PROSPECTUS DATED 26 March 2018

Georgia Capital PLC

(incorporated in England and Wales with registered number 10852406)

Prospectus

Admission to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange of up to 39,384,712 Georgia Capital PLC shares (the "Shares")

Sponsor and Joint Financial Adviser
Citigroup Global Markets Limited

Joint Financial Adviser
Numis Securities Limited

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

This Prospectus has been prepared in connection with the demerger of Georgia Capital PLC ("Georgia Capital" or the "Company") from the BGEO Group and on the assumptions that the Scheme will become effective in accordance with its terms and that the Demerger will become effective as proposed.

This Prospectus comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000 ("FSMA"). This document has been filed with the Financial Conduct Authority (the "FCA") and has been made available to the public in accordance with section 3.2 of the Prospectus Rules.

Investors should read the whole of this document and any information incorporated by reference into it, including, in particular, the risk factors set out in Part II: *Risk Factors of this Prospectus.*

The directors of the Company (the "Directors"), whose names appear on page 40 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

The BGEO Group PLC Directors and BGEO Group PLC accept responsibility for the information about BGEO Group PLC contained in this prospectus. To the best of the knowledge of the BGEO Group PLC Directors and BGEO Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The Bank of Georgia Group PLC Directors and Bank of Georgia Group PLC accept responsibility for the information about Bank of Georgia Group PLC contained in this prospectus. To the best of the knowledge of the Bank of Georgia Group Directors and Bank of Georgia Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

Application has been made to the FCA in its capacity as competent authority under the FSMA ("**UKLA**") and the London Stock Exchange for up to 39,384,712 Shares to be admitted to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities, respectively.

It is expected that Admission of the Shares will become effective and that dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 29 March 2018. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or to be traded on any other exchange.

The distribution of this Prospectus in certain jurisdictions other than the United Kingdom may be restricted by law. Accordingly, neither this document nor any advertisement may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities to any person in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful. This document has not been passported, and will not be passported, into any EEA jurisdiction outside the United Kingdom.

This Prospectus is intended solely for holders of BGEO Group PLC's shares and, following the Scheme becoming effective, Bank of Georgia Group PLC's Shares.

No Shares of the Company have been marketed to, nor are available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Shares to the premium listing segment of the Official List or the Proposals. This document does not constitute an offer or invitation for any person to subscribe for or purchase any securities in Georgia Capital or any other company.

Citigroup Global Markets Limited ("**Citi**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as sponsor and joint financial adviser to BGEO Group PLC and as sponsor and joint financial adviser to the listing of the Company and Bank of Georgia Group PLC and for no one else in connection with the Proposals and will not be responsible to anyone other than BGEO Group PLC, Georgia Capital and Bank of Georgia Group PLC for providing the protections afforded to clients of Citi, nor for providing advice in relation to the Proposals or any other matter or arrangement referred to in this document. This statement does not seek to limit or exclude responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

Numis Securities Limited ("**Numis**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser to BGEO Group PLC, Bank of Georgia Group PLC and the Company and for no one else in connection with the Proposals and will not be responsible to anyone other than BGEO Group PLC, Bank of Georgia Group PLC and the Company and for providing the protections afforded to clients of Numis, nor for providing advice in relation to the Proposals or any other matter or arrangement referred to in this Prospectus. This statement does not seek to limit or exclude responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

Apart from the responsibilities and liabilities, if any, which may be imposed on Citi or, Numis by the FSMA or the regulatory regime established thereunder, none of Citi, or Numis or any person affiliated with any of them accepts any responsibility whatsoever nor makes any representation or warranty, express or implied, in respect of the contents of this document and/or any information incorporated by reference, including its accuracy, completeness or verification or for any other statement made or purported to be made by any of them, or on behalf of them, in connection with BGEO Group PLC, the Company, Bank of Georgia Group PLC or the Proposals and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of Citi, or Numis accordingly disclaims, to the fullest extent permitted by applicable law, all and any responsibility and liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which any of them might otherwise have in respect of this Prospectus.

Overseas Shareholders

The implications of the Proposals for, and the distribution of this document to, Overseas Shareholders may be affected by the laws of the relevant jurisdictions in which such Overseas Shareholders are located. Such Overseas Shareholders should inform themselves about, and observe, all applicable legal and regulatory requirements. No action has been taken to permit the distribution of this document in any jurisdiction where any action would be required for such purpose.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to their full observance of the laws of the relevant jurisdiction in connection with the Proposals and the distribution of this Prospectus, including the obtaining of any governmental, exchange control, regulatory or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

Overseas Shareholders should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Proposals in their particular circumstances.

NOTICE TO INVESTORS IN THE UNITED STATES

The Shares of the Company have not been and will not be registered under the US Securities Act of 1933 (the "**Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the Securities Act or an exemption therefrom. A BGEO Group Shareholder who is an affiliate of the Company prior to the Scheme Effective Time will be subject to certain US transfer restrictions relating to the Shares received pursuant to the Scheme. For a description of these and certain further restrictions on offers, sales and transfers of the Shares and the distribution of this document see Part III: "*Important Information*" of this document.

The Shares of the Company have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission or any other US regulatory authority, nor have any of the foregoing authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO RECIPIENTS IN SWITZERLAND

This document has been prepared without regard to the disclosure standards for prospectuses under art. 652a or art. 1156 of the Swiss Federal Code of Obligations ("**CO**") or the disclosure rules of any stock exchange or regulated trading facility in Switzerland, and does neither constitute a prospectus under such laws nor a similar communication within the meaning of art 752 CO.

General Notice

Nothing contained in this Prospectus is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

The contents of the websites of the Company, BGEO Group PLC and Bank of Georgia Group PLC do not form part of this document.

Capitalised terms have the meanings ascribed to them in Part XXI: "*Definitions*" of this document.

Certain information is incorporated by reference into this document as set out in Part XX: "*Information Incorporated by Reference*" of this Prospectus.

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PART I

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A to E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Since some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and Warnings	
Element	**Disclosure requirement**
A.1	**Introduction and warnings** • This summary should be read as an introduction to the prospectus; • Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor; • Where a claim relating to the information contained in this prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated; and • Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Resale or final placement of Shares by financial intermediaries** Not applicable. No consent is given by the Company for the subsequent resale or final placement of Shares by financial intermediaries.

