, taken as a whole, are fair, balanced and understandable and comply with disclosure requirements as discussed in greater detail below.

During 2022, the Committee received detailed reporting from the external auditor in respect of key areas of audit focus and these were in some instances discussed without management present. In addition, regular reports were received from the CFO on the financials and internal controls and where appropriate, reports and feedback from internal and external advisors were presented to the Committee to enhance the quality of our reporting.

As the investment portfolio comprises a number of private companies, the Audit and Valuation Committee and our external auditors spend a significant amount of time considering and challenging management's valuations. The assessment of fair value is subjective and requires a number of significant and complex judgements to be made by management. In 2022, the Committee oversaw the independent valuations, performed by third-party valuation experts, establishing fair value ranges for all large and investment stage private portfolio companies, of which the renewable energy and education businesses were valued by a third-party valuation firm for the first time. For these businesses, the valuation methodology applied by the independent experts was reviewed in detail by the Committee, as well as key assumptions used and the most appropriate point in the established range was selected for each business. For the "other" private portfolio companies, the Committee reviewed and challenged the valuation inputs selected by management as for prior periods. With the external auditors, the Committee reviewed in detail both (i) the auditors' assessment of the

# AUDIT AND VALUATION COMMITTEE REPORT CONTINUED



methodologies applied by the independent valuation company for the large and investment stage private portfolio companies and by management for the "other" assets, and (ii) the basis for their independent assessment of the valuations. The Committee also ensured that the valuations reflected climate change, the impact of the Russia-Ukraine war and global and regional economic trends, as well as the future business plans of portfolio companies.

Full details on our valuation policies and procedures which are overseen by the Committee can be found on page 71 (please see valuation workgroup) and page 101 (please see valuation methodology). The Committee also reviewed and challenged the inputs used in the valuation of the water utility business. Following the disposal of an 80% stake, the fair value of the remaining 20% interest in the business was assessed by the application of the pre-agreed put option multiple to the normalised LTM EBITDA of the business.

Management, under the supervision of the Committee, considers the suitability of the accounting policies which have been adopted, ensuring that key reporting estimates and judgements were appropriate, including the assessment of appropriateness of continuing the investment entity accounting, and ensuring that the external auditors were afforded timely and full access to relevant information.

Using our own independent knowledge of the Company and its portfolio investments, but also taking into account the external auditor's assessment of risk, the Committee has, where necessary, challenged the actions, estimates and judgements of management in relation to the preparation of the financial statements. When considering financial reporting, the Committee assesses compliance with relevant accounting standards, regulations and governance codes. In particular, the Committee continues its robust review of going concern and viability assessments under a number of scenarios.

**Fair, balanced and understandable reporting**

The Committee reviewed quarterly, half-yearly and annual financial statements, and performance updates and assessed whether they provide a true and fair view of the Group's affairs at the end of the period as well as provide shareholders with the necessary information in a fair, balanced and understandable way in order to enable them to assess the Group's position, performance, business model and strategy.

As part of that review, the Committee considered the APMs used by the Company, challenged management and is satisfied that these are appropriate. It also considered the prominence of the APMs in the reporting. The Committee confirmed that the requirements of the Disclosure, Guidance and Transparency Rules and the mandatory guidelines issued by the European Securities and Markets Authority on APMs were met and the reconciliation between the APMs and the IFRS results was clear, balanced, and understandable. You can read more about APMs, including the applicable IFRS reconciliations, on pages 96-100 of the Annual Report. In reviewing the 2022 Annual Report and Accounts, the Committee considered whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

When forming its opinion, the Committee considered the following questions in order to encourage challenge and assess whether the Annual Report was fair, balanced and understandable:

| | |
|---|---|
| **Is the Annual Report *fair*?** | • Is the whole story presented?<br>• Have any sensitive material areas been omitted?<br>• Are the KPIs disclosed at an appropriate level based on the financial reporting? |
| **Is the Annual Report *balanced*?** | • Is there a good level of consistency between the front and back sections of the Annual Report?<br>• Is the Annual Report a document for shareholders and other stakeholders?<br>• Is there good level of balance between IFRS figures and alternative performance measures? |
| **Is the Annual Report *understandable*?** | • Is there a clear and understandable framework to the report?<br>• Is the Annual Report presented in straightforward language and a user-friendly and easy to understand manner?<br>• Does the Annual Report provide sufficient information to understand the Group's performance, business and strategy, as well as its corporate governance and risk management frameworks? |

In making this assessment, we:

- satisfied ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency;
- reviewed several drafts of the 2022 Annual Report and Accounts and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO; and
- considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor.

After consideration of all this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

**Risk management and control environment; Internal Audit**

The Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over reporting and risk. Where areas for improvement are identified, the Committee ensures that there are the correct processes in place to effectively take action to address them. Further information on risk management and internal controls can be found on pages 68-72.

The Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. As part of the regular reporting from the Chief Financial Officer and the finance team regarding the operating performance of the portfolio companies, the strength of the internal control environment is considered. Management also provides updates on how risks, for example, bribery and information security, are managed within particular business areas, and updates are presented to the Board or the Committee as appropriate. Further, during the year, the Internal Audit function continued to assist management to perform certain risk identification and assessment activities at the private portfolio companies, the results of which were presented and discussed at the Committee meetings.

The Committee monitors the scope and effectiveness of the Group's Internal Audit function. It also reviews, approves and oversees the Internal Audit Plan, which is designed using a risk-based approach aligned with the overall strategy of the Group. Throughout the year, we received regular reports from Internal Audit on the progress of the Internal Audit Plan and on the audits themselves, including significant findings as well as the corrective measures recommended to management. We also reviewed and monitored management's responsiveness to the corrective measures and found that, in general, management accepted recommendations and used them as a basis to improve processes. Following almost two years of meeting and travel restrictions that hindered the Internal Audit programme, the programme is now back on track. The Committee also reviewed the new Head of Internal Audit's proposals to enhance the effectiveness of the Internal Audit function and to raise its profile across the Group.

Throughout the year, the Committee also reviews the regular interim reports from the external auditor, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit.

The processes described above ensure that the effectiveness of the controls is reviewed on an ongoing basis, and we are pleased to report that no significant weaknesses in our risk management processes or internal controls were identified this year.

**Internal Audit effectiveness**

As noted above, the Committee continued, on behalf of the Board, to oversee the Internal Audit function, which serves as independent assurance over the adequacy of the systems and processes of risk management and control across the Company.

The Head of Internal Audit has direct access to the Committee and the opportunity to discuss matters with the Committee without other members of management present. We also monitor the resources dedicated to Internal Audit as well as the relevant qualifications and experience of the team.

We reviewed the effectiveness of the Internal Audit department by considering progress against the agreed plan, taking into account the need to respond to changes in the Group's business and the external environment. During the year, Internal Audit provided assurance across a range of areas, including compliance process in Georgia Capital, sales and accounts receivable in beverages, inventory and cash management in auto services, corporate sales in pharmacy, and procurement and human resource cycles in various portfolio companies. We also considered the quality of the reporting by Internal Audit to the Committee and the ability of Internal Audit to address unsatisfactory results. On this basis, we concluded that the Internal Audit function is effective and respected by management, and that it conforms to the standards set by the Institute of Internal Auditors. The standards applied to Internal Audit are the "International Standards for the Professional Practice of Internal Auditing" (Standards) contained in the "International Professional Practices Framework" (IPPF) issued by the Institute of Internal Auditors (IIA). These require Internal Audit functions to develop and maintain a Quality assurance and Improvement Program which includes a periodic independent Quality Assessment of Internal Audit at least once every five years and ongoing internal monitoring of the performance of the Internal Audit activity. The Committee has endorsed a plan by the new Head of Internal Audit to have an external assessment of the Internal Audit function completed by the end of 2023.

**External audit**

Oversight of the relationship between Georgia Capital and the external auditor is one of the Committee's key responsibilities. With respect to our responsibilities for the external audit process on behalf of the Board, we:

- approved the annual Audit Plan, which included setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgements;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirements;
- recommended the appointment of the external auditor; and
- reviewed audit fees.

**Audit tender**

PwC was appointed by shareholders at the 2022 AGM as the Group's statutory auditor for a three-year period, following a competitive tender process conducted for the provision of external audit services for three years (2022, 2023 and 2024) beginning with the review of Financial Statements for six months ending 30 June 2022. This process was fully described in the Audit and Valuation Committee report in the 2021 Annual Report (page 141). Prior to the appointment of PwC at the 2022 AGM, the Group's auditor was Ernst & Young.

For the audit of the Financial Statements in this Annual Report, the Company complied with the mandatory audit processes, including The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 ("CMA Order"), and the Committee complied with the responsibility provisions set out in the CMA Order relating to: (a) putting the audit services engagement on tender every ten years; and (b) strengthening the accountability of the external auditors to the Committee, including: requiring that only the Committee is permitted to agree to the external auditors' fees and scope of services; influence the appointment of the audit engagement partner; make recommendations regarding the appointment of auditors; and authorise the auditors to carry out non-audit services.

**Auditor effectiveness**

We have an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the Audit Plan, including the materiality level set by the auditor and the process they have adopted to identify financial statements risks and key areas of audit focus;
- regular communications between the external auditor and both the Committee and management, including discussion of regular papers prepared by management and the external auditor;
- regular discussions with the external auditor (without management present) and management (without the external auditor present) in order to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a review of the annual FRC Audit Quality Inspection Report of the external auditor.

As referenced in the Company's last annual report, an assessment of the effectiveness of the external auditor was carried out during the 2022 audit through the use of a questionnaire completed by all Committee members and also the Chief Financial Officer, members of the finance team and the Company Secretary. The questionnaire addressed a number of issues including:

- the quality of the auditors' involvement and their understanding of the Company;
- co-ordination between the London and Tbilisi offices;
- governance and independence;
- audit scope, planning and execution; and
- quality of the challenge to management and the Committee from the external auditor.

Following which, the Group went through an audit re-tender process. On completion of the audit process for this financial year, the Committee will seek to undergo a similar audit effectiveness review exercise.

The Chairman engages directly with the relevant PwC audit Lead Partner, Allan McGrath.

An example of where PwC has demonstrated notable professional scepticism and challenge has been on the valuation methodology for auditing the valuations of the Group's portfolio companies.

**Auditor independence**

The Committee has the responsibility for developing, implementing and monitoring policies and procedures on the use of the external auditor for non-audit services, which help to ensure that the external auditor

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maintains the necessary degree of independence and objectivity. This is supported by the Company's Non-Audit Services Policy.

The Committee has undertaken a formal assessment of PwC's independence, which included a review of: a report from PwC describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and the value of non-audit services provided by PwC. PwC has confirmed that they believe they remained independent throughout the year from the date of their appointment at the May 2022 AGM, within the meaning of the regulations on this matter and in accordance with their professional standards.

**Non-Audit Services Policy**
The Committee reviewed the Non-Audit Services Policy during 2022, safeguarding the external auditor's independence and objectivity. The provision of non-audit services by our external auditors aligns with the Revised Ethical Standard. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Committee except in very narrow circumstances. The Group's Non-Audit Services Policy is available on our website at: **https://georgiacapital.ge/governance/cgf/policies**.

The ratio of non-audit fees to audit fees for 2022 is 0:1. As indicated in Note 9 of the audited IFRS financial statements for 2022, the total fees paid to the external auditor for the year ended 31 December 2022 was GEL 1.6 million. The Committee is of the view that engaging PwC on occasions for non-audit work is likely to be the most efficient method of having those particular services delivered to the Company, and does not consider this work would compromise the independence of the external auditor.

**Compliance**
During 2022, the Company complied with the CMA Order and the Code.

**Governance**

**Whistleblowing, conflicts of interest, anti-bribery and anti-corruption**
The Committee conducts an annual review of the Company's policies in its remit, and it is the responsibility of the Committee to ensure that there is a robust governance framework and effective procedures are in place.

This included a review of the Whistleblowing Policy. Under the Code, it is the responsibility of the Board to have oversight of whistleblowing within the Company and accordingly, following its review of the policy the Committee made an appropriate recommendation to the Board.

The Committee is responsible for the Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts. The Board continues to monitor potential conflicts of interest, and recommends to the Board to consider whether these should be authorised.

The Committee keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing. There were no significant findings in 2022.

**Committee effectiveness review**
Since the last Annual Report was published, an external evaluation of the effectiveness of the Board was undertaken which encompassed the Audit and Valuation Committee. The effectiveness evaluation concluded that there was appropriate supervision and challenge.

**Continuing education and training**
The entire Board has received training on the Code, and often receives information and regulatory updates that could impact the work of the Committee. The Committee received updates on UK regulatory audit reforms and were informed of the International Private Equity and Venture Capital Valuation (IPEV) guideline alterations.

**Priorities for 2023**
Our priorities for 2023 include among others, continued focus on:
- monitoring new and emerging risks, including the Group's continued response to the war in Ukraine;
- monitoring compliance with the Group's valuation policy, individual portfolio company valuations and the effectiveness of external valuations;
- monitoring the financial reporting implications of strategic actions taken by the Group, including dispositions and acquisitions;
- ensuring continued integrity and balance in the Group's financial reporting;
- monitoring the control environment and its appropriate roll-out at the various portfolio companies;
- development of the Internal Audit function around the new Head of Internal Audit;
- review compliance with TCFD requirements and referred these matters to the Board, where necessary;
- following developments on the planned enactment of legislation in the UK around audit and corporate governance reform;
- continuing to build a good working relationship with PwC; and
- review and incorporate, where possible, the FRC's publication of a consultation on a draft minimum standard for audit committees.

**David Morrison**
Chairman of the Audit and Valuation Committee
23 March 2023





# DIRECTORS' REMUNERATION REPORT



**Jyrki Talvitie**
Chairman of the Remuneration Committee

## INNOVATIVE ALIGNMENT OF REMUNERATION WITH SHAREHOLDERS' INTERESTS AND EXPERIENCE

**Dear Shareholders**
I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022, which was a renewal year for our Directors' Remuneration Policy.

**Directors' Remuneration Policy renewed**
Further to strong support by shareholders of the 2019 Directors' Remuneration Policy, as disclosed in last year's Annual Report we did not make any substantial changes to the 2022 Directors' Remuneration Policy.

The Remuneration Committee was pleased that the Directors' Remuneration Policy received 94% approval at the 2022 AGM.

The Directors' Remuneration Report also received 94% approval at the 2022 AGM. The Committee has been strongly encouraged by this level of shareholder support.

**Overview of remuneration structure**
We believe that our Executive Director should fully share the shareholder experience and are pleased that our shareholders strongly supported at the 2022 AGM that our highly unusual shareholder-aligned approach to remuneration should be retained.

Our Executive Director Irakli Gilauri's salary, as well as his performance-based remuneration, is comprised of deferred shares alone. Salary and the maximum opportunity for the performance-based remuneration (discretionary deferred shares) are set in a number of shares. By setting a fixed number of shares (rather than a cash figure) our Executive Director salary is aligned with the share price performance of the Company and ensures that the Executive Director will not (unlike in other companies) receive a windfall gain by receiving a higher number of shares when awarded at a lower share price.

The renewed Policy retains the same number of shares for salary and for the maximum opportunity as presented to shareholders for their approval three years ago – there was no increase in salary nor incentive in the 2022 Policy.

The structure of the Policy follows relevant guidance including:
- Executive pension contributed by the Company to be the same as for employees (although our Executive Director Irakli Gilauri has waived his pension entitlement).
- Shareholding guidelines with an equivalent of 200% of salary (as compensation vests in tranches, the shareholding is built up organically). Shareholding requirements are to be maintained for two years' post-employment.
- Both fixed salary and variable compensation vest over several years and Irakli Gilauri has no cash salary and no cash bonus.
- Malus and clawback provisions are consistent with best practice. Unusually, malus may also be triggered in certain circumstances over the salary shares.

Our Group's purpose is to provide investors with an opportunity to invest in the historically fast-growing Georgian economy by giving them access to attractive investments with long-term grown potential. Through our unusual and innovative structure which remunerates our Executive Director solely in deferred shares, our shareholder interests' and experience are strongly aligned with those of our Executive Director and our Executive Director is also similarly invested in the Georgian economy and our investment companies.

Our values are being entrepreneurial, having a learning mindset and maintaining the highest standard of ethics including by setting the tone at the top. The structure encourages the Executive Director to be entrepreneurial and to grow the Group according to high standards (on the basis that a short-termist view negatively impacts share price in the medium to long term), so that the value of his remuneration increases in line with that of the Company share price. Additionally, as part of the Executive Director's discretionary deferred share opportunity, we include a cultural KPI covering active mentoring and personal development.

**Enhanced disclosure on remuneration matters**
We continued to take into account shareholder and stakeholder feedback in disclosing more detail on the KPIs. In response to stakeholder feedback on the Policy in the lead up to the 2022 AGM, we noted that while the Committee retains discretion under the Policy, including to override formulaic outcomes in accordance with the UK Corporate Governance Code, since the 2020 Annual Report we have disclosed (i) threshold, target and outperformance targets, and (ii) the weighting, for each KPI. The enhanced disclosure of these measures contrast to when the Policy was last submitted for shareholder approval in 2019.

In line with increasing market practice we also disclose our mechanisms of enforcement of the malus and clawback. The malus and clawback triggers are set out in the Executive Director's contract.

# DIRECTORS' REMUNERATION REPORT CONTINUED



**What's in this report**
This Annual Report on Remuneration includes the Annual Statement by the Chair of the Remuneration Committee, describes the implementation of Georgia Capital PLC Directors' Remuneration Policy, includes a Summary of the Director's Remuneration Policy approved at the 2022 AGM and discloses the amounts earned relating to the year ended 31 December 2022.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report has been prepared in line with the recommendations of the Code and the requirements of the FCA Listing Rules.

Furthermore, under the rules of the share plan, the trustee may cause shares to lapse (malus) or to be recovered (clawback) including in accordance with the provisions of the Executive Director's contract. Lastly, as part of each grant process, the Executive Director signs a confirmation that they agree to be bound by the terms and conditions set out in the rules of the share plan, including the malus and clawback provisions.

Similarly, the Committee also confirms that the 200% shareholding requirement to be built up and held for two years' post-employment, is included as an express provision in Irakli Gilauri's contract, and further unvested shares (remuneration vests in tranches) are held in the employee benefit trust.

**Non-Executive Directors' fees**
The renewed Policy did not propose any changes to the section covering the approach to Non-Executive Directors fees. The previous changes made to the Audit and Valuation Committee fees (which reflected their additional responsibilities following the expansion of the Committee (from an Audit Committee to an Audit and Valuation Committee) on 31 December 2019), the suspension of the increased fee until 2021 to reflect the impact of COVID-19, and the suspension of the Nomination Committee's member fees during 2020 to reflect the impact of COVID-19, were covered in the 2020 and the 2021 Directors' Remuneration Reports.

Fees paid in 2022 took into account the changes in Board and Committee membership during the year as covered in the Governance section on pages 156.

**2022 performance outcomes**
The Committee considered the CEO's performance during 2022, which was an eventful year for the Group. The Committee noted that the impact of the Russia-Ukraine war, which broke out in February 2022, forced the Company to change priorities and strategy in preparation for the negative effects of the conflict in its region. Adjusted priorities included reducing Ukrainian/Russian risk within the Group, deleveraging, cutting costs and securing funding for the portfolio companies.

Within this challenging environment, the Group successfully completed the sale of an 80% interest in the water utility business to a high-quality international strategic investor for US$ 180 million. The disposal marked the completion of the full investment cycle for one of its large portfolio businesses and created substantial value for shareholders.

The renewable energy and housing development businesses closed milestone transactions on the Georgian capital market, and validated the Group's superior access to capital. At the same time, the US$ 80 million green secured bond offering by its renewable energy business represented the largest-ever corporate bond placement in Georgia.

Buybacks and cancellation of GCAP Eurobonds demonstrated strong progress on the key strategic priority of deleveraging GCAP. By the end of 2022, the Group repurchased US$ 116 million GCAP Eurobonds, of which US$ 65 million notes were cancelled following a Modified Dutch Auction. These positive developments in the leverage profile, coupled with our robust balance sheet and capital allocation processes, led to a 10.8 ppts decrease in the NCC ratio in 2022. This also resulted in an upgrade in corporate credit ratings to "B1" by Moody's and "B+" by S&P (from "B2" and "B", respectively).

As a result of the war, valuations were severely affected as we increased portfolio company WACCs across the board by around 2% and peer company multiples contracted accordingly. The significant strengthening of the local currency, Georgian Lari (GEL), caused in part by the inflow of migrants and related money inflows, also brought unexpected effects.

In March 2022, the Georgian Government without prior warning decided to end the usage of dedicated hospitals as COVID hospitals earlier than expected, leaving the industry to deal with adjustment periods to normal usage of the hospitals of up to nine months and caused our hospitals business to underperform against budgets.

Overall, handling of the adverse market conditions and refocusing on minimising the effects of the Russian-Ukraine war were outstanding. Key areas within Mr Gilauri's control reflected outperformance of the targets. With a steady WACC and without the unexpected strong performance of the GEL, the total KPI performance assessment would have been over 85%.

The Committee took the stakeholder experience into account, including the US$ 25 million share buyback and cancellation programme, under which the Group repurchased 2,252,341 shares for a total consideration of GEL 54.3 million (US$ 18.1 million) during 2022. This brings the total number of shares bought back and cancelled to 6.4% of issued capital since the programme launched in August 2021.

They were also pleased to note that employee salaries had increased more than (and bonuses decreased less than) those of the Executive Director during 2022 – average employees' cash salaries increased by 4.1% and share salaries increased by 20.6% year-on-year (while the CEO's salary remained static). Employee's average bonus decreased year-on-year (-16%) but the CEO's bonus decreased more year-on-year (-35%).

The Remuneration Committee determined that the Executive Director would receive only 120,000 deferred shares (which corresponds to a discounted value of US$ 669,376) in respect of FY22 as opposed to 200,000 deferred shares (which corresponds to a discounted value of US$ 1,044,998) that the Executive Director received in respect to FY21 as part of his discretionary deferred share remuneration. This represents a decrease of 80,000 deferred shares and a 35% reduction to his bonus year-on-year. In determining the number of discretionary deferred shares to be awarded to the Executive Director, the Remuneration Committee took into account all of the circumstances, including (but not limited to) the performance of the Executive Director, including in respect of the adjusted priorities, and the change to the circumstances.

The Remuneration Committee retains discretion to avoid formulaic outcomes and to assess the overall reasonableness of the rewards. The Committee determined it would be unfair, in the circumstances of the war, to hold the CEO strictly to the KPIs based on pre-war assumptions, and that a small amount of discretion was appropriate in the circumstances to recognise the CEO's personal contribution and to ensure that he was fairly compensated for FY22 especially noting that the Executive Director would have achieved over 85% of his discretionary deferred share bonus opportunity had the Company decided not to adjust the WACC. As such, the Remuneration Committee determined to increase the CEO's discretionary deferred share remuneration (his bonus) by only 4.5% to 60% of the maximum discretionary deferred shares opportunity (which amounted to an additional 9,000 deferred shares being granted). As noted above, the Executive Director still received 80,000 fewer deferred shares in 2022 than the number awarded in 2021.

For his performance in financial year 2022, the Remuneration Committee determined to award Irakli Gilauri 120,000 deferred shares (60% of maximum opportunity) which will vest over four years and are subject to a further one year holding period. The explanation of how this has been decided is set out in section "Basis for determining Mr Gilauri's discretionary share compensation in respect of 2022" below.

**Other Remuneration Committee activities and workforce engagement**
During 2022 the Committee received updates on wider market trends, a market overview of remuneration practices, and insight into topics which were the most pertinent to our investors.

In October 2022, the Board announced that Irakli Gilauri's contract, which was due to expire in May 2023, had been extended to 31 December 2025. The Senior Independent Non-Executive Director noted in the announcement that Mr Gilauri has led Georgia Capital since its demerger from BGEO Group PLC in 2018 and during this time he has developed the Company into a unique institutional investment business in Georgia, with an excellent track record in accessing and developing high-quality management talent, accessing international capital markets, maintaining high standards of governance, finding attractive new investment opportunities and successfully monetising a mature portfolio company – our water utility business. The Board were pleased that Georgia Capital will continue to benefit from Mr Gilauri's experience, knowledge of the local business environment, his enthusiasm and commitment.

The Committee noted that Irakli Gilauri was not awarded a salary increase in 2022 and that there had been no increase to the salary of Irakli Gilauri since the Company had been listed in 2018 (indeed there was a decrease from the predecessor company).

The UK General Counsel updated the Committee on stakeholder matters, including market-wide letters and updated guidelines of proxy agencies. The Committee noted that the market expected restraint on annual increases to executive salary, and was pleased that the Company was aligned to market expectations on such matters. Feedback from and analysis of the small percentage of investors who voted against the Policy or the Report was considered by the Committee.

While the portfolio companies do not form part of the workforce of the holding companies, the Committee considered the wider workforce policies in 2022 and employee compensation. This covered salaries, pension, benefits, leave and working hours, training and development and number of staff by salary band. This was covered at the holding company level and the Committee considered the same for the main portfolio businesses including Healthcare businesses (Hospitals and Clinics and Diagnostics), Utilities and Renewables, Insurance, Wine, Beer, Distribution, Real Estate and Education.

The Committee noted that one of the portfolio companies had a shorter paid maternity leave policy than others and requested that this be investigated during 2023.

Kim Bradley is the Company's designated Non-Executive Director for workforce engagement, and was a member of the Remuneration Committee until late December 2022. Employees were able to raise matters relating to the workforce (including remuneration) through Mr Bradley. Further details on how the Board engages with its workforce can be found on page 135 in the Corporate Governance Framework section. There are only c.45 employees at the holding company level.

Average employees' cash salaries increased by 4.1% and share salaries increased by 20.6% year-on-year, and employee's average bonus decreased by 16% year-on-year.

An update to the current remuneration model and structure for Georgia Capital employees was approved in 2022, including levels of management discretion around roles and a new role of Senior Director within management. The Committee also noted that some salaries had remained unchanged in the preceding years, and approved that employee remuneration structures and amounts be increased in 2023 accordingly, reflecting rising inflation.

As detailed in the Group's Sustainability Report, the Group is currently further developing its understanding of climate change and approach to ESG. This helps the Board to understand and inform the Company's developing approach. The Committee noted the market increase in the use of ESG KPIs, but also investor sentiment that any ESG metrics should be measurable, linked to strategy and material to the Company and should not be used to increase overall quantum, and so in 2022 continued to be cautious regarding implementing specific ESG KPIs. The Remuneration Committee is considering further whether to incorporate ESG KPI in the Executive Director's remuneration structure moving forward, taking into account the group's new key strategic priorities.

The Committee recognises however that the correlation between ESG and the share price of companies is becoming increasingly established. From a remuneration perspective, the Committee notes that the majority of compensation delivered to its executive management is in shares, or phantom (proxy) shares, which are deferred for several years. The Committee also retains ultimate discretion over performance-based remuneration. Therefore, the incentive structure for executive management is naturally geared towards the medium to long-term success of our Group and does not raise ESG risks (or other material risks) by inadvertently motivating irresponsible behaviour.

An external evaluation of the effectiveness of the Board was undertaken by Amandla UK Limited (Amandla) in 2022 which encompassed the Remuneration Committee. The evaluation concluded that there was appropriate supervision. The Board and its members also underwent in depth evaluations. Further details are set out on page 166.

