SERVICE FOR ACCOUNTING,
REPORTING AND AUDITING
SUPERVISION

MANAGEMENT REPORTING GUIDE

2024

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CONTENTS

INTRODUCTION

On June 8, 2016, the Parliament of Georgia adopted the Law of Georgia on Accounting, Reporting and Auditing (hereinafter - the Law), the purpose of which was to create a regulatory framework for accounting, reporting and auditing and to approximate Georgian legislation to European Union legal acts. The law has introduced new legal requirements for the preparation and submission of the management report. Public interest entities (hereinafter - PIE) and enterprises of the first and second categories shall meet the legal requirements related to the filing of reports for the year ended on December 31, 2017 and following periods, while if entity's reporting period does not coincide with the calendar year, it shall file the report for the period ending on the date after December 31, 2017.

The Service for Accounting, Reporting and Auditing Supervision (hereinafter - the Service) shall supervise the fulfillment of obligations defined by the law, including compliance with the law of the reports submitted by the entities. Since the management report represents a novelty for the Georgian business sector, the SARAS developed the Management Reporting Guide (hereinafter - the Guide) aimed at simplifying the process of management reports preparation for entities and presenting them in a proper form. The Guide is a flexible document designed for wide use. It reflects international best practice and recent developments and does not create new legal obligations.

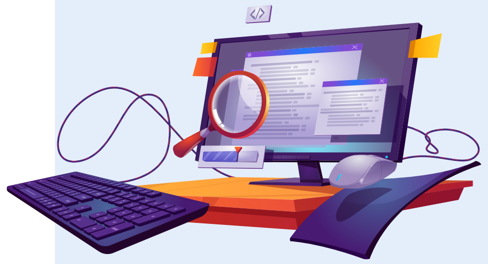
The Guide establishes basic principles, the observance of which ensures the comparability of enterprise statements. At the same time, the Guide does not restrict the entities in adjusting the form and content of the information included in the report to the economic and legal circumstances important to them and present material information in a consistent manner.
Based on the experience of developed countries, it can be assumed that the preparation and disclosure of management report will have a positive effect on the sustainability of entities and the improvement of financial and non-financial indicators. Over time, this process will contribute to the development of the entity, increase the number of its employees and the trust of partners, investors and consumers towards it.

The Guide has been amended to help entities implement new requirements introduced by the European Union (EU) Corporate Sustainability Reporting Directive (CSRD), and the European Sustainability Reporting Standards (ESRS). Additional guidance and reference to relevant provisions of the directive and standards are included in red text.

The guide was developed in collaboration with the International Finance Corporation (IFC), as part of the IFC Europe and Central Asia Environmental, Social and Governance (ESG) Program, implemented in partnership with the Swiss State Secretariat for Economic Affairs (SECO).

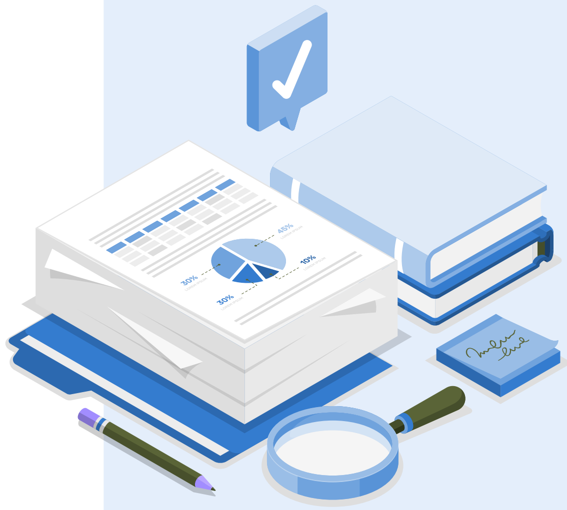
THE GUIDE IS STRUCTURED IN THE FOLLOWING FORM

PRINCIPLE



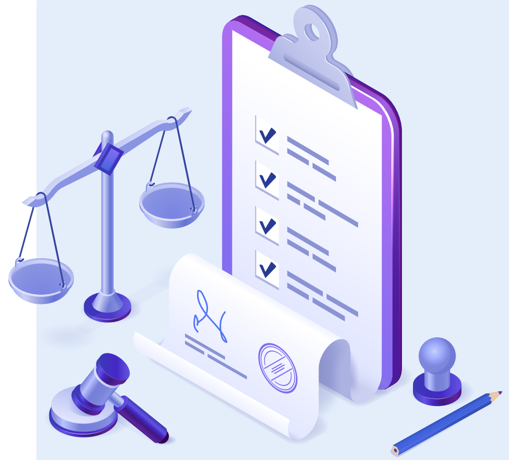
The basics of the Guide are presented in the form of main principles that are followed by explanation about its content and use

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS



Relevant sections of the European Union Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) presented as "EU Sustainability Reporting Requirements and Standards" under each relevant section of the management report

LEGAL REQUIREMENTS



Law requirements are presented in the Guide in the form of "legal requirements". Information presented in legal requirements aims to give the respective legal norms and not their analysis

EXAMPLE

After any topic is discussed, a practical example is presented if necessary, only for visualization. Respectively, it may not be relevant for all entities and economic activities

ACCORDING TO THE LAW, THE MANAGEMENT REPORT CONSISTS OF THREE COMPONENTS:

- **BUSINESS OVERVIEW**
- **CORPORATE GOVERNANCE REPORT**
- **NON-FINANCIAL REPORT**

ACCORDING TO THE LAW THE MANAGEMENT REPORT SHALL BE ACCOMPANIED BY THE AUDITOR'S OPINION ON COMPLIANCE WITH REGULATORY ACTS AND CONSISTENCY WITH THE FINANCIAL STATEMENTS OF THE SAME REPORTING PERIOD

The purpose of management reporting is to provide interested parties with information related to the entity's business, development and condition. With the help of the said reporting, they can carry out an assessment of the entity's future prospects and main risks, as well as find out how successful the enterprise was in achieving its goals.

Management report together with financial statements creates a unified context and provides stakeholders with multifaceted information about the entity. Such information contains the vision of top management, not only about what has already happened (with positive and negative circumstances), but also why it happened and what possible impact it will have on the entity's future activities, including information on impact of environmental, social and governance (ESG) issues.

While non-financial reporting and certain sustainability matters are already addressed by the Law[1], amendments to this Guide aim to introduce additional guidance on reporting sustainability or ESG matters based on the European Union (EU) Corporate Sustainability Reporting Directive (CSRD), and the European Sustainability Reporting Standards (ESRS) (see Appendix 1)[2].

[1] Law of Georgia on Accounting, Reporting and Auditing, Article 7.8.
[2] It is important to note that all disclosure requirements under ESRS are subject to materiality assessment, except for ESRS 2 on General Disclosures.

POSTING INFORMATION IN THE MANAGEMENT REPORT SHOULD BE CONTRIBUTING TO EFFECTIVE DELIVERY OF INFORMATION

The law considers components of the management report as independent parts thereof and sets the list of the information, which is to be reflected in each component. The law defines the constituent parts of the management report but does not establish its mandatory structure.

When preparing the management report, the use of "Standard Checklist Style" often is not an effective way for explaining the issues within each component. By this approach the received component structure requires more explanations and too many details may override the other important issues. The structure of management report components shall make the information reflected in annual report relevant and easy to understand.

Parts that are not required by law (for example, address of the supervisory board or the chairman of the Supervisory Board) may be included in the management report as a subsection of the mandatory component or even as a separate non-mandatory section if this is the best way to regard the report as the document containing material information.

Depending on the content of the information, it is possible to use different approaches and means, including cross-references and references, to provide information effectively.

CROSS - REFERENCES

In some cases, it is expedient to group similar or related issues provided for in legislative and regulatory requirements (which apply to various reporting components) together. This will reduce the duplication of information and clearly show the connections in one part of the document.

If the requested information is outside of the relevant reporting component, in another publicly available document, the document shall contain a clear and specific cross-reference. In this case, the requirement for publishing the information will be considered fulfilled.

Information in separate sustainability reports should also be cross-referenced in the management and annual reports.

REFERENCE

Management report provides stakeholders with a summary of the underlying, less detailed information. However, some users may need more detailed information, disclosure of which is not mandatory under the law. In such a case, this information may be presented outside of the management report in the form of the other additional information. It is advisable to refer to this information in management report.

References give the stakeholders an opportunity to get acquainted in detail with the additional information related to the issue in a specific component.

EXAMPLE

An entity may reflect in its management report the total confirmed and estimated reserves as one of the main business indicators. In addition, across this information, it may use a reference to another document or another section of the same report, in which the noted information is presented in more detail.