Section B – Company	
Element	**Disclosure requirement**
B.1	**The legal and commercial name of the Company** Georgia Capital PLC.
B.2	**Domicile and legal form of the Company** Georgia Capital PLC is a public limited company, incorporated in England with registered number 10852406 and its registered office situated in England. The Company operates under the Companies Act 2006.
B.3	**Current operations and principal activities of the Group and the principal markets in which it competes** Georgia Capital is the holding company of a diversified group focused on investing in and developing businesses in Georgia with holdings in sectors that are expected to benefit from the continued growth and further diversification of the Georgian economy, the opening of the Georgian economy to Europe and economic development in the wider region. The Group seeks to capture growth in the sectors in which it currently operates and drive the development of new high-growth businesses in Georgia, which it intends to add either by acquiring businesses in their early development stage or by establishing greenfield businesses, often consolidating fragmented or underdeveloped markets. The Group currently has four key portfolio companies: (i) GGU, a water utility and renewable energy business; (ii) m^2, a residential and commercial property developer; (iii) Aldagi, the foremost provider

	of property and casualty insurance products in Georgia; and (iv) Teliani, a leading wine and beer producer in Georgia. In addition to its portfolio companies, the Company has significant investments in two businesses of the former BGEO Group: GHG, (57% stake), the London Stock Exchange premium-listed parent company of the largest and diversified healthcare provider in Georgia, which operates in the healthcare services, pharmacy and medical insurance sectors; and JSC Bank of Georgia (the "**Bank**") and JSC BG Financial (together with the Bank, the "**Banking Business**"), (19.9% stake), the leading universal bank in Georgia.
B.4a	**Significant recent trends affecting the Group and the industries in which it operates** The Group's business has been affected and will continue to be affected by a number of factors including: (i) the Group's ability to locate and pursue attractive acquisition and disposal opportunities; (ii) macroeconomic conditions in Georgia; (iii) fluctuations in the Group's cost of funds; (iv) fluctuations among, in particular, the US Dollar, Euro, and the Lari due to the high level of dollarisation in the Georgian economy and the Group's foreign currency-denominated debt; (v) the Group's ability to implement its efficiency and cost management plans; (vi) the tariffs GGU is able to charge for its water sales; and (vii) trends in the Georgian real estate market.
B.5	**Description of the Company and the Company's position within Group** Georgia Capital is a new holding company which, with effect from the Demerger Effective Time, will be the parent company of the Group.
B.6	**Relationship with major shareholders** As of 22 March 2018, (being the latest practicable date prior to the publication of this document), insofar as it is known to Georgia Capital, by reference to relevant notifications to BGEO Group PLC made in accordance with rule 5.1 of the Disclosure Guidance and Transparency Rules, the name of each person who holds voting rights representing 3 per cent. or more of the total voting rights in respect of BGEO Group Shares, and the amount of such person's holding of the total voting rights in respect of the Shares following the Scheme becoming effective is expected to be as follows:

Shareholder	Number of shares	Percentage of existing issued share capital beneficially owned (%)
Harding Loevner LP	3,320,410	8.43
Schroder Investment Management	1,956,588	4.97
Standard Life Aberdeen plc	1,944,825	4.94
Sanne Fiduciary Services	1,709,688	4.34
LGM Investments	1,384,669	3.52
Norges Bank Investment Management	1,220,508	3.10

Save as disclosed above, and by reference to relevant notifications to BGEO Group PLC made in accordance with rule 5.1 of the Disclosure Guidance and Transparency Rules, Georgia Capital PLC is not aware of any person who, as of 22 March 2018 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds the threshold of 3 per cent. or more of the total voting rights attaching to the issued share capital of BGEO Group PLC.

The Company is not aware of any persons who, as of 22 March 2018 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, will exercise or could exercise control over the Company nor is it aware of any arrangements the operation of which may at a subsequent date result in a change in control of the Company.

None of the shareholders referred to above has or will have different voting rights from any other holder of Shares in the Company in respect of any Shares held by them.

B.7	**Selected historical key financial information**

The Group's financial information set out below has been extracted without material adjustment from Part XXII "*Historical Financial Information*" of this document. Investors should read the whole of this document and not rely just on key or summarised information.

SUMMARY GROUP INCOME STATEMENT

Summary income statement of the Group's results.

	FY 2017	FY 2016	FY 2015
	(All amounts are in thousands of Georgian Lari)		
Gross utility and energy profit	**88,371**	**38,680**	**—**
Gross real estate profit	**35,388**	**21,876**	**21,429**
Gross insurance profit	**27,049**	**25,257**	**20,742**
Gross beverage profit	**23,128**	**14,420**	**14,903**
Other income	**7,435**	**8,371**	**1,331**
Gross profit	**181,371**	**108,604**	**58,405**
Salaries and other employee benefits	(34,548)	(16,279)	(11,800)
Administrative expenses	(38,351)	(21,057)	(15,798)
Other operating expenses	(1,892)	(1,863)	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(3,417)	(1,004)	(1,121)
EBITDA	**103,163**	**68,401**	**29,319**
Profit from associates	—	4,074	4,050
Depreciation and amortisation	(28,237)	(10,061)	(2,393)
Net foreign currency (loss) gain	(4,938)	(3,132)	8,158
Interest income	12,971	4,260	2,563
Interest expense	(30,014)	(13,526)	(2,167)
Net operating income before non-recurring items	**52,945**	**50,016**	**39,530**
Net non-recurring items	(624)	32,104	(1,125)
Profit before income tax expense from continuing operation	**52,321**	**82,120**	**38,405**
Income tax expense	(5,749)	(7,812)	(4,500)
Profit for the year from continuing operations	**46,572**	**74,308**	**33,905**
Profit from discontinued operations	47,351	60,099	14,680
Profit for the year	**93,923**	**134,407**	**48,585**

SUMMARY GROUP FINANCIAL POSITION

Summary statement of financial position of the Group.

	FY 2017	FY 2016	FY 2015
	(All amounts are in thousands of Georgian Lari)		
Cash and cash equivalents	374,299	401,970	292,955
Amounts due from credit institutions	38,141	178,425	34,069
investment securities	33,060	3,672	1,784
Accounts receivables	35,341	122,300	73,321
Insurance premiums receivable	30,855	48,390	40,881
Inventories	80,132	179,534	117,713
Investment properties	159,989	140,254	110,945
Property and equipment	657,635	967,461	464,778
Goodwill	21,935	73,643	39,641
Intangible assets	5,457	18,965	6,540
Income tax assets	1,374	4,557	6,792
Prepayments	88,027	58,120	37,998
Other assets	73,537	90,010	113,824
Assets of disposal group held for sale	1,148,584	—	—
Total assets	**2,748,366**	**2,287,301**	**1,341,241**
Accounts payable	46,479	109,146	44,071
Insurance contract liabilities	46,403	67,871	55,846
Borrowings	657,109	717,876	142,460
Debt securities issued	77,835	122,263	82,552
Income tax liabilities	860	3,895	34,334
Deferred income	73,066	84,770	102,846
Other liabilities	63,469	164,303	85,699
Liabilities of disposal group held for sale	619,029	—	—
Total liabilities	**1,584,250**	**1,270,124**	**547,778**
Invested capital	**1,164,116**	**1,017,177**	**793,463**

SUMMARY GROUP STATEMENT OF CASH FLOWS

Summary statement of cash flows of the Group.

	FY 2017	FY 2016	FY 2015
	(All amounts are in thousands of Georgian Lari)		
Net cash flow from operating activities	81,246	31,641	31,083
Net cash flows used in investing activities	(346,037)	(542,964)	(105,763)
Net cash from financing activities	302,431	625,422	235,145
Net increase in cash and cash equivalents	21,169	109,015	197,450

From 2015 to 2017, the Group's total gross profit increased as a result of the growth in total gross profit generated by each of the Group's Portfolio Companies and, in particular, the total gross profit contributed by the Group's Utility and Energy Business following the acquisition of the remaining 75% interest in GGU in July 2016. The Group's operating expenses increased as a result of the overall growth of the Group's Portfolio Companies.

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms.