**Jyrki Talvitie**
Chairman of the Remuneration Committee
23 March 2023

Georgia Capital PLC Annual Report 2022

# DIRECTORS' REMUNERATION REPORT CONTINUED

### How the Remuneration Committee addressed the factors in provision 40 of the Code

The Remuneration Committee considered the requirements of the Code in determining the remuneration structure and Policy, taking each of the factors of provision 40 of the Code in turn:

| Principle | Approach |
|---|---|
| **Clarity** | Remuneration arrangements are transparent and competitive. The Remuneration Policy describes the purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for the Executive Director. There are only two components of remuneration for Irakli Gilauri; the deferred share salary and the discretionary deferred share remuneration. There is no LTIP and salary is paid in a fixed number of shares. |
| **Simplicity** | The rationale is simple – this structure focuses the Executive Director and senior management on sustainable, long-term performance of the Company by remunerating them wholly (in the case of the current Executive Director) or predominantly (with respect to senior management) in deferred shares. |
| **Risk** | By its nature, setting all of the CEO's remuneration in shares which are deferred by up to six years from the start of the work year, the remuneration structure drives the CEO and senior management to mitigate reputational, behavioural and undue strategic risks as the outcome of such would be likely to affect the share price over the years. It also helps to avoid conflicts of interest. Further, the Executive Director's salary and bonus is calculated by reference to a fixed maximum number of shares. By setting a fixed number of shares (rather than a cash figure) the salary structure aligns our Executive Director's salary with the share price performance of the Company and ensures that the Executive Director will not (unlike in other companies) receive a windfall gain by receiving a higher number of shares when awarded at a lower share price. |
| **Predictability** | The range of possible values is set out in the Policy voluntarily, including the impact of share price appreciation and depreciation, to aid predictability. Further, by calculating the maximum opportunity to a fixed number of shares, the Company and its shareholders have certainty regarding the Executive Director's and senior managements' remuneration. |
| **Proportionality** | Outcomes reward performance proportionately by reference to performance targets range (threshold, target and outperformance) and weightings. Further, to allow appropriate adjustment, the Committee retains discretion over the bonus. For further considerations on proportionality, see section "Chief Executive's pay and comparators" on pages 156 to 157. |
| **Alignment to culture** | The current Executive Director's entire remuneration, which is comprised of deferred shares rather than cash, promotes alignment the long-term success of the Company. Alignment with culture is supported by the inclusion of mentoring and developing, as well as personal development, within the CEO's performance KPIs. Further information on alignment with the Company's purpose and values is set out in the Annual Statement of the Chairman on page 145. |

### Shareholder context

The Directors' Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 20 May 2022 (the 2022 Policy). The Directors' Remuneration Policy received the following votes from shareholders.

| Resolution | Votes for | % | Votes against | % | Total votes cast | Votes withheld |
|---|---|---|---|---|---|---|
| Approval of the Directors' Remuneration Policy | 26,599,621 | 93.68 | 1,795,458 | 6.32 | 28,395,079 | 590 |

Set out below are the shareholder voting figures for the Directors' Remuneration Report 2022 (including the Annual Statement of the Chairman of the Remuneration Committee) presented at our 2022 AGM.

| Resolution | Votes for | % | Votes against | % | Total votes cast | Votes withheld |
|---|---|---|---|---|---|---|
| Approval of the Directors' Remuneration Report | 26,710,160 | 94.07% | 1,684,919 | 5.93 | 28,359,079 | 590 |

### The Remuneration Committee and its advisors

The Remuneration Committee is principally responsible to the Board for establishing a remuneration policy for the Executive Directors, the Chairman and designated members of the executive management team that rewards fairly and responsibly, and is designed to support the Company's strategy and promote its long-term sustainable success. The Remuneration Committee ensures that performance-related elements of Executive Directors' remuneration are transparent, stretching and rigorously applied. The Remuneration Committee's full Terms of Reference are available on our website: **https://georgiacapital.ge/governance/cgf/terms**.

The Remuneration Committee is comprised of three Independent Non-Executive Directors: Jyrki Talvitie who serves as Chairman, Neil Janin (who joined on 17 October 2022) and Maria Chatti-Gautier. Kim Bradley (designated Non-Executive Director for workforce engagement) was a member of the Committee until 20 December 2022. The members' attendance during 2022 is shown in the Board and Committee meetings attendance table on page 131.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by videoconference outside of these meetings. Other attendees at the Remuneration Committee meetings who provided advice or assistance to the Remuneration Committee on remuneration matters from time to time included the CEO, the other Board members and the UK General Counsel. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration, which helps avoid conflict of interest.

The Remuneration Committee did not use remuneration consultants in 2022 (or 2023 to date). The Remuneration Committee received advice on compliance from Baker & McKenzie LLP, the Company's legal advisors. The Remuneration Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

### Directors' remuneration

**Single total figure of remuneration for the Executive Director (audited)**

The table below sets out the remuneration earned by Georgia Capital PLC's sole Executive Director, Irakli Gilauri, in respect of his employment for the years ended 31 December 2022 and 31 December 2021. Mr Gilauri's compensation as set out in the table below is in the form of deferred shares that vest in tranches with a vesting and holding period of up to six years from the beginning of the work year. The values shown in the table are calculated at a fixed share price as described in footnotes 2 and 4 to the table. The actual value of the compensation as it is received over time will fluctuate with increases and decreases in the value of the share price as illustrated in the graph on page 156.

| | Cash[1] salary (US$) | Deferred share[2] salary (US$) | Taxable[3] benefits (US$) | Pension[3] benefits (US$) | Total fixed pay (US$) | Discretionary deferred[4] shares (US$) | Total variable pay (US$) | Single total figure (US$) |
|---|---|---|---|---|---|---|---|---|
| **2022** | **–** | **2,730,000** | **–** | **–** | **2,730,000** | **1,078,800** | **1,078,800** | **3,808,800** |
| 2021 | – | 2,730,000 | – | – | 2,730,000 | 1,684,000 | 1,684,000 | 4,414,000 |

**Notes**:

1 Mr Gilauri does not receive a cash salary.

2 Deferred share salary. The figures show the Georgia Capital PLC shares underlying nil-cost options granted in respect of the relevant year. 200,000 deferred salary shares were awarded for the work year 2022 and for the work year 2021. To discharge the UK tax and employee National Insurance contributions arising upon the grant of the salary shares, Georgia Capital PLC and the Executive Director agreed to waive his entitlement to such number of the salary shares as needed for the payment of the Executive Director's UK tax and employee National Insurance contributions by the Company. Under this arrangement, the Executive Director waived his entitlement to 8,166 deferred salary shares with respect to work year 2022 and 8,068 deferred salary shares with respect to work year 2021. The value of US$ 2,730,000 for the work years 2022 and 2021 is calculated by reference to the share price on 12 July 2018, being the date of the Committee meeting at which the deferred share salary was determined. The share price on 12 July 2018 was US$ 13.65 per share (the official share price of GBP 10.324 converted into US dollars using an exchange rate of 1.3223, being the official exchange rate published by the Bank of England on the same date). Deferred share salary in respect of a work year will vest over six years (from the beginning of the work year) with 20% vesting in each of the second, third, fourth, fifth and sixth years following the end of the work year. Mr Gilauri does not receive any remuneration with respect to his role as Chairman of the Group.

3 There are no taxable benefits or pension benefits for 2022 and 2021. Mr Gilauri has agreed for all pension contributions to be waived. Mr Gilauri was reimbursed for reasonable business expenses, on the provision of valid receipts in line with the approved Policy. No money or other assets have been received or are receivable by Mr Gilauri in respect of a period of more than one financial year.

4 Discretionary deferred share remuneration. The figures show the value of Georgia Capital PLC shares underlying nil-cost options granted in respect of the bonus award for the year. For 2022, awards were granted over 120,000 shares. The value is calculated by reference to the share price on 16 December 2022, which is the last working day prior to the date of the Remuneration Committee meeting which determined the discretionary deferred share award on 19 December 2022, being US$ 8.99 per share (the official share price of GBP 7.40 converted into US dollars using an exchange rate of 1.2153 being the official exchange rate published by the Bank of England on the same date). For 2021, awards were granted over 200,000 shares. The value was calculated by reference to the share price on 24 January 2022, which is the date of the Remuneration Committee meeting which determined the discretionary deferred share award, being US$ 8.42 per share (the official share price of GBP 6.25 converted into US dollars using an exchange rate of 1.3464 being the official exchange rate published by the Bank of England on the same date). Discretionary deferred shares vest 25% in each of the second, third, fourth and fifth years following the end of the work year and are subject to a further holding period of a year. The basis for determining Mr Gilauri's discretionary deferred share remuneration is set out below.

5 The number of shares awarded pursuant to the deferred share salary and discretionary deferred share remuneration is fixed at grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets which are satisfied pre-grant and the Company does not operate a LTIP. No amount of the remuneration in 2022 is attributable to share price remuneration. No amounts were recovered or withheld in 2022. No dividend equivalents have been received.

As noted in the single total figure of remuneration table above, deferred share salary is calculated on the basis of US$ 13.65 per share. This is because we disclose using the decision date for each element of remuneration, in this case the salary figure refers to the value of the shares on 12 July 2018, being the date of the Committee meeting at which the deferred share salary was determined.

However, the share price as at the last practicable date before the publishing of this Annual Report, 17 March 2023, was US$ 9.06 per share (the official share price of GBP 7.46 converted into US dollars using an exchange rate of 1.214, being the official exchange rate published by the Bank of England on the same day). Therefore, when calculated using the more recent price, the single total figure of the compensation is US$ 2,899,200.

### Alternative remuneration table showing the Executive Director's 2022 and 2021 remuneration discounted for time value of money (unaudited)

For investor information, the alternative table below sets out the share remuneration earned by Irakli Gilauri in 2022 and 2021 as per the previous table (Single total figure of remuneration for the Executive Director) but taking into account the time value of money discounted at 15%, given that both the salary shares and discretionary deferred shares vest over a number of years. Further, the Executive Director may forfeit the shares on cessation of employment in certain circumstances.

| | Deferred share salary (US$) | Discretionary deferred shares (US$) | Total salary and discretionary deferred shares remuneration (US$) |
|---|---|---|---|
| **2022** | **1,590,845** | **669,376** | **2,260,221** |
| 2021 | 1,590,845 | 1,044,998 | 2,635,843 |

The following table sets out details of total remuneration for the Chairman and Chief Executive Officer, Mr Gilauri, for the years ended 31 December 2018 to 31 December 2022 and his discretionary compensation as a percentage of maximum opportunity.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Single total figure of remuneration (US$) | 4,066,962 | 3,790,000 | 3,898,000 | 4,414,000 | **3,808,800** |
| Discretionary compensation as a percentage of maximum opportunity (%) | 85% | 50% | 80% | 100% | **60%** |

Note: Maximum opportunity is 100% of total number of salary shares in accordance with the approved Policy.

# DIRECTORS' REMUNERATION REPORT CONTINUED



**Basis for determining Mr Gilauri's discretionary deferred share compensation in respect of 2022**
Mr Gilauri's KPIs included financial targets, strategic targets and non-quantifiable components. The financial and strategic elements largely track the Group's KPIs as he is expected to deliver the Group's strategy. The non-quantifiable targets take into account factors such as leadership and mentoring, corporate culture and personal development. The Committee's practice is to set ambitious financial targets, and would normally expect to award 70% of the maximum available for meeting the target, depending on the circumstances, including business and wider economic developments during the year. For strategic and development targets, measurement is more difficult, but here again we have high expectations of Mr Gilauri and would typically plan to award 70% of the maximum available for meeting these targets.

In accordance with the extended disclosure in last year's Annual Report and subsequent complementary feedback from shareholders, we continue to provide full information to better explain how the KPIs link to strategic targets and to explain the weightings. In response to investor feedback, we have increased the weightings on the key strategic priorities. Compared to the previous year the KPIs have been updated in line with the new strategy to allow more emphasis on deleveraging and so there is an increased weighting and focus on disciplined pursuit of investment opportunities, and asset and capital allocation (with net capital commitment (NCC) the main metric to be measured) of 20% and reduced weightings on NAV (to 25%) and on mentoring, succession planning and personal development (to 5%).

We also specifically link each KPI to the relevant Group priority and disclose ranges of targets for each KPI (threshold, target and maximum). We would typically expect to award 25% for threshold, 70% for target and 100% for outperformance for each KPI, with a sliding scale between categories. The Group is young and non-financial strategic targets are also key.

The individual KPI weightings are shown in the table below, which sets out the targets for Mr Gilauri's 2022 KPIs as well as a summary of the Committee's assessment of his performance against them. In line with the Policy, the Committee retains the discretion to increase or decrease the amount awarded. More details on performance are provided in the table on the following pages.

The Group priorities have been crossed referenced against each performance metric chosen in the below KPI table.

**Group priorities:**
**Key new strategic priorities (as updated and announced on Investor Day in May 2022)**
1. Investing in capital-light opportunities only.
2. Adapting the Capital Management Framework (including net capital commitment at the core of capital management decisions) and de-risking by deleveraging, and progressing the share buyback and cancellation programme.
3. Putting ESG at the core of our strategy.

**Continued secondary strategic priorities**
4. Continued divestiture of subscale portfolio companies which do not have the potential to reach GEL 300 million equity value.
5. Institutionalising and developing portfolio.
6. Establishment of structured exit processes, engagement in the active price discovery of portfolio assets held.
7. NAV per share growth.
8. Further diversifying access to capital.
9. Portfolio companies' strategic priorities.

**Cultural priorities and foundation for the future**
10. Developing management talent in GCAP and its portfolio companies.
11. Strong corporate governance, efficient management structure.
12. Culture core values: being entrepreneurial, having a learning mindset and maintaining the highest standard of ethics.

| KPI | Refers to Group priority, above | Weighting | 2022 Target and range: Threshold | Target | Outperformance | Performance and evaluation | Weighted result |
|---|---|---|---|---|---|---|---|
| **Financial targets** | | | | | | | |
| NAV per share growth | 7 | 25%<br>5% for overall | 7% | 12.4% | 17% | Overall NAV per share growth: 4% | 0% |
| | | 20% for private portfolio | 11% | 16% | 21% | Private portfolio share growth: -11.5%<br><br>Underperformance was mainly due to a) WACC increases, b) underperformance of healthcare businesses, as described in the KPI below, and c) impact of Russia-Ukraine war on beverages and real estate businesses. With steady state WACCs the results would have been significantly different: (a) 24.0% for overall NAV per share growth; and (b) 12.5% for private portfolio NAV per share growth.<br><br>In GBP terms the NAV per share grew by 33.2% illustrating the strong local currency appreciation. | 0% |
| Achieving budget of GCAP and portfolio companies, including cash flow generation | 5, 9 | 15% | GEL mln 200 | GEL mln 418 | GEL mln 600 | GCAP standalone net income: GEL 1.5 million | 4% |
| | | | GEL mln 100 | GEL mln 209 | GEL mln 300 | GCAP standalone cash flow: GEL 139.5 million | |
| | | | GEL mln 1,800 | GEL mln 2,009 | GEL mln 2,200 | Portfolio companies aggregate revenue: GEL 1,902 million | |
| | | | GEL mln 180 | GEL mln 220 | GEL mln 260 | Total aggregate net operating cash flow: GEL 206 million<br><br>The Government decision to abruptly cancel the use of hospitals being used as COVID hospitals had an adverse effect on both private portfolio revenue and GCAP net income. GCAP cash flow was lower due to decisions made during the year of higher share buybacks, higher Eurobond buybacks and cancellation of US$ 65 million Eurobonds held in treasury (budget assumed they will be held in treasury and counted as part of liquidity). Additionally, liquidity was lower due to the strategy of not participating in a Bank of Georgia buyback programme in 2022.<br><br>When adjusting cash flow performance for these decisions, GCAP's cash flow would have been GEL 405 million in 2022 and would have translated into an award of 100%.<br><br>Between threshold and target for portions of KPI on revenue, standalone cash flow and aggregate cash flow, below threshold for standalone net income. | |
| Expense ratio | 11 | 7.5% | 2.3% | 2% | 1.7% | Expense ratio: 2.7%.<br><br>Cash OPEX was below budget and below 2021 results thus showing excellent cost control. However, the strong appreciation of the local currency caused the market cap in GEL terms to decrease substantially resulting in an expense ratio of 2.7%. | 0% |
| Broaden access to capital including active seeking of price discovery of assets held (including strategic priority of divestment of subscale portfolio companies) | 6, 8 | 20% | | | | Successful issuance of Renewables bond of US$ 80 million for five years at 7%, at a lower coupon than the yield on the sovereign US$ Eurobonds at the time of the issuance, and rollover of GRE real estate bond of US$ 35 million for two years at 8.5% in very challenging capital markets.<br><br>Constant price discovery exercises with successful sales of Mestiachala 1 HPP project, Bakhvi HPP project and number of small real estate assets (vacant lands and commercial properties).<br><br>Outperformance achieved. | 20% |

# DIRECTORS' REMUNERATION REPORT CONTINUED

| KPI | Refers to Group priority, above | Weighting | 2022 Target and range | | | Performance and evaluation | Weighted result |
|---|---|---|---|---|---|---|---|
| **Strategic targets** | | | **Threshold** | **Target** | **Outperformance** | | |
| Disciplined pursuit of investment opportunities, and asset and capital allocation | 1, 2 | 20% | 30% | 27% | 24% | Exceeded outperformance with net capital commitment ratio of 21.1%. NCC ratio significantly improved during 2022 as (a) management successfully closed the sale of 80% in water utility business and received US$ 180 million proceeds; (b) despite tough market conditions, managed to refinance US$ 80 million loan issued to renewable energy and receive related cash proceeds back; (c) effectively allocated cash collected in 2022 for deleveraging purposes, including Modified Dutch Auction for Eurobonds, where c.US$ 30 million bonds were purchased at 88 cents on a dollar; and (d) successfully decreased guarantee issued to beer business by EUR 12 million.<br><br>Accordingly, NCC decreased from 30% to 21.1% in 2022. In addition to material improvement in NCC ratio, success included introduction and implementation of improved risk management component in all investment decisions.<br><br>Successful buybacks of both equity (c.US$ 18 million buybacks in 2022 leading to 5% NAV per share accretion) and debt (c.US$ 87 million on secondary market in addition to c.US$ 29 million bonds bought during the Modified Dutch Auction).<br><br>Successful investments in education sector to expand the existing school networks of British Georgian Academy, Buckswood and Green Schools.<br><br>Outperformance achieved. | 20% |
| Progress towards achieving mid-to-long-term strategic priorities in portfolio companies | 9 | 7.5% | | | | Successful GHG restructuring including elimination of holding company resulting in significant annual cost savings of GEL 7.8 million and streamlined operations and structure.<br><br>Finalisation of the water utility sale transaction, including demerger of the water utility and renewable assets and successful refinancing of the renewable energy business borrowing from GCAP.<br><br>Successful de-leveraging of the beer business on the back of operational excellence leading to significant reduction in the guarantee required by the banks from GCAP for the beer business.<br><br>Successful roll-out of education projects in new campuses leading to all time high enrolment rate as 1,000+ new learners were added in 2022 leading to 35% growth in total number of learners.<br><br>Robust performance in P&C business, where targeted growth in agricultural insurance line and disciplined risk management led to 16% growth in net income during 2022.<br><br>Outperformance achieved. | 7.5% |
| Active mentoring and development of management including successors<br><br>Maintain up-to-date succession planning process across the GCAP and portfolio companies<br><br>Continued personal development | 10, 12 | 5% | | | | Active mentoring of new GCAP portfolio manager in charge of the hospitals, retail (pharmacy), medical insurance, and clinics and diagnostics businesses, who was previously CFO of GHG and during the restructuring process was elevated to GCAP Partner.<br><br>Active oversight of transition process at real estate business and mentoring of the newly promoted CEOs at real estate and auto services businesses.<br><br>Rising to the challenges stemming from the Russia-Ukraine war and continued successful mentoring of the affected portfolio companies' top management and taking advantage of emerging market opportunities.<br><br>Ongoing mentoring of GCAP's management team. Updated succession plans for both GCAP and portfolio companies after unexpected departure of Nick Gamkrelidze.<br><br>Successful deployment of succession planning at the real estate and auto service businesses, where the CEOs were replaced in 2022 from the Group's internal talent pool.<br><br>Continued prioritisation of self-development through feedback received from the Board and co-workers, as well as continued coaching of direct reports. | 4% |
| **TOTAL KPI PERFORMANCE ASSESSMENT** | | | | | | | **55.5%** |

The Committee considered the CEO's performance during 2022, which was an eventful year for the Group. The Committee noted that impact of Russia-Ukraine conflict, which broke out in February 2022, forced the Company to change priorities and strategy in preparation for the negative effects of the conflict in its region. Adjusted priorities included reducing Ukrainian/Russian risk within the Group, deleveraging, cutting costs and securing funding for the portfolio companies.

Within this challenging environment, the Group successfully completed the sale of an 80% interest in the water utility business to a high-quality international strategic investor for US$ 180 million. The disposal marked the completion of the full investment cycle for one of its large portfolio businesses and created substantial value for shareholders.

The renewable energy and housing development businesses closed milestone transactions on the Georgian capital market, and validated the Group's superior access to capital. At the same time, the US$ 80 million green secured bond offering by its renewable energy business represented the largest-ever corporate bond placement in Georgia.

Buybacks and cancellation of GCAP Eurobonds demonstrated strong progress on the key strategic priority of deleveraging GCAP. By the end of 2022, the Group had repurchased US$ 116 million GCAP Eurobonds, of which US$ 65 million notes were cancelled following a Modified Dutch Auction. These positive developments in the leverage profile, coupled with our robust balance sheet and capital allocation processes, led to a 10.8 ppts decrease in the NCC ratio in 2022. This also resulted in an upgrade in corporate credit ratings to "B1" by Moody's and "B+" by S&P (from "B2" and "B", respectively).

The Committee took the stakeholder experience into account, including the US$ 25 million share buyback and cancellation programme, under which the Group repurchased 2,252,341 shares for a total consideration of GEL 54.3 million during 2022 (US$ 18.1 million). This brings the total number of shares bought back and cancelled to 6.4% of issued capital since the programme launched in August 2021.

As a result of the war, valuations were severely affected as portfolio company WACCs increased across the board by around 2% and peer company multiples contracted accordingly. The significant strengthening of the local currency GEL, caused in part by the inflow of migrants and related money inflows, also brought unexpected effects.

In March 2022, the Georgian Government without prior warning decided to end the usage of dedicated hospitals as COVID hospitals earlier than expected, leaving the industry to deal with adjustment periods to normal usage of the hospitals of up to nine months and causing our hospitals business to underperform against the budgets.

# DIRECTORS' REMUNERATION REPORT CONTINUED



Overall, handling of the adverse market conditions and refocusing on minimising the effects of the Russian-Ukraine war were outstanding. Key areas within Mr Gilauri's control reflected outperformance of the targets. With a steady WACC (see above how WACC was affected during the year) and without the unexpected strong performance of GEL, the total KPI performance assessment would have been over 85%.

In deciding the final bonus, the Committee also noted the following matters:

- US$ 18.1 million buyback and cancellation programme for the benefit of shareholders in 2022.
- The Group did not require Government support from UK or Georgian Governments (and had not previously).
- Employee salaries had increased more than (and bonuses decreased less than) those of the Executive Director. Average employees' cash salaries increased by 4.1% and share salaries increased by 20.6% year-on-year (while the CEO's salary remained static) and employee's average bonus was projected to have decreased year-on-year (-16%) but the CEO's contemplated bonus at 60% would have decreased more year-on-year (-35%).

The Remuneration Committee retains discretion to avoid formulaic outcomes and to assess the overall reasonableness of the rewards. The Committee determined it would be unfair, in the circumstances of the war, to hold the CEO strictly to the KPIs based on pre-war assumptions, and that a small amount of discretion of 4.5% of the maximum discretionary deferred shares opportunity (9,000 deferred shares) was appropriate in the circumstances, awarding the CEO a bonus of discretionary deferred shares of 60% of maximum.

The Remuneration Committee determined that the Executive Director would receive only 120,000 deferred shares (which corresponds to a value of US$ 669,376) in respect of FY22 as opposed to 200,000 deferred shares (which corresponds to a value of US$ 1,044,998) that the Executive Director received in respect to FY21 as part of his discretionary deferred share remuneration. This represents a decrease of 80,000 deferred shares and a 35% reduction to his bonus year-on-year. In determining the number of discretionary deferred shares to be awarded to the Executive Director, the Remuneration Committee took into account all of the circumstances, including (but not limited to), the performance of the Executive Director, including in respect of the adjusted priorities, and the change to the circumstances.

For his performance in financial year 2022, the Remuneration Committee determined to award Irakli Gilauri 120,000 deferred shares (60% of maximum opportunity) which will vest over four years and are subject to a further one year holding period. The Committee did not change its implementation of the Policy in 2022. The Committee is satisfied that the overall number of deferred discretionary shares awarded to for Mr Gilauri for FY22 was fair and appropriate in the circumstances. As the number of deferred discretionary shares to be awarded is determined in shares and fixed on the grant date, share price appreciation/depreciation did not impact the Remuneration Committee's decision to increase the number of shares to be awarded to Mr Gilauri for FY22.

Alignment with shareholders is built into the structure (by maximum bonus award being comprised of deferred shares only and the maximum awards being calculated based on a fixed number of shares, rather than by cash value). There is no cash bonus and no LTIP.

**Percentage change in remuneration of Directors and employees**

The following table sets out details of the percentage change in the remuneration awarded to the Directors, compared with the average percentage change in the per capita remuneration awarded to the employees at the holding companies' level only (c.45 employees) on a full-time equivalent basis as a whole, in line with the requirements in the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019.

Given the small number of employees employed by the Georgia Capital PLC entity is less than five and the Company's status as an investment entity under IFRS 10, we considered comparison against the holding companies' employees. See note 6 to the table below for a comparison of the full-time UK employees in compliance with the requirements of the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019. See the single total figure of remuneration table on pages 148 to 149 for an explanation of deferred share salary, taxable benefits and discretionary deferred remuneration of Mr. Gilauri.

From 1 April 2020 to 31 December 2020, the members of the Nomination Committee waived their fees (and only the additional fee received by the Chairman (as Chair) on top of the normal Committee fees was retained by the Chairman), to show solidarity with the impact of COVID-19. The normal fees were reinstated on 1 January 2021. The Audit and Valuation Committee's responsibilities were increased from 31 December 2019 when the Audit Committee became the Audit and Valuation Committee. To show solidarity with the impact of COVID-19 that Committee did not receive an increase for year 2020, and instead the fees of the Chair and members were increased from 1 January 2021.

Any further year-on-year movements in Non-Executive Director fees are attributable to a number of factors including the different Committee roles undertaken by each Non-Executive Director over the period.

| | Year-on-year change in pay for Directors compared to the employees at the holding companies level as a whole | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Executive Director | Non-Executive Directors | | | | | | |
| 2022 | Average employees | Irakli Gilauri | David Morrison | Kim Bradley | Jyrki Talvitie | Caroline Brown | Massimo Gesua' sive Salvadori | Maria Chatti-Gautier | Neil Janin |
| Total cash salary | 4.1% | – | – | 9.7% | – | -61.3% | – | – | 100% |
| Total deferred share salary | 20.6% | 0% | – | – | – | – | – | – | – |
| Taxable benefits | 3.5% | – | – | – | – | – | – | – | – |
| Total bonus | -16.6% | -35.9% | – | – | – | – | – | – | – |

| | Year-on-year change in pay for Directors compared to the employees at the holding companies level as a whole | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Executive Director | Non-Executive Directors | | | | | |
| 2021 | Average employees | Irakli Gilauri | David Morrison | Kim Bradley | Jyrki Talvitie | Caroline Brown | Massimo Gesua' sive Salvadori | Maria Chatti-Gautier |
| Total cash salary | 6.5% | – | 3.9% | 3.9% | 4.7% | 5.0% | 5.0% | 36.2% |
| Total deferred share salary | -26.0% | 0% | – | – | – | – | – | – |
| Taxable benefits | 22.7% | – | – | – | – | – | – | – |
| Total bonus | 23.1% | 44.2% | – | – | – | – | – | – |

| | Year-on-year change in pay for Directors compared to the employees at the holding companies level as a whole | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Executive Director | Non-Executive Directors | | | | | |
| 2020 | Average employees | Irakli Gilauri | David Morrison | Kim Bradley | Jyrki Talvitie | Caroline Brown | Massimo Gesua' sive Salvadori | Maria Chatti-Gautier |
| Total cash salary | 11.0% | – | -3.7% | 7.2% | -3.6% | -4.8% | -4.8% | N/A |
| Total deferred share salary | 0% | 0% | – | – | – | – | – | – |
| Taxable benefits | 7.3% | – | – | – | – | – | – | – |
| Total bonus | 20.0% | 10.2% | – | – | – | – | – | – |

Notes:
1 Kim Bradley was appointed as a member of the Audit and Valuation Committee from 20 May 2022, and stepped down as a member of the Nomination and the Remuneration Committees on 20 December 2022.
2 Caroline Brown did not seek re-election at the 2022 AGM and therefore ceased to be a director on 20 May 2022.
3 Maria Chatti-Gautier was appointed to the Board of Directors of Georgia Capital PLC and to the Supervisory Board of JSC Georgia Capital, and the Remuneration and Nomination Committees, on 19 March 2020.
4 Neil Janin was appointed as a member of the Board and of the Nomination and the Remuneration Committees on 17 October 2022, and as a member of the Investment Committee on 20 December 2022.
5 On 19 March 2020, David Morrison, Caroline Brown and Massimo Gesua' sive Salvadori stepped down as members of the Nomination Committee.
6 For the period of 1 April 2020 to 31 December 2020 the members of the Nomination Committee waived their fees, and for the Chairman of the Committee only the difference between the level of fees for the Chair against the member's fees was retained, to show solidarity with the impact of COVID-19.
7 The Audit and Valuation Committee's responsibilities were increased from 31 December 2019; to show solidarity with the impact of COVID-19 the Committee did not receive an increase fee for their expanded role for year 2020, but the fees of the Chair and members were instead increased from 1 January 2021.
8 The Company has less than five UK employees and the percentage changes could be considered to be distortive. Year-on-year change on a full-time basis for UK employees from 2019 to 2020 for cash salary is 1.8%; deferred share salary is not applicable; taxable benefits is not applicable; and bonus is 30.1%. Year-on-year change on a full-time basis for UK employees from 2020 to 2021 for cash salary is -2.7%; deferred share salary is not applicable; taxable benefits is not applicable; and bonus is -1.8%. Year-on-year change on a full-time basis for UK employees from 2021 to 2022 for cash salary is 10.5%; deferred share salary is not applicable; taxable benefits is not applicable; and bonus is -5.3%.