MATERIALITY

INFORMATION IS MATERIAL IF ITS OMISSION FROM OR MISREPRESENTATION IN THE MANAGEMENT REPORT IS GOING TO AFFECT ECONOMIC DECISIONS MADE BY SHAREHOLDERS

CONCEPT OF DOUBLE MATERIALITY

INFORMATION IS FINANCIALLY MATERIAL IF ITS OMISSION FROM OR MISREPRESENTATION IN THE MANAGEMENT REPORT IS GOING TO AFFECT ECONOMIC DECISIONS MADE BY SHAREHOLDERS

INFORMATION IS MATERIAL FROM AN IMPACT PERSPECTIVE IF IT PERTAINS TO ACTUAL OR POTENTIAL IMPACTS ON PEOPLE OR THE ENVIRONMENT, WHETHER POSITIVE, OR NEGATIVE, AND OVER THE SHORT-, MEDIUM- OR LONG-TERM.

It is recommended that management report only includes such information that would be material to its users. Both financial and non-financial information can be material. The report shall not reflect immaterial information in order not to lose key messages and avoid ambiguity of the document.

Materiality is an individual characteristic for each entity, which depends on the nature and significance of the existing or expected results. The entity evaluates materiality of the information according to how much it is relevant for understanding the entity's development, results and condition. When assessing material information, the internal and external factors should be taken into account.

Entities looking to implement the EU CSRD and ESRS should apply the concept of double materiality , . This entails looking at the relevance of sustainability information not only to understand the entity's development, results and condition (financial materiality), but also to understand the entity's impact on people and the environment (impact materiality). Entities should also disclose their process to determine materiality[5].

It should also be noted that:

a) Qualitative indicators, in many cases, in the context of management report have a greater impact on determining the materiality of information than in the context of financial statements.
b) Determining the materiality of information in financial statements, as a rule, depends on the relative amount /importance of each item in the reporting period. In case of management report, when determining materiality of information, entity's activity, condition, development and prospects may be taken into account.

EXAMPLE

AN ENTITY MAY CONSIDER THAT THE COST OF FUNDED SOCIAL PROJECTS BASED ON ITS CONTENT AND VOLUME IS NOT MATERIAL ENOUGH TO MAKE A DISCLOSURE NOTE ABOUT IT IN THE FINANCIAL STATEMENTS. AT THE SAME TIME, IT MAY DEEM THAT THE SOCIAL AND ENVIRONMENTAL IMPACT OF THE SAME PROJECTS REPRESENTS MATERIAL INFORMATION FOR MANAGEMENT REPORT.

[3] The concept of double materiality is defined by the EU Corporate Sustainability Reporting Directive (CSRD) and in European Sustainability Reporting Standard (ESRS) 1 – General Requirements.
[4] The Global Reporting Initiative (GRI) also uses the concept of double materiality while the International Sustainability Standards Board (ISSB) uses a definition consistent with IFRS Accounting Standards—that is, information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions.
[5] European Sustainability Reporting Standard (ESRS) S1 provides guidance on identification of the information to be included in the sustainability statements. See Appendix F.

In the context of management reporting, the approach for determining the materiality of information shall be revisited annually to ensure that the information considered as material during the prior reporting period continues to be material in the light of all the facts and circumstances that affect the entity's business.

EXAMPLE

AN ENTITY MAY CONSIDER THAT WATER CONSUMPTION IN ITS OFFICES AND BRANCHES IS NOT MATERIAL. SIMULTANEOUSLY, IT MAY REGARD THAT THE IMPACT OF SOCIAL AND ENVIRONMENTAL PROJECTS THAT IT FINANCES REPRESENTS MATERIAL INFORMATION.

INFORMATION PROVISION

Principles for information provision indicate qualitative characteristics of disclosures used in the preparation of management reports.

MANAGEMENT REPORT SHALL BE UNBIASED, BALANCED AND UNDERSTANDABLE

Management report should openly and impartially cover the positive and negative sides of the entity's development, activities, condition and future prospects. The entity shall prepare management report in a simple and understandable language. In addition, it is not recommended to use specific terms that are understood only by a certain group of people. As regards the industrial terms, if they are used, they should be clearly and consistently explained.

The method of management report presentation may significantly affect the understanding of the information contained in it. The optimal and/or balanced method of presentation depends on the nature of the information and along with the text may include tables, graphs and/or illustrations.

MANAGEMENT REPORT SHALL BE COMPREHENSIVE BUT CONCISE

Comprehensiveness of information implies consideration of all essential issues and not over-detailing. Accordingly, it is not mandatory for a management report to cover every possible issue in detail in order to be considered comprehensive. However, the depth of information disclosed on each specific issue depends on materiality and content. In addition, management report should be concise, which implies presentation only of material information, including on sustainability, a limited number of repetitions, avoiding boilerplate language, use of cross-references, tables, graphs, visuals with accompanying text.

MANAGEMENT REPORT SHALL BE FORWARD-LOOKING

Information about how a particular fact or circumstance may affect the entity should be given in the management report, if it is material for the assessment of the entity's business development, the situation or future prospects. It is not obligatory for this information to include the forecast of future financial results caused by the noted circumstances.

Management report shall not focus on one specific time period. It should include a description of particular fact and circumstance in the short-, medium- and long-term term, if it is going to help users of the financial statements to better understand the development, condition or future prospects of the entity's activities.
The management report shall include the vision of the senior management about the direction of the entity's activity. Forward-looking information provides users with the means to better assess the entity's development, status, and sustainability of operations. With its help, users will be able to measure the progress achieved with respect to long-term goals.

Forward-looking statements (for example, information about the entity's development plans) later may turn into a document containing historical information (in the section of results).

The aforementioned does not preclude the careful handling of information containing commercial secrets. Disclosure of such information is not advisable or mandatory, although it may be presented in general terms without being specific and may nevertheless be of value to investors and other interested parties.

ATTENTION IS TO BE FOCUSED ON LINKS BETWEEN INFORMATION SECTIONS PRESENTED IN MANAGEMENT REPORT AND SUCH LINKS EXPLAINED

As a rule, there is a causality and interdependence between the facts and circumstances presented in the management report. While individual parts of the information presented in the management report are independently interesting, by highlighting and explaining the connections between them, the information is provided to the user more effectively.

The components of management report shall not be prepared independently of each other. When preparing the document, an integrated approach is to be used, which means that the persons involved in drafting the document should act in a coordinated manner. When reporting on sustainability risks and opportunities representatives from the relevant departments within the entity, that hold this information, should be consulted. The report should be approved by the supervisory board. Only by coordinated and agreed actions will it be possible to identify all relevant connections and interdependencies between the components, which should be clearly reflected by means of references and cross-references. The optimal method of specifying the above connections depends on the nature of the information to be linked. If an entity uses references or cross-references, it shall properly explain the nature of the links and interdependence between information sections and should not be limited to emphasizing the existence of a connection.

Obviously, it is impossible to highlight and explain all the connections in the management report, while keeping in mind that the statement should be concise and understandable. Therefore, priority should be given to those connections which are the most relevant for assessing the development, current status and future prospects of business activities.

In order for the management reporting structure and information presentation approach to remain effective, it is recommended to revisit this issue annually and, update it, if necessary. Such an innovative approach makes the presented information easier to understand. Any information carried over from prior periods should be reviewed to ensure that it is still relevant.

Any information that is no longer relevant in the context of the management report, should be removed from it.

BUSINESS OVERVIEW

PIE, Enterprises of the First and Second Category

CORPORATE GOVERNANCE REPORT

PIEs whose securities are listed at the Stock Exchange

NON-FINANCIAL REPORT

PIE, which corresponds to the First Category by size, and whose average number of employees exceeds 500 during the reporting period[6]

OBJECTIVE

Set the related financial reporting context; reflect development and position of entity's activities; describe the main risks and how those could affect future perspectives; present analysis of entity's past activities.

Provide information how composition of the entity's management structure and organizational arrangement could contribute to meeting entity's goals.

Present information about entity's social responsibility; describe approaches towards employment, respecting human rights and anti-corruption, results and risks; disclose in detail the current and expected impact on environment.

[6] Starting in 2025, the European Union will require certain companies to submit sustainability reports in line with ESRS:

- Large companies that meet at least two of the following criteria: (i) more than 250 employees, (ii) more than €40 million in net turnover; or (iii) more than €20 million in total assets.
- All companies listed on EU regulated markets, except for micro-enterprises.