On 9 March 2018, JSC Georgia Capital issued US$ 300 million 6.125% notes due 2024, which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market.

	Other than as disclosed above, there has been no significant change in the financial condition and operating results of the Group during the period from 1 January 2015 to 31 December 2017 or since 31 December 2017, the date to which the Historical Financial Information was prepared. There has been no significant change in the financial condition or operating results of the Company since 31 December 2017, being the date to which the audited financial statements of the Company were prepared.
B.8	**Selected key *pro forma* financial information** **Part A – Pro Forma Financial Information** The unaudited *pro forma* statement of net assets as at 31 December 2017 set out below has been prepared to illustrate the impact on the net assets of the Company of (i) the acquisition of the Investment Business of BGEO Group PLC; (ii) the expenses incurred by the Company in implementing the Demerger and Admission; (iii) the bond issuance; (iv) the repayment of certain borrowings; (v) the transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC BG Financial (together, the "**Banking Business**"), (vi) issuance of loan to JSC BGEO, and as if each of these events had occurred on 31 December 2017. The unaudited *pro forma* income statement for the year ending 31 December 2017 set out below has been prepared to illustrate the impact on the financial performance of the Company of (i) the acquisition of the Investment Business of BGEO Group PLC; (ii) the expenses incurred by the Company in implementing the Demerger and Admission; (iii) the bond issuance; (iv) the repayment of certain borrowings; (v) dividends from investment in Banking Business; (vi) issuance of loan to JSC BGEO, and as if each of these events had occurred on 1 January 2017. The unaudited *pro forma* statement of net assets and income statement have been prepared on a basis consistent with the accounting policies of the Company as applied in preparing its financial statements as at and for the period ended 31 December 2017 as set out in Section B of Part XXII and on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation. The unaudited *pro forma* statement of net assets and *pro forma* income statement have been prepared for illustrative purposes only and, because of their nature, address a hypothetical situation and, therefore, do not represent the Company's actual financial position or results. They may not, therefore, give a true picture of the Company's financial position or results nor are they indicative of the financial position and performance that may or may not be expected to be achieved in the future.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS AT 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

		Adjustments						
	Georgia Capital PLC as at 31 December 2017 (note 1)	Acquisition of Investment business as at 31 December 2017 (note 2)	Demerger and Admission expenses (note 3)	Bond issuance (note 4)	Repayment of borrowings (note 5)	Transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC BG Financial (note 6)	Loan issued to the Banking Business (note 7)	Pro-forma Group as at 31 December 2017
Assets								
Cash and cash equivalents	—	374,299	(9,499)	759,835	(279,608)	—	(129,610)	**715,417**
Amounts due from credit institutions	—	38,141	—	—	—	—	—	**38,141**
Investment securities	—	33,060	—	—	—	732,484	—	**765,544**
Accounts receivable	175	35,341	—	—	—	—	—	**35,516**
Insurance premiums receivable	—	30,855	—	—	—	—	—	**30,855**
Inventories	—	80,132	—	—	—	—	—	**80,132**
Investment properties	—	159,989	—	—	—	—	—	**159,989**
Property and equipment	—	657,635	—	—	—	—	—	**657,635**
Goodwill	—	21,935	—	—	—	—	—	**21,935**
Intangible assets	—	5,457	—	—	—	—	—	**5,457**
Income tax assets	—	1,374	—	—	—	—	—	**1,374**
Prepayments	—	88,027	—	—	—	—	—	**88,027**
Other assets	—	73,537	—	—	—	—	129,610	**203,147**
Assets of disposal group held for sale	—	1,148,584	—	—	—	—	—	**1,148,584**
Total assets	**175**	**2,748,366**	**(9,499)**	**759,835**	**(279,608)**	**732,484**	**—**	**3,951,753**
Liabilities								
Accounts payable	—	46,479	—	—	—	—	—	**46,479**
Insurance contracts liabilities	—	46,403	—	—	—	—	—	**46,403**
Borrowings	—	657,109	—	—	(279,608)	—	—	**377,501**
Debt securities issued	—	77,835	—	759,835	—	—	—	**837,670**
Income tax liabilities	—	860	—	—	—	—	—	**860**
Deferred income	—	73,066	—	—	—	—	—	**73,066**
Other liabilities	—	63,469	—	—	—	—	—	**63,469**
Liabilities of disposal group held for sale	—	619,029	—	—	—	—	—	**619,029**
Total liabilities	**—**	**1,584,250**	**—**	**759,835**	**(279,608)**	**—**	**—**	**2,064,477**
Net Assets	**175**	**1,164,116**	**(9,499)**	**—**	**—**	**732,484**	**—**	**1,887,276**

UNAUDITED PRO FORMA INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

	Georgia Capital PLC for the period ending 31 December 2017 (note 1)	Adjustments						Pro-forma Group for the year ending 31 December 2017
		Acquisition of investment business (note 2)	Demerger and Admission expenses (note 3)	Bond issuance (note 4)	Repayment of borrowings (note 5)	Dividends from investment in Banking Business (note 6)	Loan issued to the Banking Business (note 7)	
Gross profit	**—**	**181,371**	**—**	**—**	**—**	**—**	**—**	**181,371**
Salaries and other employee benefits	—	(34,548)	—	—	—	—	—	(34,548)
Administrative expenses	—	(38,351)	—	—	—	—	—	(38,351)
Other operating expenses	—	(1,892)	—	—	—	—	—	(1,892)
Impairment charge	—	(3,417)	—	—	—	—	—	(3,417)
EBITDA	**—**	**103,163**	**—**	**—**	**—**	**—**	**—**	**103,163**
Dividend income	—	—	—	—	—	20,241	—	20,241
Depreciation and amortisation	—	(28,237)	—	—	—	—	—	(28,237)
Net foreign currency loss	3	(4,938)	—	—	—	—	—	(4,935)
Interest income	—	12,971	—	—	—	—	11,665	24,636
Interest expense	—	(30,014)	—	(50,104)	16,706	—	—	(63,413)
Net operating income before non-recurring items	**3**	**52,945**	**—**	**(50,104)**	**16,706**	**20,241**	**11,665**	**51,455**
Net non-recurring items	—	(624)	(9,499)	—	—	—	—	(10,123)
Profit before tax from continuing operations	**3**	**52,321**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**41,332**
Income tax expense	—	(5,749)	—	—	—	—	—	(5,749)
Profit from continuing operations	**3**	**46,572**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**35,583**
Profit from discontinued operations	—	47,351	—	—	—	—	—	47,351
Profit for the year	**3**	**93,923**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**82,934**

1 The net assets and income statement of Georgia Capital PLC have been extracted without material adjustments from the audited financial statements set out on pages F-83 to F-89 of this Prospectus.

2 The net assets and income statement for the Investment Business have been extracted without material adjustments from the Historical Financial Information set out on pages F-4 to F-74 of this Prospectus. This adjustment is expected to have a continuing impact on the Group income statement.

3 The total expected expenses in relation to the demerger and Admission are GEL 28.8 million. These have been incurred in the following proportion GEL 19.3 million to Bank of Georgia Group plc and GEL 9.5 million to Georgia Capital PLC. The proportion incurred by the Investment Business are included in the unaudited *pro forma* statement of net assets as a cash outflow and in the unaudited *pro forma* income statement as an expense. This adjustment is not expected to have a continuing impact on the Group income statement.