**Details of fixed and discretionary deferred share remuneration granted during 2022**

The table below sets out details of the nil-cost options over GCAP shares which have been granted to Mr Gilauri in 2022 in respect of the 2021 work year as reflected on a combined basis in accounts of Georgia Capital PLC and Georgia Capital JSC. Please note that the information presented in this section relates to Mr Gilauri's performance in the 2021 financial year. The deferred share salary and discretionary deferred share remuneration was granted at the start of FY22 (before the 2022 AGM) and were granted under the 2019 Policy.

| | Deferred share salary | Discretionary deferred share remuneration |
|---|---|---|
| Number of underlying shares and basis on which award was made | 200,000 granted pursuant to the 2019 Policy available at **https://georgiacapital.ge/governance/cgf/policies** | 200,000 (with respect to his FY21 bonus) granted pursuant to the 2019 Policy available at **https://georgiacapital.ge/governance/cgf/policies** |
| Type of interest | Nil-cost option | Nil-cost option |
| Cost to Group (as reflected in accounts) | US$ 2,730,000[1] | US$ 1,684,000[2] |
| Face value | US$ 2,730,000[1]<br>Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable). | US$ 1,684,000[2]<br>Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable). |
| Percentage of award achievable if minimum performance achieved | 100% of the award will be receivable, since the award is part of the Executive Director's salary for 2021 and accordingly is not subject to performance measures or targets over the vesting period. | 100% of the award will be receivable, since the award is based on 2021 performance (and is not LTIP award) and accordingly is not subject to performance measures or targets over the vesting period. |
| Exercise price | Nil. The options form part of the Executive Director's salary under the Policy and so no payment is required upon exercise. The exercise price has not changed. | Nil. The options make up the entirety of the Executive Director's performance-based remuneration (with respect to his performance in the previous financial year) so no payment is required upon exercise. The exercise price has not changed. |
| Vesting period | 20% in each of 2023, 2024, 2025, 2026 and 2027. | 25% in each of 2023, 2024, 2025 and 2026. Holding period of a further one year on each tranche. |
| Performance measures | None. See the 2019 Policy available at **https://georgiacapital.ge/reports/2018** | See the 2019 Policy available at **https://georgiacapital.ge/reports/2018**. |

1 Deferred share salary. The value is calculated as described in footnote 2 to the table of single total figure of remuneration for the Executive Director.
2 Discretionary deferred share remuneration. The value is calculated as described in footnote 4 to the table of single total figure of remuneration for the Executive Director.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## CEO pay and comparators

The Group has less than 250 UK employees and therefore is not required to disclose ratios of the CEO pay against the UK employees' pay (and indeed given it has less than five UK employees, to do so would be distortionary). Additionally, the delayed receipt of the Executive Director's salary and the bonus (in deferred shares vesting across several years) means that the time value of money and also the risk of salary and bonus not vesting (due to malus but also in relation to shares lapsing in the event of early termination under certain circumstances) were factored in.

When formulating the Policy, we presented the overall package (without factoring in the time value of money or risk of lapse) to investors. The value of the salary shares and the potential dollar value of the maximum bonus opportunity (when calculated using recent share prices) has decreased since 2018; however, the US dollar figure disclosed remains as calculated at the decision date of the salary in line with IFRS and consistent with our previous disclosures.

The Committee also considered the fact that the CEO's salary was 35% less than the CEO salary in our predecessor company, BGEO Group PLC.

Moreover, for the renewed Policy in 2022 retained the same number of shares for salary and for the maximum opportunity as was presented to shareholders for their approval in 2019; there has been no increase in salary nor incentive.

### Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director in 2022 and 2021.

The Non-Executive Directors do not receive any variable remuneration or pension contributions.

| | Georgia Capital PLC fees (US$) | | JSC Georgia Capital fees (US$) | | Total fees (US$) | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Neil Janin | **10,953** | – | **17,140** | – | **28,094** | – |
| David Morrison | **67,890** | 67,890 | **133,736** | 133,736 | **201,626** | 201,626 |
| Massimo Gesua' sive Salvadori | **52,341** | 52,341 | **104,609** | 104,609 | **156,950** | 156,950 |
| Kim Bradley | **77,768** | 72,341 | **135,646** | 122,125 | **213,414** | 194,466 |
| Caroline Brown | **20,261** | 52,341 | **40,494** | 104,609 | **60,755** | 156,950 |
| Jyrki Talvitie | **65,481** | 65,481 | **94,973** | 94,973 | **160,454** | 160,454 |
| Maria Chatti-Gautier | **58,911** | 58,911 | **90,885** | 90,885 | **149,796** | 149,796 |
| Total | **353,605** | 369,305 | **617,484** | 650,937 | **971,089** | 1,020,242 |

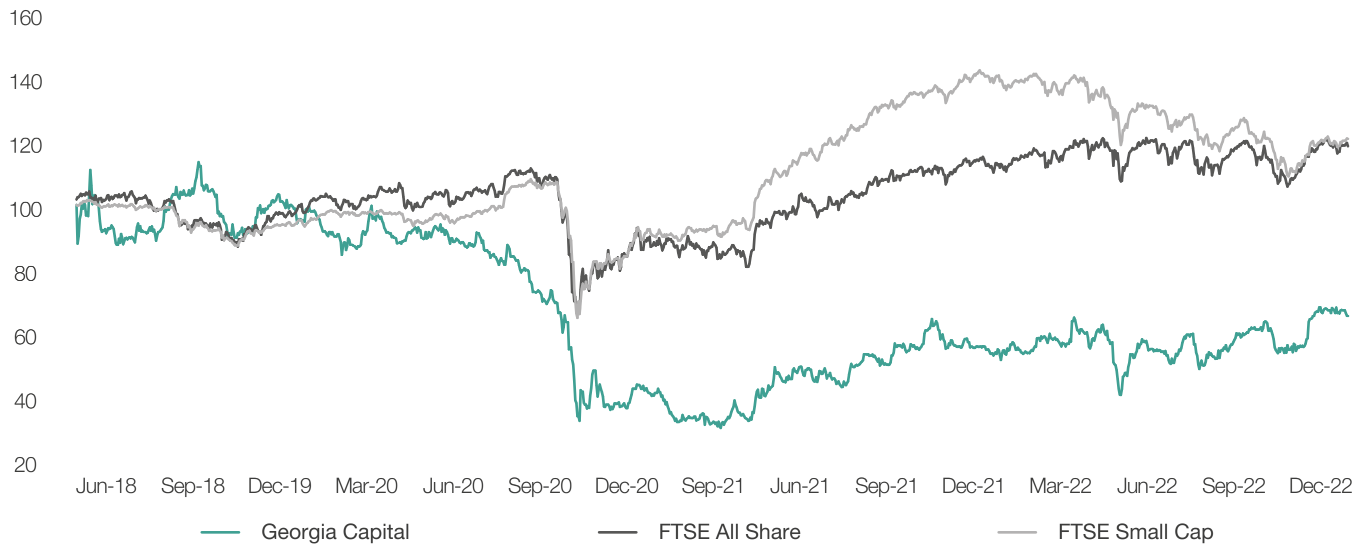
Notes:
1 Neil Janin was appointed as a member of the Board and JSC Supervisory Board, and of the Nomination Committee and Remuneration Committee, on 17 October 2022, and as a member of the Investment Committee on 20 December 2022.
2 Kim Bradley was appointed as a member of the Audit and Valuation Committee from 20 May 2022, and stepped down as a member of the Nomination Committee and the Remuneration Committees on 20 December 2022.
3 Caroline Brown did not seek re-election at the 2022 AGM and therefore ceased to be a director on 20 May 2022.

### Payments to former Directors and for loss of office

No payments were made to former Directors or for loss of office during the year ended 31 December 2022.

### Total Shareholder Return

Georgia Capital PLC has been a member of the FTSE All Share Index since its listing on 29 May 2018. The following graph compares the Total Shareholder Return (TSR) of Georgia Capital PLC with the companies comprising the FTSE All Share Index and FTSE Small Cap Index for the period from 29 May 2018 until 31 December 2022.




### Relative importance of spend on pay

The following table shows Georgia Capital's actual spend on pay at the holding companies' level only (c.45 employees in total) between 2021 and 2022. We considered comparison against these employees to be the most appropriate given the Company's status as an investment entity under IFRS 10.

| | Remuneration paid to all employees of the Group | Distribution to shareholders by way of buy-back |
|---|---|---|
| Year ended 31 December 2021 (US$ thousands) | 10,136 | 6,988 |
| Year ended 31 December 2022 (US$ thousands) | 10,004 | 18,071 |
| Percentage change | -1.3% | NMF |

Notes:
1 The Company did not make any other significant distributions during 2021 or 2022. There were no dividends. The US dollar amount is calculated using an average GEL/US$ exchange rate for each of 2021 and 2022.
2 In August 2021 the Group recommenced its buyback programme in line with its capital allocation framework.

### Share ownership requirement (audited)

Executive Directors are required to build over five years and maintain a shareholding equivalent to 200% of base salary. Mr Gilauri already holds above this requirement as at 31 December 2022 – see table and table note 2 below. In accordance with the Policy, beneficially owned shares as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares count towards the requirement, noting that such unvested and vested shares are not subject to performance conditions after their grant.

### Directors' interests in shares (audited)

The following table sets forth the respective holdings of GCAP shares of each Director as at 31 December 2021 and 2022.

| | As at 31 December 2021 | | | | As at 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of GCAP shares held directly | Number of vested but unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions) | Number of unvested and unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions) | Total number of interests in GCAP shares | Number of GCAP shares held directly | Number of vested but unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions) | Number of unvested and unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions) | Total number of interests in GCAP shares |
| Irakli Gilauri | 1,112,398 | – | 823,192 | 1,935,590 | **1,322,320** | **–** | **954,221** | **2,276,541** |
| David Morrison | 66,368 | N/A | N/A | 66,368 | **101,368** | **N/A** | **N/A** | **101,368** |
| Kim Bradley | 35,383 | N/A | N/A | 35,383 | **35,383** | **N/A** | **N/A** | **35,383** |
| Jyrki Talvitie | 12,585 | N/A | N/A | 12,585 | **12,585** | **N/A** | **N/A** | **12,585** |
| Caroline Brown | – | N/A | N/A | – | **–** | **N/A** | **N/A** | **–** |
| Massimo Gesua' sive Salvadori | 13,739 | N/A | N/A | 13,739 | **13,739** | **N/A** | **N/A** | **13,739** |
| Marie Chatti-Gautier | 6,860 | N/A | N/A | 6,860 | **6,860** | **N/A** | **N/A** | **6,860** |
| Neil Janin | – | N/A | N/A | – | **–** | **N/A** | **N/A** | **–** |

Notes:
1 As at 31 December 2022, Mr Gilauri's vested and unvested shareholding was 2,276,541 GCAP shares, representing approximately 5.1% of the Company's share capital. In January 2023, Mr Gilauri received awards of 200,000 nil-cost options over ordinary shares in respect of deferred salary shares for the 2022 work year, out of which 8,166 were waived by Mr Gilauri to discharge the UK tax and employee National Insurance contributions. In January 2023 Mr Gilauri exercised 331,289 nil-cost options over ordinary shares, out of which 64,581 shares were withheld to meet tax liabilities. These will be reported in the 2023 Annual Report and Accounts and are not included in the table above, which is at 31 December 2022. None of Mr Gilauri's connected persons have any interest in the shares of the Company.
2 On 6 January 2022, Mr Gilauri received a grant of 200,000 nil cost options over ordinary shares in respect of deferred salary shares for the 2021 work year out of which 8,068 were waived by Mr Gilauri to discharge the UK tax and employee National Insurance contributions. On 20 January 2022, Mr Gilauri exercised options in respect of 260,903 GCAP shares, of which 50,981 were withheld to satisfy tax liabilities. The net gain of these options was US$ 1,935,444. On 27 May 2022 Mr Gilauri received a grant of 200,000 nil cost options over ordinary shares in respect of discretionary deferred shares for the 2021 work year pursuant to the executive equity compensation plan. As of 31 December 2022, all vested nil-cost options of the CEO were exercised.
3 On 25 November 2022, David Morrison acquired 35,000 shares.

The Remuneration Policy focuses on base salary in deferred salary shares and discretionary compensation in discretionary deferred shares. The long vesting periods naturally results in the Executive Director, Irakli Gilauri, building up large holdings of unvested nil-cost options. The Policy naturally results in Mr. Gilauri and our executive management team holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Association. As at 31 December 2022, Mr. Gilauri met the shareholding requirement.

Under the 2019 and 2022 Policies, the Group does not require Non-Executive Directors to hold a specified number of shares in GCAP. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. The Non-Executive Directors are not awarded incentive shares and are not remunerated in shares. Non-Executive Directors are not subject to a shareholding requirement.

# DIRECTORS' REMUNERATION REPORT CONTINUED



There have been no changes in the Directors' interests in shares in the Company between the end of the financial year and the last practicable date of 17 March 2023, with exception of Irakli Gilauri who as at 17 March 2023 holds total of 2,403,794 vested and unvested shares.

**Mr Gilauri's interests in group debt securities**
On 9 March 2018, Mr Gilauri acquired an aggregate principal amount of US$ 1,000,000 notes issued by JSC Georgia Capital which are listed on the Irish Stock Exchange.

**Details of Non-Executive Directors' letters of appointment**
Georgia Capital has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 24 February 2018, with Maria Chatti-Gautier's effective from her appointment on 19 March 2020 and Neil Janin's from his appointment on 17 October 2022. Each Non-Executive Director is put forward for election at each AGM following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each AGM.

A succession plan adopted by the Board provides for a tenure of six years on both the Georgia Capital PLC and JSC Georgia Capital Boards. Upon the expiry of such six-year tenure, the appointment of the relevant Non-Executive Director may cease at the next upcoming AGM.

Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

**Implementation of Remuneration Policy for 2023**
Details of how the 2022 Policy will be implemented for the 2023 financial year are set out below. There will be no significant change in the way that the 2022 Policy will be implemented in 2023 and no deviations from the procedure for the implementation of the 2022 Policy as set out in the Policy.

### For Irakli Gilauri

**2023 fixed pay**

| | |
|---|---|
| Total deferred share salary | 200,000 Georgia Capital deferred shares underlying nil-cost options per annum pro rata. |
| Pension benefits | Mr Gilauri has agreed for all pension contributions to be waived. Details of the benefits received by Executive Directors are on page 156. |

There are circumstances in which unvested deferred shares may lapse, and narrow circumstances in which such shares may vest immediately are set out in detail in the 2022 Policy.

**2023 discretionary deferred share remuneration**

| | |
|---|---|
| Deferral terms | The Committee will determine whether an award is merited based on an Executive Director's achievement of the KPIs set by the Committee for the work year and the performance of the Group during the work year. If Mr Gilauri is awarded discretionary deferred shares with respect to the 2023 work year, the award will vest 25% in January of each of 2025, 2026, 2027 and 2028. Each tranche will be subject to a further holding period of one year. This decision will be set out in the 2023 Directors' Report.<br><br>Upon vesting, Mr Gilauri will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between the beginning of the year immediately following the work year and the vesting date. |
| Performance measures | For 2023, the Remuneration Committee has determined that the performance measures will be based on KPIs (see below). The Remuneration Committee has considered the detail of each KPI and ensured that measurable targets are included. The KPIs will be reviewed by the Remuneration Committee throughout the year and by the Board as appropriate. |

See notes to the 2022 Policy for malus and clawback provisions.



**2023 CEO KPIs**
The 2023 KPIs were selected based on our strategy and ongoing key metrics. Consequently, the 2023 KPIs are as follows:
- NAV per share;
- Achieving budget of GCAP and portfolio companies, including cash flow generation;
- Expense ratio;
- Broaden access to capital including active seeking of price discovery of assets (including strategic priority of divestment of subscale portfolio companies);
- Disciplined pursuit of investment opportunities and asset & capital allocation, including NCC targets;
- Progress towards achieving mid-to-long term strategic priorities in portfolio companies;
- Professional development and mentoring of management; and
- Progress towards ESG targets.

Due to the potential impact on our commercial interests, annual bonus targets are considered commercially sensitive and appropriate detail will therefore be disclosed in the 2023 Remuneration Report following the completion of the financial year. KPIs and targets will be reviewed and may be revised by the Remuneration Committee and the Board as appropriate throughout the year, subject to the terms of the Policy.

**Non-Executive Director remuneration**
The table below shows the fee structure for Non-Executive Directors for 2023. Non-Executive Directors' fees are determined by the Board.

| Component | Purpose and link to strategy | Operation | Opportunity |
|---|---|---|---|
| Base cash fee | The fee for the Board is competitive enough to attract and retain individuals.<br><br>The Chairman receives a fee which reflects the extra time committed and responsibility. However, no Chairman's fee is received when Chairman and CEO roles are combined.<br><br>The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time and responsibility. | Cash payment on quarterly basis. | The amount of remuneration may be reviewed from time to time by the Board. The fees may be amended and varied if there are genuinely unforeseen and exceptional circumstances. Any significant increase shall be the minimum reasonably required.<br><br>The maximum aggregate for all Non-Executive Directors which may be paid by Georgia Capital PLC for the PLC fees is GBP 750,000 which is consistent with the current limit in the PLC's Articles of Association. |
| Cash fee for each Committee membership | Additional fee to compensate for additional time spent discharging Committee duties. | Cash payment on quarterly basis. | The amount of remuneration for the membership may be reviewed from time to time by the Board. The Chairman of the PLC does not receive any Committee fee. |

**Summary of Directors' Remuneration Policy**
The Remuneration Policy was approved at the AGM on 20 May 2022 and took effect from that date. It is intended that approval of the Policy will be sought at three-year intervals, unless amendments to the 2022 Policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2023. The full 2022 Policy is available at **https://georgiacapital.ge/governance/cgf/policies**. The tables in this section provide a summary of the Policy.

### Remuneration Policy table for Executive Directors

**Deferred share salary**

| | |
|---|---|
| **Purpose and link to strategy**<br>To reflect the role and required duties, skills, experience and individual contribution to the Group whilst promoting long-term value creation and share price growth. | **Opportunity**<br>The maximum number of deferred share salary shares is 200,000 per annum for Irakli Gilauri, of which 20,000 shares per annum are for his work as the CEO of Georgia Capital PLC and 180,000 shares per annum are for his work as a CEO of JSC Georgia Capital and its subsidiaries. |
| **Operation**<br>The level of base salary for an Executive Director is fixed in his or her service agreement(s). Salary is comprised entirely of long-term deferred shares ("deferred share salary") in the form of nil-cost options annually in respect of the work year with no cash salary.<br><br>Deferred share salary is awarded annually in the form of nil-cost options in respect of the work year and vest over five years with 20% vesting in each of the second, third, fourth, fifth and sixth years following the end of the work year. At vesting the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.<br><br>Lapse provisions (natural malus) are built into the deferred share salary. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned. | **Performance measures**<br>N/A |

# DIRECTORS' REMUNERATION REPORT CONTINUED



### Discretionary deferred shares

**Purpose and link to strategy**
To motivate and reward an Executive Director that meets or exceeds the KPIs set for him or her by the Remuneration Committee for the relevant period.

Performance-based remuneration is solely in the form of deferred shares (no cash), designed to closely align the interests of an Executive Director with shareholders, avoid inappropriate risk taking for short-term gain and encourage long-term commitment to the Group.

**Opportunity**
The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year for Mr Gilauri is capped at 200,000 shares (i.e. 100% of deferred share salary).

For an Executive Director (other than Mr Gilauri), the maximum opportunity in respect of the previous work year is 100% of total salary.

**Operation**
Performance-based remuneration is awarded annually entirely in the form of nil-cost options over the Group shares subject to vesting ("discretionary deferred shares"). The Group does not award cash bonuses. The Remuneration Committee will determine annually the number of shares to be awarded based on the Executive Director's achievement of the KPIs set for the work year and the performance of the Group during that year.

Any discretionary deferred shares are expected to be granted following the end of the work year and vest 25% in each of the second, third, fourth and fifth years following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the award. Each tranche of vested discretionary deferred shares must then be held for a further one year.

At vesting, the Executive Director also receives cash payments equal to the dividends paid on the underlying shares between the beginning of the year immediately following the work year and the vesting date.

There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory.

Extended malus and clawback, in addition to lapse provisions (natural malus) apply.

**Performance measures**
KPIs for the Executive Director are set towards the beginning of each work year and reflect the Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the coming work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility.

If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures.

### Pension

**Purpose and link to strategy**
The Group complies with pension requirements set by the Georgian Government. The same arrangement applies to employees across the Group in Georgia.

**Opportunity**
In line with current Georgian legislation, the Executive Director and Group each contribute 0%-2% of total remuneration from the Group, and the Georgian Government may contribute a further small amount (0%-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.

**Operation**
Pension provision will be in line with Georgian pension legislation, which may change from time to time. There is no provision for the recovery or withholding of pension payments.

**Performance measures**
N/A

### Benefits

**Purpose and link to strategy**
Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.

**Opportunity**
There is no prescribed maximum on the value of benefits payable to an Executive Director. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based.

**Operation**
Benefits consist of: life insurance; health insurance; incapacity/disability insurance; Directors' and Officers' liability insurance; physical examinations; tax gross-ups and tax equalisation payments; company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director and close family and legal costs.

Other benefits may be provided from time to time if considered reasonable and appropriate.

**Performance measures**
N/A



### Shareholding guidelines

**Purpose and link to strategy**
To ensure Executive Directors build and hold a significant shareholding in the Group over the long term and to align Executive Directors' interests with those of shareholders.

To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group post-employment.

**Operation**
Executive Directors are required to build and then maintain a shareholding equivalent to 200% of salary, such amount to be built up within a five-year period from appointment as an Executive Director (the "Required Shareholding").

All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares count towards the Required Shareholding (as such awards are not subject to any performance conditions after grant).

Executive Directors are to retain the lower of (i) the Required Shareholding, or (ii) the shareholding at the time employment ceases, for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise.

In very exceptional circumstances, for example in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the Required Shareholding, but must explain any exercise of its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.

### Clawback and malus

Discretionary deferred shares are subject to malus, and clawback for up to two years from vesting, in the following circumstances:
- misconduct in the performance or substantial failure to perform duties;
- significant financial losses, serious failure of risk management or serious damage to the reputation of Georgia Capital PLC or JSC Georgia Capital, caused by misconduct or gross negligence (including inaction in performance of his/her duties by the Executive Director);
- material misstatement or material errors in the Financial Statements that relates to the area of responsibility of the Executive Director or can be attributed to their action (or inaction in performance of his/her duties);
- deliberately misleading Georgia Capital PLC or JSC Georgia Capital in relation to financial performance; and
- an award being made on the basis of erroneous or misleading data, provided that for payments based on erroneous or misleading data (other than where such error has been caused by fraud, willful misconduct, deliberate action/inaction and/or gross negligence of the Executive Director), malus and clawback applies to discretionary deferred remuneration awarded for the year in question.

The above provisions form part of Mr Gilauri's service contract. Further, the Group has also amended the Executive Equity Compensation plan to allow shares to be lapsed, including to zero, or clawed back in accordance with the provisions in the Executive Director's contract.

For the Group's current Executive Director, Mr Gilauri, the Group also has unusually strong malus provisions where all unvested shares (deferred share salary and discretionary deferred shares) lapse when the service contract is terminated under certain circumstances, including for cause such as gross misconduct, substantial and repeated failure to perform duties, fraud or conviction of a felony. This may be several years of salary deferred shares and discretionary deferred shares. Please see the "Termination of the JSC Georgia Capital service agreement" in the Policy for more information.

# DIRECTORS' REMUNERATION REPORT CONTINUED

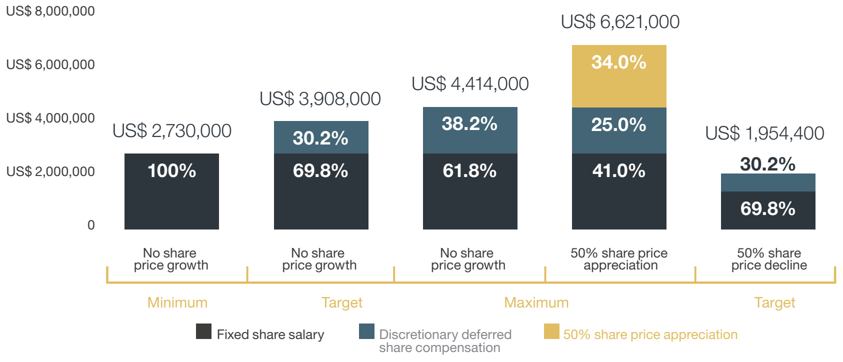


**Illustration of application of Remuneration Policy**

The chart below shows an estimate of the remuneration that could be received by Mr Gilauri, the Group's sole Executive Director and CEO, in respect of 2022 under the proposed Policy at five different performance levels.

The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.

The below is an extract from the 2022 Policy.




Notes:
1 Salary is comprised of deferred share salary and benefits. Mr Gilauri does not receive a cash salary and has waived all pension contributions. For illustration purposes, the value of the deferred share salary payable to Mr Gilauri is US$ 2,730,000, calculated by reference to the share price of US$ 13.65 on 12 July 2018, being the date of the Remuneration Committee meeting (the official share price of GBP 10.324 converted into US Dollars using an exchange rate of 1.3223, being the official exchange rate published by the Bank of England on the same date) to approve the contract.
2 For the purpose of calculating the value of discretionary deferred shares for illustration in this chart a share price of US$ 8.42 per share was used which was the share price of the most recent discretionary deferred remuneration award (ahead of the Policy implementation). The actual value of the discretionary deferred share award in respect of the performance of the 2022 work year is reported in the 2022 Annual Report and Accounts as at latest closing share price before the Remuneration Committee meeting at which the award is decided.
3 Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration which is deferred share salary and benefits. No share price growth assumptions have been made.
4 On-target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and 140,000 discretionary deferred shares, being 70% of the maximum opportunity. No share price growth assumptions have been made.
5 Maximum opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 100% being the number of shares granted under the deferred share salary. No share price growth assumptions have been made.
6 Maximum plus 50% share price growth reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 100% of the maximum opportunity and share price grows by 50%.
7 Target with 50% share price depreciation reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 70% of the maximum opportunity and share price depreciates by 50%.
8 For long-term incentive awards, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. Such disclosure is not required for short-term incentive awards, such as those made by the Group, where performance measures are limited to one year, nor is it required for salary compensation in the form of shares. The reason for this is that an increase in the value of the deferred shares resulting from share price appreciation in the period through to the vesting date is not considered to constitute remuneration for the purposes of the regulations. However, the Group has decided to voluntarily disclose information showing the value of a 50% share price appreciation.

## Remuneration Policy table for Non-Executive Directors

**Base fees**

| Purpose and link to strategy | Opportunity |
|---|---|
| To attract and retain high performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group. | The maximum aggregate Georgia Capital PLC fees for all Non-Executive Directors which may be paid under the PLC's Articles of Association is GBP 750,000. A specific maximum has not been set for the individual base cash fee.<br><br>The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility.<br><br>The Chairman receives a fee which reflects the extra time commitment and responsibility. However, no Chairman's fee is received when the Chairman and CEO roles are combined. |

**Base fees continued**

| Operation | Performance measures |
|---|---|
| All fees are paid in cash on a quarterly basis. The fee of the Chairman will be determined by the Remuneration Committee. Fees for Non-Executive Directors will be determined by the Board.<br><br>Fees may be reviewed from time to time by the above, taking into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The Board also reserves the right, in their discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The Board reserves the right to structure the Non-Executive Directors' fees differently in its absolute discretion.<br><br>Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties. | N/A |

**Committee fees**

| Purpose and link to strategy | Opportunity |
|---|---|
| Compensate for additional time spent discharging Committee duties. | The Chairman does not receive Committee fees. |
| **Operation** | **Performance measures** |
| Cash payment on a quarterly basis.<br><br>The amount of remuneration for Committee membership is reviewed as above. | N/A |

**Service agreements and policy on payments for loss of office for our Directors**

Mr Gilauri is the sole Executive Director of the Group. Mr Gilauri has a service contract effective 29 May 2018 with Georgia Capital PLC for an indefinite term which is terminable by either party on not less than four months' notice unless for cause where notice served by the Group shall have immediate effect.

Mr Gilauri also has a service agreement with JSC Georgia Capital effective from 29 May 2018 until 31 December 2025 which is terminable by the Executive Director on not less than three months' notice.

For information on our policy on payments for loss of office, please see our full Policy at **https://georgiacapital.ge/governance/cgf/policies**.

**Letters of Non-Executive Directors' appointments**

Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM. The letters of appointment for Non-Executive Directors provide for a one-month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any material breach or non-observance of his or her obligations to the Group is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified as acting as a Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

The service agreements and letters of appointment are available for inspection at the Company's registered office.

Signed on behalf of the Remuneration Committee and the Board of Directors

**Jyrki Talvitie**
Chairman of the Remuneration Committee
23 March 2023

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# NOMINATION COMMITTEE REPORT

**Jyrki Talvitie**
Chairman of the
Nomination Committee

## DEVELOPING AND RECRUITING THE TALENT PIPELINE FOR A UNIQUE GROUP

**Dear Shareholders**
I am pleased to present the Committee's report for the year ended 31 December 2022.

Shareholders are aware of our intention to reduce the size of the Board, from seven to five directors, with Kim and myself not putting ourselves forward for re-election at the 2023 AGM. Accordingly, the Committee is currently considering the composition of the Audit and Valuation Committee, Remuneration Committee and the Nomination Committee itself, following the 2023 AGM. The Committee is also considering a replacement chair of the Investment Committee and a replacement designated Non-Executive Director for employee engagement.

