

Materiality Analysis
Austrian Georgian Development LLC



Tbilisi

2023

ORDER

Regarding the Environmental policy of Lakhami HPP

I, Giorgi Abramishvili, approve the Lakhami Hydro Power Plant Environmental Policy attached hereto as a General Director of the Company "Austrian Georgian Development" LLC – Lakhami Hydro Power Plant (404997232).

General Director:



Giorgi Abramishvili

Aim of the Report

Materiality Analysis is an essential process for the organization that helps management to identify, assess and prioritize the most relevant sustainability issues that can impact its business and stakeholders. Thus, the primary goal of materiality analysis is to determine which Environmental, Social and Governance ("ESG") factors are significant for a company's long-term success and have the most substantial impact on its ability to create value.

Based on that, Austrian Georgian Development ("AGD") LLC identified 15 priorities and grouped them through the materiality matrix under the three ESG dimensions. These factors represent the key ways in which our Company significantly contributes to both society and the environment, in addition those factors are also considered to be crucial elements that can influence the Company's value either positively or negatively.

Diagram 1: Materiality Issues Based on ESG Factors

Environmental Dimension

- 1. Absolute Emissions: Scope 1 & Scope 2; Covers direct emissions
- 2. Absolute Emissions: Scope 1 & Scope 2; Covers indirect emissions
- 3. Renewable energy generated by AGD LLC
- 4. Continuous assessment on biodiversity in the area of HPP impact
- 5. Implementation of conditions included to the Environmental Permit

Social Dimension

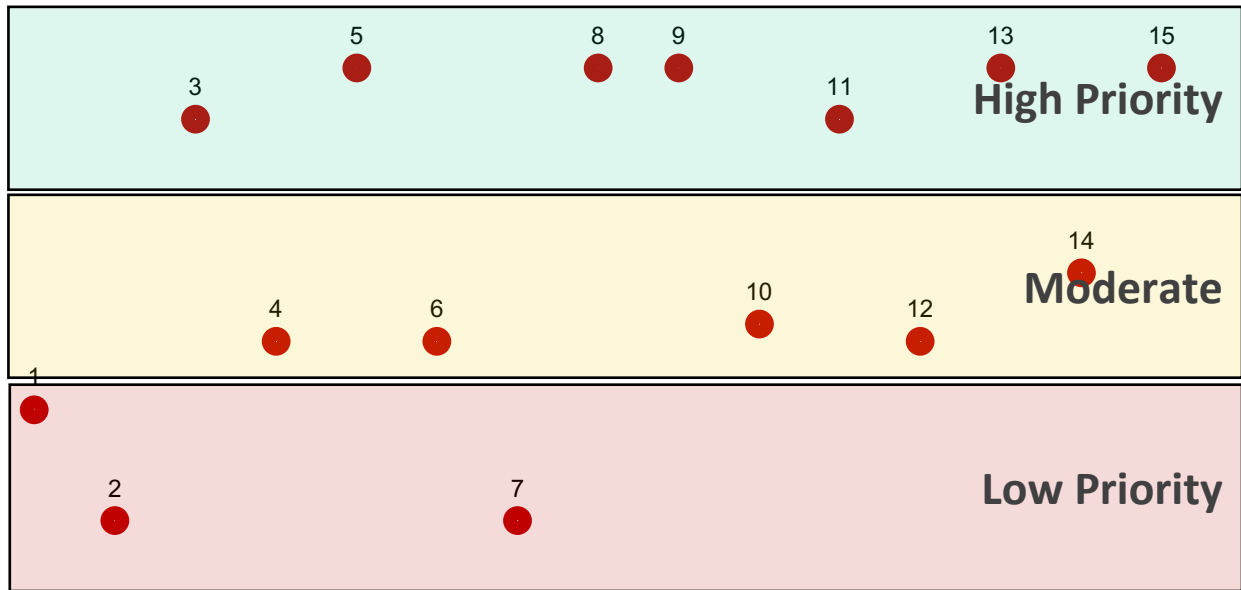
- 6. Equivalent number of people reached via power generation
- 7. Number of social projects developed and maintained
- 8. Number of employees trained in H&S and ESG
- 9. Number of workplace related injuries and accidents
- 10. Community safety awareness - number of meetings and capacity building events

Governance/Economic Dimension

- 11. Environmental and Social Management System ("ESMS") in place at AGD LLC
- 12. Environmental and Social Action Plan ("ESAP") in place at AGD LLC
- 13. Environmental Policy in place at AGD LLC
- 14. Gender equality mainstreamed at all levels
- 15. ESG programming supported by the Board

After the identification of the ESG factors for AGD LLC, the scores were assigned within a 1-100 range to each priority. This process aimed to assess and identify the most and least critical areas for the company. Following the process, the scores placed on Materiality Matrix to visualize and recognize the key elements affecting on company's overall performance. Please see the AGD LLC's Materiality Matrix below:

Graph 1: Materiality Matrix



Priority Table

High Priority	Moderate	Low Priority
3. Renewable Energy Provided by AGD LLC ('E')	4. Continuous assessment on biodiversity in the area of HPP impact ('E')	1. Absolute emissions – Scope 1 & Scope 2 – direct emissions ('E')
5. Implementation of conditions included to the Environmental Permit ('E')	6. Equivalent number of people reached via power generation ('S')	2. Absolute emissions – Scope 1 & Scope 2 – indirect emissions ('E')
8. Number of Employees trained in H&S and ESG ('S')	10. Community safety awareness ('S')	7. Number of social projects developed ('E')
9. Number of workplace related injuries and accidents ('S')	12. ESAP in Place at AGD LLC ('G')	
11. ESMS in place at AGD LLC ('G')	14. Gender equality mainstreamed at all levels ('G')	
13. Mainstreaming of ESG issues through board meetings ('G')		
15. Allocation of costs in budget for ESG programming ('G')		

Business Case

Environmental Management System

Hydropower plant projects provide clean and renewable energy, contributing to the transition towards a more sustainable future. However, it is crucial to recognize and address the environmental management system risks associated with these projects to ensure their overall environmental sustainability and minimize negative impacts. Primary risks correlated to EMS is listed below:

Risk	Mitigation measures
Alteration of natural ecosystems and habitats	<ul style="list-style-type: none"> • All fish and aquatic biodiversity surveys should be conducted by a highly professional biodiversity consultant • Mitigation measures outlined in the fish and aquatic biodiversity surveys should be strictly followed • Proper budget allocation for mitigation measures implementation in construction and operation phases of HPP
River flows and water availability	<ul style="list-style-type: none"> • Proper hydrological surveys to be conducted at the initial stage of the project development • Eco system use survey (including river use survey) to be undertaken at the initial stage of project development • Survey cumulative impact
Sediment management	<ul style="list-style-type: none"> • Proper consideration of sediment management at the design stage of the project
Greenhouse gas emissions and climate change	<ul style="list-style-type: none"> • Undertake climate change risk assessment and Integrate recommendations provided in the report • Collection of meteorological data to build up the evidence for further reference

Employee Wellbeing, Health & Safety

Hydro industry plays a significant role in renewable energy production, the sustainable development of society in Georgia and across the globe in general, it also contributes to the energy independence of Georgia. In general the hydro industry it is both labor and capital intensive business, especially during the construction phase, however this encompasses operation phase as well. Thus all risk associated with H&S should be carefully assessed and mitigated. Various risks associated to H&S is categorized as follows:

Construction phase:

- Excavations works and trenches
- Electrical safety
- Confined spaces
- Proper Personal Protective Equipment (PPE) for workers Health and safety plans and procedures
- H&S Policy
- Management of pandemic/s (Covid 19)

Operation phase:

- Electrical safety
- Operations team health and safety
- Proper Personal Protective Equipment
- Proper Collective Protective Equipment
- Confined space
- Working at height
- Lifting safety
- Fire Safety
- Community Health and Safety
- Health and safety plans
- Health and safety Policy

Implication on AGD LLC:

Since the initial phase of the project, there has been an intersection between the project and the local communities. Following the operation, AGD LLC is responsible for ensuring the safety and security of the project infrastructure, the employees, and the project affected community. AGD LLC ensures that the facilities adhere to all relevant regulations and standards to safeguard both the environment and the local population, especially taking into the account that the population resides in the close proximity to HPP infrastructure. Hence there is strict control on following aspects:

1. Speed limits while driving HPP cars between the intakes and the power house
2. Dust suppression measures in case of need
3. Noise and vibration monitoring in order to control the limits in line with local legislation requirements and international standards

Neither of the hydroelectric power plants has open headrace canals with associated spillways. Both HPPs feature buried penstocks, further diminishing risks linked with open trenches.

The facilities of the Lakhmi HPP are thoroughly shielded from unauthorized access by fences, gates, safety warning signs, and CCTV monitoring systems. These measures ensure that any potential risks associated with health, safety, and security are effectively mitigated. The premises are equipped with prominent warning signs, including prohibitions on entering the territory, fishing, swimming, and awareness of high-voltage areas.

Resource Efficiency & Circularity

The resource efficiency and circularity risks associated with HPP construction and operation is essential to ensure long-term sustainability and minimize environmental impacts. The main risks associated to resource efficiency are:

- Need for unplanned repairs and upgrades that may lead to use of additional materials, energy and water
- Use of significant amount of natural and industrial resources such as concrete, steel and other materials
- Not compliant to regulations

Circularity bears the following risks:

- Increase of reusage of the resources
- Ineffective policy regarding recycling materials
- Increase of waste
- Minimization of resource utilization
- Not compliant to regulations

Implication on AGD LLC: All permits and licences as per national regulations have been obtained by the projects, and these have been renewed as and when they expire in the instances where permit validity is time limited. Key requirements in international standards (e.g., IFC PS, EIB ESS) regarding pollution and waste management are strictly reflected in the ESMS (“Environmental and Social Management System”).

The waste management plan agreed with the Ministry of Environment and Agriculture of Georgia according to the law, and in this respect, of the waste hierarchy: prevent – minimize – reuse – recycle – dispose.

Municipal and domestic waste is managed by the local municipal service center, while hazardous waste is collected and treated by the Company, certified by the Ministry of Environment and Agriculture of Georgia, based on the agreement. Before the hazardous waste is treated further, it is stored at the temporary storage area, settled based on the requirement by law.

To minimize oil spills, the plant is well-equipped with spill kits/absorbents. Operations teams in well aware of how to handle spills if applicable, according to the environmental training plan and Spill Response Plan.

Transformers and generators are equipped with drip trays. For river pollution prevention, oil separator structures were designed and arranged.