4 As described in Part X of this prospectus, the Company has issued US$ 300 million 6.125% notes due March 2024, sold at an issue price of 98.770%. The adjustment to the unaudited *pro forma* statement of net assets reflects the gross proceeds of the bond issuance of US$ 296.3 million less related issue expenses of US$ 3.2 million. The adjustment to the unaudited *pro forma* income statement reflects interest charges of GEL 50.1 million representing effective interest expense of 6.59%, taking into consideration discount on notes issued, together with amortisation of the issue expenses. The amount shown in the unaudited *pro forma* income statement represents the increase in interest expense, as if the bond issuance had occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

5 In March 2018, as part of the demerger process, the loans from JSC BGEO to JSC Georgia Capital described on page 130 were repaid, together with accrued interest. The unaudited *pro forma* statement of net assets includes this repayment as cash outflow. The amount shown in the unaudited *pro forma* income statement represents the reduction in interest expense, as if the repayment had occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

6 On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC Bank of Georgia Financial Group were transferred to the Investment Business as an equity contribution from JSC BGEO Group, (and will be exchanged for a 19.9% stake in Bank of Georgia Group plc following the demerger, as described in Part X of this prospectus). The investment in these entities is reflected in the unaudited *pro forma* statement of net assets and the adjustment in the unaudited *pro forma* income statement reflects 19.9% of the dividend paid by JSC Bank of Georgia to its shareholders in the year ending 31 December 2017. This adjustment is expected to have a continuing impact on the Group income statement.

7 In March 2018 JSC Georgia Capital issued a US$50 million 9% Loan to the Banking Business. The adjustment to net assets reflects the cash outflow of the respective amount. The amount shown in the unaudited *pro forma* income statement represents the interest income, as if the loan issuance occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

8 In preparing the unaudited *pro forma* income statement, no account has been taken of the trading or transactions of the Group or Georgia Capital PLC since 31 December 2017.

B.9	**Profit forecast or estimate** Not applicable. No profit forecast or estimate has been included in this prospectus.
B.10	**A description of the nature of any qualifications in the accountant's report on the historical financial information** Not applicable. There are no qualifications to the following: – Accountant's report on the Historical Financial Information for the years ended 31 December 2017, 2016 and 2015, – Audit report on the financial statements of Georgia Capital PLC for the period ended 31 December 2017, or – Audit report on the financial statements of Georgian Global Utilities Limited for the years ended 31 December 2016 and 2015.
B.11	**Working capital** Not applicable. In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the next 12 months following the date of this Prospectus.

Section C – Shares	
Element	**Disclosure requirement**
C.1	**Details of the Proposals** This Prospectus has been prepared in connection with the demerger of the BGEO Group proposed to be effected through a court-sanctioned scheme of arrangement and capital reduction of Bank of Georgia Group PLC and is intended solely for holders of BGEO Group Shares and, following the Scheme becoming effective, Bank of Georgia Group PLC Shares. Following the Demerger, the Company will be the new holding company of the Group. Application will be made to the UK Listing Authority and the London Stock Exchange for up to 39,384,712 Shares to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. When admitted to trading, the Shares will be registered with ISIN number GB00BF4HYV08.
C.2	**Currency of the Shares** The currency of the Shares is British pound sterling.
C.3	**Number of shares in issue and par value** Up to 39,384,712 Shares will be issued as fully paid to holders of BGEO Group Shares as part of the Proposals. The nominal value of the Shares at their time of issue will be determined by the Board prior to their issue. Following the Georgia Capital Capital Reduction Effective Date, the nominal value of the Shares will be 0.01 pence. No ordinary shares are issued and not fully paid.
C.4	**Rights attaching to the Shares** The Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.
C.5	**Restrictions on the free transferability of the Shares** There are no restrictions on the free transferability of the Shares.
C.6	**Applications for admission to trading on a regulated market and identity of all the regulated markets where the Shares are or are to be traded** Application will be made to the UK Listing Authority for up to 39,384,712 Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Shares to

	be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or to be traded on any other exchange.
C.7	**A description of dividend policy** The Company expects to be a highly cash generative business with the opportunity for attractive capital investment to enhance its growth prospects, both through organic investments and acquisitions. The Board intends to pursue a capital return policy that reflects this strategy whilst also delivering shareholders high quality, long-term dividend growth, through share buybacks or other potential exits. However, The Board may periodically reassess the Company's dividend policy and the payment of dividends (or quantum of the same) will depend on the Group's existing and future financial condition, results of operations, capital requirements, investment and divestment cycles, liquidity needs and other matters the Board considers relevant from time to time.

Section D – Risks

Element	Disclosure requirement
D.1	**Key risks that are specific to the Group or its industry** The Group is exposed to the following key risks, split into six categories – Risks Relating to the Group, Risks Relating to GGU, Risks Relating to m^2, Risks Relating to Aldagi, Risks Relating to Teliani Valley, Risks Relating to the Company's Exit Stage Portfolio Investments, Macroeconomic and Political Risks Related to Georgia and Risks Relating to the Proposals: **Risks Relating to the Group** • The Group is subject to risks associated with doing business in Georgia. • Market conditions may adversely impact the Group's operating results and its ability to execute its investment strategy. • The Group depends on its ability to access and retain key management and qualified personnel. • Some or all of the anticipated benefits of the Demerger may not be realised or the Demerger may not take place. **Risks Relating to GGU** • GGU operates in a highly regulated environment and changes in laws, government policy and regulations can significantly affect its operations and financial performance. • GGU's aging water supply network requires significant capital expenditure to improve water loss rates, which could impact its financial performance. • GGU may not be able to implement its energy production facility development plans on time or at all. • Risks inherent to the Georgian power generation sector may limit GGU's ability to produce, sell and export electricity. **Risks Relating to m^2** • m^2's Real Estate Business is geographically concentrated in Tbilisi and sensitive to economic conditions in Georgia. • Downturns in the residential and commercial real estate market may result in illiquidity in the property market. • m^2's construction projects are partly dependent on third party funding. **Risks Relating to Aldagi** • The Georgian property and casualty insurance market is highly competitive. Aldagi might not be able to compete with its competitors' pricing policies or price its insurance products correctly. • Aldagi's business is partly dependent on obtaining suitable reinsurance. • Aldagi is required to meet certain minimum capital and reserve requirements and to comply with a number of regulatory requirements relating to its operations.