The Committee's principal responsibility is to lead the process of appointing Directors to the Board and senior management positions. The Committee had a particularly active year following Caroline Brown's departure from the Board in May and the appointment of Neil Janin with the consequent need to review membership of the Board Committees. In addition, the Committee considered succession plans for CEO Irakli Gilauri and helped negotiate the successful extension of Mr Gilauri's current employment contract from May 2023 until 31 December 2025. The Committee is satisfied, having considered the results of the Board evaluation, that the composition of the Board and Committees overall remain appropriate for the successful delivery of the Company's strategic and financial objectives. The Committee also concluded that the composition of the Audit and Valuation Committee continues to be appropriate.

Although the Board and the Committee had considered separating the Chairman and CEO roles in 2023, following Nikoloz (Nick) Gamkrelidze's departure from the Group, that discussion has been postponed. We continue to monitor the ongoing combination of the roles of Chairman and CEO and the Committee is satisfied that this remains the best structure for the Company for the time being.

The Board has carried out a further evaluation, reported on later in this report, and has also undertaken an exercise to identify the skills required by the Board to deliver on the Company's strategy. Taking these into account, the Committee is satisfied that the size and composition of the Board is appropriate for the Group and that it comprises the right combination of skills, experience and knowledge. The Committee remains satisfied that we have in place strong leaders across our portfolio companies. Succession planning will, however, be an ongoing priority for the Committee at both Board and senior management level.

I invite you to read more details on the above and the other activities we have undertaken during 2022 in the following report.

**Jyrki Talvitie**
Chairman of the Nomination Committee
23 March 2023



### The role of the Nomination Committee
The role of the Nomination Committee is to help ensure the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Company and the Board's Diversity Policy.

We also help to ensure that the Company appoints excellent executive managers within our portfolio of companies, capable of successfully executing our strategic objectives.

In summary, the key responsibilities of the Nomination Committee include:
- regular review of the composition of the Board and its Committees to ensure they are appropriately constituted and balanced in terms of diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, and balance in terms of skills, experience, independence and knowledge;
- responsibility for identifying and nominating candidates for the approval by the Board to fill Board vacancies as and when they arise;
- giving full consideration to succession planning for Directors, including the Chairman and CEO and other senior management, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeping under review the Group's leadership needs, both executive and non-executive, and ensuring plans are in place for senior management succession, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- making recommendations to the Board concerning the re-election by shareholders of Directors under the annual re-election provisions of the UK Corporate Governance Code (the "Code"), having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and their independence, bearing in mind the need for progressive refreshing of the Board.

The Committee undertook a review of its Terms of Reference and the Committee is satisfied that these continue to be aligned to the Code and best practice, and appropriate for the Company. The full Terms of Reference of the Committee can be found on our website here: **https://georgiacapital.ge/governance/cgf/terms**.

### Composition and meeting attendance
The composition of the Committee and the members' meeting attendance for the year 2022 are set out in the Board and Committee meeting attendance table on page 131, and the skills and experience each member contributes can be found on pages 126-127. Up until 17 October 2022, the Committee comprised me as Chairman, Kim Bradley, Maria Chatti-Gautier and Irakli Gilauri. On that date Neil Janin joined the Committee following his appointment to the Board. Kim Bradley ceased to be a member of the Committee on 20 December 2022 in view of his joining the Audit and Valuation Committee earlier in 2022.

In addition, from time-to-time members of management may be invited to meetings to provide a fuller picture and deeper level of insight into key issues and developments.

The Committee also reviewed the time commitment of the Non-Executive Directors, taking into account any external directorships, length of service as well as independence of character and integrity. When considering this alongside the Company's strategic direction and the required skills and competencies required of the Board, the Committee recommends that each Non-Executive Director and the Executive Director be elected/re-elected at the 2023 AGM, where they have stood for re-election.

Caroline Brown did not seek re-election to the Board at the 2022 AGM and therefore ceased to be a Director of the Company from the conclusion of the AGM on 20 May 2022. Due to Dr Brown's departure, the Committee prioritised a review of the Board's composition.

Shareholders will appreciate that finding the right candidates to join the Company's Board can be challenging, so it was fortuitous that earlier in 2022 Neil Janin's tenure as Chair of Bank of Georgia Group PLC came to an end. Mr Janin's experience, which is detailed on page 127, is deep, broad and, at least as it relates to Georgia, unique. The Committee considered that given his unique experience this was an opportunity to significantly enhance the Board's capabilities. We carefully considered Mr Janin's past roles as a Director of BGEO Group PLC and Georgia Healthcare Group PLC and was satisfied that he would be independent in judgement and character. In addition, we considered that Neil Janin would bring significant value to the Investment, Nomination and Remuneration Committees and recommended that the Board appoint him to the Committees.

As reported last year, the Committee recommended to the Board that Kim Bradley join the Audit and Valuation Committee with effect from 20 May 2022. Kim Bradley's experience and the reasons for his appointment are detailed on page 126 of this report.

With the continuing service of David Morrison (Chair) and Massimo Gesua' sive Salvadori (see pages 126-127 for a description of their experience and reason for appointment), the Committee continues to consider that the financial expertise of the Audit and Valuation Committee's members is recent and relevant.

The tenure for each of the Directors is five years at the date of this report (appointed in February 2018), except for Maria Chatti-Gautier who has served three years (appointed in March 2020) and Neil Janin (appointed in October 2022). As part of a wider assessment, the Committee notes the several of the Directors (David Morrison, Kim Bradley and Neil Janin) previously had roles as Directors of BGEO Group PLC. The business of Georgia Capital demerged from BGEO Group PLC, into a new group which listed in May 2018. Georgia Capital is a platform for buying, developing and selling businesses in Georgia. Importantly therefore, the nature of the business of Georgia Capital is substantially different to that of BGEO Group PLC at the date of the demerger, which primarily consisted of the regulated bank. From their previous long careers, Mr Morrison and Mr Janin have very strong experience, knowledge and authority to demonstrate objective judgement and provide constructive challenge among the Board members for this Company's business as an investment platform. The Committee has also noted the continuing contribution of all Board members in Board meetings and outside the meetings. Taking all the foregoing into consideration, the Committee determines that all Board members are independent in character and judgement.

You can read more on the balance of the Board in the section on "Board size, composition, tenure and independence" on page 128.

### Extension of CEO contract; role of the Chairman of the Board
Early in 2022 we had considered appointing Nick Gamkrelidze, then the CEO of Georgia Healthcare Group (GHG), to succeed Irakli Gilauri as CEO in 2023. Following Nick's departure from GHG, the Committee sought to renew Irakli Gilauri's tenure as CEO, which was due to expire in May 2023. We were delighted when Mr Gilauri agreed to extend his contract to 31 December 2025, and recommended that extension to the Board. The extension will enable Georgia Capital to continue to benefit from Mr Gilauri's experience, knowledge of the local business environment, his enthusiasm and commitment.

As part of the now abandoned plan to appoint Mr Gamkrelidze as CEO, we were intending to separate the roles of CEO and Board Chair, with Mr Gilauri assuming the latter role.

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## NOMINATION COMMITTEE REPORT CONTINUED



Following Mr Gamkrelidze's departure, the Committee revisited the plan to separate the Chairman and CEO roles and decided that, notwithstanding that this is not compliant with Provision 9 of the Code, the continuing combination of the two roles (i.e. the current structure) best serves our Company and recommend that it should continue at least for 2023. Mr Gilauri did not participate in these discussions. The Committee and the Board will keep the structure under review. Shareholders have, for the last four years, been supportive of this structure and from our discussions with shareholders, we believe this continues to be the case. The basis for this conclusion, and our shareholder engagement on this matter, is set out in the Directors' Governance Statement on page 124.

**Inclusion and diversity**

Our Board embraces diversity in all its forms and the Board understands the importance of developing a diverse pipeline for succession to senior management and the Board.

The Committee and the Board recognise the role that diversity has in promoting balanced decision-making which aligns with our values and strategy, and diversity of skills, background, experience, knowledge, outlook, approach, gender, nationality and ethnicity, amongst other factors, will be taken into consideration when seeking to appoint a new director to the Board. Notwithstanding the foregoing, any Board appointment will always be based on merit.

Similarly, we are clear that diversity of outlook and approach, while inevitably being difficult to measure, may be equally important. 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 support the FTSE Leaders Women's Review regarding gender diversity, the latter being aimed primarily at FTSE 350 companies. The Committee will continue to examine ways in which we can become an increasingly diverse Board. The Committee will also be working to improve the gender balance of those in senior management positions and their direct reports, as described in the Resources and Responsibilities section on page 82 and in the Sustainability Report. The Committee will continue to explore what additional steps need to be taken to improve diversity of the Board.

On 31 December 2022, Georgia Capital, as an investment holding company, had a total of 48 employees, of which 28 are females, and 20 are males. You can view our further gender diversity statistics on page 85 in the Resources and Responsibilities section and in the Sustainability Report. In terms of diversity in nationality, the Board is currently composed of Directors from Georgia, the US, Canada, Italy, Finland and France.

The Committee is responsible for maintaining and assessing the effectiveness of the Company's Diversity Policy and reviews this on an ongoing basis. You can read more about the established diverse culture and related activities during 2022 in the Resources and Responsibilities section on pages 85 and in the Sustainability Report.

**Succession planning and talent development**

Board succession planning at the senior management level was, as mentioned previously, an area of focus for the Committee during the year. I have previously reported on the creation of opportunities to develop high-performing individuals and to build diversity in senior roles across the business. We continue to build on this initiative and have developed a talented pool of employees within Georgia Capital that we believe is the best way to ensure a healthy and diverse pipeline of future leaders of the Company.

In addition, the Company pursues initiatives aimed at developing the entrepreneurial business leaders that Georgia Capital will require as it grows.

**Training and Director induction**

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an even more detailed understanding of the business and the markets in which our investments operate. All of our Directors participated in development sessions and presentations. This year the Directors were able to recommence site visits following the travel restrictions necessitated by the COVID-19 pandemic. The UK General Counsel and Group Corporate Secretary provide briefings as appropriate on regulatory and governance developments, including on changes in the Listing Rules and on stakeholder views on diversity.

Each Director, upon appointment, receives a tailored induction to the Company and its various investments over the first six months of appointment, with the purpose of:

- building an understanding of the nature of the Company, its business and its markets;
- building a link with the Company's people;
- building an understanding of the Company's main relationships; and
- understanding the obligations and responsibilities of a Director of a UK main market listed company.

As part of the induction programme, each Director meets members of executive management and receives information about the role of the Board and individual Directors, each Board Committee and the powers delegated to these Committees. The new Director is also advised of the legal and other duties and obligations of a Director of a listed company.

Neil Janin received presentations on matters relevant to his role and the organisation, and has met members of the team and the Board.

**Board and Committee evaluation**

The Company engaged Amandla UK Limited (Amandla) to facilitate a review of the Board's effectiveness, including that of the Nomination Committee. This review was intended to look more closely at boardroom dynamics, building on the work of Lintstock Limited as reported in our 2021 Annual Report. In particular, the Board was keen to ensure that it was able to engage effectively on difficult strategic decisions and have a strong and aligned vision for the business.

Amandla had previously worked with the Chairman and other senior executives within Georgia Capital. The assessment included a series of qualitative diagnostic interviews designed to ascertain from each of the Board members several different components:

1. The individual strengths of each member.
2. The areas which other Board members felt there could be a greater contribution.
3. The dynamics in the team that allowed for healthy challenge and debate.
4. The areas that might need attention.

Each Board member was also asked to appraise their colleagues on the Board. A plan of action was created for each member. Amandla observed a Board meeting and concluded that the atmosphere was healthy, and that the agenda was attended to in an orderly and prudent manner, with priority items given enough airtime to be carefully thought through. There was appropriate challenge and robust discussion. Amandla also concluded that the diversity of thought and experience met industry standards, and in terms of oversight the Board was fit for purpose. The evaluation also noted the Board should consider whether it would function more effectively and with more agility if it was reduced in size. This will be considered by this Committee during 2023.

Given his role as Chairman and CEO, Irakli Gilauri's performance was also reviewed by the Remuneration Committee. In addition, the full Board met to consider the Remuneration Committee's recommendations.



## STATEMENT OF DIRECTORS' RESPONSIBILITIES



The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**We confirm that to the best of our knowledge:**

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Annual Report, including the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

We consider the Annual Report and Accounts, taken as a whole, is fair, shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

**Irakli Gilauri**
Chairman and CEO
23 March 2023

# DIRECTORS' REPORT



The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2022.

Please refer to the Corporate Governance Statement for further information on how we applied the UK Corporate Governance Code.

**Strategic Report**
The Strategic Report on pages 2 to 122 was approved by the Board of Directors on 23 March 2023 and signed on its behalf by Irakli Gilauri, Chairman and Chief Executive Officer.

**Management Report**
This Directors' Report together with the Strategic Report on pages 2 to 122 form the Management Report for the basis of DTR 4.1.5 R.

**Directors**
The names and biographies of the current Directors of the Company are shown on pages 126 to 127 and include their relevant experience. In accordance with the UK Corporate Governance Code, all the Directors will retire by rotation at the AGM and offer themselves for re-election.

The Directors' beneficial interests in ordinary shares of Georgia Capital as at 31 December 2022 are shown on page 156 together with any changes in those interests between the financial year end and the date on which this Directors' Report was approved by the Board.

**Powers of Directors**
The Directors may exercise all powers of the Company subject to applicable legislation and regulations and Georgia Capital's Articles of Association.

**Information contained elsewhere in the Annual Report**
Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

| Information | Location in Annual Report |
|---|---|
| Future developments | pages 2 to 122 |
| Going Concern Statement | page 71 |
| Viability Statement | pages 71 to 72 |
| Risk management | pages 68 to 72 |
| Principal risks and uncertainties | pages 73 to 81 |
| Directors' Governance Statement | pages 124 to 125 |
| The Board of Directors | pages 126 to 127 |
| Investment Committee report | pages 137 to 138 |
| Audit and Valuation Committee report | pages 139 to 144 |
| Remuneration Committee report | pages 145 to 163 |
| Summary of Remuneration Policy | page 159 |
| Nomination Committee report | pages 164 to 166 |
| Related party disclosures | page 210 |
| Greenhouse gas emissions | page 88 |
| Employee matters | pages 85 to 86 |
| Environmental matters | pages 87 to 88 |
| Share capital | page 198 |
| Engagement with suppliers, customers and others in a business relationship with the Company | page 132 |
| Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, foreign currency risk and financial instruments | pages 200 to 203 |

**Information to be disclosed in accordance with the Listing Rule 9.8.4R**
The following information required to be disclosed in terms of Listing Rule 9.8.4R is not applicable unless stated otherwise:
- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company;
- details of any non-pre-emptive issues of equity for cash by the Company or by any unlisted major subsidiary undertaking;
  - parent participation in a placing by a listed subsidiary;
  - any contract of significance in which a Director is or was materially interested;
  - any waiver of dividends by a shareholder; and
- details of any long-term incentive schemes.

**Articles of Association**
Georgia Capital PLC's (the "Company") Articles of Association may only be amended by a special resolution at a general meeting of the shareholders. The process for the appointment and removal of Directors is included in the Company's Articles of Association. The Georgia Capital PLC Articles of Association are available on the Company's website: **https://georgiacapital.ge/governance/cgf/articles**.

**Share capital and rights attaching to the shares**
Details of the movements in share capital during the year are provided in Note 8 to the consolidated financial statements on page 198 of this Annual Report. As at the last practicable date of 17 March 2023, there was a single class of 44,827,862 ordinary shares of 1 pence each in issue, each with one vote. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:
- have shareholder documents made available to them including notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

The Company is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006.

Authority was given at the AGM of the Company on 20 May 2022 for the Company to purchase up to 6,944,294 (approximately 14.99% of Georgia Capital's issued ordinary share capital excluding treasury shares as at 24 March 2022). This authority will expire at the conclusion of the Company's AGM in 2023 or, if earlier, the close of business on 20 June 2023.

A renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available cash resources of the Company. Ordinary shares purchased by the Company may be held in treasury or cancelled.

At the AGM of the Company on 20 May 2022, the Directors were given the power a) to allot shares up to a maximum nominal amount of GBP 154,420.59 (representing 15,442,059 ordinary shares, approximately one third of the Company's issued share capital as at 24 March 2022), and b) to allot equity securities up to an aggregate nominal amount of GBP 154,420.59 in connection with an offer by way of a rights issue: (i) to holders of shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2023 AGM (or, if earlier, at the close of business on 20 August 2023) and approval will be sought at that meeting to renew a similar authority for a further year.

In August 2021, the Board approved a buyback programme whereby the Company would purchase up to 6,944,294 (approximately 14.99%) of Georgia Capital's issued ordinary share capital with a nominal value of £0.01 each with the intention of all shares purchased pursuant to this programme were cancelled, consequently reducing the share capital. Under this programme, the Company has repurchased and cancelled 2,252,341 of its own shares during the financial year ended 31 December 2022. The last buyback under this programme occurred on 1 September 2022.

None of the ordinary shares carry any special rights with regard to control of Georgia Capital. There are no restrictions on transfers of shares other than:
- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Group's Inside Information Disclosure Policy;
- pursuant to the Company's Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in Georgia Capital's shares or cannot deal in certain periods; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

There are no restrictions on exercising voting rights save in situations where Georgia Capital is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to Georgia Capital). Georgia Capital is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

On 11 October 2022, a subsidiary of Georgia Capital PLC, JSC Georgia Real Estate (GRE), the holding company of the Group's housing development and hospitality businesses, placed a US$ 35 million local bond offering (the "Notes"). The Notes are US$-denominated with 2-year bullet maturity and carry an 8.5% coupon. The Notes are listed on the Georgian Stock Exchange. Similarly, Georgian Renewable Power Operations JSC (GRPO), the holding company of the Group's operational renewable energy assets (previously owned by Georgia Global Utilities JSC (GGU)), successfully closed a US$ 80 million green secured bond offering on 12 October 2022.

**Results and dividends**
The Company made a loss before taxation of GEL 12,153 million. The Company's loss after taxation for the year was GEL 12,153 million.

The Company may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by the Company's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of the Company available for distribution.

As the Company is a holding company, Georgia Capital relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

The Company expects to be a cash generative business with the opportunity for attractive capital investment to enhance its growth prospects, both through organic investments and acquisitions. The Board intends to pursue a capital return policy that reflects this strategy whilst also delivering shareholders high quality, long-term dividend growth, through share buybacks or other potential exits. However, the Board may periodically reassess the Company's dividend policy and the payment of dividends (or quantum of the same) will depend on the Group's existing and future financial condition, results of operations, capital requirements, investment and divestment cycles, liquidity needs and other matters the Board considers relevant from time to time.

**AGM**
The arrangements for the Company's next AGM and details of the resolutions to be proposed, together with explanatory notes will, be set out in the Notice of AGM to be published on the Company's website **(https://georgiacapital.ge/)**.

**Equity Settled Option Plan (ESOP)**
The Company operates an employee benefit trust (EBT) (the "ESOP"), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, and which is used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Apex Group Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by Georgia Capital. New shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the London Stock Exchange will not exceed 10% of the Company's ordinary share capital over any ten-year period.

**Conflicts of interest**
In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2022. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

**Directors' remuneration**
Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors must be in accordance with the Directors' Remuneration Policy. A remuneration policy was put to the shareholders for approval at the 2022 AGM and remuneration is determined in accordance with that Policy.

The fees paid to the Non-Executive Directors in 2022 pursuant to their letters of appointment are shown on page 156. The fees paid to our sole Executive Director in 2022 pursuant to his service agreements with Georgia Capital are shown on pages 148-149.

**Indemnity**
Subject to applicable legislation, every current and former Director or other officer of the Company (other than any person engaged by the Company as auditor) shall be indemnified by the Company against (broadly) any liability in relation to the Company, other than (broadly) any liability to the Company or a member of the Company, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' liability insurance.

**Related party disclosures**
Details of related party disclosures are set out in Note 14 to the consolidated financial statements on page 210 of this Annual Report.

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### Significant agreements
The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the Company. The Company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

### Presence outside of Georgia
The Company has an office in London: see page 214.

### Employee disclosures
Our disclosures relating to the number of women in senior management, employee engagement and our policies on human rights, including employees with a disability, are included in the section "Employee matters" on pages 85 to 86.

### Political donations
The Company did not make any political donations or expenditure during 2022. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2023 AGM.

### Code of Conduct and Ethics
The Board has adopted a Code of Conduct and Ethics relating to the lawful and ethical conduct of the business, supported by the Company's core values. The Code of Conduct and Ethics has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. Our Code of Conduct and Ethics is available on our website: **https://georgiacapital.ge/governance/cgf/policies**.

### Independent auditors
A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of Georgia Capital will be put to shareholders at the upcoming AGM.

### Major interests in shares
The table below lists shareholders with voting rights of more than 3% as of 31 December 2022.

| Shareholder | Number of voting rights | % of voting rights |
|---|---|---|
| Gemsstock Ltd | 4,781,702 | 10.67% |
| JSC Georgia Capital Executive Equity Compensation Trust | 4,250,021 | 9.48% |
| Allan Gray Ltd | 2,971,140 | 6.63% |
| Coeli Frontier Markets AB | 2,083,120 | 4.65% |
| Lazard Asset Management LLC | 1,825,886 | 4.07% |

Source: Georgeson, Computershare

For the period 1 January 2023 up to and including 17 March 2023 (the latest practicable date for inclusion in this report), the Company has received the following notifications pursuant to Rule 5 of the DTRs: the JSC Georgia Capital Executive Equity Compensation Trust holds 4,195,068 number of voting rights, representing approximately 9.36% of the Group's issued ordinary share capital. Additionally, the Company had received notification, on the 20 January 2023, that Mr Irakli Gilauri directly held a total of 1,589,028 ordinary shares in the Group, representing approximately 3.54% of the Group's issued ordinary share capital.

It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on the Company's website and the LSE website.

### Post balance sheet events
#### Transfer from LSE Premium to LSE Standard Listing
On 17 February 2023, the Company published its shareholder circular containing a notice of general meeting in connection with the proposed transfer of the Company's listing from the Premium Listing segment to the Standard Listing segment (the "Transfer"). At the General Meeting, held on 14 March 2023, shareholders approved the Transfer with 99.99% of votes cast in favour. Following shareholder approval of the Transfer at the General Meeting, the Company intends to proceed with implementing the Transfer. The Company anticipates that the effective date of the Transfer will be 13 April 2023, being 20 business days after the date of the General Meeting.

#### Expansion of Education Business
On March 3 Georgia Capital announced the expansion of K-12 education business through two investment projects: (1) The acquisition of a new campus in the affordable segment. With this investment, the education business will expand from its current built capacity of 5,650 learners to 6,850 learners; (2) The signing of a binding agreement for the acquisition of a land plot for the expansion of an operational campus in the premium and international segment. This acquisition, once completed, will increase the total pipeline capacity for 2025 by 350 learners, in total from 2,410 learners to 2,760 learners.

#### Sale of Share in Listed Portfolio
During 1Q23 Georgia Capital sold 239,867 shares of Bank of Georgia Group PLC for total consideration of GEL 21,226. As a result, subsequent holding of GCAP in BoG stands at 20.2%.

### Statement of disclosure of information to the auditor
We, the Directors confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditors are unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

The Directors' Report on pages 168 to 170 was approved by the Board of Directors on 23 March 2023 and signed on its behalf:

**Link Company Matters Limited**
Company Secretary
23 March 2023





# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF GEORGIA CAPITAL PLC

### Report on the audit of the financial statements
#### Opinion
In our opinion, Georgia Capital PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Statement of Financial Position as at 31 December 2022; the Statement of Profit or Loss and Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Valuation Committee.

#### Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided. Other than those disclosed in Note 9, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

#### Our audit approach
**Context**

Georgia Capital PLC is a company listed on the London Stock Exchange which invests in and develops businesses within Georgia. It holds 100% of the share capital of JSC Georgia Capital. Its primary operations are in Georgia. In planning for our audit, we met with the Audit and Valuation Committee and members of management to discuss and understand significant changes to the business during the year, and to understand their perspectives on associated business risks. We used this insight when forming our views regarding the business, as part of developing our audit plan and when scoping and performing our audit procedures.

**Overview**

**Audit scope**
- The Annual Report and financial statements are prepared as an investment entity under IFRS 10. We have audited 99.9% of the investment portfolio held by Georgia Capital PLC through JSC Georgia Capital. This represents 99.4% of the equity investments at fair value balance.
- We instructed PwC Georgia to perform audit procedures on inputs to the valuation models of the investment portfolio. We performed audit procedures over the assumptions and methodologies applied in developing the valuation of the investment portfolio.
- We instructed PwC Georgia to perform audit procedures over special purpose financial information pertaining to 100% of the equity investments at fair value balance.

**Key audit matters**
- Valuation of equity investments at fair value

**Materiality**
- Overall materiality: GEL 28,174,000 based on 1% of net assets.
- Performance materiality: GEL 14,087,000.

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF GEORGIA CAPITAL PLC CONTINUED



**Key audit matters**
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of equity investments at fair value**<br>The fair value of equity investments at fair value balance presented in the Statement of Financial Position is the Company's investment in its subsidiary, predominantly comprised of the fair value of the investment portfolio. The investment portfolio includes unquoted investments.<br><br>In valuing the investment portfolio, key assumptions include discount rates, future growth projections, control premia, illiquidity discounts and the application of weighted averages to different valuation approaches.<br><br>The inputs in the earnings multiples models include observable data, such as earnings multiples of comparable companies to the relevant investment, and unobservable data, such as forecast earnings for the investments. In discounted cash flow models, unobservable inputs are the projected cash flows of the relevant investments and the discount rates applied.<br><br>The valuation of equity investments at fair value was identified as a key audit matter given the valuation is inherently subjective due to, among other factors, the individual nature of each investment and the expected future cash flows. The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual investment valuations, when aggregated, could result in a material misstatement, warranted specific audit focus in this area. | We obtained an understanding of management's processes and controls for determining the fair value of equity investments, including understanding management's interactions with Kroll as management's external experts. We performed the following procedures over the valuation of equity investments at fair value as at 31 December 2022:<br>• Held discussions with management and 3rd party valuers to challenge their assumptions and validate inputs used;<br>• Validated the appropriateness of the fair valuation policies to assess whether they are in accordance with applicable accounting requirements;<br>• Tested the classification of Level 3 investments to assess whether they were classified appropriately;<br>• Reviewed valuation methodologies to confirm they are in line with Georgia Capital Valuation Policies and IFRS requirements;<br>• Recalculated the valuation models from their Excel formula to assess mathematical accuracy;<br>• Assessed the appropriateness of any non-observable inputs or significant estimates used in valuations, including benchmarking against publicly available information where available, and obtained corroborative evidence; and<br>• Validated ownership and other interests held through regulatory data, sale and purchase agreements or other third party reports.<br><br>In addition, given the inherent subjectivity involved in the valuation of the investments, and therefore the need for specialised market knowledge when determining the most appropriate assumptions and the technicalities of valuation methodology, we engaged our internal valuation experts to assist us in our audit of this area. The experts performed the following procedures on a sample of investments:<br>• Obtained and read the valuation reports drafted by Kroll for each asset in the sample;<br>• Discussed with Kroll and management their rationale for the valuations;<br>• Reviewed and assessed the reasonableness of the valuation approaches and methodologies for compliance with the relevant industry best practice and IFRS;<br>• Reviewed certain key inputs and assumptions, including discount rates, long term growth rates, terminal value assumptions and comparable company multiples as at 31 December 2022; and<br>• Reported their findings to the audit team for overall considerations and conclusions.<br><br>We considered the appropriateness and adequacy of the disclosures around the estimation uncertainty and sensitivities on the accounting estimates. Our testing did not identify any evidence of material misstatement. |

**How we tailored the audit scope**
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Georgia Capital PLC is an investment entity as defined by IFRS 10. It recognises its 100% holding in JSC Georgia Capital under the Equity investments at fair value account. 99.4% of this balance is comprised of equity investments held at fair value through JSC Georgia Capital. The audit work over this balance was performed by the UK and Georgia engagement teams in conjunction with PwC UK valuation experts.

The Senior Statutory Auditor is based in the UK, along with the UK engagement team. As the Company's management and operations are located in Georgia, the UK engagement team have instructed the Georgia engagement team for JSC Georgia Capital to report to the UK on special purpose financial information as it pertains to the equity investments at fair value balance.

The Georgia engagement team have carried out audit procedures over certain balances included within equity investments at fair value along with testing of inputs into the investment valuation models. The UK engagement team, together with the UK valuations experts, performed audit procedures over the judgemental assumptions and methodologies employed in determining a fair value.

The UK engagement team held regular calls with the Georgia engagement team to understand the audit approach, findings from the results of audit procedures and any issues arising from our work. The Senior Statutory Auditor travelled to Tbilisi, Georgia to meet with the Georgia engagement team face to face and perform an on-site review of work performed by the Georgia engagement team. The UK engagement team also performed a remote review of working papers through use of our audit software and were responsible for the direction, review and oversight of the audit process.

**The impact of climate risk on our audit**
In planning and executing our audit, we have considered the potential impacts of climate change on the Company's business and its financial statements, based on our knowledge of the Company's operations and its strategy in relation to climate change.