BUSINESS OVERVIEW

LEGAL REQUIREMENTS

Business Overview Includes:

a) Entity's business development, results and condition consisting of the following:
- Entity's development plans;
- Information about the operations of entity's branches;
- Review of activities in the field of research and development
- Main financial and non-financial indicators;
- Information on acquisition of entity's own shares;

b) Description of the main risks and uncertainties

The sequence of information presented in the legal requirements box does not represent the structure of annual report.

ENTITY'S BUSINESS DEVELOPMENT, RESULTS AND CONDITION

In order to understand the development, results or condition of the entity's business, it is necessary to review the main trends and factors that can influence it. Top managers shall present a description of the entity's activities in order to help those interested in the report to obtain the necessary information about the company and to properly assess the circumstances under which the entity operates. It is desirable that in this section of the management report the entity presents the results of its development during the reporting period, which may be compared with those from the previous period if necessary.

Content of the management report shall be consistent. Similar approach allows users to assess changes in entity's operations, development, position and results, identify entity's future plans and link those with forward-looking information.

EXAMPLE

In this part of the performance review, the entity can present its goals for the future, including:
Product orientation, customer relationship improvement, employee motivation, increasing operational efficiency, automation, growth of issued dividends or investment. It is advisable that entity presents plan for achieving each goal.

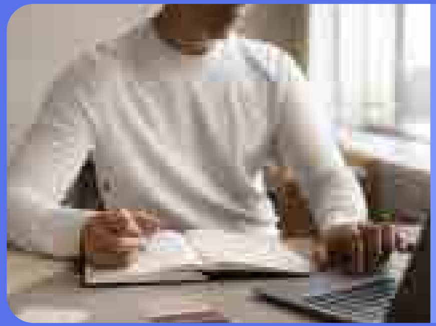
Summary of entity's main achievements can be presented as a written address of a top manager.

- Given the nature of the entity's business, the report may also include the following types of information:
- Entity's type of business; main operating markets of the entity and its competitive situation on the markets;
- Significant characteristics of the legal, regulatory and macroeconomic environment that affect the entity itself and the markets on which it operates;
- The entity's main products /services, business processes and distribution methods;
- The internal structure of the entity and how it creates value in the market.
- In the event that the entity is required to submit consolidated statements, it is preferable to present information about subsidiary enterprises in the management report.

Entities looking to implement the EU CSRD and ESRS must also disclose the impact of sustainability issues on the operational and financial results of the entity[7]. This includes disclosure on how material sustainability risks and opportunities have affected – or could affect in the future – the undertaking's financial performance, financial position and cash flows.

Trends and factors affecting the company's activities can come both from internal and external sources. Such factors may affect the operation, development or condition of the entity during the reporting period or, in certain cases, contribute to the emergence of opportunities or risks related to the company's future plans.

[7] This includes for example the impacts of climate change on companies financial plans and condition, such as the cost of transitioning to cleaner energy, and disruption to infrastructure and the supply chain from extreme weather.



EXAMPLE

In business overview an entity can indicate that the market where it operates has substantially increased during the last five years. If posible, the entity should also specify the extent by which the market grew and present the link to a survey report from which the statistical data were taken.

ENTITY'S DEVELOPMENT PLANS

It is recommended that in this section of the report an entity submits information on expected development. The senior management shall publicize entity's goals and plans so that the interested parties get acquainted with enterprise's priorities and resources used for achieving the outcome.

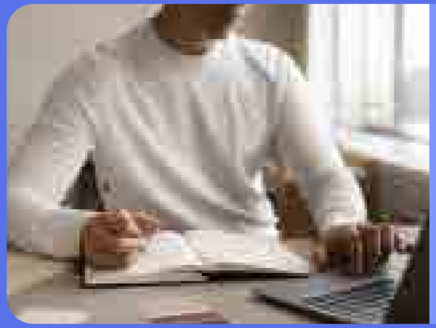
Entity's development plans shall include detailed analysis of those trends and factors which may have significant impact on entity's operation, development or position.

INFORMATION ABOUT OPERATIONS OF ENTITY'S BRANCHES

Business overview shall include description of entity's branches, including their location, size, purpose, importance and role in entity's operations. The entity shall submit information about branch operations in cases when the expected impact of this issue on entity's development, position and future plans is material for the interested party.

OVERVIEW OF ACTIVITIES IN THE AREA OF RESEARCH AND DEVELOPMENT

Overview of entity's research and development (R&D) activities includes description of such innovations that are related to development or improvement of new or existing services and products. First of all, in the business overview section the goals of research and development activities should be presented. In addition, the overview shall include description of each activity, its stages and the level of development as of the reporting period. Simultaneously, the overview shall contain information of marketing or advertisement type.



EXAMPLE

In a market, where the share of ecologically clean products is growing rapidly, the operating entity can conduct research in order to subsequently produce its goods from natural ingredients, recyclable materials and biodegradable substances, which, ultimately, will allow the entity to increase its sales by making such "Eco – Products". Similar researches and their subsequent implementation, as well as the potential returns, feedback and future impact of these researches, should preferably be reflected in the management report.

MAIN FINANCIAL AND NON-FINANCIAL INDICATORS

In this section of the business overview, the main financial and non-financial indicators should be presented, which are considered as the most effective by the management to evaluate the progress achieved in terms of the goals and plans of the entity, to monitor the main risks, or to describe the development and position of the entity. Such indicators are usually used by managers to govern the enterprise and create a complete picture of the entity, which allows interested persons to evaluate the entity's achievements.

Key Performance Indicators (KPI) can be both quantitative and qualitative. Managers should reflect the change in indicators compared to the previous reporting period and explain the reasons for this change. Such information helps those interested in the financial statements to assess at what extent the entity's objectives and plans are met. Also, if the key performance indicators used are generally established, both in a specific branch of industry and in general, it is expected that comparability between enterprises will increase.

EXAMPLE

In this part of the business overview, the entity can reflect such indicators as: the number of customers, employees, branches, the use of the internet application, public welfare, taking care of the needs of customers, welfare of employees, trade relations, etc. For comparability, it is advisable for the entity to outline the changes and their analysis compared to the previous reporting period. Also, it can verbalize quantitative indicators and ways to achieve results.

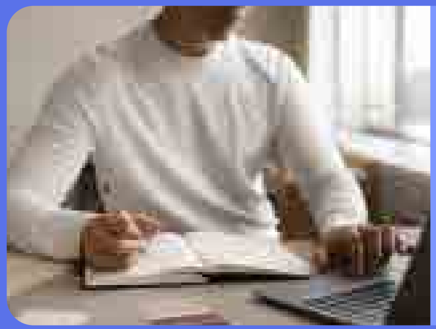
The consistent presentation of financial and non-financial indicators in the statements of different reporting periods increases the comparability of these statements. Nevertheless, managers should determine whether the financial and non-financial indicators used in the previous period are still relevant for the current reporting period. If the entity's plans and objectives change, management may conclude that the prior period financial statements are no longer relevant. When managers change the already used indicators, such changes should be properly explained in this part of the business overview. In addition, managers should explain why they consider used financial and non-financial performance indicators relevant.

In order to fully understand the entity's operations, in this section non-financial indicators related to employees, the community[8] and environmental protection should be presented. Information on these issues should include a description of all relevant policies and an overview of their effectiveness.

Entities looking to implement the EU CSRD and ESRS must also disclose time-bound targets and indicators related to sustainability matters and climate change, as well as indicators related to the integration of sustainability in the entity's business model, strategy, corporate governance, and risk management.

If the management report does not include the aforementioned information for the reason that it is not necessary to understand the development, operation and condition of the entity, it is advisable to make a corresponding reference in the management report.

When necessary, the entity should provide explanatory information about the main performance indicators, if this information is going to help the interested parties in better understanding each indicator.



EXAMPLE

The entity can submit the following additional information on Key Performance Indicators:

a) Explanation and calculation method;
b) Purpose;
c) Main source of data;
d) Significant assumption; and
e) Any change introduced in the calculation method compared to previous financial years, including significant changes in terms of accounting, which impact the indicator.

[8] This addition is recommended for companies willing to follow the EU Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards.

If any line-item of the financial statement or key performance indicator for the industry is used in the statement in changed form and/or content, the reasons for the change must be clearly explained. Also, it is important that the name of the modified indicator emphasizes the difference of the given indicator from the general or industry-specific indicator. Where possible, this indicator should be reconciled with the relevant items of the financial statements (reconciliation) and the significant change explained.

EXAMPLE

If income before deducting taxes, interest expense, depreciation (EBITDA) and restructuring costs is used as the KPI, it can be presented under the following title - "EBITDA before restructuring costs" or another similar term. In such a case, the modified indicator used in the statement should be reconciled with the corresponding articles of the financial statement and the reasons for its use should be justified.

Key Performance Indicators of similar activities (both financial and non-financial) should be clearly segregated from each other.