	Risks Relating to Teliani Valley • Teliani's wine exports are concentrated in a small number of countries, particularly Russia and Ukraine. • Teliani's beer production and distribution business faces significant competition. **Risks Relating to the Company's Exit Stage Portfolio Investments** • The Company may not be able to monetise its holdings. • GHG may not be able to expand its business in line with its strategy, realise its revenue and growth targets or achieve the intended benefits or operating synergies from its development projects. • GHG's healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers. • GHG might not be able to predict in full the evolution of the Georgian government's policy in respect of the state funding of healthcare. • The Banking Business is subject to risks associated with political, financial and economic instability in Georgia and the wider region. • The Bank may not be able to maintain the quality of its loan portfolio. • The Bank's loan portfolio is largely US Dollar denominated. **Macroeconomic and Political Risks Related to Georgia** • Regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy. • There are additional risks associated with investing in emerging markets such as Georgia. • Political and consequently governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business. • The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business. • There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the Deep and Comprehensive Free Trade Area. • Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies. • Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group. • The Group's financial position and trading results may be adversely affected by fluctuations in exchange rates, interest rates or the rate of inflation **Risks Relating to the Proposals** • A number of conditions precedent must be satisfied before the Proposals can be completed. • The Demerger may not occur even after the Scheme has become effective. • The financial results of the Group after the Demerger may be more volatile than those of the BGEO Group before the Demerger. • The receipt of Shares could be a taxable transaction for BGEO Group Shareholders for US federal income tax purposes. • The Demerger may give rise to other unanticipated tax consequences. • The Company and Bank of Georgia Group PLC could have significant indemnification obligations to each other as a result of the Proposals.
D.3	**Key risks that are specific to the Shares** • The price of the Shares may be volatile. • Any future equity issues by the Company could have an adverse effect on the market price of the Shares and could dilute ownership. • Any change in current tax law or practice could adversely affect holders of Shares.

	• Holders of Shares in the United States and other overseas jurisdictions may not be able to participate in any future equity offerings of the Company. • The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or its Directors may be limited.

Section E – Proposals	
Element	**Disclosure requirement**
E.1	**Net proceeds and expenses of global offer** Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for holders of BGEO Group Shares and, following the Scheme becoming effective, Bank of Georgia Group PLC Shares. It has been prepared in connection with the application to listing on the premium listing segment of the Official List and trading on the London Stock Exchange of up to 39,384,712 Shares to be issued in connection with the Proposals. The Company will not receive any proceeds as a result of the Scheme or the Demerger. The Company estimates that the costs of implementing the Proposals will be approximately £2.7 million.
E.2a	**Reasons for the offer and use of proceeds** Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in Georgia Capital . It is intended solely for holders of BGEO Group Shares and, following the Scheme becoming effective, Bank of Georgia Group PLC Shares. The Company will not receive any proceeds as a result of the Scheme or the Demerger.
E.3	**Terms and conditions of the offer** Not applicable. This document does not constitute an offer or invitation to any person to subscribe for or purchase any shares in the Company. It is intended solely for holders of BGEO Group Shares and, following the Scheme becoming effective, Bank of Georgia Group PLC Shares.
E.4	**Material interests** Certain of the Directors have shareholding interests in BGEO Group PLC. So far as the Directors are aware, no other person involved in the Scheme or the Demerger has any interest, including conflicting ones, that is material to the Scheme or the Demerger.
E.5	**Selling shareholder and lock-ups** Not applicable. There are no selling shareholders or lock-up arrangements in connection with the Proposals.
E.6	**Resulting dilution** Not applicable.
E.7	**Estimated expenses charged to the investor by the Company** Not applicable.

PART II

RISK FACTORS

In addition to the other information set out in this document, the following risk factors should be carefully considered. If one or more of the following risks were to arise, the Group's business, results of operations, financial condition, prospects and/or the Company's share price could be materially and adversely affected to the detriment of the Group and its shareholders, and investors could lose all or part of their investment. The risks set out below may not be exhaustive and do not necessarily comprise all of the risks associated with an investment in the Group and the Shares. Additional risks and uncertainties not currently or at present known to the Group or which the Group currently deems immaterial may arise or become material in the future and may have a material adverse effect on the financial condition or business of the Group.

You should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice.

Risks Relating To the Group

The Group is subject to risks associated with doing business in Georgia.

The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Group's results of operations are, and are expected to continue to be, significantly affected by political, financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia and the wider region. Factors such as gross domestic product ("**GDP**"), inflation, interest and currency exchange rates, as well as unemployment, personal income, tourist numbers and the financial situation of companies, can have a material impact on customer demand for its products and services.

Real GDP growth in Georgia slowed from 4.6% in 2014 to 2.9% in 2015 and 2.8% in 2016, according to the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"). This slowdown was due to a weaker external economic environment, which was reflected in weaker foreign currency remittances from Georgians working abroad, lower net exports from Georgia and lower foreign direct investment ("**FDI**"). According to Geostat, Real GDP growth in Georgia accelerated to 4.8% in 2017. According to the International Monetary Fund ("**IMF**") World Economic Outlook published in October 2017, the regional economies improved in 2017, following a recession in 2015 and very shallow growth in 2016. The IMF projects a 2.2% growth rate in Commonwealth of Independent States ("**CIS**") economies in 2017 and 2018, and an average growth rate of 2.3% from 2019 to 2022, and, after two years of recession, economic activity in Russia expanded by 1.5% in 2017, according to preliminary data from the Federal State Statistics Office of Russia, helped by stabilising oil prices, easing financial conditions, and improved confidence. Although Management believes that Georgia's real GDP growth in 2018 will be higher than the 4.2% forecast by the IMF and other organisations, there can be no assurance that these growth levels will be achieved. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of customers in Georgia. Due to the high degree of dollarisation of the Georgian economy, the purchasing power of Georgian companies and individuals may be affected by currency fluctuations and, in particular, the depreciation of the Lari against the Dollar and the Euro. Uncertain and volatile global economic conditions, such as the unpredictability of the US regulatory and fiscal policies, the potential adoption of trade restrictions, the negotiation of the United Kingdom's relationship with the EU post-Brexit, and heightened geopolitical risk, could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy.

The Georgian economy is also dependent upon the economies of other countries in the region, in particular, Russia, Turkey, Azerbaijan and Armenia. Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 7.4% and 9.8% of Georgia's total exports and approximately 8.6% and 9.3% of Georgia's total imports in 2015 and 2016, respectively, according to Geostat. In 2015 and 2016, the Russian economy was in recession due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the ongoing political tensions between Russia and Western countries arising from the conflicts in Ukraine and Syria. In January 2016, the Russian Rouble declined to an all-time low against the US Dollar before recovering modestly during the course of 2016. In 2017, the Russian Rouble generally returned to 2015 levels of strength against the US Dollar and Russia's GDP is provisionally expected to have increased by 1.8% in 2017 according to the IMF, subject to movements in current global oil prices. Turkey represents the largest source of Georgian imports, accounting for 18.2% and 18.6% of total imports in 2015 and 2016, respectively, according to figures published by Geostat. Although Turkey is projected to have grown by 5.1% in 2017 and is projected to grow by 3.5% in 2018 according to the IMF, continued political uncertainty and rising inflation represent potential obstacles to the growth of the Georgian economy. Azerbaijan and Armenia accounted for 10.9% and 8.2% of Georgia's total exports, respectively, in 2015, 7.2% and 7.1%, respectively in 2016 and 10.0% and 7.7%, respectively in 2017. Following its devaluation by 47.6% against the US Dollar and 47.9% against the Euro in December 2015, the Azerbaijani Manat stabilised throughout 2016 and 2017. The Armenian Dram also experienced a period of stability during 2017, having devalued by 16.9% against the US Dollar in between October 2014 and February 2015.