In 2022, the Company has continued to develop its assessment of the potential impacts of climate change as outlined in the TCFD report on pages 89-94. As part of our audit, we have obtained management's and the Audit and Valuation Committee's climate-related risk assessment to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Company's financial statements.

The Company has determined that the most significant risk in respect of climate change is increases in carbon pricing. As the carbon price is expected to increase, so too will the costs of goods and supply chain distribution, potentially impacting the profitability of businesses such as Healthcare.

We have performed our own qualitative risk assessment of the potential impact of climate change on the Company's key account balances and classes of transactions, namely the assumptions embedded in discounted cash flows models for growth rates, operating expenses and capital expenditure, and have not identified any additional risks of material misstatement.

**Materiality**
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall company materiality** | GEL 28,174,000 |
| **How we determined it** | 1% of net assets |
| **Rationale for benchmark applied** | Based on the benchmarks used in the Annual Report, net assets is the primary measure used by shareholders in assessing the performance of the Company and is a generally accepted auditing benchmark. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to GEL 14,087,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Valuation Committee that we would report to them misstatements identified during our audit above GEL 1,409,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:
- Reviewing management's going concern assessment memorandum which included a base case cash flow and stress scenario analysis covering a three-year period to 31 December 2025.
- Holding discussions with the CFO and Head of Finance to understand economic developments in Georgia in the face of the COVID-19 pandemic and the war in Ukraine and performing independent research on expected economic impacts of these scenarios along with predicted future performance of the Georgian economy.
- Considering the maturity of the US$ 300 million Eurobonds issued by JSC Georgia Capital which are due in 2024 and the covenants attached to them, and determined that there is sufficient liquid access to cash to cover the Eurobonds when due as cash available from the Company and JSC Georgia Capital is GEL 223 million and liquid securities is GEL 830 million.
- Obtaining confirmation of the cash balances in each bank account held by the Company.
- Assessing the liquidity of the portfolio and the Company's ability to realise any holdings if needed.
- Reviewing Board meeting minutes, and met with members of the Audit and Valuation Committee and those charged with governance to understand their view on the future of the Company and its ability to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF GEORGIA CAPITAL PLC CONTINUED



In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

**Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

**Directors' Remuneration**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:
- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.



In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Valuation Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

### Responsibilities for the financial statements and the audit

**Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and the Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to potential management bias in accounting estimates, in particular in relation to the valuation of the investment portfolio. Audit procedures performed by the engagement team included:
- Discussions with management, and review of relevant meeting minutes (including those of the Board of Directors and the Audit and Valuation Committee), including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Challenging assumptions made by management in their significant accounting estimates, in particular in relation to the valuation of equity investments at fair value; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Georgia Capital PLC Annual Report 2022

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF GEORGIA CAPITAL PLC CONTINUED



**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the Audit and Valuation Committee, we were appointed by the members on 20 May 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

**Other matter**

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

**Allan McGrath (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2023



# STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2022 (THOUSANDS OF GEORGIAN LARI)

| | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents* | | **23,361** | 7,200 |
| Prepayments | | **363** | 406 |
| Equity investments at fair value | 6 | **2,795,060** | 2,881,373 |
| **Total assets** | | **2,818,784** | 2,888,979 |
| **Liabilities** | | | |
| Other liabilities | | **1,393** | 5,357 |
| **Total liabilities** | | **1,393** | 5,357 |
| **Equity** | | | |
| Share capital | 8 | **1,473** | 1,547 |
| Additional paid-in capital and merger reserve | | **238,311** | 238,311 |
| Retained earnings | | **2,577,607** | 2,643,764 |
| **Total equity** | | **2,817,391** | 2,883,622 |
| **Total liabilities and equity** | | **2,818,784** | 2,888,979 |

* As at 31 December 2022 and 31 December 2021 cash and cash equivalents consist of current accounts with credit institutions.

The Company's distributable reserves as at 31 December 2022 were GEL 1,227,852 (31 December 2021: 1,293,084).

The financial statements on page 177 to 180 were approved by the Board of Directors on 23 March 2023 and signed on its behalf by:

**Irakli Gilauri**
Chief Executive Officer

Georgia Capital PLC
Registered No. 10852406

The accompanying notes on pages 181 to 210 are an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2022 (THOUSANDS OF GEORGIAN LARI)

| | Note | 2022 | 2021 |
|---|---|---|---|
| Gains on investments at fair value | 6 | **925** | 689,762 |
| Dividend income | 6 | **–** | 14,481 |
| Transaction costs | 12 | **–** | (2,937) |
| **Gross investment profit** | | **925** | 701,306 |
| Administrative expenses | 9 | **(4,389)** | (5,512) |
| Salaries and other employee benefits | 9 | **(2,374)** | (2,691) |
| **(Loss)/profit before foreign exchange and non-recurring items** | | **(5,838)** | 693,103 |
| Net foreign currency loss | | **(6,075)** | (222) |
| Non-recurring expense | | **(240)** | – |
| **(Loss)/profit before income taxes** | | **(12,153)** | 692,881 |
| Income tax | 7 | **–** | – |
| **(Loss)/profit for the year** | | **(12,153)** | 692,881 |
| Other comprehensive income | | **–** | – |
| **Total comprehensive (loss)/income for the year** | | **(12,153)** | 692,881 |
| **(Loss)/Earnings per share (GEL):** | 8 | | |
| – basic | | **(0.2887)** | 15.6533 |
| – diluted | | **(0.2887)** | 15.2932 |

The accompanying notes on pages 181 to 210 are an integral part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2022 (THOUSANDS OF GEORGIAN LARI)

| | Share capital | Additional paid-in capital and merger reserve | Treasury Shares | Retained earnings | Total |
|---|---|---|---|---|---|
| **1 January 2022** | 1,547 | 238,311 | – | 2,643,764 | 2,883,622 |
| Loss for the year | – | – | – | (12,153) | (12,153) |
| **Total comprehensive loss for the year** | – | – | – | (12,153) | (12,153) |
| Increase in equity arising from share-based payments (Note 10) | – | – | | 495 | 495 |
| Cancellation of shares (Note 8) | (74) | – | 74 | – | – |
| Purchase of treasury shares (Note 8) | – | – | (74) | (54,499) | (54,573) |
| **31 December 2022** | **1,473** | **238,311** | **–** | **2,577,607** | **2,817,391** |

| | Share capital | Additional paid-in capital and merger reserve | Treasury Shares | Retained earnings | Total |
|---|---|---|---|---|---|
| **1 January 2021** | 1,574 | 238,311 | – | 1,972,407 | 2,212,292 |
| Profit for the year | – | – | – | 692,881 | 692,881 |
| **Total comprehensive income for the year** | – | – | – | 692,881 | 692,881 |
| Increase in equity arising from share-based payments (Note 10) | – | – | – | 534 | 534 |
| Cancellation of shares (Note 8) | (27) | – | 27 | – | – |
| Purchase of treasury shares (Note 8) | – | – | (27) | (22,058) | (22,085) |
| **31 December 2021** | 1,547 | 238,311 | – | 2,643,764 | 2,883,622 |

The accompanying notes on pages 181 to 210 are an integral part of these financial statements.

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2022 (THOUSANDS OF GEORGIAN LARI)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Salaries and other employee benefits paid | | **(1,877)** | (2,173) |
| General, administrative and operating expenses paid | | **(4,780)** | (5,442) |
| Net other expense paid | | **(3,172)** | – |
| **Net cash flows used in operating activities before income tax** | | **(9,829)** | (7,615) |
| Income tax paid | | **–** | – |
| **Net cash flow used in operating activities** | | **(9,829)** | (7,615) |
| **Cash flows from investing activities** | | | |
| Capital redemption from subsidiary | 2 | **87,238** | 21,679 |
| Dividends received | 6 | **–** | 14,481 |
| **Cash flows from investing activities** | | **87,238** | 36,160 |
| **Cash flows from financing activities** | | | |
| Other purchases of treasury shares | 8 | **(54,326)** | (21,891) |
| Acquisition of treasury shares under share-based payment plan | 8 | **(247)** | (194) |
| **Net cash used in financing activities** | | **(54,573)** | (22,085) |
| Effect of exchange rates changes on cash and cash equivalents | | **(6,675)** | (115) |
| **Net increase in cash and cash equivalents** | | **16,161** | 6,345 |
| **Cash and cash equivalents, beginning of the year** | | **7,200** | 855 |
| **Cash and cash equivalents, end of the year** | | **23,361** | 7,200 |

The accompanying notes on pages 181 to 210 are an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)

### 1. Principal activities
Georgia Capital PLC ("Georgia Capital", "GCAP" or the "Company") is a public limited liability company incorporated and domiciled in United Kingdom with registered number 10852406. Georgia Capital PLC holds 100% of the share capital of the JSC Georgia Capital ("JSC GCAP"), which makes up a group of companies (the "Group"), focused on buying, building and developing businesses in Georgia. The Group 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% equity stake in the water utility business; and a 20.6% (2021: 19.9%) equity stake in LSE premium-listed Bank of Georgia Group PLC ("BoG"), a leading universal bank in Georgia. The shares of Georgia Capital are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities under the ticker CGEO, effective 29 May 2018.

Georgia Capital's registered legal address is 42 Brook Street, London W1K 5DB, England, United Kingdom.

As at 31 December 2022 and 31 December 2021, the following shareholders owned more than 5% of the total outstanding shares* of Georgia Capital. Other shareholders individually owned less than 5% of the outstanding shares.

| Shareholder | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Gemsstock Ltd | **11%** | 0% |
| Allan Gray Ltd | **7%** | 6% |
| Others | **82%** | 94% |
| **Total** | **100%** | 100% |

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares which includes shares held in the trust for share-based compensation purposes of the Group.

References to the Group are applied in these financial statements in the context of going concern assessment, segment, fair valuation and risk management disclosures.

### 2. Basis of preparation
#### General
The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

These financial statements are prepared under the historical cost convention except for equity investments held at fair value through profit or loss (FVPL).

The financial statements are presented in thousands of Georgian Lari (GEL), except per-share amounts and unless otherwise indicated.

#### Investment entity status
On 31 December 2019 Georgia Capital concluded that it met the definition of investment entity as defined in IFRS 10 Consolidated Financial Statements. As per IFRS 10 an investment entity is an entity that:
a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

As of 31 December 2022, the Company continues to meet the definition of investment entity. Further details on the investment entity status and underlying significant judgements are provided in Notes 3, 4, 6 and 12.

#### Going concern
The Board of Directors of Georgia Capital has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements, i.e. the period ending 31 March 2024. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on a going concern basis.

The Directors have made an assessment of the appropriateness of the going concern basis of preparation and reviewed Georgia Capital's liquidity outlook for the period ending 31 March 2024.

The main source of cash inflow for GCAP PLC is capital redemption from JSC GCAP, which holds the liquid assets to support the liquidity needs of the Company as well. As at 31 December 2022, JSC GCAP holds cash in the amount of GEL 199,771, amounts due from credit institutions in the amount of GEL 16,278 and marketable debt securities and redeemable securities in the amount of GEL 25,445 and GEL 12,631 (refer to Note 12). Securities are considered to be highly liquid, as they are debt instruments listed on international and local markets. On 2 February 2022 Group received US$ 180 million (GEL 548 million) cash consideration for the disposal of its controlling interest in the water utility business. The Group has a policy to maintain US$ 50 million liquid assets buffer at all times (Note 11).

The liquidity needs of the Group during the going concern review period mainly consist of the coupon payments on JSC GCAP Eurobonds and the operating costs of running the holding companies and capital allocations to its portfolio companies. The liquidity outlook also assumes dividend income from the private portfolio companies (healthcare, retail (pharmacy), renewable energy and insurance businesses) and Bank of Georgia Group PLC. Capital allocations are assumed in relation to investment stage companies (Renewable Energy and Education).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 2. Basis of preparation continued
**Going concern** continued

The Directors also considered the maturity of the Eurobonds issued by the Group, which are due in 1Q24. Over the course of 2022, the Group repurchased US$ 116 million GCAP Eurobonds, of which, US$ 65 million notes were cancelled. As of 31 December 2022, outstanding gross balance of Eurobonds issued are US$ 300 million, out of which, repurchased and held in treasury are US$ 51 million notes. At the reporting date the Group has cash and liquid debt instruments of US$ 103 million and listed equity investments of US$ 307 million. The Directors remain confident that given the strong liquidity, and the Group's track record of proven access to capital, the Group will successfully roll-over the Eurobonds.

The Company has been increasingly assessing climate-related risk and opportunities that may be present to the Group. During the going concern period no significant risk has been associated to the Group and portfolio companies that would materially impact their ability to generate sufficient cash and continue as going concern.

Based on the considerations outlined above, management of Georgia Capital concluded that the going concern basis of preparation remains appropriate for these financial statements.

**Subsidiaries and associates**

The total amount of investment in subsidiaries in the Company's Statement of Financial Position as at 31 December 2022 was GEL 2,795,060 (as at 31 December 2021: GEL 2,881,373) represented by direct investment in JSC Georgia Capital. As at 31 December 2022 and 31 December 2021 investment in JSC Georgia Capital (Note 12) is measured at fair value. As at 31 December 2022 and 31 December 2021 equity investments of JSC Georgia Capital include the following subsidiaries and associates:

| | Proportion of voting rights and ordinary share capital held | | | | | | |
|---|---|---|---|---|---|---|---|
| Subsidiaries consolidated | 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
| GCMF, LLC | **100.00%** | 100.00% | Georgia | 8a Petre Melikishvili Ave, Tbilisi, 0179 | Excess liquidity management company | 2/5/2019 | – |

| | Proportion of voting rights and ordinary share capital held | | | | | | |
|---|---|---|---|---|---|---|---|
| Subsidiaries at fair value | 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
| JSC Georgia Real Estate | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 27/9/2006 | – |
| m2 Group, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 17/8/2015 | – |
| m2 Development, LLC (merged with m2 Group, LLC) | **–** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 12/12/2019 | – |
| M Square Park, LLC[1] | **100.00%** | 100.00% | Georgia | 1 Marshal Gelovani Ave., Tbilisi | Real estate | 15/9/2015 | – |
| M square Park 3, LLC | **100.00%** | – | Georgia | 1 Marshal Gelovani Ave., Tbilisi | Real estate | 25/5/2022 | – |
| M square Park 4, LLC | **100.00%** | – | Georgia | 1 Marshal Gelovani Ave., Tbilisi | Real estate | 25/5/2022 | – |
| M square Park X, LLC | **100.00%** | – | Georgia | 1 Marshal Gelovani Ave., Tbilisi | Real estate | 23/06/2022 | – |
| Optima Saburtalo, LLC[1] | **100.00%** | 100.00% | Georgia | 2 Mikheil Shavishvili St., Tbilisi | Real estate | 15/9/2015 | – |
| Land, LLC[1] | **100.00%** | 100.00% | Georgia | Between university and Kavtaradze St.,Tbilisi | Real estate | 3/10/2014 | – |
| m2 at Nutsubidze 2, LLC[1] | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 24/1/2020 | – |
| m2 at Hippodrome, LLC[1] | **100.00%** | 100.00% | Georgia | 10 Givi Kartozia St., Tbilisi | Real estate | 6/7/2015 | – |
| Optima ISANI, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 14 a Moscow Ave., Tbilisi | Real estate | 25/7/2014 | – |
| Tamarashvili 13, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 13 Tamarashvili St., Tbilisi, 0179 | Real estate | 3/11/2011 | – |
| m2 Skyline, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 3 Maro Makashvili St., Tbilisi | Real estate | 24/7/2015 | – |
| m2 at Kazbegi, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 25 Kazbegi Ave., Tbilisi, 0160 | Real estate | 21/5/2013 | – |



### 2. Basis of preparation continued
**Subsidiaries and associates** continued

| | Proportion of voting rights and ordinary share capital held | | | | | | |
|---|---|---|---|---|---|---|---|
| Subsidiaries at fair value | 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
| m2 at Tamarashvili, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 6 Tamarashvili St., Tbilisi, 0177 | Real estate | 21/5/2013 | – |
| m2 at Nutsubidze, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 82 Shalva Nutsubidze St., Tbilisi, Georgia | Real estate | 21/5/2013 | – |
| m2 at Chavchavadze, LLC (merged with m2 at Hippodrome, LLC) | **–** | 100.00% | Georgia | 50 I. Chavchavadze Ave., Tbilisi | Real estate | 5/9/2016 | – |
| Optima, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 3/8/2016 | – |
| m2 Maintenance, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Real estate | 20/7/2021 | – |
| m2 at Mtatsminda Park, LLC | **100.00%** | 100.00% | Georgia | 10 Givi Kartozia St., Tbilisi | Real estate | 31/12/2021 | – |
| Georgia Real Estate Management Group, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Hospitality | 17/8/2015 | – |
| Amber Group, LLC (merged with Georgia Real Estate Management Group, LLC) | **–** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Hospitality | 10/12/2019 | – |
| Kakheti Wine and Spa, LLC[2] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 23/04/2018 | – |
| Gudauri Lodge, LLC[2] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 24/04/2018 | – |
| m2 Svaneti, LLC[2] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 14/11/2018 | – |
| m2 Hatsvali, LLC[2] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 17/4/2019 | – |
| m2 Resort, LLC[2] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 11/2/2019 | – |
| m2 Mtatsminda, LLC | **100.00%** | 100.00% | Georgia | 22 Zaal Dumbadze St., Tbilisi | Hospitality | 16/10/2014 | 26/12/2017 |
| Georgia Property Management Group, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Commercial assets | 4/10/2018 | – |
| Vere Real Estate, LLC | **100.00%** | 100.00% | Georgia | 10 Givi Kartozia St., Tbilisi | Commercial assets | 4/3/2010 | 6/8/2018 |
| Caucasus Autohouse, LLC | **100.00%** | 100.00% | Georgia | 29 Ilia chavchavadze Ave., Tbilisi, 0105 | Commercial assets | 29/3/2011 | – |
| Georgia Hotels Management Group, LLC (merged with Georgia Real Estate Management Group, LLC) | **–** | 100.00% | Georgia | Kazbegi St. 15, Tbilisi Georgia | Hospitality | 16/12/2019 | – |
| m2, LLC[3] | **100.00%** | 100.00% | Georgia | 29 Ilia chavchavadze Ave., Tbilisi, 0105 | Hospitality/Real estate | 12/2/2014 | – |
| m2 Hotel Property, LLC | **100.00%** | – | Georgia | 10 Givi Kartozia St., Tbilisi | Hospitality | 15/12/2022 | – |
| m2 Kutaisi, LLC[3] | **100.00%** | 100.00% | Georgia | 10 Melikishvili Ave., Tbilisi | Hospitality | 17/5/2017 | – |
| m2 at Melikishvili, LLC[3] | **100.00%** | 100.00% | Georgia | 10 Melikishvili Ave., Tbilisi | Hospitality | 17/5/2017 | – |
| Melikishvili Hotel Property, LLC | **100.00%** | 100.00% | Georgia | 10 Melikishvili Ave., Tbilisi | Hospitality | 3/2/2021 | – |
| m2 Zugdidi, LLC[3] | **100.00%** | 100.00% | Georgia | 80 Aghmashenebeli Ave., Tbilisi, 0102 | Hospitality | 7/11/2018 | – |
| Georgia Commercial Assets, LLC | **100.00%** | 100.00% | Georgia | Kazbegi street 15, Tbilisi Georgia | Commercial assets | 23/12/2020 | – |
| Georgia Hospitality Management Group, LLC | **100.00%** | 100.00% | Georgia | Kazbegi St. 3–5, Tbilisi Georgia | Hospitality | 22/8/2018 | – |
| Georgia Real Estate Management Group Gudauri, LLC | **100.00%** | 100.00% | Georgia | Georgia, Dusheti region, village Seturebi | Hospitality | 12/5/2019 | – |
| Melikishvili Hotel Management, LLC | **100.00%** | – | Georgia | 10 Melikishvili Ave., Tbilisi | Hospitality | 8/4/2022 | – |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 2. Basis of preparation continued
#### Subsidiaries and associates continued

| Subsidiaries at fair value | Proportion of voting rights and ordinary share capital held: 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| JSC Georgian Renewable Power Holding | **100.00%** | – | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 23/8/2022 | – |
| JSC Georgian Renewable Power Company[4] | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 15/9/2015 | – |
| JSC Zoti Hydro | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 20/8/2015 | – |
| JSC Caucasus Wind Company | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 14/9/2016 | – |
| JSC Caucasus Solar Company | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 27/10/2016 | – |
| Hydro S, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 18/1/2019 | 10/28/2019 |
| Georgia Geothermal Company, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 16/12/2019 | – |
| JSC Georgian Renewable Power Operations | **100.00%** | – | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 28/6/2022 | – |
| JSC Svaneti Hydro[5] | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 6/12/2013 | – |
| Qartli Wind Farm, LLC[5] | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 10/9/2012 | 30/12/2019 |
| Hydrolea, LLC[5] | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 6/7/2012 | 28/10/2019 |
| Geoenergy, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 26/1/2012 | 28/10/2019 |
| Hydro Georgia, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 8/5/2012 | 28/10/2019 |
| Darchi, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 18/11/2013 | 28/10/2019 |
| Kasleti 2, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 18/11/2013 | 28/10/2019 |
| GRPC Trade, LLC | **100.00%** | – | Georgia | 10 Medea (Mzia) Jugheli St. Tbilisi, 0179 | Renewable Energy | 13/5/2022 | – |
| JSC A Group | **100.00%** | 100.00% | Georgia | 1, Berbuki St., Saburtalo, Tbilisi | Various | 20/9/2018 | – |
| JSC Insurance Company Aldagi | **100.00%** | 100.00% | Georgia | 66A, David Aghmashenebeli Alley, Tbilisi | Insurance | 11/8/1998 | – |
| JSC Insurance Company Tao | **100.00%** | 100.00% | Georgia | 66A, David Aghmashenebeli Alley, Tbilisi | Insurance | 22/8/2007 | 1/5/2015 |
| Aliance, LLC | **100.00%** | 100.00% | Georgia | 20, Chavchavadze Ave., Floor 2, Vake–Saburtalo, Tbilisi | Various | 1/8/1998 | 30/4/2012 |
| Auto Way LLC | **100.00%** | 100.00% | Georgia | 20, Chavchavadze Ave., Vake, Tbilisi | Various | 27/12/2010 | 30/4/2012 |
| JSC Carfest | **75.00%** | 75.00% | Georgia | 20, Chavchavadze Ave., Vake, Tbilisi | Leasing | 17/11/2017 | – |



### 2. Basis of preparation continued
#### Subsidiaries and associates continued

| Subsidiaries at fair value | Proportion of voting rights and ordinary share capital held: 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| JSC Greenway Georgia | **100.00%** | 100.00% | Georgia | 6, University St., Vake, Tbilisi | Vehicle inspection | 9/7/2010 | 1/5/2012 |
| JSC GreenWash | **75.00%** | 75.00% | Georgia | 142, Akaki Beliashvili St., Tbilisi, Georgia | Car wash | 31/8/2018 | – |
| Georgia Healthcare Group Limited | **100.00%** | 100.00% | United Kingdom | 84 Brook St., London, W1K 5EH | Healthcare | 27/8/2015 | 28/8/2015 |
| JSC Georgia Healthcare Group ("GHG") | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 29/4/2015 | – |
| JSC Insurance Company Imedi L | **100.00%** | 100.00% | Georgia | 9, Anna Politkovskaias St. Vake-Saburtalo District, Tbilisi | Insurance | 22/6/2007 | – |
| JSC GEPHA | **76.98%** | 67.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Pharmacy and Distribution | 19/10/1995 | 4/5/2016 |
| JSC ABC Pharamcia (Armenia) | **100.00%** | 100.00% | Armenia | Kievyan St. 2/8, Erevan, Armenia | Pharmacy and Distribution | 28/12/2013 | 6/1/2017 |
| ABC Pharmalogistics, LLC | **100.00%** | 100.00% | Georgia | Peikrebi St. 14a, Tbilisi, Georgia | Pharmacy and Distribution | 24/2/2004 | 6/1/2017 |
| JSC Iverta | **100.00%** | 100.00% | Georgia | A. Beliashvili St. 142, Tbilisi, Georgia | Pharmacy and Distribution | 17/2/2021 | – |
| AKG AVELIN QAN DEGHATUN, LLC (Armenia) | **100.00%** | 100.00% | Armenia | 26/1 Vazgen Sargsyan St., /Office 412/ Yerevan 0010, Armenia | Pharmacy and Distribution | 28/6/2019 | – |
| JSC Georgian Logistics | **100.00%** | 100.00% | Georgia | A. Beliashvili St. 142, Tbilisi, Georgia | Other | 8/10/2021 | – |
| AZPHA LLC (Azerbaijan) | **100.00%** | 100.00% | Azerbaijan | Azerbaijan, Baku, Sabunchu District, Bakikhanovi area, 131, A. Ahgaievi St., Apartment 43 | Pharmacy and Distribution | 17/9/2021 | – |
| Euroline LLC | **100.00%** | 100.00% | Georgia | Stanislavski St. 5, Tbilisi, Georgia | Other | 14/12/2015 | 24/11/2021 |
| JSC Evex Hospitals | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 1/8/2014 | 1/8/2014 |
| EVEX-Logistics, LLC | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 13/2/2015 | – |
| New Clinic, LLC | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili str, Tbilisi | Healthcare | 3/1/2017 | 20/7/2017 |
| Caucasus Medical Center, LLC | **99.80%** | 99.80% | Georgia | 23, P. Kavtaradze St., Tbilisi | Healthcare | 12/1/2012 | 11/6/2015 |
| JSC Pediatry | **100.00%** | 100.00% | Georgia | U. Chkeidze St. 10, Tbilisi, Georgia | Healthcare | 5/9/2003 | 6/7/2016 |
| JSC Kutaisi Regional Mother and Infant Treatment-Diagnostic Centre | **67.00%** | 67.00% | Georgia | Djavakhishvili St. 85, Kutaisi, Georgia | Healthcare | 5/5/2003 | 29/11/2011 |
| West Georgia Medical Center, LLC | **67.00%** | 67.00% | Georgia | A Djavakhishvili St. 83A, Kutaisi, Georgia | Healthcare | 9/12/2011 | 29/11/2011 |
| NCLE Evex Learning Centre | **100.00%** | 100.00% | Georgia | #83A, Javakhishvili St., Tbilisi | Other | 20/12/2013 | 20/12/2013 |
| Emergency Service, LLC | **85.00%** | 85.00% | Georgia | #6 Building, #13/6 Lubliana St. Tbilisi, Georgia | Healthcare | 18/6/2013 | 8/5/2015 |
| N(NL)E Blood Center | **100.00%** | 100.00% | Georgia | Javakhishvili St. N85/ Javakhishvili St. N83A, Kutaisi, Georgia | Healthcare | 23/12/2021 | – |
| JSC Evex Clinics | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 1/4/2019 | – |
| Tskaltubo Regional Hospital, LLC | **67.00%** | 67.00% | Georgia | 16 Eristavi St., Tskhaltubo | Healthcare | 29/9/1999 | 9/12/2011 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**2. Basis of preparation** continued
**Subsidiaries and associates** continued

| Subsidiaries at fair value | Proportion of voting rights and ordinary share capital held 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| LLC Aliance Med | **100.00%** | 100.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 7/7/2015 | 20/7/2017 |
| JSC Polyclinic Vere | **98.35%** | 98.35% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 22/11/2015 | 25/12/2017 |
| New Dent, LLC | **75.00%** | 75.00% | Georgia | 142, A. Beliashvili St., Tbilisi | Healthcare | 24/12/2018 | – |
| JSC Mega-Lab | **92.00%** | 92.00% | Georgia | Petre Kavtaradze St. 23, Tbilisi | Healthcare | 6/6/2017 | – |
| LLC Patgeo-Union of Pathologists | **100.00%** | 100.00% | Georgia | Mukhiani, II mcr. District, Building 22, 1a, Tbilisi | Healthcare | 13/1/2010 | 27/9/2016 |
| Scientific-Research Center – Mega-Lab N(N)LE | **100.00%** | 100.00% | Georgia | Petre Kavtaradze St. 23, Tbilisi | Healthcare | 25/5/2021 | – |
| JSC Vabaco | **67.00%** | 67.00% | Georgia | Bochorishvili St. 37, Tbilisi, Georgia | Software development | 9/9/2013 | 28/9/2018 |
| Vabaco International, LLC | **100.00%** | – | Georgia | A. Tsereteli Ave. 123, Tbilisi, Georgia | Software development | 30/3/2022 | – |
| JSC Ekimo | **67.00%** | 67.00% | Georgia | A. Tsereteli Ave. 123, Tbilisi, Georgia | Other | 14/12/2021 | – |
| Dart, LLC | **100.00%** | 100.00% | Georgia | A. Beliashvili St. 142, Tbilisi, Georgia | Other | 14/6/2021 | – |
| JSC Georgian Global Utilities* | **20.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Utilities | 22/01/2020 | 31/12/2014 |
| Georgian Water and Power, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Utilities | 25/06/1997 | 31/12/2014 |
| Rustavi Water, LLC | **100.00%** | 100.00% | Georgia | 5, St. Nino St., Rustavi | Utilities | 31/08/1999 | 31/12/2014 |
| Gardabani Sewage Treatment, LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Utilities | 20/12/1999 | 31/12/2014 |
| Georgian Engineering and Management Company (GEMC), LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Utilities | 20/03/2011 | 31/12/2014 |
| JSC Saguramo Energy | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Utilities | 11/12/2008 | 31/12/2014 |
| JSC Svaneti Hydro(5) | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 6/12/2013 | – |
| Qartli Wind Farm, LLC(5) | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 10/9/2012 | 30/12/2019 |
| Georgian Energy Trading Company (GETC), LLC | **100.00%** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy sales | 23/4/2019 | – |
| Hydrolea, LLC(5) | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 6/7/2012 | 28/10/2019 |
| Geoenergy, LLC | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 26/1/2012 | 28/10/2019 |
| Hydro Georgia, LLC | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 8/5/2012 | 28/10/2019 |
| Darchi, LLC | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 18/11/2013 | 28/10/2019 |
| Kasleti 2, LLC | **–** | 100.00% | Georgia | 10 Medea (Mzia) Jugheli St., Tbilisi, 0179 | Renewable Energy | 18/11/2013 | 28/10/2019 |