ACQUISITION OF OWN SHARES BY THE ENTITY

Information about the acquisition of own stock by the entity during the reporting period should be disclosed in detail in the business overview section of the management report. Information about the purchase of one's own stock shall include the reason for the purchase, the number of purchased and sold shares and the nominal value, while in case of absence of the nominal value – the percentage share of the stock in the book value and invested capital is to be indicated.

The management report shall reflect the information about the consideration made for the purchase and sale of shares by the entity. If the acquired shares remain in the entity's possession and are not sold, information on the number and nominal value of such shares shall be disclosed (in case of its absence – percentage share of stock in book value and invested capital).

ADDITIONAL DISCLOSURES ABOUT AMOUNTS SHOWN IN THE FINANCIAL STATEMENTS

The analysis presented in the business overview should more comprehensively describe the information of financial statements and, where relevant, reflect additional explanations on the amounts presented therein.
Also, it is advisable to describe the conditions and events that gave rise to the information reflected in the financial statements.

EXAMPLE

Where relevant, the business overview may include clarifications on the following issues:

a) Existence and term of obligations related to capital investments;

b) Year-to-year changes in proceeds, which are caused by stock acquisition, changes in foreign currency exchange rate, etc.;

c) Subsidy-related activities (e.g., changes in net debt or ways for funding long-term liabilities)

Business overview shall include information on the entity's sustainability and tangible and intangible resources. Such information may include items that are not reflected in the financial statements. Given the activity of the entity, it can be:

- reputation and brand's strength;
- customers;
- natural resources;
- employees;
- research and development;
- intellectual capital;
- licenses, patents, copyrights and trademarks;
- entity's position in the market.

MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties considered in the business overview shall be limited to what management considers essential for the development, state and future prospects of the entity's activities. Review of main risks may include the entity's credit, market, liquidity, operational, and cash flow risks and information on mechanisms for their management, as well as information on the entity's goals and policies related to risk management.

The risks and uncertainties mentioned in the business overview should be continuously monitored by the managers, the methodology and results of which are advisable to be reflected in the report.

The management report should present a complete list of material risks (both financial and non-financial) and a specific description of each of them, which will enable the person interested in the report to determine how the said risk may harm the entity.

Entities looking to implement the EU CSRD and ESRS must also assess sustainability risks as part of the main risks and uncertainty. This includes, for example, the impact of increasing floods and droughts risks from climate change on the overall risk profile of companies in the agricultural sector or the risk of extreme weather and sea level rise on the real estate and insurance industry.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Sustainability-related financial risks are uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material negative effect on the undertaking's business model, strategy and sustainability strategy, its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationships with regard to sustainability matters. Like any other risks, sustainability-related risks are the combination of an impact's magnitude and the probability of occurrence.
Source: ESRS 2 General disclosures

under which the mentioned risks will have a significant impact on the entity, as well as the assessment and description of the possible effects of such risks.

The entity's management should disclose the main risks that can have a significant impact on the entity's plans and value base in the strategic, commercial, operational and financial areas. The description of risks and uncertainties should be specific enough for the partner /shareholder to understand why it is essential to report them. This may include description of the following:

- risk probability;
- circumstances in which the risk may be the most relevant for the entity;
- possible effects of risk.

If the risk or uncertainty is general, its description should be explaining how it can harm the entity.

EXAMPLE

The environment in which the entity operates and which is sensitive to consumer sentiment, may change rapidly as a result of any unforeseen incident or media interest. It is not necessary that the above-mentioned incident or feedback is directly related to the entity or has an impact on the results of the current year in order to give rise to new risks or opportunities that will have a significant impact on the future prospects of the entity.

The report should include an explanation of significant changes in the main risks (risk volume, probability of occurrence, timing and possible effects or new risks), which will be compared with the last reporting period. The description of risks should include possible negative consequences and possibilities of future events that accompany these risks. The risk assessment should also include an evaluation of the insolvency and liquidation risks.

In order to fully understand the development, state or future plans of the entity, the main risks are to be disclosed and described regardless of their classification and also regardless of whether they arise from the entity's strategic, operational, organizational decisions or external factors over which management may have little or no control.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a. Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].

(g). a description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks;

Note: Guidance is also available in European Sustainability Reporting Standards (ESRS) 2 General Disclosure:
- IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities
- SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)

European Sustainability Reporting Standard (ESRS) 2. General Disclosures provides guidance on identification of material information to be included in the sustainability statements. See Appendix F.

LEGAL REQUIREMENTS

THE CORPORATE GOVERNANCE REPORT INCLUDES THE FOLLOWING

a) Review of the Corporate Governance Code and Practice of an entity;
b) Information on Deviations from the Corporate Governance Code;
c) Review of the internal control and risk management systems related to the preparation of financial reports;
d) Overview of the rights of shareholders and general meeting of shareholders and the rules for their implementation;
e) Overview of management and supervisory board composition (including independent directors) and their functions;
f) Overview of the diversification policy used for the management body and the supervisory board;
g) Overview of essential information in case of mandatory tender offer.

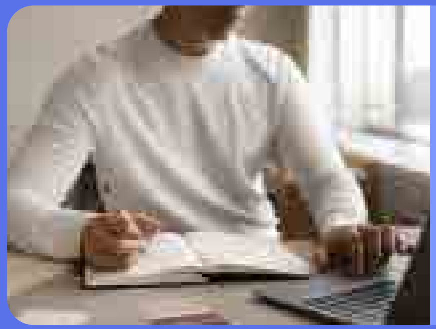
REVIEW OF THE CORPORATE GOVERNANCE CODE AND PRACTICE

The Corporate Governance report is to include the review of the Corporate Governance Code that is mandatory for an entity to follow or is voluntarily selected (if any) by such entity; in addition, the Corporate Governance Code shall include a review of the corporate governance practice, which exceeds the requirements set under the legislation. In the event of using the CG Code chosen voluntarily, the entity has to indicate where such code is publicly accessible. By indicating the CG practice, the entity makes the details of this practice publicly available.

Entities can choose any method for publicizing adopted CG practice and demonstrate its compliance with the CG Code. These methods can be:

a. Fully narrative – a detailed description of the used practice and compliance with the code. This type of information publishing is wider, as a rule than information disclosed through other methods;
b. General compliance report – a report prepared by means of this method is shorter and is accompanied by a list of exceptions (if any). Respectively, its advantage is a clear demonstration of exceptions (together with explanations). However, this method does not give a full picture of practices used by an entity. Moreover, practices used by the entity can be omitted or published together with a series of other documents. In such cases there always is the risk that some exceptions will not be published or will be left unnoticed.
c. Combination of the above two methods – reports prepared with this method combine shortened fully narrative and compliance reports. This report shall describe the most significant sections of the Code in a table format. This method ensures an accurate description of the current practice and clearly shows whether compliance with each specific article of the Code is observed or explains the causes of non-compliance[9].

[9] In December 2012, the National Bank of Georgia adopted the Corporate Governance Code for the Issuers of Public Securities https://nbg.gov.ge/en/media/news/georgia-approves-corporate-governance-code-for-issuers-of-public-securities.



EXAMPLE

THE CORPORATE GOVERNANCE REPORT PREPARED WITH A FULLY NARRATIVE METHOD:

It may include the composition of the Board committees, the number of held meetings, the composition of the Board with the short biography details, short bios of any non-executive and independent administrators, detailed information about remuneration, the cases of conflict of interest or transactions among interrelated parties, etc.

CORPORATE GOVERNANCE REPORT PREPARED WITH COMPLIANCE METHOD:

By this way of publicizing the information, the Corporate Governance report may be presented in the following form: - The entity's Supervisory Board declares that during the reporting period, the entity's activities fully corresponded with all paragraphs of the CG Code (publicized on the webpage XXX), except for the paragraph that specifies the issue of the nominations committee. The entity did not establish a nominations committee given the size thereof and based on the reason that the Board did not consider it expedient to establish a separate committee and, therefore, it performs the committee functions without any delegation of authority.

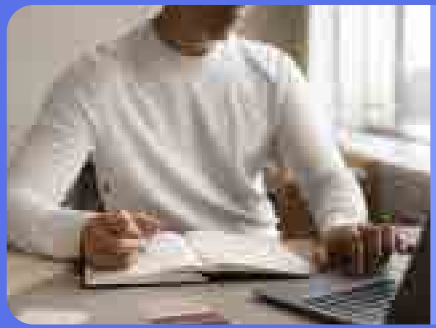
If the CG Code is not adopted at all, the entity still has to support establishing of the best practice of Corporate Governance and publicize information on voluntarily implemented practices.