The economic slowdowns and currency depreciations in Georgia's main trading partners have resulted in lower exports from and remittances to, Georgia in recent periods. Any continuing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy, which in turn could adversely affect the Group's business, financial condition, results of operations or prospects.

For further risks in relation to Georgia see also *"Macroeconomic and political risks related to Georgia"*.

Market conditions may adversely impact the Group's operating results and its ability to execute its investment strategy.

As part of its current business strategy, the Group aims to achieve an internal rate of return ("**IRR**") of at least 25% from its investments. The Group plans to target new investments in new sectors with 'bolt on' acquisitions to consolidate and scale up its existing businesses that it believes will generate at least a 25% IRR through a partial or full exit within five to ten years. The Group may not be able to identify suitable acquisition opportunities, compete successfully, particularly if the Georgian economy deteriorates, with other potential acquirers of these businesses or negotiate attractive terms for such acquisitions. There may be a limited number of attractive acquisition opportunities in Georgia and certain acquisition opportunities may command high valuations. The Group may become more dependent, over the longer term, on external sources of finance to fund future acquisitions and development projects, and funding might not be available on commercially acceptable terms. In addition, the Group may not be able to realise the anticipated cost savings, synergies and revenue enhancements from any acquisitions that it does make.

Macroeconomic conditions and the financial and economic environment in international capital markets may also limit the Group's ability to achieve a full or partial exit from any of its existing or future businesses. The Group may not be able to identify suitable buyers or obtain a commercially acceptable price or valuation for trade sale exits. Similarly, potential buyers for the Group's investments may also face reduced access to capital. As a result, such buyers could experience difficulty in raising the necessary finance to purchase any of the Group's existing or future businesses on exit. Market conditions may also prevent the Group from being able to monetise its investments via sales of its existing stakes in listed entities or initial public offerings of its key businesses, which could adversely affect the Group's business, financial condition, results of operations or prospects.

The Group depends on its ability to hire and retain key management and qualified personnel.

The current senior management team includes a number of individuals that the Group believes contribute significant experience and expertise. The Group's ability to continue to retain, motivate and attract qualified and experienced management personnel is vital to its business. There can be no assurance that the Group will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of its senior management team or an inability to recruit, train or retain necessary personal, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Some or all of the anticipated benefits of the Demerger may not be realised or the Demerger may not take place.

Management believes the Demerger will deliver additional long-term value to the Company and Bank of Georgia Group PLC shareholders by creating two distinct entities which will have enhanced growth opportunities in the growing Georgian economy. The Demerger is subject to the satisfaction of a number of conditions precedent and the performance of a number of steps which result in execution risks and significant costs, and there can be no guarantee that the Group will realise any or all of the anticipated benefits of the Demerger in a timely manner or at all. Completion of the Demerger is subject to obtaining consents or waivers from certain of the Group's counterparties, including lenders, and certain of the Group's contractual arrangements contain change of control provisions that could be triggered by the corporate actions that form part of the Demerger, without appropriate waivers and/or consents from such counterparties. Although the Group is in the process of obtaining the necessary waivers and consents, no assurance can be given that they will be obtained on time or at all, which might result in a delay to the implementation of the Demerger. As part of the Demerger, JSC BGEO Group entered into a 24 month $50,000,000 loan agreement with JSC Georgia Capital on arm's length terms on 21 March 2018. The Company cannot guarantee that JSC Georgia Capital would recover all amounts due under this loan (if made) in full or on time. Furthermore, the Demerger will require considerable management time and effort and may divert management's attention from day-to-day operations and if the Demerger does not complete and deliver the anticipated benefits or does not occur in whole or in part, the it could adversely affect the Group's business, financial condition, results of operations or prospects.

The Group may be subject to substantial liabilities as a consequence of litigation claims made against it

On 20 March 2018, BGEO Group PLC was served with a notice of claim by Roman Pipia, the former beneficial owner of Rustavi Azoti, a chemical fertiliser business based in Georgia (the "**Pipia Claim**"). The Bank had initiated the sale of collateral pledged by Rustavi Azoti and its parent company to secure loans granted by the Bank following default by the borrowers in 2016. The Pipia Claim was filed in the High Court of Justice Business and Property Courts of England and Wales Queen's Bench Division Commercial Court. The Pipia Claim names BGEO Group PLC, JSC BGEO Group, JSC Bank of Georgia, certain of their officers, and JSC EU Investments (the current owner of the plant) and its director as defendants. The Pipia Claim is made under the laws of Georgia and asserts that the defendants are liable to the claimant under the Georgian Civil Code for harm to the claimant in relation to the loss of the Rustavi Azot plant. The claimant claims losses and damages of up to US$995 million, or as may be determined by the Court. The Pipia Claim also refers to the proposed Demerger and states that, to the extent required, the claimant will seek relief against the Company and Bank of Georgia Group PLC. BGEO Group considers that the claim is without merit and it intends to oppose it vigorously. Neither the Company, BGEO Group PLC nor its affiliates intend to create any reserves in respect of the claim. Under the terms of the Demerger Agreement, Bank of Georgia Group PLC has agreed to indemnify the Company for any loss incurred due to a third party claim to the extent that the claim relates to the operation of the Banking Business prior to the Demerger. In the unlikely event that any part of the Pipia Claim is successful, Management expects that the Company will be fully indemnified by Bank of Georgia Group PLC and therefore the risk of any loss or damage to the Group is remote. Nevertheless, due to the magnitude of the Pipia Claim, there is a risk that the Group could become liable for substantial damages should the claimant be successful and Bank of Georgia Group PLC be unable or fail to settle its liability for damages, which would have a material adverse effect on the Group's business, financial condition and results of operations.

Risks Relating to the Group's Utility and Energy Business (GGU) (35.1% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments))

GGU operates in a highly regulated environment and changes in laws, government policy and regulations can significantly affect its operations and financial performance.

GGU's water sales revenue depends substantially on the rates it charges to customers and on its ability to recover costs in a timely manner. Any unanticipated changes in regulations affecting the Utility and Energy Business may result in lower revenue and increased operating costs.

Tariffs charged by GGU for its water supply and wastewater services as well as third-party electricity sales through one of its hydro power plants ("**HPPs**"), the Zhinvali HPP, are regulated by the Georgian National Energy and Water Supply Regulatory Commission ("**GNERC**"). If GGU is unable to transfer cost increases to end customers through the tariffs it charges, its financial performance might be adversely affected.

As a natural monopoly, GGU has an obligation to connect new customers in Tbilisi, Rustavi and Mtskheta, to its water supply and sewage network, which could have additional cost and timing implications. GGU's development plan for the water supply network and wastewater system in the city of Tbilisi is dependent on the Tbilisi city development plan, which has not yet been adopted. Any unplanned additional developments initiated by Tbilisi City Hall could adversely affect GGU's financial performance.

GGU acquired its utilities operations with certain privatisation obligations. As of the date of this Prospectus, GGU has performed all but two of its major privatisation obligations. These two obligations are due to be completed by May 2018. These are the rehabilitation and modernisation of the Gardabani wastewater treatment plant ("**WWTP**") and investment of not less than US$220 million in aggregate in the performance of all privatisation obligations. Whilst GGU expects to meet the investment requirements set out in its privatisation agreement and expects the Gardabani WWTP reconstruction works to complete on time, there can be no guarantee that the requisite works and privatisation obligations will be completed on time or at all, which could adversely affect the Group's business, financial condition, results of operations or prospects.