**2. Basis of preparation** continued
**Subsidiaries and associates** continued

| Subsidiaries at fair value | Proportion of voting rights and ordinary share capital held 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| JSC Georgian Beverages | **100.00%** | 100.00% | Georgia | 75 Chavchavadze Ave., Tbilisi | Beer production and distribution | 14/11/2016 | 7/2/2018 |
| JSC Georgian Beverages Holding | **92.35%** | 87.39% | Georgia | 8a Petre Melikishvili Ave, Tbilisi, 0179 | Investment | 17/12/2019 | – |
| JSC Teliani Valley | **100.00%** | 100.00% | Georgia | 3 Tbilisi Highway, Telavi. | Winery | 30/6/2000 | 28/2/2007 |
| Teliani Trading (Ukraine), LLC | **100.00%** | 100.00% | Ukraine | 18/14 Khvoiki St. Kiev | Distribution | 3/10/2006 | 31/12/2007 |
| Teliani Europe GmbH | **100.00%** | 100.00% | Germany | Kurfürstendamm 195 10707 Berlin | Distribution | 15/6/2021 | – |
| Georgia Logistics and Distribution, LLC | **100.00%** | 100.00% | Georgia | 2 Marshal Gelovani St., Tbilisi | Distribution | 10/1/2006 | 27/3/2007 |
| Le Caucase, LLC | **100.00%** | 100.00% | Georgia | 2 Marshal Gelovani St., Tbilisi | Cognac production | 23/9/2006 | 20/3/2007 |
| Kupa, LLC | **70.00%** | 70.00% | Georgia | 3 Tbilisi Highway, Telavi | Oak Barrel production | 12/10/2006 | 20/3/2007 |
| Global Beer Georgia, LLC | **100.00%** | 100.00% | Georgia | Tsilkani, Mtskheta Region, Georgia | Production and distribution of alcohol and non–alcohol beverages | 24/12/2014 | – |
| Kindzmarauli Marani, LLC | **100.00%** | 100.00% | Georgia | 56 A. Tsereteli Ave., Tbilisi | Winery | 18/12/2001 | 25/4/2018 |
| Alaverdi, LLC | **100.00%** | 100.00% | Georgia | Chumlaki, Gurjaani Region, Georgia | Winery | 8/4/2008 | 19/8/2019 |
| Global Coffee Georgia, LLC | **100.00%** | 100.00% | Georgia | 29a Gagarini St., Tbilisi | Coffee distribution | 26/12/2016 | – |
| New Coffee Company, LLC | **100.00%** | 100.00% | Georgia | Tskneti Highway, 16/18, app. 36 | Coffee distribution | 23/9/2009 | 15/2/2017 |
| Genuine Brewing Company, LLC | **100.00%** | 100.00% | Georgia | 7 Kotetishvili St., Tbilisi, 0108 | Beer production and Distribution | 7/6/2011 | 7/2/2018 |
| Craft and Draft, LLC | **100.00%** | 100.00% | Georgia | Tsilkani, Mtskheta Region, Georgia | Beer production | 20/2/2019 | – |
| JSC Artisan Wine and Drinks | **100.00%** | 100.00% | Georgia | 8a Petre Melikishvili Ave., Tbilisi, 0179 | Wine distribution | 26/8/2019 | – |
| Amboli, LLC | **90.00%** | 90.00% | Georgia | 24, Leonidze St., Rustavi, Georgia | Car services | 13/8/2004 | 25/6/2019 |
| Redberry, LLC | **60.00%** | 60.00% | Georgia | 9, Tashkenti St., Tbilisi, Georgia | Digital services | 29/8/2014 | 1/5/2019 |
| Redberry International, LLC | **100.00%** | 100.00% | Georgia | Mtskheta St., 13a, Tbilisi, Georgia | Digital services | 13/5/2021 | – |
| Lunchoba, LLC | **60.00%** | 60.00% | Georgia | 22 Nutsubidze IV Micro–district, Tbilisi | Catering services | 8/10/2018 | – |
| Shabatoba, LLC | **100.00%** | 100.00% | Georgia | 8 Zurab Sakandelidze St., Tbilisi, Georgia | Delivery services | 2/6/2020 | – |
| JSC Carfest | **25.00%** | 25.00% | Georgia | 3, Pushkini St., Krtsanisi, Tbilisi | Leasing | 17/11/2017 | – |
| Georgia Education Group, LLC | **100.00%** | 100.00% | Georgia | 8a Petre Melikishvili Ave., Tbilisi, 0179 | Education | 16/7/2019 | – |
| Green School, LLC | **90.00%** | 90.00% | Georgia | 8a Petre Melikishvili Ave., Tbilisi, 0179 | Education | 21/10/2019 | – |
| JSC Green School Real Estate | **100.00%** | 100.00% | Georgia | 8a Petre Melikishvili Ave., Tbilisi, 0179 | Education | 5/1/2019 | – |
| Tbilisi Green School, LLC | **80.00%** | 80.00% | Georgia | Didube–Chughureti/ Dighomi massive IV, Building 5A, Apartment 35 | Education | 7/6/2011 | 22/8/2019 |
| Modern School, LLC | **90.00%** | 90.00% | Georgia | N, Khudadovi St. 1b, Tbilisi, Georgia | Education | 18/8/2021 | – |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 2. Basis of preparation continued
**Subsidiaries and associates** continued

| Subsidiaries at fair value | Proportion of voting rights and ordinary share capital held 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| Georgian-Austrian School Pesvebi, LLC | **100.00%** | 90.00% | Georgia | D. Tavdadebuli St. 6, Tbilisi, Georgia | Education | 27/9/1995 | 20/8/2021 |
| Buckswood International School – Tbilisi, LLC | **80.00%** | 80.00% | Georgia | 2, Dolidze St., Tbilisi | Education | 24/8/2005 | 29/7/2019 |
| Sakhli Tsknetshi, LLC | **100.00%** | 100.00% | Georgia | Tskneti, Vake region, Tbilisi | Education | 1/5/2005 | – |
| British Georgian Academy, LLC | **70.00%** | 70.00% | Georgia | 17, Leo Kvachadze St., Tbilisi | Education | 3/2/2006 | 23/7/2019 |
| NNLE British International School of Tbilisi | **100.00%** | 100.00% | Georgia | 17, Leo Kvachadze St., Tbilisi | Education | 3/2/2015 | – |
| British International School of Tbilisi LLC | **100.00%** | 100.00% | Georgia | 17, Leo Kvachadze St., Tbilisi | Education | 5/9/2019 | – |
| British Georgian Academy – Okrokana, LLC | **100.00%** | 100.00% | Georgia | 17, Leo Kvachadze St., Tbilisi | Education | 16/9/2021 | – |
| JSC Liberty Consumer | **–** | 77.23% | Georgia | 74a Chavchavadze Ave., Tbilisi, 0162 | Investments | 24/5/2006 | – |
| JSC Intertour | **–** | 99.94% | Georgia | 49a, Chavchavadze Ave., Tbilisi, 0162 | Travel agency | 29/3/1996 | 25/4/2006 |
| JSC Oncloud | **100.00%** | 100.00% | Georgia | 8a Petre Melikishvili Ave., Tbilisi, 0179 | Digital services | 28/2/2020 | – |

| Associates | Proportion of voting rights and ordinary share capital held 31 December 2022 | 31 December 2021 | Country of incorporation | Address | Industry | Date of incorporation | Date of acquisition |
|---|---|---|---|---|---|---|---|
| Squadro, LLC | **12.00%** | 12.00% | Georgia | Kostava St. #74, Tbilisi, Georgia | Software service | 2/3/2021 | 27/8/2021 |
| N(NL)E Georgian Medical Tourism Council | **28.60%** | 28.60% | Georgia | I-II floor, house N10, N 13, b. N1 almond Gardens St., Tskneti, Vake district, Tbilisi | Healthcare | 16/5/2019 | – |
| JSC Diflex | **40.00%** | 40.00% | Georgia | Shalikashvili St. 8, Tbilisi, Georgia | Software development | 29/12/2016 | 11/12/2021 |
| NPO Healthcare Association | **25.00%** | 25.00% | Georgia | Vazha-Pshavela Ave. 27b, Tbilisi, Georgia | Healthcare | 25/3/2016 | – |
| Complex-Med-Service, LLC | **20.00%** | 20.00% | Georgia | Tsinandali St. 9, Tbilisi, Georgia | Healthcare | 18/11/2008 | 30/7/2021 |
| Insurance Informational Bureau, LLC | **22.50%** | 22.50% | Georgia | Baratashvili bridge underground crossing, Mtkvari Left Bank, Old Tbilisi, Tbilisi | Insurance | 23/7/2008 | – |

* As at 31 December 2022, following the disposal of 80% shares, GCAP holds 20% equity interest in JSC Georgian Global Utilities (2021: 100%), thus not classified as a subsidiary at the end of the year. For details about the disposal transaction refer to Note 5.

(1) As of 31 December 2022 subsidiary of m2 Group, LLC (31 December 2021: subsidiary of m2 Development, LLC).
(2) As of 31 December 2022 subsidiary of Georgia Real Estate Management Group, LLC (31 December 2021: subsidiary of Amber Group, LLC).
(3) As of 31 December 2022 subsidiary of Georgia Real Estate Management Group, LLC (31 December 2021: subsidiary of Georgia Hotels Management Group, LLC).
(4) As of 31 December 2022 subsidiary of JSC Georgian Renewable Power Holding (31 December 2021: subsidiary of JSC Georgia Capital).
(5) As of 31 December 2022 subsidiary of JSC Georgian Renewable Power Operations (31 December 2021: subsidiary of JSC Georgian Global Utilities).

During 2022 JSC Georgia Capital made a capital reduction to its 100% shareholder with total cash consideration of GEL 87,238 (2021: GEL 21,679).

### 3. Significant accounting policies
The following are the significant accounting policies applied by the Company in preparing its financial statements.

**Fair value measurement**
The Company measures investments in subsidiaries and other financial instruments, such as debt securities owned, equity investments and derivatives, if any, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 12.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Cash and cash equivalents**
Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within 90 days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

**Financial assets**
**Initial recognition**
Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

**Date of recognition**
All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

**Subsequent measurement**
For purposes of subsequent measurement, financial assets are classified in four categories under IFRS 9:
- Financial assets at amortised cost (cash and cash equivalents).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (currently the Company does not have instruments classified under this category).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (currently the Company does not have instruments classified under this category).
- Financial assets at fair value through profit or loss (equity investments at fair value).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**3. Significant accounting policies** continued

**Financial assets** continued

**Financial assets at amortised cost**

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes cash and cash equivalents.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Equity investments are classified at fair value through profit or loss. Derivatives and financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in the Statement of Profit or Loss. This category includes equity investments.

**Impairment of financial assets**

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in three stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition (stage 2) or for which there is objective evidence of impairment as at the reporting date (stage 3), a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the profit or loss.

**Derecognition of financial assets and liabilities**

**Financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's Statement of Financial Position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

**3. Significant accounting policies** continued

**Derecognition of financial assets and liabilities** continued

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Income Statement. Modification is substantial if present value of cash flows under new terms discounted at original effective interest rate is at least 10% different from the liability's carrying amount right before the modification, or there is a substantial modification to the terms identified through a qualitative assessment.

**Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities comprise accounts payable.

**Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

**Contingencies**

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

**Share-based payment transactions**

**Equity-settled transactions**

The cost of equity-settled transactions with employees is measured by reference to the fair value of shares at the grant date.

The cost of equity-settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The Income Statement charge and credit entry to equity for the period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for the awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**Share capital**

**Share capital**

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

**Treasury shares**

Where the Company purchases Georgia Capital's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against retained earnings.

**Dividends**

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**3. Significant accounting policies** continued

**Dividends** continued

**Dividend income**

Dividend revenue is recognised when the Company's right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statement of Comprehensive Income.

**Net gain or loss on financial assets and liabilities at fair value through profit or loss**

Net gains or losses on financial assets and liabilities at FVPL are changes in the fair value of equity investment at fair value, financial assets and liabilities held for trading or designated upon initial recognition as at FVPL and exclude interest and dividend income and expenses. Interest and dividend income and expense FVPL instruments are recognised in profit or loss at effective interest.

**Taxation**

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Company operates.

According to the UK tax legislation, UK companies pay corporation tax on all its profits. UK corporate tax rate is 19%.

**Functional, presentation currencies and foreign currency translation**

The financial statements are presented in Georgian Lari, which is the presentation and functional currency of GCAP PLC and JSC GCAP. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Income Statement as net foreign currency gain (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia (NBG) exchange rate on the date of the transaction are included in net foreign currency gain (loss). The official NBG exchange rates at 31 December 2022 and 31 December 2021 were as follows:

| | Lari to GBP | Lari to USD | Lari to EUR |
|---|---|---|---|
| 31 December 2022 | 3.2581 | 2.7020 | 2.8844 |
| 31 December 2021 | 4.1737 | 3.0976 | 3.5040 |

**Adoption of new or revised standards and interpretations**

The following amendments became effective from 1 January 2022 and had no impact on the Company's financial statements:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter.
- Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework.
- Amendments to IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.
- Amendments to IFRS 16 Leases – Lease Incentives.
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use.
- Amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets – Onerous Contracts – Costs of Fulfilling a Contract.
- Amendments to IAS 41 Agriculture – Taxation in fair value measurement.

The following standards that are issued but not yet effective are also expected to have no material impact on the Company's financial statements:

- IFRS 17 Insurance Contracts.
- Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback.
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current.
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure of Accounting Policies.
- Amendments to IAS 1 Presentation of Financial Statements – Classification of debt with covenants.
- Amendments to IAS 8 Accounting Policies Changes in Accounting Estimates and Errors – Definition of Accounting Estimates.
- Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

**4. Significant accounting judgements and estimates**

In the process of applying the Company's accounting policies, the Management Board use their judgement and make estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

**Assessment of investment entity status**

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at FVPL rather than consolidate them. The criteria which define an investment entity are, as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Group invests funds, originally obtained from its investors, in its private portfolio companies, obtains dividend inflows from its mature investments and, once the businesses are developed, exits the investment ideally at a higher multiple (versus entry multiple) to monetise on capital appreciation gains. The Company reports to its investors on a fair value basis. All investments are reported at fair value in the Company's Annual Reports.



**4. Significant accounting judgements and estimates** continued

**Assessment of investment entity status** continued

Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments; although JSC Georgia Capital is wholly capitalised by Georgia Capital PLC, Georgia Capital PLC is funded by many investors who are unrelated to the entity; and ownership in Georgia Capital PLC is represented by units of equity interests acquired through a capital contribution. Thus the judgement above refers to both entities in aggregation. The Board has concluded that the Company meets the definition of an investment entity. These conclusions will be reassessed on a continuous basis, if any of these criteria or characteristics change.

Georgia Capital met the investment entity definition on 31 December 2019. As of 31 December 2022, the Company continues to meet the definition of investment entity. In making this assessment, the Company considered each criteria and characteristic described above as well as developments during the year.

**Fair valuation of the investment portfolio**

The investment portfolio, a material asset of the Company held through 100%-owned subsidiary JSC Georgia Capital, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 12. Given the importance of this area, the Board has formed a separate Audit and Valuations Committee to review the valuations to be placed on portfolio companies, compliance with the valuation standards and usage of appropriate judgement. The detailed valuation process is disclosed in Note 12.

**5. Segment information**

For management purposes, the Group is organised into the following operating segments as follows: listed and observable portfolio companies, private large portfolio companies, private investment stage portfolio companies, private other portfolio companies, and corporate centre.

**Listed and observable portfolio companies segment**

BoG – the Group has a significant investment in London Stock Exchange premium listed Bank of Georgia Group PLC.
GCAP does not hold voting rights in BOG.

Water Utility – the Group has a 20% equity stake in the water utility business, following the disposal of 80% of its shares during 2021. Water Utility is a regulated monopoly in Tbilisi and the surrounding area, where it provides water and wastewater services.

**Private portfolio companies**

**Large portfolio companies segment:**

The large portfolio companies segment includes investments in hospitals, retail (pharmacy), and insurance businesses.

The hospitals business is the largest healthcare market participant in Georgia. The hospitals business provides secondary and tertiary level healthcare services.

The retail (pharmacy) business consists of a retail pharmacy chain and a wholesale business that sells pharmaceuticals and medical supplies to hospitals and other pharmacies.

The insurance business comprises a property and casualty (P&C) insurance and a medical insurance businesses, principally providing wide-scale P&C and medical insurance services to corporate and retail clients.

**Investment stage portfolio companies segment:**

The investment stage portfolio companies segment includes investments into clinics, diagnostics, renewable energy and education businesses.

The clinics & diagnostics business consists of clinics, providing outpatient and basic inpatient services, polyclinics providing outpatient diagnostic and treatment services, and the diagnostics business, operating the largest laboratory in the entire Caucasus region.

The renewable energy business principally operates three wholly-owned commissioned renewable energy assets. In addition, a pipeline of renewable energy projects is in an advanced stage of development.

The education business combines majority stakes in four leading private schools in Tbilisi. It provides education for preschool to 12th grade (K-12).

**Other portfolio companies segment:**

The other portfolio companies segment includes Housing Development, Hospitality, Beverages and Auto Service businesses.

Corporate Centre comprising of Georgia Capital PLC and JSC Georgia Capital.

Management monitors the fair values of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Transactions between segments are accounted for at actual transaction prices.

In 2022, Georgia Capital revised the presentation of its segment note. Following the disposal of 80% of the water utility business' shares, the remaining 20% equity stake in the business is presented under the listed and observable portfolio category, alongside the 20.6% (2021: 19.9%) investment in BoG. In addition, the healthcare services business (previously included under large portfolio companies) is now split into two individual businesses (Hospitals, and Clinics and Diagnostics) given the differences in their stage of development. The hospitals business is still presented under the large portfolio category. Clinics and Diagnostics are presented alongside Renewable Energy and Education under the investment stage portfolio category. The information for the year ended 31 December 2022 is presented on both the old basis and the new basis.

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# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)

### 5. Segment information continued

The following table presents the net asset value (NAV) of the Group's operating segments at 31 December 2022 and the roll-forward from 31 December 2021 (new basis):

| NAV Statement | 31 December 2021 | 1. Value creation | 2a. Investments and divestments | 2b. Buybacks | 2c. Dividends | 3. Operating expenses | 4. Liquidity management/ FX/other | 31 December 2022 |
|---|---|---|---|---|---|---|---|---|
| **Listed and observable portfolio companies** | **681,186** | **205,783** | **139,392** | **–** | **(40,898)** | **–** | **–** | **985,463** |
| *BoG* | *681,186* | *190,175* | *–* | *–* | *(40,898)* | *–* | *–* | *830,463* |
| *Water Utility* | *–* | *15,608* | *139,392* | *–* | *–* | *–* | *–* | *155,000* |
| **Private portfolio companies** | **2,935,045** | **(171,710)** | **(501,011)** | **–** | **(52,977)** | **–** | **3,817** | **2,213,164** |
| **Large portfolio companies** | **2,249,260** | **(70,728)** | **(696,960)** | **–** | **(44,783)** | **–** | **821** | **1,437,610** |
| *Retail (Pharmacy)* | *710,385* | *30,150* | *–* | *–* | *(16,018)* | *–* | *–* | *724,517* |
| *Hospitals* | *573,815* | *(127,607)* | *–* | *–* | *(13,015)* | *–* | *–* | *433,193* |
| *Water Utility* | *696,960* | *–* | *(696,960)* | *–* | *–* | *–* | *–* | *–* |
| *Insurance (P&C and Medical)* | *268,100* | *26,729* | *–* | *–* | *(15,750)* | *–* | *821* | *279,900* |
| *of which, P&C Insurance* | *211,505* | *30,468* | *–* | *–* | *(14,749)* | *–* | *821* | *228,045* |
| *of which, Medical Insurance* | *56,595* | *(3,739)* | *–* | *–* | *(1,001)* | *–* | *–* | *51,855* |
| **Investment stage portfolio companies** | **461,140** | **13,266** | **34,196** | **–** | **(8,194)** | **–** | **999** | **501,407** |
| *Clinics and Diagnostics* | *158,004* | *(45,826)* | *–* | *–* | *–* | *–* | *–* | *112,178* |
| *Renewable Energy* | *173,288* | *31,040* | *27,854* | *–* | *(8,194)* | *–* | *999* | *224,987* |
| *Education* | *129,848* | *28,052* | *6,342* | *–* | *–* | *–* | *–* | *164,242* |
| **Other portfolio companies** | **224,645** | **(114,248)** | **161,753** | **–** | **–** | **–** | **1,997** | **274,147** |
| **Total portfolio value** | **3,616,231** | **34,073** | **(361,619)** | **–** | **(93,875)** | **–** | **3,817** | **3,198,627** |
| **Net debt** | **(711,074)** | **–** | **394,986** | **(83,108)** | **93,875** | **(21,520)** | **(54,064)** | **(380,905)** |
| *of which, cash and liquid funds* | *272,317* | *–* | *531,562* | *(83,108)* | *93,875* | *(21,520)* | *(381,282)* | *411,844* |
| *of which, loans issued* | *154,214* | *–* | *(136,576)* | *–* | *–* | *–* | *9,192* | *26,830* |
| *of which, gross debt* | *(1,137,605)* | *–* | *–* | *–* | *–* | *–* | *318,026* | *(819,579)* |
| Net other (liabilities)/assets | (21,535) | – | (33,367) | – | – | (18,476) | 73,047 | (331) |
| **Net asset value** | **2,883,622** | **34,073** | **–** | **(83,108)** | **–** | **(39,996)** | **22,800** | **2,817,391** |

The following table presents the NAV of the Group's operating segments at 31 December 2022 and the roll-forward from 31 December 2021 (old basis):

| NAV Statement | 31 December 2021 | 1. Value creation | 2a. Investments and divestments | 2b. Buybacks | 2c. Dividends | 3. Operating expenses | 4. Liquidity management/ FX/other | 31 December 2022 |
|---|---|---|---|---|---|---|---|---|
| **Listed portfolio companies** | **681,186** | **190,175** | **–** | **–** | **(40,898)** | **–** | **–** | **830,463** |
| *BoG* | *681,186* | *190,175* | *–* | *–* | *(40,898)* | *–* | *–* | *830,463* |
| **Private portfolio companies** | **2,935,045** | **(156,102)** | **(361,619)** | **–** | **(52,977)** | **–** | **3,817** | **2,368,164** |
| **Large portfolio companies** | **2,407,264** | **(100,946)** | **(557,568)** | **–** | **(44,783)** | **–** | **821** | **1,704,788** |
| *Healthcare Services* | *731,819* | *(173,433)* | *–* | *–* | *(13,015)* | *–* | *–* | *545,371* |
| *Retail (Pharmacy)* | *710,385* | *30,150* | *–* | *–* | *(16,018)* | *–* | *–* | *724,517* |
| *Water Utility* | *696,960* | *15,608* | *(557,568)* | *–* | *–* | *–* | *–* | *155,000* |
| *Insurance (P&C and Medical)* | *268,100* | *26,729* | *–* | *–* | *(15,750)* | *–* | *821* | *279,900* |
| *of which, P&C Insurance* | *211,505* | *30,468* | *–* | *–* | *(14,749)* | *–* | *821* | *228,045* |
| *of which, Medical Insurance* | *56,595* | *(3,739)* | *–* | *–* | *(1,001)* | *–* | *–* | *51,855* |
| **Investment stage portfolio companies** | **303,136** | **59,092** | **34,196** | **–** | **(8,194)** | **–** | **999** | **389,229** |
| *Renewable Energy* | *173,288* | *31,040* | *27,854* | *–* | *(8,194)* | *–* | *999* | *224,987* |
| *Education* | *129,848* | *28,052* | *6,342* | *–* | *–* | *–* | *–* | *164,242* |
| **Other portfolio companies** | **224,645** | **(114,248)** | **161,753** | **–** | **–** | **–** | **1,997** | **274,147** |
| **Total portfolio value** | **3,616,231** | **34,073** | **(361,619)** | **–** | **(93,875)** | **–** | **3,817** | **3,198,627** |
| **Net debt** | **(711,074)** | **–** | **394,986** | **(83,108)** | **93,875** | **(21,520)** | **(54,064)** | **(380,905)** |
| *of which, cash and liquid funds* | *272,317* | *–* | *531,562* | *(83,108)* | *93,875* | *(21,520)* | *(381,282)* | *411,844* |
| *of which, loans issued* | *154,214* | *–* | *(136,576)* | *–* | *–* | *–* | *9,192* | *26,830* |
| *of which, gross Debt* | *(1,137,605)* | *–* | *–* | *–* | *–* | *–* | *318,026* | *(819,579)* |
| Net other (liabilities)/assets | (21,535) | – | (33,367) | – | – | (18,476) | 73,047 | **(331)** |
| **Net asset value** | **2,883,622** | **34,073** | **–** | **(83,108)** | **–** | **(39,996)** | **22,800** | **2,817,391** |

### 5. Segment information continued

The following table presents the NAV of the Group's operating segments at 31 December 2021 and the roll-forward from 31 December 2020:

| NAV Statement | 31 December 2020 | 1. Value Creation | 2a. Investments | 2b. Buybacks | 2c. Dividends | 3. Operating Expenses | 4. Liquidity Management/ FX/Other | 31 December 2021 |
|---|---|---|---|---|---|---|---|---|
| **Listed portfolio companies** | **531,558** | **164,109** | **–** | **–** | **(14,481)** | **–** | **–** | **681,186** |
| *BoG* | *531,558* | *164,109* | *–* | *–* | *(14,481)* | *–* | *–* | *681,186* |
| **Private portfolio companies** | **2,376,130** | **592,327** | **18,296** | **–** | **(59,881)** | **–** | **8,173** | **2,935,045** |
| **Large portfolio companies** | **1,858,237** | **583,852** | **–** | **–** | **(39,881)** | **–** | **5,056** | **2,407,264** |
| *Healthcare Services* | *571,656* | *171,708* | *–* | *–* | *(11,545)* | *–* | *–* | *731,819* |
| *Retail (Pharmacy)* | *552,745* | *169,100* | *–* | *–* | *(11,460)* | *–* | *–* | *710,385* |
| *Water Utility* | *471,148* | *221,179* | *–* | *–* | *–* | *–* | *4,633* | *696,960* |
| *Insurance (P&C and Medical)* | *262,688* | *21,865* | *–* | *–* | *(16,876)* | *–* | *423* | *268,100* |
| *of which, P&C Insurance* | *197,806* | *28,157* | *–* | *–* | *(14,881)* | *–* | *423* | *211,505* |
| *of which, Medical Insurance* | *64,882* | *(6,292)* | *–* | *–* | *(1,995)* | *–* | *–* | *56,595* |
| **Investment stage portfolio companies** | **302,964** | **1,632** | **17,415** | **–** | **(20,000)** | **–** | **1,125** | **303,136** |
| *Renewable Energy* | *209,902* | *(21,463)* | *3,724* | *–* | *(20,000)* | *–* | *1,125* | *173,288* |
| *Education* | *93,062* | *23,095* | *13,691* | *–* | *–* | *–* | *–* | *129,848* |
| **Other portfolio companies** | **214,929** | **6,843** | **881** | **–** | **–** | **–** | **1,992** | **224,645** |
| **Total portfolio value** | **2,907,688** | **756,436** | **18,296** | **–** | **(74,362)** | **–** | **8,173** | **3,616,231** |
| **Net debt** | **(697,999)** | **–** | **(18,296)** | **(25,089)** | **74,362** | **(21,852)** | **(22,200)** | **(711,074)** |
| *of which, cash and liquid funds* | *175,289* | *–* | *(18,296)* | *(25,089)* | *74,362* | *(21,852)* | *87,903* | *272,317* |
| *of which, loans issued* | *108,983* | *–* | *–* | *–* | *–* | *–* | *45,231* | *154,214* |
| *of which, gross debt* | *(982,271)* | *–* | *–* | *–* | *–* | *–* | *(155,334)* | *(1,137,605)* |
| Net other assets/(liabilities) | 2,603 | – | – | – | – | (14,633) | (9,505) | (21,535) |
| **Net asset value** | **2,212,292** | **756,436** | **–** | **(25,089)** | **–** | **(36,485)** | **(23,532)** | **2,883,622** |

1. Value creation – measures the annual shareholder return on each portfolio company for Georgia Capital. It is the aggregation of a) the change in beginning and ending fair values, and b) dividend income during period. The net result is then adjusted to remove capital injections (if any) to arrive at the total value creation/investment return; 2a. Investments and divestments – represents capital injections and divestments in portfolio companies made by JSC GCAP, as well as reclassification of the water utility business into the listed and observable portfolio companies; 2b. Buybacks – represent buybacks made by GCAP PLC and JSC GCAP in order to satisfy share compensation of executives and purchases under the buyback programme announced by GCAP PLC; 2c. Dividends – represent dividends received from portfolio companies by JSC GCAP; 3. Operating expenses – holding company aggregated operating expenses of GCAP PLC and JSC GCAP; 4. Liquidity management/FX/other – holding company aggregated movements of GCAP PLC and JSC GCAP related to liquidity management, foreign exchange movement, non-recurring and other.