Deviations From the Corporate Governance Code Requirements[10]

The Corporate Governance report shall include the facts of deviations from the mandatory or voluntarily selected Corporate Governance Code, or in the case provided for by the above paragraph, the facts of not referring to the above Code and an analysis of the relevant reasons.
If an entity decides not to rely on a voluntarily selected or mandatory corporate governance code, it shall explain the reasons for such a decision.

[10] See Review Section of the Corporate Governance Code and Practice

In the event that the entity's activities do not comply with a separate paragraph of the Code, it is important to have a proper explanation of such non-compliance. If necessary, an entity, whose activities do not comply with any section of the Code, is to establish a concrete plan of what steps it will take in the future to achieve compliance with the Code. Since entities differ from each other, there may be many reasons for non-compliance with the Code in whole or in part, so each compliance report will be different for each entity. Accordingly, there is no standard wording for this part of the corporate management report.



EXAMPLE

Corporate Governance Best Practices may include establishing a compensation committee at the request of the supervisory board, having a certain number of board and independent members, disclosing related party transactions, etc.

REVIEW OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

In this part of the report, the entity is to provide an overview of the internal control and risk management systems related to the financial reporting process. Internal control is a process aimed at achieving organizational objectives by addressing the following issues:

a) efficiency and effectiveness of operations;
b) protection of the entity's assets and data;
c) reliability of financial and reporting;
d) prevention and detection of fraud and other violations;
e) taking risks into account and managing them;
f) compliance of practices and ethical norms introduced by the entity with the Code;
g) compliance with the legislation;
h) supporting business sustainability in safe/ hazardous conditions.

Internal control is one of the mechanisms used to reduce risk to an acceptable level. Internal control shall be exercised by the supervisory board, managers, and staff in the daily activities of the entity. The supervisory board shall establish appropriate policies to ensure the achievement of control objectives.

The entity shall disclose to the public a description of the systems and processes related to financial reporting, the purpose of which will be the introduction, maintenance, and monitoring of internal control and risk management systems. This process can be presented as a reference to the performance review to avoid repetition if this part of the management report presents detailed information about the systems and processes related to financial reporting. At the same time, the presented information, in addition to the above-mentioned issues, may include information about already existing internal controls and procedures in the following areas:

a) risk identification and assessment regarding the reliability of financial statements;
b) financial planning and monitoring;
c) the role of the entity's officials and their responsibility;
d) closing the reporting period including the consolidation process (for example, documented procedures, Guide s, access rights, confirmation, verification/ reconciliation of information, etc.)
e) general controls of information technologies (ITGCs), which ensure the completeness and accuracy of financial information received through the entity's systems and programs.

Entities looking to implement the EU CSRD and ESRS must also disclose information on the systems and processes related to sustainability reporting, including internal control and risk management systems used to ensure the reliability of sustainability reporting.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

European Sustainability Reporting Standards (ESRS).
ESRS 2. Disclosure Requirement GOV-5 - Risk management and internal controls over sustainability reporting

32. The undertaking shall disclose the main features of its risk management and internal control system in relation to the sustainability reporting process(es).

33. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's risk management and internal control processes(es) in relation to sustainability reporting.

34. The undertaking shall disclose the following information:
a) the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting;
b) the risk assessment approach followed, including the risk prioritisation methodology;
c) the main risks identified, actual and potential, and their mitigation strategies including related controls;
d) a description of how the undertaking integrates the findings of its risk assessment and internal controls as regards the sustainability reporting process into relevant internal functions and processes; and
e) a description of the periodic reporting of the findings to the administrative, management and supervisory bodies.

OVERVIEW OF THE RIGHTS OF SHAREHOLDERS AND THE GENERAL MEETING OF SHAREHOLDERS AND THE RULES FOR THEIR IMPLEMENTATION

The entity shall publicize the results of the shareholder meetings and their main powers, which include the description of the shareholder rights and the ways of their realization, the main agreements of shareholders, and other direct or indirect relations between the major shareholders and the entity. If the entity has a communication policy that contributes to effective communication with shareholders, including via electronic means, and promotes shareholder involvement in the general meeting, information about such policy is to be disclosed.

OVERVIEW OF THE MANAGEMENT BODY AND THE SUPERVISORY BOARD COMPOSITION AND THEIR FUNCTIONS

The entity shall publicize the identities and activities of its administrators and top managers (including independent directors), the composition of supervisory bodies, and their committees. In addition, it will be considered best practice to disclose the following issues: the criteria for determining the independence of independent directors, the number of board and committee meetings held during the reporting period, the number of meetings attended by each member, brief biographies of directors/ board members (CV), their office term and the relevant procedures for evaluation of the Board activities.

Entities looking to implement the EU CSRD and ESRS must also disclose the role of the management body and the supervisory board within their organization regarding sustainability matters. They shall also publicize information on whether management and board member compensation is linked to sustainability.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS
Corporate Sustainability Reporting Directive (CSRD). Article 19a. Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].

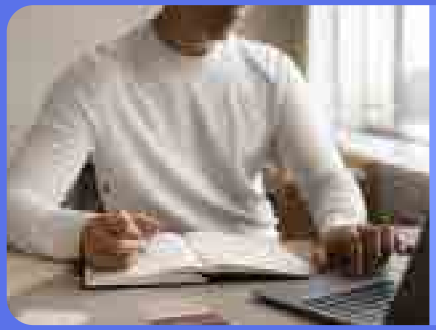
(c). a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;
(e) information about the existence of incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies;

Note: Guidance is also available in European Sustainability Reporting Standards (ESRS) 2 General Disclosure:

- GOV-1 – The role of the administrative, management and supervisory bodies
- GOV-2 – Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies
- GOV-3 – Integration of sustainability-related performance in incentive schemes

OVERVIEW OF THE DIVERSIFICATION POLICY APPLIED TO THE MANAGEMENT BODY AND THE SUPERVISORY BOARD

The entities' corporate management report, except for ones that meet the criteria of the second and third category enterprises, shall include the overview of the diversification policy (age, gender, qualifications etc.) applicable to the management body and the supervisory board, information about the objectives of this policy, the methods used and the results achieved in the relevant period. In the absence of the said policy, the relevant reason(s) shall be provided.



EXAMPLE

The diversification policy shall state the conditions fulfillment of which will help the entity in ensuring the appropriate diversification. This may include a minimum required percentage of women among board members /executives, a scheme to achieve gender pay equity between males and females, etc.

OVERVIEW OF ESSENTIAL INFORMATION IN CASE OF MANDATORY TENDER OFFER

In the event that the entity's shares are subject to a mandatory tender offer requirement, the following information shall be disclosed in the corporate management report:

a) direct or indirect (consent of one shareholder or of shareholder group members) significant participation in the capital;
b) information about the shareholders who own the shares granting the right of special control and description of such right;
c) information on any voting right restriction such as restricting the right to vote for shareholders who own a certain share or a certain percentage of votes;
d) rules for appointing members of governance bodies and their succession, as well as information on the introduction of amendments to the charter;
e) powers of the governance body members.

LEGAL REQUIREMENTS

THE NON-FINANCIAL REPORT SHALL COVER

a) non - financial issues;
b) review of the business model of the entity;
c) risk analysis of the entity's activity;
d) key non-financial indicators;
e) description of used policies.

NON-FINANCIAL ISSUES

The non-financial reports submitted by the entities shall at least include the information necessary to determine the impact of the results and condition of the entity's development activities on environmental protection, social, employment, human rights protection, and anti-corruption issues. This includes information on what systems companies have in place to assess and manage environmental and social risks and impacts.

Below is an incomplete list of non-financial issues that an entity should consider when disclosing non-financial information[11].

Entities looking to implement the EU CSRD and ESRS must also disclose information on the processes they implement to manage environmental and social issues. This includes due diligence regarding sustainability matters, the principal actual or potential adverse impacts connected with operations and the value chain, actions taken to identify, monitor and mitigate these impacts, integration of stakeholder engagement in strategy and business model, process to remediate negative impacts and channels to raise concerns.