GGU's aging water supply network requires significant capital expenditure to improve water loss rates, which could impact its financial performance.

Some parts of the water supply network in Georgia date back to the Soviet period and are in poor condition. As a result, accidents are frequent, which results in disruption to the supply of water, water loss and increased expense for the Utility and Energy Business. In 2017, approximately 70% of extracted water was lost due to technical and commercial losses and, 75% of the served customer base is unmetered, which makes it hard to account for lost water. GGU plans to gradually replace and rehabilitate most of its water supply network, extend existing infrastructure, and replace or rehabilitate property, plant and equipment, all of which will entail significant capital expenditure. These projects may place significant demands on Management time and on operational and financial resources. Projects may incur significant cost overruns and may not be completed on time or at all. Furthermore, any opposition relating to the operation or development of the Group's industrial projects, whether from local government authorities or local community, political or environmental groups, could increase the Group's development costs, cause delays to or cancelations of the Group's development plans, harm the Group's reputation and/or hamper the Group's ability to develop new projects.

Although GGU assesses each project individually, each is subject to a number of assumptions concerning valuations, profitability, growth, demand for services and interest rates. These projects are also subject to assumptions about anticipated water loss improvements, cost savings, synergies and revenue enhancements. GGU's assessments might not prove to be correct because other factors, not accounted for in its analyses, may cause actual developments to differ from expectations. GGU may also fail to achieve the operating levels and water loss rate reductions expected from future projects and may not be able to achieve the targeted return on investment, intended benefits or anticipated operating synergies from these projects, which could adversely affect the Group's business, financial condition, results of operations or prospects.

GGU may not be able to implement its energy production facility development plans on time or at all.

GGU is investing in additional capacity for electricity generation through the development of HPPs, as well as solar and wind power sources.

The Mestiachala HPP project, with a 50 MW capacity, is under construction and the Zoti HPP project, with a 44.3 MW capacity, is currently under development. Several of GGU's other HPP, wind and solar renewable power projects are the subject of ongoing feasibility studies that assess regulatory, technical (including geological and hydrological), financial, commercial and socio-environmental concerns. Depending on the final outcome of these feasibility studies, GGU may decide not to pursue current or future projects, which may delay GGU's expansion.

Weather conditions influence GGU's ability to execute its renewable energy development projects. Most projects currently under development by GGU are located in mountainous regions, which are subject to flooding and icy conditions. Flooding is predominately a concern for GGU's HPP projects whereas icy conditions have a greater impact on GGU's wind power projects. Flooding and icy conditions can lead to significantly higher static and dynamic loads on exposed infrastructure and delays to construction work.

Mestiachala HPP is a run-of-the-river plant located in a mountainous region and, as such, it is exposed to potential flooding during periods of heavy rain, which may limit access to the site, delay the construction process and/or result in increased costs.

Most of the projects under development are located in areas of high altitude and require complex construction techniques in order for work to be properly executed. GGU is required to engage contractors with expertise in working in high altitude environments and the associated logistical and technical challenges, which may result in delays to construction and increased costs.

GGU chooses the locations of its renewable projects based on technical and financial criteria. Grid connection may not be available on such sites. Although the Georgian transmission system operator aims to ensure timely availability of the grid for newly constructed projects, there may be a risk of delay in the commissioning process. Further, the renewable projects GGU constructs have a range of social and environmental, technical and contractual implications. GGU is required to comply with Environmental, Social, Health and Safety ("**ESHS**") guidelines on all projects under development. ESHS guidelines must be complied with at all stages of construction and GGU engages independent site supervision companies and consultants to oversee this. Although the ESHS guidelines prescribe specific actions in respect of social, environmental and technical requirements, there is a risk that such actions are not properly executed, which may lead to penalties under environmental permits and delays to the completion of certain of GGU's renewable energy projects.

If the Group is unable to construct, develop or implement, or experiences unanticipated difficulties or delays in constructing, developing or implementing, the HPPs and the other renewable energy projects, this could have a negative effect on GGU's energy production facility development plans and results of operations. Moreover, the HPPs and the other renewable energy projects are financed through a combination of equity and external debt on a project finance basis. If GGU experiences difficulties or delays in developing or implementing its projects, it might not recover the equity contributed to finance the HPPs and other renewable projects, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks inherent to the Georgian power generation sector may limit GGU's ability to produce, sell and export electricity.

If the proposed Mestiachala HPP and Zoti HPP projects are completed, power generated by these facilities will be subject to fixed power tariff agreements with the national electricity system commercial operator, JSC Electricity System Commercial Operator ("**ESCO**"), for eight months of each year, from September to April for 15 years. Because approximately 60% of the average annual output of these two projects falls outside the fixed tariff period, GGU will be subject to electricity price volatility, which may have an adverse effect on its financial performance if electricity prices are reduced after the completion of the projects.

GGU has secured priority access to the Turkish energy market through the 400KV Akhaltsikhe-Bortshkha transmission line. There may be periodic capacity congestion on the transmission line. Such congestion could negatively affect the profitability of the proposed Mestiachala HPP and Zoti HPP outside of the fixed tariff period.

GGU has a pipeline of developments in wind and solar energy production projects. Georgian wind and solar power plants are subject to risks associated with the stability of the Georgian power system and the variable nature of renewable power generation. If GGU is unable to implement its wind and solar development projects, this could adversely affect GGU's energy production and the Group's business, financial condition, results of operations or prospectus.

Weather conditions, natural hazards, and the contamination of water, either from man-made sources or from naturally-occurring compounds may, result in the interruption of service and/or exposure of humans to hazardous substances.

GGU's principal water source, the Zhinvali Reservoir, depends on prevailing weather conditions and is exposed to the risk of natural disasters, such as earthquakes and landslides, all of which could interrupt the supply of water and result in unforeseen expenses in restoring supplies or switching to alternative sources. GGU supplies purified, chlorinated water from the primary reservoir to final users. GGU uses gaseous chlorine in its network that may be at risk of causing a threat to personnel, communities and the environment.

The Zhinvali Reservoir might be subject to contamination from naturally occurring compounds as well as pollution resulting from man-made sources. Although GGU monitors water quality on an hourly basis, any contamination due to factors beyond its control would force GGU to interrupt water supply. In the event of any contamination of its water supplies, there can be no assurance that GGU would be able to switch to an alternative source of water in a timely or cost effective manner, or recover the costs associated with liability for environmental damage and other consequences arising from the exposure of humans to hazardous substances.

In the case of wind energy, generation is dependent on prevailing weather conditions and, in particular, on wind velocity. In strong wind conditions turbines have to be stopped, which results in power deficits and the disruption of the transmission network. In the case of solar power, generation is dependent on sustained levels of solar rays. If the proposed wind and solar energy projects are completed, difficulties with voltage and frequency control in the Georgian power network may limit GGU's ability to sell power generated during challenging weather conditions.

Following their commissioning, GGU's new HPPs may be required to operate in unfavourable hydrological conditions if water resources levels are low. Although GGU performs hydrological studies during the feasibility stage, in line with international standards, there still might be unexpected water shortages or water shortages that continue for a longer period than anticipated. If such hydrological conditions materialise, this could result in a decrease in GGU's cash flow and profitability.