Net debt and Net other assets/(liabilities) represent the corporate centre.

Reconciliation of IFRS financial statements to NAV:

| | 31 December 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Georgia Capital PLC | Aggregation with JSC Georgia Capital* | Elimination of double effect on investments | Aggregated Holding Company | Reclassifications** | NAV Statement |
| Cash and cash equivalents | 23,361 | 199,771 | – | 223,132 | (223,132) | – |
| Amounts due from credit institutions | – | 16,278 | – | 16,278 | (16,278) | – |
| Marketable securities | – | 25,445 | – | 25,445 | (25,445) | – |
| Investment in redeemable securities | – | 12,631 | – | 12,631 | (12,631) | – |
| Prepayments | 363 | – | – | 363 | (363) | – |
| Loans issued | – | 26,830 | – | 26,830 | (26,830) | – |
| Other assets, net | – | 2,351 | – | 2,351 | (2,351) | – |
| Equity investments at fair value | 2,795,060 | 3,198,627 | (2,795,060) | 3,198,627 | – | 3,198,627 |
| **Total assets** | **2,818,784** | **3,481,933** | **(2,795,060)** | **3,505,657** | **(307,030)** | **3,198,627** |
| Debt securities issued | – | 681,067 | – | 681,067 | (681,067) | – |
| Other liabilities | 1,393 | 5,806 | – | 7,199 | (7,199) | – |
| **Total liabilities** | **1,393** | **686,873** | **–** | **688,266** | **(688,266)** | **–** |
| **Net debt** | **–** | **–** | **–** | **–** | **(380,905)** | **(380,905)** |
| *of which, cash and liquid funds* | – | – | – | – | *411,844* | *411,844* |
| *of which, loans issued* | – | – | – | – | *26,830* | *26,830* |
| *of which, gross debt* | – | – | – | – | *(819,579)* | *(819,579)* |
| *Net other assets/(liabilities)* | – | – | – | – | *(331)* | *(331)* |
| **Total equity/NAV** | **2,817,391** | **2,795,060** | **(2,795,060)** | **2,817,391** | **–** | **2,817,391** |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)

### 5. Segment information continued

| | 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Georgia Capital PLC | Aggregation with JSC Georgia Capital* | Elimination of double effect on investments | Aggregated Holding Company | Reclassifications** | NAV Statement |
| Cash and cash equivalents | 7,200 | 89,714 | – | 96,914 | (96,914) | – |
| Amounts due from credit institutions | – | 35,667 | – | 35,667 | (35,667) | – |
| Marketable securities | – | 79,716 | – | 79,716 | (79,716) | – |
| Investment in redeemable securities | – | 17,849 | – | 17,849 | (17,849) | – |
| Prepayments | 406 | – | – | 406 | (406) | – |
| Loans issued | – | 154,214 | – | 154,214 | (154,214) | – |
| Other assets, net | – | 8,475 | – | 8,475 | (8,475) | – |
| Equity investments at fair value | 2,881,373 | 3,616,231 | (2,881,373) | 3,616,231 | – | 3,616,231 |
| **Total assets** | **2,888,979** | **4,001,866** | **(2,881,373)** | **4,009,472** | **(393,241)** | **3,616,231** |
| Debt securities issued | – | 1,095,433 | – | 1,095,433 | (1,095,433) | – |
| Other liabilities | 5,357 | 25,060 | – | 30,417 | (30,417) | – |
| **Total liabilities** | **5,357** | **1,120,493** | **–** | **1,125,850** | **(1,125,850)** | **–** |
| **Net debt** | **–** | **–** | **–** | **–** | **(711,074)** | **(711,074)** |
| *of which, cash and liquid funds* | – | – | – | – | *272,317* | *272,317* |
| *of which, loans issued* | – | – | – | – | *154,214* | *154,214* |
| *of which, gross debt* | – | – | – | – | *(1,137,605)* | *(1,137,605)* |
| Net other assets/(liabilities) | – | – | – | – | (21,535) | (21,535) |
| **Total equity/NAV** | **2,883,622** | **2,881,373** | **(2,881,373)** | **2,883,622** | **–** | **2,883,622** |

* For detailed breakdown of JSC Georgia Capital refer to Note 12.

** Reclassification to aggregated balances to arrive at the NAV specific presentation, such as: aggregating cash, marketable securities, investment in redeemable shares, repurchased GCAP bonds as cash and liquid funds, debt securities issued as gross debt and netting of other assets and liabilities.

The following table presents Income Statement information of the Group's operating segments for the year ended 31 December 2022 (new basis):

| | | Private portfolio companies | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Listed and observable portfolio companies | Large | Investment stage | Other | Corporate centre | Total | Intragroup investment reversal and adjustments | Equity changes in JSC GCAP | Investment entity total |
| Gains/(losses) on investments at fair value | 164,885 | (115,511) | 5,072 | (114,248) | – | (59,802) | 74,344 | (13,617) | 925 |
| *Listed and observable investments* | *164,885* | – | – | – | – | *164,885* | *(164,885)* | – | – |
| *Private investments* | – | *(115,511)* | *5,072* | *(114,248)* | – | *(224,687)* | *239,229* | *(13,617)* | *925* |
| Dividend income | 40,898 | 44,783 | 8,194 | – | – | 93,875 | (93,875) | – | – |
| Interest income | – | – | – | – | 32,955 | 32,955 | (32,955) | – | – |
| Loss on liquid funds | – | – | – | – | (2,717) | (2,717) | 2,717 | – | – |
| **Gross investment profit/(loss)** | **205,783** | **(70,728)** | **13,266** | **(114,248)** | **30,238** | **64,311** | **(49,769)** | **(13,617)** | **925** |
| Administrative expenses | – | – | – | – | (11,779) | (11,779) | 7,390 | – | (4,389) |
| Salaries and other employee benefits | – | – | – | – | (28,217) | (28,217) | 25,843 | – | (2,374) |
| Interest expense | – | – | – | – | (69,774) | (69,774) | 69,774 | – | – |
| **Profit/(loss) before provisions, foreign exchange and non-recurring items** | **205,783** | **(70,728)** | **13,266** | **(114,248)** | **(79,532)** | **(45,459)** | **53,238** | **(13,617)** | **(5,838)** |
| Expected credit loss reversal | – | – | – | – | 380 | 380 | (380) | – | – |
| Net foreign currency gain | – | – | – | – | 47,170 | 47,170 | (53,245) | – | (6,075) |
| Non-recurring expense | – | – | – | – | (627) | (627) | 387 | – | (240) |
| **Profit/(loss) before income taxes** | **205,783** | **(70,728)** | **13,266** | **(114,248)** | **(32,609)** | **1,464** | **–** | **(13,617)** | **(12,153)** |
| Income tax | – | – | – | – | – | – | – | – | – |
| **Profit/(loss) for the year** | **205,783** | **(70,728)** | **13,266** | **(114,248)** | **(32,609)** | **1,464** | **–** | **(13,617)** | **(12,153)** |

### 5. Segment information continued

The following table presents Income Statement information of the Group's operating segments for the year ended 31 December 2022 (old basis):

| | | Private portfolio companies | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Listed portfolio companies | Large | Investment stage | Other | Corporate centre | Total | Intragroup investment reversal and adjustments | Equity changes in JSC GCAP | Investment entity total |
| Gains/(losses) on investments at fair value | 149,277 | (145,729) | 50,898 | (114,248) | – | (59,802) | 74,344 | (13,617) | 925 |
| *Listed equity investments* | *149,277* | – | – | – | – | *149,277* | *(149,277)* | – | – |
| *Private investments* | – | *(145,729)* | *50,898* | *(114,248)* | – | *(209,079)* | *223,621* | *(13,617)* | *925* |
| Dividend income | 40,898 | 44,783 | 8,194 | – | – | 93,875 | (93,875) | – | – |
| Interest income | – | – | – | – | 32,955 | 32,955 | (32,955) | – | – |
| Loss on liquid funds | – | – | – | – | (2,717) | (2,717) | 2,717 | – | – |
| **Gross investment profit/(loss)** | **190,175** | **(100,946)** | **59,092** | **(114,248)** | **30,238** | **64,311** | **(49,769)** | **(13,617)** | **925** |
| Administrative expenses | – | – | – | – | (11,779) | (11,779) | 7,390 | – | (4,389) |
| Salaries and other employee benefits | – | – | – | – | (28,217) | (28,217) | 25,843 | – | (2,374) |
| Interest expense | – | – | – | – | (69,774) | (69,774) | 69,774 | – | – |
| **Profit/(loss) before provisions, foreign exchange and non-recurring items** | **190,175** | **(100,946)** | **59,092** | **(114,248)** | **(79,532)** | **(45,459)** | **53,238** | **(13,617)** | **(5,838)** |
| Expected credit loss reversal | – | – | – | – | 380 | 380 | (380) | – | – |
| Net foreign currency gain | – | – | – | – | 47,170 | 47,170 | (53,245) | – | (6,075) |
| Non-recurring expense | – | – | – | – | (627) | (627) | 387 | – | (240) |
| **Profit/(loss) before income taxes** | **190,175** | **(100,946)** | **59,092** | **(114,248)** | **(32,609)** | **1,464** | **–** | **(13,617)** | **(12,153)** |
| Income tax | – | – | – | – | – | – | – | – | – |
| **Profit/(loss) for the year** | **190,175** | **(100,946)** | **59,092** | **(114,248)** | **(32,609)** | **1,464** | **–** | **(13,617)** | **(12,153)** |

The following table presents Income Statement information of the Group's operating segments for the year ended 31 December 2021:

| | | Private portfolio companies | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Listed Portfolio Companies | Large | Investment Stage | Other | Corporate Center | Total | Intragroup Investment Reversal and Adjustments | Equity Changes in JSC GCAP | Investment Entity Total |
| Gains on investments at fair value | 149,628 | 543,971 | (18,368) | 6,843 | – | 682,074 | 10,681 | (2,993) | 689,762 |
| *Listed equity Investments* | *149,628* | – | – | – | – | *149,628* | *(149,628)* | – | – |
| *Private investments* | – | *543,971* | *(18,368)* | *6,843* | – | *532,446* | *160,309* | *(2,993)* | *689,762* |
| Dividend income | 14,481 | 39,881 | 20,000 | – | – | 74,362 | (74,362) | 14,481 | 14,481 |
| Interest income | – | – | – | – | 23,140 | 23,140 | (23,140) | – | – |
| Transaction costs | – | – | – | – | (21,995) | (21,995) | 19,058 | – | (2,937) |
| Loss on liquid funds | – | – | – | – | (1,142) | (1,142) | 1,142 | – | – |
| **Gross investment profit/(loss)** | **164,109** | **583,852** | **1,632** | **6,843** | **3** | **756,439** | **(66,621)** | **11,488** | **701,306** |
| Administrative expenses | – | – | – | – | (11,380) | (11,380) | 5,868 | – | (5,512) |
| Salaries and other employee benefits | – | – | – | – | (25,104) | (25,104) | 22,413 | – | (2,691) |
| Interest expense | – | – | – | – | (77,392) | (77,392) | 77,392 | – | – |
| **Profit/(loss) before provisions, foreign exchange and non-recurring items** | **164,109** | **583,852** | **1,632** | **6,843** | **(113,873)** | **642,563** | **39,052** | **11,488** | **693,103** |
| Expected credit loss | – | – | – | – | (96) | (96) | 96 | – | – |
| Net foreign currency gain | – | – | – | – | 39,711 | 39,711 | (39,933) | – | (222) |
| Non-recurring expense | – | – | – | – | (785) | (785) | 785 | – | – |
| **Profit/(loss) before income taxes** | **164,109** | **583,852** | **1,632** | **6,843** | **(75,043)** | **681,393** | **–** | **11,488** | **692,881** |
| Income tax | – | – | – | – | – | – | – | – | – |
| **Profit/(loss) for the year** | **164,109** | **583,852** | **1,632** | **6,843** | **(75,043)** | **681,393** | **–** | **11,488** | **692,881** |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 6. Equity investments at fair value

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Subsidiaries (Note 12) | **2,795,060** | 2,881,373 |
| **Equity investments at fair value** | **2,795,060** | 2,881,373 |

| | 2022 | 2021 |
|---|---|---|
| **At 1 January** | **2,881,373** | 2,213,290 |
| Fair value gain and dividend income | **925** | 704,243 |
| Capital redemption (Note 2)* | **(87,238)** | (21,679) |
| Dividend income** | **–** | (14,481) |
| **At 31 December** | **2,795,060** | 2,881,373 |

* During 2022 JSC Georgia Capital made a capital reduction to its 100% shareholder with total consideration of GEL 87,238 (2021: GEL 21,679), of which cash consideration was GEL 87,238 (2021: GEL 21,679).
** In 2022 JSC Georgia Capital paid a dividend to its 100% shareholder in the amount of GEL nil (2021: GEL 14,481).

Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments, both meet the definition of investment entity and Georgia Capital PLC measures its investment in JSC Georgia Capital at fair value through profit or loss. For the breakdown and detailed information regarding the equity investments at fair value, refer to Note 12.

### 7. Taxation
As at 31 December 2022 GCAP PLC has an unrecognised tax asset (tax loss carried forward) in the amount of GEL 6,621 (31 December 2021: GEL 4,982). The Company does not recognise the deferred tax asset since it is not expected to be utilised in the foreseeable future, as the Company's income sources, fair value gains on equity investments and dividend income, are not taxable in the UK, as fair value gains are unrealised and dividend income from controlled company is exempt from taxation under UK tax law.

The aggregate amount of temporary differences associated with investments in subsidiaries is GEL 1,351,606 (2021: GEL 1,350,681). The deferred tax liability has not been recognised as the Company controls the timing of reversal of these temporary differences and considers it probable that the temporary differences will not be reversed in the foreseeable future.

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. Management believes that the Company is in compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

### 8. Equity
#### Share capital
As at 31 December 2022 issued share capital comprised of 44,827,862 authorised common shares (31 December 2021: 47,080,203), of which 44,827,862 were fully paid (2021: 47,080,203). Each share has a nominal value of one British penny. Shares issued and outstanding as at 31 December 2022 and 31 December 2021 are described below:

| | Number of ordinary shares | Amount |
|---|---|---|
| **1 January 2021** | 47,903,785 | 1,574 |
| Cancellation of shares | (823,582) | (27) |
| **31 December 2021** | 47,080,203 | 1,547 |
| Cancellation of shares | (2,252,341) | (74) |
| **31 December 2022** | **44,827,862** | **1,473** |

#### Treasury shares
In 2022, the Company paid cash consideration of GEL 54,573 (2021: GEL 22,085) for the acquisition of treasury shares, of which GEL 247 (2021: GEL 194) was related to shares acquired for settlement of employee share-based payments and GEL 54,326 (2021: GEL 21,891) were other acquisitions made by the Company, including those under the share buyback programme in 2021.

During 2022, 2,252,341 (2021: 823,582) treasury shares bought back under the buyback programme were cancelled.



### 8. Equity continued
#### (Loss)/earnings per share

| | 2022 | 2021 |
|---|---|---|
| **Basic (loss)/earnings per share** | | |
| (Loss)/profit for the year attributable to ordinary shareholders of the parent | **(12,153)** | 692,881 |
| Weighted average number of ordinary shares outstanding during the year | **42,090,389** | 44,264,151 |
| (Loss)/earnings per share (GEL) | **(0.2887)** | 15.6533 |
| **Diluted (loss)/earnings per share*** | | |
| (Loss)/profit for the year attributable to ordinary shareholders of the parent | **(12,153)** | 692,881 |
| Weighted average number of diluted ordinary shares outstanding during the year | **42,090,389** | 45,306,358 |
| Diluted (loss)/earnings per share (GEL) | **(0.2887)** | 15.2932 |

* Dilution effect arises from the Group's share-based compensation arrangements.

### 9. Salaries and other employee benefits, and general and administrative expenses

| | 2022 | 2021 |
|---|---|---|
| Salaries and bonuses | **(1,798)** | (2,098) |
| Equity compensation plan costs | **(495)** | (534) |
| Pension costs | **(81)** | (59) |
| **Salaries and other employee benefits** | **(2,374)** | (2,691) |

Refer also to the Resources and Responsibilities section on page 82-94 and the Directors' Remuneration Report on page 145-163 in the Group's Annual Report 2022. For total number of employees of Georgia Capital, refer to page 86 of the Resources and Responsibilities section in the Group's Annual Report 2022. For Directors' remuneration refer to page 156 of the Directors' Remuneration Report in the Group's Annual Report 2022. The Annual Report figures comprise of both holding company entities: Georgia Capital PLC and JSC Georgia Capital. The figures in the table above are for standalone Georgia Capital PLC.

#### General and administrative expenses

| | 2022 | 2021 |
|---|---|---|
| Legal and other professional services | **(4,074)** | (5,193) |
| Occupancy and rent | **(113)** | (140) |
| Communication | **(14)** | (19) |
| Other | **(188)** | (160) |
| **General and administrative expenses** | **(4,389)** | (5,512) |

#### Auditor's remuneration
Auditors' remuneration is included within legal and other professional services expenses above and comprises:

| | 2022 | 2021 |
|---|---|---|
| Fees payable for the audit of the Company's current year annual report | 1,145 | 1,414 |
| **Fees payable for other services:** | | |
| Audit of the Company's subsidiaries | 382 | 222 |
| **Total audit fees** | **1,527** | **1,636** |
| **Audit related assurance services** | | |
| Other assurance services | 101 | 282 |
| **Total audit related fees** | **101** | **282** |
| **Non-audit services:** | | |
| Corporate finance services | - | 1,091 |
| **Total other services fees** | **-** | **1,091** |
| **Total fees** | **1,628** | **3,009** |

The figures shown in the above table include audit fees of JSC GCAP and GCAP PLC and do not include other remuneration paid by portfolio companies as it is not required by Companies Act 2006 Part 16. The presented amounts relate to fees paid to PricewaterhouseCoopers LLP (2021: Ernst & Young LLP) and its associates.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 10. Share-based payments
**Executives' equity compensation plan**

In 2018, Georgia Capital introduced Group's Executives' Equity Compensation Plan (EECP). Under the EECP, shares of the parent are granted to senior executives of the Company. In July 2018, the executives signed new five-year fixed contingent share-based compensation agreements with a total of 1,750,000 ordinary shares of Georgia Capital. The total amount of shares fixed to each executive are being awarded in five equal instalments during the five consecutive years starting January 2019, of which each award is subject to a six-year vesting period subject to continued employment within the Group during such vesting period. In October 2022, CEO contract maturity was extended until 31 December 2025 from May 2023, extending fixed contingent share-based compensation with an additional 518,357 ordinary shares of Georgia Capital. The fair value of the shares is determined at the grant date using available market quotations.

After Georgia Capital met the definition of investment entity on 31 December 2019, only the small portion of the CEO's share-based compensation which Georgia Capital PLC retains the obligation to settle is within scope of IFRS 2 in Georgia Capital's financial statements.

The following table illustrates the number and weighted average prices of, and movements in, shares awards granted to the CEO of Georgia Capital PLC during the year:

| | 2022 | 2021 |
|---|---|---|
| **Shares outstanding at 1 January** | **91,266** | 97,633 |
| Vested during the year | **(10,367)** | (6,367) |
| Granted during the year | **51,836** | – |
| **Shares outstanding at 31 December** | **132,735** | 91,266 |

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2022 was 3.3 years (2021: 2.8 years).

The weighted average fair value of shares vested was GEL 29.7 (2021: GEL 24). The weighted average fair value of shares granted was GEL 18.68 (2021: GEL nil).

**Expense recognition**

The share-based payment expense recognised for employee services received during 2022 and the respective increase in equity arising from equity-settled share-based payments was GEL 495 (2021: GEL 534).

### 11. Risk management
**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to investment risk, credit risk, liquidity risk and market risk. It is also subject to operational risks and insurance risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

**Risk management structure**

**Audit and Valuation Committee**

The Audit and Valuation Committee of Georgia Capital PLC assists the Management Board of Georgia Capital in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the Internal Audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and assesses the effectiveness of the risk management and internal control framework.

It is responsible for reviewing and approving half-yearly and annual valuations of the Group's portfolio investments prepared and presented to it by the Management Board. The Committee will ensure that the Valuation Policy complies with the obligations within any agreements in place, legislation, regulations, guidance and other policies of the Company.

**Investment Committee**

The Investment Committee ensures a centralised process-led approach to investment; and the over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

It oversees each step of the investment lifecycle, approves all investment, divestment and material portfolio decisions and ensures that investments are in line with Group's investment policy and risk appetite.

**Management Board**

The Management Board of Georgia Capital has overall responsibility for the Group's asset, liability and risk management activities, policies and procedures. The Management Board is comprised of senior managers of GCAP PLC and JSC GCAP. In order to effectively implement the risk management system, the Board of Directors delegates individual risk management functions to the Management Board, which in turn assigns specific functions to the various decision-making and execution bodies within the Group's portfolio entities.



### 11. Risk management continued
**Introduction** continued

**Risk management structure** continued

**Internal Audit**

The Internal Audit department of Georgia Capital PLC is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. The Group's Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Valuation Committee.

**Risk measurement and reporting systems**

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries and countries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board.

**Risk mitigation**

As part of its overall risk management, GCAP PLC and JSC GCAP may use derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. Risks at portfolio company level are mitigated by instruments applicable to specific industries they operate in.

**Credit risk**

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. Credit terms by debtors for various portfolio companies are managed and monitored separately, given industry specifics in which respective entities operate.

**Liquid financial instruments**

Credit risk from balances with banks and financial institutions is managed by the treasury department of GCAP PLC and JSC GCAP in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The table below demonstrates the Company's financial assets credit risk profile by external rating grades:

| | 31 December 2022 | | | 31 December 2021 | | |
|---|---|---|---|---|---|---|
| | BB+ to BB- | B+ to B- | Not graded | BB+ to BB- | B+ to B- | Not graded |
| Cash and cash equivalents | **23,361** | **–** | **–** | 7,200 | – | – |
| **Total** | **23,361** | **–** | **–** | 7,200 | – | – |

**Liquidity risk**

Liquidity risk is the risk that the Company or any of its portfolio entities will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

In addition, Group at all times holds a US$ 50 million liquid asset buffer at the Georgian parent company level, with liquid assets defined as marketable debt securities, cash at bank and short-term and long-term deposits with financial institutions.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. Maturities of assets and liabilities of the Company and each portfolio entity are managed separately. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts and the maturity of borrowings.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 11. Risk management continued
**Liquidity risk** continued

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

| Financial liabilities<br>31 December 2022 | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Other financial liabilities | 1,393 | – | – | – | 1,393 |
| **Total undiscounted financial liabilities** | **1,393** | **–** | **–** | **–** | **1,393** |

| Financial liabilities<br>31 December 2021 | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Other financial liabilities | 5,357 | – | – | – | 5,357 |
| **Total undiscounted financial liabilities** | **5,357** | **–** | **–** | **–** | **5,357** |

**Market risk**

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group has exposure to market risks. GCAP PLC and JSC GCAP structure the levels of market risk it accepts through a market risk policy that determines what constitutes market risk. Risks associated with changes in fair value of equity investment and its implied fair value components are disclosed in Note 12.

**Price risk**

In GCAP PLC equity securities price risk arises from investment held through JSC GCAP for which price in the future is uncertain. Where non-monetary financial instruments – for example, equity securities – are denominated in currencies other than the Georgian Lari, the price initially expressed in foreign currency and then converted into Georgian Lari will also fluctuate because of changes in foreign exchange rates. For details on currency risk management, refer to respective paragraph below.

If the price of our listed investment increased by 10% (2021: 10%) JSC GCAP's profit for the year and NAV would have increased by GEL 83,046 (2021: GEL 68,118). If the price of our listed investment decreased by 10% (2021: 10%) JSC GCAP's profit for the year and NAV would have decreased by GEL 83,046 (2021: GEL 68,118). As a result, JSC GCAP's NAV would have increased by 3% (2021: 2%) or decreased by 3% (2021: 2%).

Sensitivity analysis of private portfolio companies are presented in Note 12.

**Currency risk**

GCAP PLC and JSC GCAP are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to US Dollar.

The currency risk management process is an integral part of the Group's activities; currency risk is managed through regular and frequent monitoring of the Group's currency positions and through timely and efficient elaboration of responsive actions and measures. The Company is not directly exposed to material currency risk.

**Operating environment**

Most of the Group's portfolio investments are concentrated in Georgia. As an emerging market, Georgia's business and regulatory infrastructure is less well-developed than that which would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has taken a number of steps that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including a new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is, however, largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. In addition, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Georgia has published climate change strategy. Georgia's 2030 Climate Change Strategy and Action Plan (Climate Change Strategy and Action Plan – CSAP, Climate Action Plan – CAP) are a planning and implementation mechanism for coordinated effort and planning towards meeting the nationally determined targets for climate change mitigation.

**Capital management**

Management monitors the Group's capital on a regular basis based on the Statement of NAV prepared on fair value bases, which corresponds to equity attributable to shareholders of Georgia Capital PLC as at 31 December 2022 in the amount of GEL 2,817,391 (2021: GEL 2,883,622). The NAV Statement breaks down NAV into its components, including fair values for the private businesses and follows changes therein, providing management with a snapshot of the Group's financial position at any given time. The NAV Statement provides a value of Georgia Capital that management uses as a tool for measuring its investment performance. Management closely monitors NAV in connection with capital allocation decisions. Refer to Note 5.



### 11. Risk management continued
**Capital management** continued

The capital management objectives are as follows:

- to maintain the required level of stability of the Group thereby providing a degree of security to the shareholders;
- to manage capital needs such that Group does not depend on potentially premature liquidation of its listed investments;
- to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders; and
- to maintain financial strength to support new business growth and to satisfy the shareholders' requirements.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the applicable financial covenants. To maintain or adjust the capital structure, the Group may adjust the amount of outstanding equity.

### 12. Fair value measurements
**Fair value hierarchy**

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

| 31 December 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Equity investments at fair value | **–** | **–** | **2,795,060** | **2,795,060** |

| 31 December 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Equity investments at fair value | – | – | 2,881,373 | 2,881,373 |

**Valuation techniques**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

**Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

**Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**12. Fair value measurements** continued
**Valuation techniques** continued
**Investment in subsidiaries**

Equity investments at fair value include investment in subsidiary at fair value through profit or loss representing 100% interest of JSC Georgia Capital. Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments, both meet the definition of investment entity and Georgia Capital PLC measures its investment in JSC Georgia Capital at fair value through profit or loss. Investments in investment entity subsidiaries and loans issued are accounted for as financial instruments at fair value through profit and loss in accordance with IFRS 9. Debt securities owned are measured at fair value. We determine that, in the ordinary course of business, the net asset value of investment entity subsidiaries is considered to be the most appropriate to determine fair value. JSC Georgia Capital's net asset value as of 31 December 2022 and 31 December 2021 is determined as follows:

| | 31 December 2022 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 199,771 |
| Amounts due from credit institutions | 16,278 |
| Marketable securities | 25,445 |
| Investment in redeemable securities | 12,631 |
| Equity investments at fair value | 3,198,627 |
| **Of which listed and observable investments:** | **985,463** |
| *BoG* | *830,463* |
| *Water utility* | *155,000* |
| **Of which private investments:** | **2,213,164** |
| **Large portfolio companies** | **1,437,610** |
| *Retail (Pharmacy)* | *724,517* |
| *Hospitals* | *433,193* |
| *P&C insurance* | *228,045* |
| *Medical insurance* | *51,855* |
| **Investment stage portfolio companies** | **501,407** |
| *Clinics and diagnostics* | *112,178* |
| *Renewable energy* | *224,987* |
| *Education* | *164,242* |
| **Other portfolio companies** | **274,147** |
| Loans issued | 26,830 |
| Other assets | 2,351 |
| **Total assets** | **3,481,933** |
| **Liabilities** | |
| Debt securities issued | 681,067 |
| Other liabilities | 5,806 |
| **Total liabilities** | **686,873** |
| **Net asset value** | **2,795,060** |

**12. Fair value measurements** continued
**Valuation techniques** continued
**Investment in subsidiaries** continued

| | 31 December 2022* | 31 December 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **199,771** | 89,714 |
| Amounts due from credit institutions | **16,278** | 35,667 |
| Marketable securities | **25,445** | 79,716 |
| Investment in redeemable securities | **12,631** | 17,849 |
| Equity investments at fair value | **3,198,627** | 3,616,231 |
| **Of which listed investments:** | **830,463** | 681,186 |
| *BoG* | ***830,463*** | *681,186* |
| **Of which private investments:** | **2,368,164** | *2,935,045* |
| ***Large portfolio companies*** | ***1,704,788*** | *2,407,264* |
| *Healthcare services* | ***545,371*** | *731,819* |
| *Retail (Pharmacy)* | ***724,517*** | *710,385* |
| *Water utility* | ***155,000*** | *696,960* |
| *P&C insurance* | ***228,045*** | *211,505* |
| *Medical insurance* | ***51,855*** | *56,595* |
| ***Investment stage portfolio companies*** | ***389,229*** | *303,136* |
| *Renewable energy* | ***224,987*** | *173,288* |
| *Education* | ***164,242*** | *129,848* |
| ***Other portfolio companies*** | ***274,147*** | *224,645* |
| Loans issued | **26,830** | 154,214 |
| Other assets | **2,351** | 8,475 |
| **Total assets** | **3,481,933** | 4,001,866 |
| **Liabilities** | | |
| Debt securities issued | **681,067** | 1,095,433 |
| Other liabilities | **5,806** | 25,060 |
| **Total liabilities** | **686,873** | 1,120,493 |
| **Net asset value** | **2,795,060** | 2,881,373 |

* 31 December 2022 figures are presented on the old basis to be comparable with prior period numbers. Current period figures on new basis are presented in the table above.