[11] IFC Performance Standards on Environmental and Social Sustainability include the Assessment and Management of Environmental and Social Risks and Impacts (Performance Standard #1) through an Environmental and Social Management System (or ESMS) which includes the following steps: (i) Policy, (ii) Identification of Risks and Impacts, (iii) Management Programs, (iv) Organizational Capacity and Competency, (v) Emergency Preparedness and Response, (vi) Stakeholder Engagement, (vii) External Communications and Grievance Mechanisms, (viii) Ongoing Reporting to Affected Communities and (ix) Monitoring and Review. More information on ESMS and its implementation can be found here: https://www.ifc.org/en/insights-reports/2015/publications-handbook-esms-general

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].
   (f) a description of:
   (i) the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;
   (ii) the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the undertaking is required to identify pursuant to other Union requirements on undertakings to conduct a due diligence process;
   (iii) any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions;

Guidance is also available in the **European Sustainability Reporting Standards (ESRS):**

ESRS 2 – General Disclosure

Note: Guidance is also available in 2 General Disclosure:

- SBM-2 Interests and views of stakeholders
- GOV-4 Statement on sustainability due diligence
- 4.1 Disclosures on the materiality assessment process
- 4.3 Disclosure Content on policies and actions
  - Disclosure Content - Policies DC-P – Policies adopted to manage material sustainability matter
  - Disclosure Content - Actions DC-A – Actions and resources in relation to material sustainability matters

ESRS S3 – Affected Communities

- S3-1 – Policies related to affected communities
- S3-2 – Processes for engaging with affected communities about impacts
- S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns
- S3-4 – Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

It is advisable for the entity to publicize relevant information on the current or possible impact on the environment caused by its activities, as well as information on how existing and expected environmental issues can affect the entity's development, operations, and condition. These may include:

a) essential information on environmental pollution prevention and control;
b) environmental impact caused by energy consumption;
c) direct and indirect emissions into the atmosphere;
d) use and protection of natural resources (e.g., water, land), as well as protection of biodiversity related to them;
e) waste management;
f) environmental issues related to the use and sale of products and services and transportation;
g) development of environmentally safe products and services.

Entities looking to implement the EU CSRD and ESRS must also disclose information on climate change mitigation and adaptation, including direct and indirect GHG emissions[12]; as well as resource use and circular economy[13].

EXAMPLE

The entity may take into account such non-financial environmental issues as energy efficiency and improvement of energy efficiency; energy consumption from non-renewable sources and energy volume; greenhouse gas emissions (GHG) of CO_2 equivalent in metric tons and GHG volume; emissions of the other pollutants (measured in the absolute value and by volume); extraction of the natural resources; impact and dependence on natural resources and biodiversity; waste management (e.g. recycling standards).

[12] ESRS E1 Climate change requires undertaking shall disclose its: (a) gross Scope 1 GHG emissions; (b) gross Scope 2 GHG emissions; (c) gross Scope 3 GHG emissions; and (d) total GHG emissions. Scope 1 emissions are direct emissions from company-owned and controlled resources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions - not included in scope 2 - that occur in the value chain of a company, upstream and downstream.

[13] Circular Economy is defined as an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimizing waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

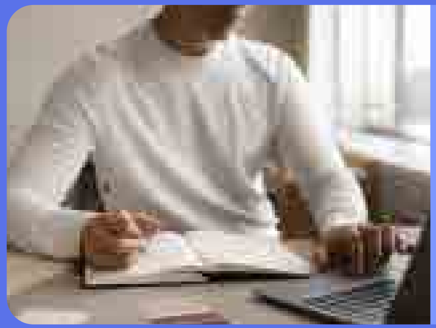
The European Sustainability Reporting Standards (ESRS) provide reporting guidance for undertakings on the following environmental factors, in response to **Article 29b of the Corporate Sustainability Reporting Directive (CSRD):**

- ESRS E1. Climate Change
- ESRS E2. Pollution
- ESRS E3. Water and marine resources
- ESRS E4. Biodiversity and ecosystems
- ESRS E5. Resource use and circular economy

SOCIAL AND EMPLOYMENT ISSUES

a) implementation of the main conventions of the International Labor Organization (ILO);
b) issues related to ensuring equality, such as gender diversity and equal treatment in employment and professional fields (including age, gender, sexual orientation, religion, disability, ethnic origin, and other relevant issues);
c) employment issues, including labor and working conditions;
d) relations with trade unions, including respect for trade unions' rights;
e) human capital management, including restructuring, career management, and working capacity management, work remuneration system, measures aimed at raising qualifications;
f) health and safety at the workplace;
g) relations with customers (clients), including customer satisfaction, availability, and products with potential impact on consumer health and safety;
h) impact on socially vulnerable consumers;
i) reliable marketing (marketing that takes into account the best interests in the current and long-term perspective) and research;
j) public relations, including the social - economic development of local groups.

Entities looking to implement the EU CSRD and ESRS must also disclose substantial information on workers in the value chain.



EXAMPLE

An entity may disclose such information on social and employment issues as gender diversity and other diversity issues; employees eligible for gender -based leave (maternity leave); employees who participate in activities with a high risk of accidents and diseases; the number of accidents, types of injuries or number of occupational diseases occurring during production; staff turnover; number of gender – based temporary employment agreements; list of employees working on the basis of temporary contracts; the average number of hours of training activities per year for each employee by gender; the number of employed persons with limited abilities.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Reporting guidance on social and employment issues is available in the following **European Sustainability Reporting Standards (ESRS):**

- ESRS S1. Own workforce
- ESRS S2. Workers in the value chain

ESRS S1 and S2 were issued pursuant to Article 29b of the **Corporate Sustainability Reporting Directive**, (CSRD), which provides that sustainability reporting standards shall [...] specify the information that undertakings are to disclose about the following social and human rights factors:

I. equal treatment and opportunities for all, including gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of people with disabilities, measures against violence and harassment in the workplace, and diversity;
II. working conditions, including secure employment, working time, adequate wages, social dialogue, freedom of association, existence of works councils, collective bargaining, including the proportion of workers covered by collective agreements, the information, consultation and participation rights of workers, work-life balance, and health and safety;

PROTECTION OF HUMAN RIGHTS

It is advisable to publish in this part of the annual report essential information about the possible impact caused by the activities of the entity in terms of human rights.

It is considered best practice when the entity expresses its willingness to undertake the protection of human rights. This may imply the entity's expectations from its managers, employees, and business partners in terms of the protection of human rights, including basic labor standards. The disclosed information may explain who is the addressee of these rights: for example, children, women, local population or groups, persons with disabilities, small farmers, etc., as well as employees, including those who have a temporary contract, supply chain workers, subcontractors, migrant workers, and their families.

The entity shall publicize essential information about the measures implemented for the purpose of studying human rights protection issues properly, as well as about the processes and agreements that are implemented to prevent human rights violations. This may include, for example, the extent to which the entity's contracts with various enterprises in its supply chain are consistent with human rights protection issues, as well as how the entity mitigates possible negative effects on human rights and what adequate measures it applies in the event of breaching human rights.

EXAMPLE

An entity may disclose material information on the following matters: anti-corruption policies, procedures, and standards; criteria used in corruption risk assessment; internal control process and resources to prevent corruption and bribery; employees with proper training for the fight against corruption; application of the whistleblowing mechanism; the number of ongoing or completed legal actions related to anti-competitive behavior.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Reporting guidance on the protection of Human Rights is available in **in European Sustainability Reporting Standards (ESRS) S3. Affected communities.**

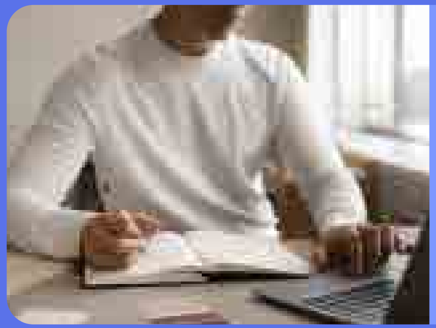
ESRS S3 was issued pursuant to **Article 29b of the Corporate Sustainability Reporting Directive (CSRD),** , which provides that sustainability reporting standards shall [...] specify the information that undertakings are to disclose about the following social and human rights factors: [...]

iii. respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, including the UN Convention on the Rights of Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the fundamental conventions of the International Labour Organization, the European Convention for the protection of Human Rights and Fundamental Freedoms, the European Social Charter, and the Charter of Fundamental Rights of the European Union;

ANTI-CORRUPTION ISSUES

The entity may disclose material information about anti-corruption issues and such cases. In addition to disclosing this information, the entity may consider information about the decisions made by the organization, management tools, and resources allocated for the fight against corruption.

In this part of the report, the entity can disclose information about how it evaluates the fight against corruptionn, what measures it takes to prevent and mitigate possible harmful effects, how it monitors the effectiveness of the process, and how the relevant persons are informed internally and externally.



EXAMPLE

The entity may disclose material information about anti-corruption issues and such cases. When disclosing this information, the entity may take into account information about the organization, the decisions made, the means of management, and the resources allocated to the fight against corruption.

In this part of the report, the entity can disclose information about how it evaluates the fight against corruption, what measures it takes to prevent and mitigate possible harmful effects, how it controls the effectiveness of the process, and how the relevant persons are informed internally and externally.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Reporting guidance on anti-corruption issues is available in the **European Sustainability Reporting Standard (ESRS) G1. Business Conduct.**

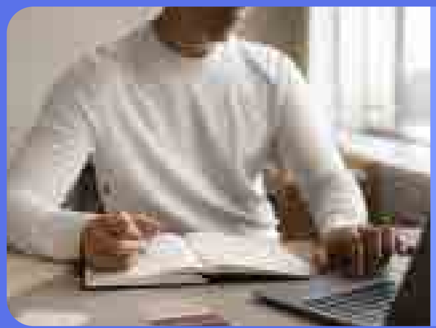
ESRS G1 was issued pursuant to Article 29b of the **Corporate Sustainability Reporting Directive** (CSRD), which provides that the sustainability reporting standard shall [...] specify the information that undertakings are to disclose about the following governance factors:

I. business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;
II. activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities;
III. the management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to small and medium-sized undertakings.

SUPPLY CHAIN

If the entity considers it relevant, it should disclose material information on the supply chain issues that have a significant impact on the development, financial position, and results of the entity's activities. The aforementioned should include the information necessary to create a general idea about the entity's supply chain, as well as an explanation of how the relevant non-financial issues are involved in the supply chain management process.

If the entity considers that the disclosure of detailed information about expected events or issues in the negotiation process may significantly harm its interests, it can comply with the disclosure requirement by presenting less harmful, summarized information.



EXAMPLE

An entity may disclose material information about the supply chain monitoring regarding the following issues: work practices, including child labor, forced and hazardous labor, compensation, hazardous working conditions (including construction safety, protective equipment, and worker health); human trafficking and the other issues related to the protection of human rights; gas emission and the other types of water and environment pollution; deforestation and other biodiversity risks, as well as the entity's influence on suppliers, such as its payment terms and average payment periods.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

3. Where applicable, the information referred to in paragraphs 1 and 2 shall contain information about the undertaking’s own operations and about its value chain, including its products and services, its business relationships and its supply chain.

Note: Guidance is also available in **European Sustainability Reporting Standards (ESRS)**
1 General requirements: 5. Value chain

- 5.1 Reporting undertaking and value chain
- 5.2 Estimation using sector averages and proxies

If this topic is relevant, the information on safe supply of tin, tantalum, wolframium, and gold from high-risk territories should be studied by the entity and publicized.

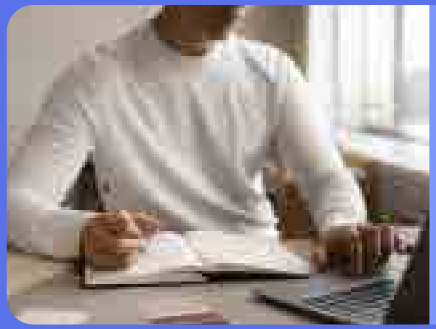
The entity may disclose key performance indicators related to the nature and amount of identified risks, measures taken to prevent and mitigate such risks.

OVERVIEW OF AN ENTITY'S BUSINESS MODEL

A business model describes how an entity creates and sustains long-term value through its products and services. The business model reflects the peculiarity of the enterprise's activity and the relevance of the structure by describing the process of transformation of expenses into products during the implementation of entrepreneurial activities.

When describing the business model, the entity may provide explanations about the following issues: business environment; organization and structure; the market where it operates; goals and strategies; key trends, and factors, which may affect the entity's future development.

The entity may describe its business model in a clear, understandable language and based on facts, but should refrain from disclosing non-essential information of an advertising or biased nature, so as not to distract interested parties from the essential information. An entity can explain its business model and key trends by using key performance indicators (KPIs). An entity can also indicate when significant changes have occurred in its business model during the reporting period.



EXAMPLE

The entity may disclose information regarding:

- the manufactured products and to what extent they correspond to customer needs;
- how the product is made, what makes its production possible, safe, and competitive;
- characteristics of the market on which the entity operates and opportunities for the development of this market.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].

(a) a brief description of the undertaking's business model and strategy, including:

I. the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters;
II. the opportunities for the undertaking related to sustainability matters;
III. the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement') and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 of the European Parliament and of the Council (*8), and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities;
IV. how the undertaking's business model and strategy take account of the interests of the undertaking's stake-holders and of the impacts of the undertaking on sustainability matters;
V. how the undertaking's strategy has been implemented with regard to sustainability matters;

Note: Guidance is also available in **European Sustainability Reporting Standards (ESRS) 2 General Disclosure**:

- SBM-1 – Market position, strategy, business model(s) and value chain.

RISK ANALYSIS OF ENTITY'S ACTIVITIES

Non-financial reporting shall contain an analysis of the entity's operational risks, which, if necessary, includes the entity's business relations, the possible negative impact of products and /or services on the issues stipulated by the legal requirements, and the risk management methods used by the entity.

An entity shall disclose information about key risks and their management and mitigation. These risks may be related to the entity's operations, products or services, supply chain and business relationships, or other issues. The report is to include information on key risks in the short, medium, and long-term perspective. It is appropriate for the entity to explain how key risks may affect its business model, operations, financial results, and other activities.

This part of the report shall include essential information regarding the identification and assessment of the main risks, regardless of whether such risks arise as a result of the entity's decisions, actions, or the impact of external factors. The entity's disclosures shall include, where applicable, materially required information about the supply chain and subcontractors. The report should also include material information about how the entity is managing and mitigating key risks.

It is advisable for the entity to explain during the reporting period such a significant change related to the main risks, as well as information on the method of managing such risks.

EXAMPLE

The entity may disclose material information to the public on the risks that may be caused by human rights, labor, and environmental protection issues in the entity's supply chain and subcontracting. The entity may disclose information on how it manages the possible adverse effects of these risks.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

(f). a description of: (ii) the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the undertaking is required to identify pursuant to other Union requirements on undertakings to conduct a due diligence process;

Note: Guidance is also available in **European Sustainability Reporting Standards (ESRS) 2 General Disclosure**:

- IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities
- SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)

KEY NON-FINANCIAL PERFORMANCE INDICATORS

In this part of the annual report, non-financial issues shall be disclosed, which can be presented both in a narrative form and with indicators (key performance indicators). The key performance indicators (KPIs) should correspond to the parameters actually used in the internal management and risk assessment process of the entity, which ensures the relevance and reliability of the disclosed information.

Disclosure of high-quality and widespread key performance indicators (for example, parameters widely used in the entity's operational sector or specific non-financial issues) can simplify comparing the entity with its peers especially in the same sector or in the same value chain.

The entity shall disclose the key performance indicators (KPIs) of its activity, which are necessary to understand the development, financial position, and effects of its activities. Some key performance indicators (KPIs) may prove useful for a wide range of entities, while other key performance indicators are related to the situation and conditions of a specific sector. The entity shall facilitate the publicizing of the key performance indicators (KPIs), both general and industry related ones. Given the specific circumstances, as well as the informational needs of investors and other interested parties, the entity shall present a fair and balanced view, which can be achieved by using the main indicators of general, sectoral and entity-specific activities.

It is considered that key performance indicators are an effective way to connect qualitative and quantitative information, which makes it possible for the entity to present a balanced and comprehensive view.

Key performance indicators shall be used consistently for each reporting period to provide reliable information on the entity's development and trends. The KPIs may change over time for business or technical reasons, in which case the entity shall explain the reason for the change. If necessary, the entity can review the information of previous periods and clearly and effectively explain the impact of changes on the key indicators.

The entity may review the data collection process, methodology, and structure and provide an analysis of the key performance indicators (KPIs). Also, it shall explain, for example, why the key performance indicators increased or decreased during the reporting period, as well as how such indicators may develop in the future. An entity may present key performance indicators in the context of targets, past results, or comparisons with other enterprises.

Entities looking to implement the EU CSRD and ESRS must disclose time-bound targets and indicators related to sustainability matters and climate change, as well as indicators related to the integration of sustainability in the entity's business model, strategy, corporate governance, and risk management[14].

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].

(b) a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets, and a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence;

[...]

(h) indicators relevant to the disclosures referred to in points (a) to (g).

Note: Guidance is also available in **European Sustainability Reporting Standards (ESRS) 2 General Disclosure**:
- DC-M – Metrics in relation to material sustainability matters
- DC-T – Tracking effectiveness of policies and actions through targets
- IRO-2 – Disclosure Requirements in ESRS covered by the undertaking's sustainability statements

DESCRIPTION OF APPLIED POLICIES

This part of the report contains a description of the implemented policies, which are related to non-financial aspects, including a description of the measures taken to properly study these issues.