In measuring fair values of JSC Georgia Capital's investments, following valuation methodology is applied:

**Equity investments in listed and observable portfolio companies**

Equity instruments listed on an active market are valued at the price within the bid/ask spread, that is most representative of fair value at the reporting date, which usually represents the closing bid price. The instruments are included within level 1 of the hierarchy in JSC GCAP financial statements. Listed and observable portfolio also includes instruments for which there is a clear exit path from the business, e.g. through a put and/or call options at pre-agreed multiples. In such cases, pre-agreed terms are used for valuing the company.

**Equity investments in private portfolio companies**

*Large portfolio companies* – An independent third-party valuation firm is engaged to assess fair value ranges of large private portfolio companies at the reporting date starting from 31 December 2020. The independent valuation company has extensive relevant industry and emerging markets experience. Valuation is performed by applying several valuation methods including an income approach based mainly on discounted cash flow and a market approach based mainly on listed peer multiples (the DCF and listed peer multiples approaches applied are described below for the other portfolio companies). The different valuation approaches are weighted to derive a fair value range, with the income approach being more heavily weighted than the market approach. Management selects what is considered to be the most appropriate point in the provided fair value range at the reporting date.

Investment stage portfolio companies – An independent third-party valuation firm is engaged to assess fair value ranges of investment stage private portfolio companies at the reporting date starting from 30 June 2022 (31 December 2021 – was valued internally in line with the methodology described below for other portfolio companies). The independent valuation company has extensive relevant industry and emerging markets experience. Valuation is performed by applying several valuation methods including an income approach based mainly on discounted cash flow and a market approach based mainly on listed peer multiples (the DCF and listed peer multiples approaches applied are substantially identical to those described below for the other portfolio companies). The different valuation approaches are weighted to derive a fair value range, with the income approach being more heavily weighted than the market approach. Management selects what is considered to be the most appropriate point in the provided fair value range at the reporting date.

*Other portfolio companies* – fair value assessment is performed internally as described below.

Equity investments in private portfolio companies are valued by applying an appropriate valuation method, which makes maximum use of market-based public information, is consistent with valuation methods generally used by market participants and is applied consistently from period to period, unless a change in valuation technique would result in a more reliable estimation of fair value.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**12. Fair value measurements** continued
**Valuation techniques** continued
**Equity investments in private portfolio companies** continued

The value of an unquoted equity investment is generally crystallised through the sale or flotation of the entire business. Therefore, the estimation of fair value is based on the assumed realisation of the entire enterprise at the reporting date. Recognition is given to the uncertainties inherent in estimating the fair value of unquoted companies and appropriate caution is applied in exercising judgements and in making the necessary estimates.

The fair value of equity investments is determined using one of the valuation methods described below:

**Listed peer group multiples**
This 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.

The earnings multiple used in valuation is determined by reference to listed peer group multiples appropriate for the period of earnings calculation for the investment being valued. The Company identifies a 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. Some peer-group companies' multiples may be more heavily weighted during valuation if their characteristics are closer to those of the company being valued than others.

As a rule of thumb, last 12-month earnings will be used for the purposes of valuation as a generally accepted method. Earnings are adjusted where appropriate for exceptional, one-off or non-recurring items.

**a. Valuation based on enterprise value**
Fair value of equity investments in private companies can be determined as their enterprise value less net financial debt (gross face value of debt less cash) appearing in the most recent financial statements.

Enterprise value is obtained by multiplying measures of a company's earnings by listed peer group multiple (EV/EBITDA) for the appropriate period. The measures of earnings generally used in the calculation is recurring EBITDA for the last 12 months (LTM EBITDA). In exceptional cases, where EBITDA is negative, peer EV/Sales (enterprise value to sales) multiple can be applied to last 12-month recurring/adjusted sales revenue of the business (LTM sales) to estimate enterprise value.

Once the enterprise value is estimated, the following steps are taken:
- Net financial debt appearing in the most recent financial statements is subtracted from the enterprise value. If net debt exceeds enterprise value, the value of shareholders' equity remains at zero (assuming the debt is without recourse to Georgia Capital).
- The resulting fair value of equity is apportioned between Georgia Capital and other shareholders of the company being valued, if applicable.
- Valuation based on enterprise value using peer multiples is used for businesses within non-financial industries.

**b. Equity fair value valuation**
Fair value of equity investment in companies can also be determined as using price to earnings (P/E) multiple of similar listed companies.

The measure of earnings used in the calculation is recurring adjusted net income (net income adjusted for non-recurring items and FX gains/losses) for the last 12 months (LTM net income). The resulting fair value of equity is allocated between Georgia Capital and other shareholders of the portfolio company, if any. Fair valuation of equity using peer multiples can be used for businesses within financial sector (e.g. insurance companies).

**Discounted cash flow**
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. Under the discounted cash flow analysis unobservable inputs are used, such as estimates of probable future cash flows and an internally-developed discounting rate of return.

**Net asset value**
The net assets methodology involves estimating fair value of an equity investment in a private portfolio company based on its book value at reporting date. This method is appropriate for businesses (such as real estate) whose value derives mainly from the underlying value of its assets and where such assets are already carried at their fair values (fair values determined by professional third-party valuation companies) on the balance sheet.

**Price of recent investment**
The price of a recent investment resulting from an orderly transaction, generally represents fair value as of the transaction date. At subsequent measurement dates, the price of a recent investment may be an appropriate starting point for estimating fair value. However, adequate consideration is given to the current facts and circumstances to assess at each measurement date whether changes or events subsequent to the relevant transaction imply a change in the investment's fair value.

**Exit price**
Fair value of a private portfolio company in a sales process, where the price has been agreed but the transaction has not yet settled, is measured at the best estimate of expected proceeds from the transaction, adjusted pro-rata to the proportion of shareholding sold.



**12. Fair value measurements** continued
**Valuation techniques** continued
**Equity investments in private portfolio companies** continued
**Validation**
Fair value of investments estimated using one of the valuation methods described above is cross-checked using several other valuation methods as follows:
- Listed peer group multiples – peer multiples such as P/E, P/B (price to book) and dividend yield are applied to the respective metrics of the investment being valued depending on the industry of the company. The Company develops fair value range based on these techniques and analyses whether fair value estimated above falls within this range.
- Discounted cash flow (DCF) – The discounted cash flow valuation method is used to determine fair value of equity investment. Based on DCF, the Company might make upward or downward adjustment to the value of valuation target as derived from primary valuation method. If fair value estimated using discounted cash flow analysis significantly differs from the fair value estimate derived using primary valuation method, the difference is examined thoroughly, and judgement is applied in estimating fair value at the measurement date.
- In line with our strategy, from time to time, we may receive offers from interested buyers for our private portfolio companies, which would be considered in the overall valuation assessment, where appropriate.

**Valuation process for level 3 valuations**
Georgia Capital hired third-party valuation professionals to assess fair value of the large private portfolio companies as at 31 December 2021. Starting from 2022 third-party valuation professionals are hired to assess fair value of the investment stage private portfolio companies as well. As of 31 December 2022 such businesses include Hospitals, P&C insurance, Retail (Pharmacy), Medical Insurance, Clinics & Diagnostics, Renewable energy and Education. The valuation is performed by applying several valuation methods that are weighted to derive fair value range, with the income approach being more heavily weighted than market approach. Management selects most appropriate point in the provided fair value range at the reporting date. Fair values of investments in other private portfolio companies are assessed internally in accordance with Georgia Capital's valuation methodology by the Valuation Workgroup.

Georgia Capital's Management Board proposes fair value to be placed at each reporting date to the Audit and Valuation Committee. The Audit and Valuation Committee is responsible for the review and approval of fair values of investments at the end of each reporting period.

**Description of significant unobservable inputs to level 3 valuations**
The approach to valuations as of 31 December 2022 was consistent with the Company's valuation process and policy. Management continues to monitor the impact of the COVID-19 pandemic and the Russia-Ukraine war on the valuation of portfolio companies.

In addition, management analyses the impact of climate change on the valuations, such as by incorporation of known effects of climate risks to the future cash flow forecasts or through adjusting peer multiples the known differences in the climate risk exposure as compared to the investment being fair valued. As at 31 December 2022, management concluded that the effects of the climate risks are reflected in the peer multiples and discount rates used in the valuations and that no specific adjustments are required in relation of the Group's investment portfolio measurement and respective fair value sensitivity disclosures.

The following tables show descriptions of significant unobservable inputs to level 3 valuations of equity investments:

**31 December 2022**

| Description | Valuation technique | Unobservable input | Range* (implied multiple**) | Fair value |
|---|---|---|---|---|
| **Loans issued** | DCF | Discount rate | 5.5%-16.5% | 26,830 |
| **Equity investments at fair value** | | | | |
| *Large portfolio companies* | | | | 1,437,610 |
| *Retail (Pharmacy)* | DCF, EV/EBITDA | EV/EBITDA multiple | 6.1x-20.9x (9.1x) | 724,517 |
| *Hospitals* | DCF, EV/EBITDA | EV/EBITDA multiple | 7.5x-14.2x (12.2x) | 433,193 |
| *P&C insurance* | DCF, P/E | P/E multiple | 7.0x-37.0x (10.7x) | 228,045 |
| *Medical insurance* | DCF, P/E | P/E multiple | 10.3x-11.8x (10.6x) | 51,855 |
| *Investment stage portfolio companies* | | | | 501,407 |
| *Clinics and diagnostics* | DCF, EV/EBITDA | EV/EBITDA multiple | 7.9x-14.2x (16.5x) | 112,178 |
| *Renewable energy* | DCF, EV/EBITDA | EV/EBITDA multiple | 8.1x-20.9x (11.4x) | 224,987 |
| *Education* | DCF, EV/EBITDA | EV/EBITDA multiple | 7.6x-39.3x (16.9x) | 164,242 |
| *Other portfolio companies* | Sum of the parts | EV/EBITDA multiples<br>Cash flow probability<br>NAV multiple | 2.0x-16.8x (6.3x-10.0x)<br>(90%-100%)<br>(0.9x) | 274,147 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



### 12. Fair value measurements continued
**Description of significant unobservable inputs to level 3 valuations** continued

**31 December 2021**

| Description | Valuation technique | Unobservable input | Range* (implied multiple**) | Fair value |
|---|---|---|---|---|
| **Loans Issued** | DCF | Discount rate | 5.5%-16% | 154,214 |
| **Equity investments at fair value** | | | | |
| *Large portfolio companies* | | | | 2,407,264 |
| *Healthcare services* | DCF, EV/EBITDA | EV/EBITDA multiple | 6.9x-22.6x (10.3x) | 731,819 |
| *Retail (Pharmacy)* | DCF, EV/EBITDA | EV/EBITDA multiple | 6.8x-19.9x (9.3x) | 710,385 |
| *Water utility* | Exit price | N/A | N/A | 696,960 |
| *P&C insurance* | DCF, P/E | P/E multiple | 8.0x-28.7x (12.0x) | 211,505 |
| *Medical insurance* | DCF, P/E | P/E multiple | 9.7x-16.6x (15.0x) | 56,595 |
| *Investment stage portfolio companies* | | | | 303,136 |
| *Renewable energy* | Sum of the parts | EV/EBITDA multiple | 10.1x-19.6x (9.2x-12.5x) | 173,288 |
| *Education* | EV/EBITDA | EV/EBITDA multiple | 7.3x-21.7x (12.5x) | 129,848 |
| *Other portfolio companies* | Sum of the parts | EV/EBITDA multiples<br>EV/Sales multiple<br>Cash flow probability<br>NAV multiple | 1.1x-17.1x (4.8x-9.8x)<br>1.1x-2.7x (1.9x)<br>(90%-100%)<br>(0.9x) | 224,645 |

* For equity investments at fair value the range refers to LTM multiples of listed peer group companies, prior to any adjustments.
** Implied multiples are derived by dividing selected value of the company by respective LTM earnings measure.

Georgia Capital hired third-party valuation professionals to assess fair value of the large and investment stage private portfolio companies as at 31 December 2022 and 31 December 2021 including P&C insurance, Hospitals, Retail (Pharmacy), Medical Insurance, and Clinics and Diagnostics. Starting from 30 June 2022, fair value assessment for the renewable energy and education businesses are performed by third-party valuation professionals as well. The valuation is performed by applying several valuation methods that are weighted to derive fair value range, with the income approach being more heavily weighted than market approach. Management selects most appropriate point in the provided fair value range at the reporting date.

On 31 December 2021, Georgia Capital signed SPA to dispose of it's 80% interest in the water utility business, which was previously included within the large private portfolio companies. As at 31 December 2022 the remaining 20% interest in the water utility business was valued using the pre-agreed put option multiple in reference to the signed contract with the buyer as GCAP has a clear exit path from the business through a put and call structure at pre-agreed EBITDA multiples.

Comprehensive analysis was performed to determine the impact of the Russia-Ukraine war on the private portfolio valuations. During the analysis, the impact of the war on discount rates was estimated and changes in listed peer multiples and overall movement in emerging and regional markets were reviewed. Uncertainties surrounding the geopolitical tensions translated into an increase in discount rates and reduced listed peer multiples and were reflected accordingly in the private portfolio companies' valuations, where applicable.

As at 31 December 2022, several portfolio companies (Hospitals, Clinics and P&C Insurance, together "Defendants") were engaged in litigation that has been ongoing since 2015 with some of the former shareholders of Insurance Company Imedi L ("Claimants") in relation to the acquisition price of the business. Former shareholders claim that their 66% shares in Insurance Company Imedi L were sold under duress at a price below market value in 2012. Since the outset, GHG and Aldagi have vigorously defended their position that the claims are wholly without merit. The Defendants won the case in Tbilisi City Court in 2018. The Claimants appealed against the court decision and in January 2020, Tbilisi Court of Appeals decided to return the case back to Tbilisi City Court for further analysis of the circumstances of the case, this decision was sustained by Supreme Court in February 2022 as well. In July 2022, Tbilisi City Court partially satisfied the Claimants and ruled that claims in the amount of US$ 12.7 million principal amount plus an annual 5% interest charge as lost income (US$ 21 million in total) should be paid. The Defendants believe that no new evidence has been submitted and that there is no sound basis upon which to have reversed the initial ruling. The Defendants have appealed the decision and continue to vigorously defend their position, they are confident that they will prevail; accordingly the Defendants have not made a provision for a potential liability in their financial statements. Management shares the Defendants' assessment of the merits of the case and considers that the probability of incurring losses on this claim is low; accordingly, fair values of portfolio companies do not take into account a potential liability in relation to this litigation.

### 12. Fair value measurements continued
**Sensitivity analysis to significant changes in unobservable inputs within level 3 hierarchy**

In order to determine reasonably possible alternative assumptions the Company adjusted key unobservable model inputs. The Company adjusted the inputs used in valuation by increasing and decreasing them within a range which is considered by the Company to be reasonable.

If the interest rate for each individual loan issued to equity investments as at 31 December 2022 decreased by 1.1-3.3 percentage points (2021: 1.1-3.2 percentage points), the amount of loans issued would have decreased by GEL 150 or 0.6% (2021: GEL 2,669 or 1.7%). If the interest rates increased by 1.1-3.3 percentage points (2021: 1.1-3.2 percentage points) then loans issued would have increased by GEL 148 or 0.6% (2021: GEL 2,282 or 1.5%).

If the listed peer multiples used in the market approach to value unquoted investments as at 31 December 2022 decreased by 10% (2021: 10%), value of equity investments at fair value would decrease by GEL 71 million or 2% (2021: GEL 110 million or 3%). If the multiple increased by 10% (2021: 10%) then the equity investments at fair value would increase by GEL 71 million or 2% (2021: GEL 121 million or 3%).

If the discount rates used in the income approach to value unquoted investments decreased by 50 basis points (2021: 50 basis points), the value of equity investments at fair value would increase by GEL 75 million or 2% (2021: GEL 90 million or 2%). If the discount rates increased by 50 basis points (2021: 50 basis points) then the equity investments at fair value would decrease by GEL 71 million or 2% (2021: GEL 80 million or 2%). If the discount rate decreased by 100 basis points, the value of equity investments at fair value would increase by GEL 155 million or 5% (31 December 2021: GEL 189 million or 5%). If the discount rate increased by 100 basis points then the equity investments at fair value would decrease by GEL 138 million or 4% (31 December 2021: GEL 156 million or 4%).

If the multiple used to value unquoted investments valued on NAV and recent transaction price basis as at 31 December 2022 decreased by 10% (2021: 10%), value of equity investments at fair value would decrease by GEL 11 million or 0.3% (2021: GEL 7 million or 0.2%). If the multiple increased by 10% then the equity investments at fair value would increase by GEL 11 million or 0.3% (2021: GEL 7 million or 0.2%).

As set out in the description of significant unobservable inputs to level 3 valuations the valuations have been prepared on the basis that climate change risks are reflected in the peer multiples and discount rates. Therefore, the sensitivities noted above in respect of peer multiples and discount rates include the risk arising from climate change.

**Movements in level 3 financial instruments measured at fair value**

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

| | At 1 January 2021 | Fair value gain | Capital redemption | Capital increase | At 31 December 2021 | Fair value gain | Capital redemption | Dividend income | At 31 December 2022 |
|---|---|---|---|---|---|---|---|---|---|
| **Level 3 financial assets** | | | | | | | | | |
| Equity investments at fair value (Note 6) | 2,213,290 | 704,243 | (21,679) | (14,481) | 2,881,373 | **925** | **(87,238)** | **–** | **2,795,060** |

### 13. Maturity analysis
The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

| | 31 December 2022 | | |
|---|---|---|---|
| | Less than 1 year | More than 1 year | Total |
| Cash and cash equivalents | 23,361 | – | 23,361 |
| Equity investments at fair value | – | 2,795,060 | 2,795,060 |
| Prepayments | 363 | – | 363 |
| **Total assets** | **23,724** | **2,795,060** | **2,818,784** |
| Other liabilities | 1,393 | – | 1,393 |
| **Total liabilities** | **1,393** | **–** | **1,393** |
| **Net** | **22,331** | **2,795,060** | **2,817,391** |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
## GEORGIA CAPITAL PLC (THOUSANDS OF GEORGIAN LARI)



**13. Maturity analysis** continued

| | 31 December 2021 | | |
|---|---|---|---|
| | Less than 1 year | More than 1 year | Total |
| Cash and cash equivalents | 7,200 | – | 7,200 |
| Equity investments at fair value | – | 2,881,373 | 2,881,373 |
| Prepayments | 406 | – | 406 |
| **Total assets** | **7,606** | **2,881,373** | **2,888,979** |
| Other liabilities | 5,357 | – | 5,357 |
| **Total liabilities** | **5,357** | **–** | **5,357** |
| **Net** | **2,249** | **2,881,373** | **2,883,622** |

**14. Related Party disclosures**

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

There were no related party transactions as of 31 December 2022, other than capital redemption of GEL 87,238 (31 December 2021: 21,679), dividend income of GEL nil from JSC GCAP (31 December 2021: 14,481) and compensation of key management personnel as disclosed below.

Compensation of key management personnel comprised the following:

| | 2022 | 2021 |
|---|---|---|
| Salaries and other benefits | **(1,129)** | (1,307) |
| Share-based payments compensation | **(495)** | (534) |
| **Total key management compensation** | **(1,624)** | (1,841) |

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The number of key management personnel at 31 December 2022 was 7 (2021: 7).

For the details of related party balances comprising of equity investments at fair value please, refer to Note 6.

**15. Events after the reporting period**

**Transfer from LSE Premium to LSE Standard Listing**

On 17 February 2023, the Company published its shareholder circular containing a notice of general meeting in connection with the proposed transfer of the Company's listing from the Premium Listing segment to the Standard Listing segment (the "Transfer"). At the General Meeting, held on 14 March 2023, shareholders approved the Transfer with 99.99% of votes cast in favour. Following shareholder approval of the Transfer at the General Meeting, the Company intends to proceed with implementing the Transfer. The Company anticipates that the effective date of the Transfer will be 13 April 2023, being 20 business days after the date of the General Meeting.

**Expansion of Education Business**

On March 3 Georgia Capital announced the expansion of K-12 education business through two investment projects: (1) The acquisition of a new campus in the affordable segment. With this investment, the education business will expand from its current built capacity of 5,650 learners to 6,850 learners; (2) The signing of a binding agreement for the acquisition of a land plot for the expansion of an operational campus in the premium and international segment. This acquisition, once completed, will increase the total pipeline capacity for 2025 by 350 learners, in total from 2,410 learners to 2,760 learners.

**Sale of Share in Listed Portfolio**

During 1Q23 Georgia Capital sold 239,867 shares of Bank of Georgia Group PLC for total consideration of GEL 21,226. As a result, subsequent holding of GCAP in BoG stands at 20.2%.



# ADDITIONAL INFORMATION
## ABBREVIATIONS

| | |
|---|---|
| **AGM** | Annual General Meeting |
| **APM** | Alternative performance measure |
| **BoG or BoGG** | Bank of Georgia Group PLC |
| **CAGR** | Compounded annual growth rate |
| **COVID-19** | The novel coronavirus |
| **DCF** | Discounted cash flow |
| **DCFTA** | Deep and Comprehensive Free Trade Agreement |
| **EBITDA** | Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation |
| **EECP** | Executives' Equity Compensation Plan |
| **EFTA** | European Free Trade Association |
| **EPS** | Earnings per share |
| **ESMS** | Environmental and Social Risk Management Procedures |
| **EUR** | Euro |
| **EV** | Enterprise value |
| **EY** | Ernst & Young |
| **FCF** | Free cash flow |
| **FDI** | Foreign direct investment |
| **FRC** | Financial Reporting Council |
| **FTA** | Free Trade Agreement |
| **GBP** | Great British Pound, national currency of the UK |
| **GDP** | Gross domestic product |
| **GEL** | Georgian Lari or Lari, national currency of Georgia |
| **GGU** | Georgia Global Utilities |
| **GHG** | Georgia Healthcare Group |
| **HPP** | Hydro power plant |
| **IAS** | International Accounting Standards |
| **IASB** | International Accounting Standards Board |
| **IFC** | International Finance Corporation |
| **IMF** | International Monetary Fund |
| **IPO** | Initial Public Offering |
| **LTIP** | Long-Term Incentive Plan |
| **LTM** | Last 12 months |
| **LTV** | Loan to value ratio |
| **MDA** | Modified Dutch Auction |
| **MOIC** | Multiple of invested capital |
| **MoU** | Memorandum of Understanding |
| **MTPL** | Mandatory third-party liability insurance |
| **MW** | Megawatt |
| **NAV** | Net asset value |
| **NBG** | National Bank of Georgia |
| **NCC** | Net Capital Commitment |
| **NGO** | Non-governmental organisation |
| **NIM** | Net Interest Margin |
| **NMF** | Not meaningful to present |
| **NPLs** | Non-performing loans |
| **NTM** | Next twelve months |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OPEX** | Operating expenses |
| **P&C** | Property and Casualty |
| **PLC** | Public limited company |
| **PPA** | Power Purchase Agreement |
| **RAB** | Regulatory Asset Base |
| **ROA** | Return on assets |
| **ROAE** | Return on average equity |
| **ROE** | Return on equity |
| **ROIC** | Return on invested capital |
| **SDGs** | United Nations' Sustainable Development Goals |
| **SMEs** | Small and medium-size enterprises |
| **SOTP** | Sum-of-the-parts valuation |
| **TBD** | To be determined |
| **TPP** | Thermal power plant |
| **TPL** | Third-party liability insurance |
| **TSR** | Total Shareholder Return |
| **UK** | United Kingdom |
| **US$/USD** | United States dollar, national currency of the United States |
| **WACC** | Weighted average cost of capital |
| **WPP** | Wind power plant |
| **WSS** | Water supply and sanitation |
| **WWTP** | Wastewater treatment plant |
| **y-o-y** | Year-on-year |
| **YTD** | Year to date |

# ADDITIONAL INFORMATION
## REFERENCES

| | |
|---|---|
| **BGEO Group PLC** | Former parent company of Georgia Capital PLC prior to demerger |
| **The Board** | The Board of Directors of Georgia Capital PLC |
| **The Code** | The UK Corporate Governance Code published in 2018 |
| **The Directors** | Members of Georgia Capital PLC Board of Directors |
| **We/Our/Us** | References to “we”, “our” or “us” are primarily references to the Group throughout this Report. However, the Group comprises of and operates through its subsidiaries which are legal entities with their own relevant management and governance structure (as set out in relevant parts of this Report). |

# ADDITIONAL INFORMATION
## GLOSSARY

| | |
|---|---|
| **Alternative performance measures (APMs)** | In this Annual Report management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. Management believes that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions. |
| **Combined ratio** | Equals sum of the loss ratio and the expense ratio in the insurance business. |
| **Demerger** | Georgia Capital PLC emerged as a separately listed company after demerger from its former Parent Company BGEO Group on 29 May 2018 (the demerger). |
| **EBITDA** | Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation; the Group has presented these figures in this document because management uses EBITDA as a tool to measure the portfolio companies’ operational performance and the profitability of these companies’ operations. The Company considers EBITDA to be an important indicator of representative recurring operations. |
| **Expense ratio** | Equals sum of acquisition costs and operating expenses divided by net earned premiums in the insurance business. |
| **IRR** | IRR for investments is calculated based on: a) historical contributions to the investment; b) dividends received; and c) fair value of the investment as at 31 December 2022. |
| **LTV** | Loan to value ratio: net debt divided by the portfolio value. |
| **Liquid assets and Loans issued** | Liquid asset and loans issued in Georgia Capital include cash, marketable debt securities and issued short-term loans. |
| **Loss ratio** | Equals net insurance claims expense divided by net earned premiums. |
| **NAV** | Net asset value, represents the net value of an entity and is calculated as the total value of the entity’s assets minus the total value of its liabilities. |
| **NCC** | Net Capital Commitment represents an aggregated view of all confirmed, agreed and expected capital outflows at the GCAP holding company level. |
| **NCC ratio** | Equals Net Capital Commitment divided by portfolio value. |
| **Net investment** | Gross investments less capital returns. |
| **Number of shares outstanding** | Number of shares in issue less total unawarded shares in JSC GCAP’s management trust. |
| **MOIC** | Multiple of invested capital is calculated as follows: i) the numerator is the cash and non-cash inflows from dividends and sell-downs plus fair value of investment at reporting date, and ii) the denominator is the gross investment amount. |
| **Realised MOIC** | Realised multiple of invested capital is calculated as follows: i) the numerator is the cash and non-cash inflows from dividends and sell-downs, ii) the denominator is the gross investment amount. |
| **ROAE** | Return on average total equity equals profit for the period attributable to shareholders divided by monthly average equity attributable to shareholders for the same period. |
| **ROIC** | Return on invested capital is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds. |
| **Value creation** | Value creation of each portfolio investment is calculated as follows: we aggregate a) change in beginning and ending fair values, b) gains from realised sales (if any) and c) dividend income during period. We then adjust the net result to remove capital injections (if any) to arrive at the total value creation/investment return. |

# ADDITIONAL INFORMATION
## SHAREHOLDER INFORMATION



**Our website**
All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about Georgia Capital at: **https://georgiacapital.ge/**.

**Our registered address**
Georgia Capital PLC
42 Brook Street
London W1K 5DB
United Kingdom

**Annual General Meeting**
The Annual General Meeting of Georgia Capital PLC (the AGM) will be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM is contained in the Notice of AGM, which will be mailed to shareholders who have elected to receive hard copies of shareholder information and will be available on the Company's website: **https://georgiacapital.ge/**.

**Shareholder enquiries**
Georgia Capital PLC's share register is maintained by Computershare Investor Services PLC. Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: **www.investorcentre.co.uk** or by calling the Shareholder Helpline on: +44 (0) 370 873 5866.

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**Contact information**
Georgia Capital PLC Investor Relations
E-mail: ir@gcap.ge

**Forward-looking statements**
Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Capital PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things, those described in "principal risks and uncertainties" included in this Annual Report and Accounts, see pages 73 to 80.

No part of this document constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Capital PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Capital PLC and other entities undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.


**Georgia Capital PLC** Annual Report 2022

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