An entity shall disclose material information that reflects a fair view of its policies. It may provide clarifications regarding the approaches used in relation to key non-financial aspects and the main objectives of the entity, as well as how it intends to implement these objectives and plans. Any explanation shall include data on subject-specific conditions. In these notes, the enterprise can explain the responsibilities of its management and board and the decisions made; also, what is the allocation of resources in relation to objectives, risk management, and expected outcomes.

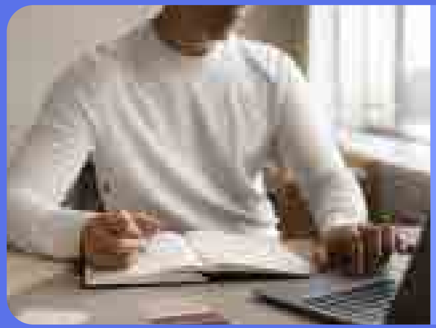
EXAMPLE

An entity may disclose information about who within its organizational and governance structure is responsible for drafting, implementing, and monitoring specific policies, such as climate-related policy. The entity may also describe the role and responsibility of the Supervisory Board on environmental, social, and human rights policy issues.

The due diligence process will address the entity's policies, risk management, and results. These processes are carried out by the entity to ensure that specific targets are achieved (for example, to demonstrate that carbon emissions are below of a specific level or that there is no human trafficking in the supply chain). Proper study helps to identify current and potential adverse effects and to avoid and mitigate those.

The entity shall provide substantial explanations about measures taken for the due diligence purposes, including, where relevant, the due diligence of its suppliers and subcontractors. In addition, the entity may disclose information about the decisions made regarding the noted issues, as well as how the work process is carried out to avoid and mitigate negative effects. The entity may disclose material information about its goals and progress.

[14]Further guidance on KPIs and Targets can be found in EFRAG's Implementation Guidance 3 - List of ESRS Data Points. See: https://efrag.sharefile.com/share/view/s6e410fb208aa4685bf9c482ee405f48d/foa75419-44c9-4081-85a5-43217a6e8732



EXAMPLE

An entity may disclose information about its policies, which aim to prevent the use of dangerous chemical substances and biocides. It may also disclose information about its policy to seek, develop, and use safer alternatives. The entity can explain how it evaluates the quality, safety, and environmental impact of the chemical substances it uses, as well as whether it meets the legal requirements for the protection against chemical substances (for example, labeling, packaging, etc.). The entity may also disclose its health and safety policies.

The entity can explain any significant changes made during the reporting period in terms of the proper review of the main policies and certain issues. In the absence of changes, the entity shall provide a clear and justified explanation related to this. At the same time, if the entity does not have a policy about above-listed issues, it is necessary to include a clear and justified explanation in the non-financial reporting.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a.
Sustainability Reporting

- 1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].
- (d) a description of the undertaking's policies in relation to sustainability matters;
- (f) a description of: [...] (iii) any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions
- Note: Guidance is also available in **European Sustainability Reporting Standards (ESRS) 2 General Disclosure**:
  - 4.3 Disclosure Content on policies and actions
    - o Disclosure Content - Policies DC-P – Policies adopted to manage material sustainability matters
    - o Disclosure Content - Actions DC-A – Actions and resources in relation to material sustainability matters

THE RESULTS OF THE POLICIES IMPLEMENTED IN RELATION TO NON-FINANCIAL ISSUES

Non-financial reporting includes information about the implemented complex procedures and the results of the implemented policies.
The entity shall present a useful, fair, and balanced view of the policy implementation results. The non-financial information disclosed by the entity shall help investors and other interested parties to create a correct idea about the entity's activities.

Relevant information about the results of the implemented policy may provide the interested parties with useful information about the entity's strengths and its sustainability. Non-financial reports shall comprehensively and concisely reflect information about operations and their outcomes.

The entity may explain the relationship between financial and non-financial results and, if necessary, provide a reference to the amounts reflected in the annual financial report and additional explanations about them. The analysis shall include key indicators of relevant non-financial activity. Entities may disclose such key performance indicators as they consider most useful for monitoring and evaluation, as well as for comparison between other enterprises and the sector. In cases of necessity, entities also ensure the presentation and clarification of this information in relation to business objectives and criteria.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Guidance is available in **European Sustainability Reporting Standards (ESRS) 2 General Disclosure:**

- 4.3 Disclosure Content on policies and actions
  - o Disclosure Content - Policies DC-P – Policies adopted to manage material sustainability matters
  - o Disclosure Content - Actions DC-A – Actions and resources in relation to material sustainability matters

5. Metrics and targets
   - o DC-M – Metrics in relation to material sustainability matters
   - o DC-T – Tracking effectiveness of policies and actions through targets

PERSONS IN CHARGE OF PREPARATION AND SUBMISSION OF REPORTS

LEGAL REQUIREMENTS	The members of the entity's management body and the supervisory board are jointly responsible for the preparation and filing of the reports in accordance with the Law of Georgia on Accounting, Reporting, and Auditing.

Entities shall take into account that the members of the governing body and the supervisory board (including independent directors) are jointly responsible for the preparation and submission of the annual report to the Accounting, Reporting and Auditing Supervision Service (SARAS).

Service - Service for Accounting, Reporting and Audit Supervision – governmental agency within the system of the Ministry of Finance of Georgia.

Entity - legal entities of public and private laws, except for the budgetary organization defined by the Budget Code of Georgia and the National Bank of Georgia, a branch of a foreign enterprise, an individual entrepreneur, if they meet the criteria with respect to income, assets used in economic activity and number of employees for the third, second and first category of enterprises.

Annual report - a single document that includes both financial and management reports of the entity.

Key performance indicators (KPIs) - quantitative indicators used by the management of the entity to evaluate the main risks, assess development of the entity in relation to the set goals and to monitor entity's operations or state.

Main risks - a risk or a combination of risks that can have a significant impact on the entity's activities, future prospects or reputation. This may include risks relating to the business model, future performance, solvency or liquidity.

Stakeholders - existing/future partners/shareholders, investors, as well as suppliers, depositories, lenders and other creditors.

Consideration - cash or non-cash benefits paid in exchange for the purchase or disposal of shares.

Intellectual capital - a set of ideas, skills and knowledge that can be used by the enterprise for profitable purposes and which is important in terms of the development of the enterprise's products or services.

Organic growth - the growth of an entity with its own resources without merging with another enterprise or acquiring shares of another enterprise.

Nomination Committee - a committee consisting of the members of the Supervisory Board of the enterprise, which is responsible for the selection and evaluation of candidates for management.

Remuneration Committee - a committee consisting of the members of the Supervisory Board of the enterprise, which is responsible for the creation and operation of the remuneration and compensation system of the managers.

Supply Chain - A supply chain is the network between an entity and its suppliers that ensures delivery of a product/ service to a customer.

Risk mitigation - measures to ensure risk reduction to an acceptable level.

The Guide was developed based on the following sources:

- “Guidance on the Strategic Report" adopted by the Financial Reporting Council (FRC) of Great Britain (2014);
- "Guidelines on non-financial reporting" adopted by the European Commission.
- Practical Guide on IFRS (management report);
- Guide on non-financial reporting (methodology of non-financial information preparation)
- EU Corporate Sustainability Reporting Directive (CSRD)
- European Sustainability Reporting Standards (ESRS)

The Service for Accounting Reporting and Audit Supervision expresses its special gratitude towards Ms. Irina Gordeladze, a representative of the World Bank, representatives of the International Financial Corporation, the National Bank of Georgia, the Association of Independent Directors, the Georgian Stock Exchange and the private sector for their contribution to development of the Guide .

APPENDIX 1

Introduction to Corporate Sustainability Reporting Directive and The European Sustainability Reporting Standards.

The EU Corporate Sustainability Reporting Directive (CSRD) sets the rules on sustainability reporting for companies headquartered in the EU, or those with significant operations in the EU[15].

Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS).

The ESRS set general requirements on sustainability disclosure around four areas:

- Governance
- Strategy
- Impacts, risks, and opportunities
- Metrics and targets

In addition, the ESRS provides standards for disclosure of environmental, social and governance topics when material for the organization:

- Environmental
  - Climate Change
  - Pollution
  - Water and marine resources
  - Biodiversity and ecosystems
  - Resource use and circular economy
- Social
  - Own workforce
  - Workers in the value chain
  - Affected communities
  - Consumers and end-users
- Governance
  - Business Conduct

[15] Large companies will have to start reporting 2024 financial year, for reports published in 2025, while smaller companies will be phased in 2026 and 2027. Non-EU companies with significant operations in the EU will have to start reporting FY 2028 data in 2029, using simplified standards.

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