Unfavourable weather and hydrological conditions, natural hazards or water contamination may lead to interruption of service, reduced energy production and/or exposure of humans to hazardous substances, any of which could in turn result in the Group losing profit and/or incurring costs associated with remedial operations. which could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks Relating to the Group's Real Estate Business (m^2) (33.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments))

m^2's Real Estate Business is geographically concentrated in Tbilisi and sensitive to economic conditions in Georgia.

The Group's Real Estate Business is geographically concentrated in Tbilisi. Most of m^2's residential customers are concentrated in the "midscale" segment, which is highly sensitive to economic conditions. Worsening economic conditions may have a material adverse effect on sales of newly built residential properties in Tbilisi. In order to complete sales in such conditions, m^2 may have to reduce its current selling prices. As m^2's sales are not geographically diversified, a reduction in sales in Tbilisi would not be compensated for by sales in other regions of Georgia. m^2's hotel business is dependent on the flow of tourists visiting Georgia. Worsening economic conditions or a decline in the number of tourists visiting Georgia may result in a reduction in demand for hotel rooms in Tbilisi and other regions in Georgia, which could adversely affect m^2's residential sales performance in Tbilisi and the occupancy and average daily rates of hotel rooms at m^2's hotels, and as a result impact the growth, development and results of m^2's hotel business, which in turn could adversely affect the Group's business, financial condition, results of operations or prospects.

Downturns in the residential and commercial real estate market may result in illiquidity in the property market.

Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in Georgia may also result in illiquidity in the property market and a decline in the value of m^2's property portfolio. The buyers of apartments developed by m^2 are highly dependent on mortgages to finance their purchases. Only three banks in Georgia currently offer retail mortgage loans to finance the purchase of residential properties sold by m^2. If any one or more of these banks stop offering mortgage loans to prospective buyers of these properties, or if there is a deterioration in economic conditions in Georgia, potential buyers of properties constructed by m^2 may not be able to obtain mortgage loans, which could lead to a decline in residential sales performance and negatively affect m^2's financial results. Lower sales could also impact the liquidity position of m^2 and could require m^2 to pursue alternative sources of funds to complete its future development projects, which in turn could adversely affect the Group's business, financial condition, results of operations or prospects.

m^2's construction projects are partly dependent on third party funding.

Although m^2 funds part of the cost of building and developing properties through pre-sales of units that are under construction and off-plan sales of units before it starts construction, it also relies on third party funding, including loans from international finance institutions ("IFIs") and the issuance of corporate bonds in Georgia, to finance its projects. While m^2 has secured the funding it requires for the projects it is currently developing over the next 18 months, and future projects will not be commenced without the required funding first being secured, there can be no assurance that funding for projects will continue to be available, over the longer term, on commercially acceptable terms, particularly if there is a decline in property prices in Georgia. If third party funding is not available on commercially acceptable terms or at all, m^2 would need to find alternative sources of funding or may not be able to initiate new projects for development, which could adversely affect the Group's business, financial condition, results of operations or prospects.

m^2 faces significant competition.

m^2 faces significant competition in the residential real estate market in Georgia. The Georgian residential property market is dominated by local developers with a smaller number of foreign investors such as Maqro (Turkey), Dirsi (Azerbaijan), Hualing (China), Dona Group (Israel) and Archi Group (Georgia). The Georgian property market is fragmented, and the Real Estate Business mainly competes with smaller players with a small number of properties in their portfolio. Competition is based on price per square metre, reputation of the developer, availability of turnkey offerings, rent, amenities and property management and maintenance services. Competition may increase among real estate companies, including as a result of consolidation alliances or new entrants which could result in competitors having greater resources than m^2 or other competitive advantages. Increased competition could adversely impact m^2's residential real estate sales leading to a potential reduction of sales prices which could have an adverse effect on m^2's financial performance.

m^2 also faces competition in the Georgian hospitality market. As the number of tourists visiting Georgia has significantly increased, new participants have entered the market and m^2's existing competitors are actively developing their businesses. For example, over 2,000 rooms were added to the market over the last two years including international "mid-scale" brands like Ibis Styles and Mercure. Increased competition could lead to a lower average daily rate (the average realised room rental per day) which, with stabilising levels of occupancy, could have a material adverse effect on m^2's hotel business and financial performance, and in turn the Group's business, financial condition, results of operations or prospects.

m^2 is subject to risks inherent in the Georgian real estate development industry and the general risks associated with construction and development.

m^2 is primarily engaged in developing residential and commercial properties (including externally managed hotels) for sale and rental. Real estate property investments are subject to varying degrees of risk which affect the level of income from the value of properties including: changes in the Georgian economic climate; local conditions, such as a surplus of similar properties or a reduction in demand; occupancy rates and the ability to collect rent from tenants; laws and regulations; and acts of nature such as earthquakes, floods and other extreme weather events that may damage property.

Projects carried out by m^2 are also subject to general risks associated with construction and development. These include: cost overruns due to design flaws; the inability to obtain, or delays in obtaining, permits required for zoning, land-use, building, architecture, and other governmental permits and authorisations, which could result in increased costs and delays in completion, delays in reaching the expected occupancy levels, or could require m^2 to abandon a project entirely; increased material, labour or other costs, which could make completion of a given project unprofitable; and the inability to complete construction and leasing of a property on schedule. If m^2 is unable to construct or develop its real estate projects within budget, on schedule or at all, this could have an adverse impact on m^2's brand perception and lead to a decline in m^2's property portfolio, which in turn could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks Relating to the Group's Property and Casualty (P&C) Insurance Business (Aldagi) (14.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments))

The Georgian property and casualty insurance market is highly competitive. Aldagi might not be able to compete with its competitors' pricing policies or price its insurance products correctly.

The Georgian property and casualty insurance market is highly competitive. Providers compete on factors such as the terms of insurance policies (including coverage, exclusions and price) and the ease of the claim reimbursement process. Competition may increase among insurance providers, including as a result of consolidation, alliances or new entrants, which could result in competitors having greater resources than Aldagi or other competitive advantages. In addition, competitors may adopt aggressive pricing policies to capture market share. Aldagi makes assumptions about a number of factors in determining the pricing of its insurance products and setting its insurance reserves. These assumptions include estimates of the incidence and amount of claims, policy renewals, long term interest rate trends, returns on investment, mortality and morbidity rates and future costs. If these assumptions are incorrect or do not reflect actual market changes then Aldagi may underprice its insurance products and may need to increase insurance reserves for its property and casualty insurance business, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Aldagi's business is partly dependent on obtaining suitable reinsurance.

Aldagi's ability to implement its reinsurance policy depends on the continued availability of reinsurance at a competitive cost. Aldagi's capacity to underwrite and minimise its capital requirements will depend on its ability to meet its reinsurance policy criteria. Underwriters do not typically accept risks that exceed contractual treaty limits and will not accept risks above the company's risk retention rate, the percentage of risk that Aldagi will cover, as per the treaty for each business line. Aldagi's risk retention and optimal treaty structure is determined by the actuarial consideration prepared by Aldagi's actuarial division and subject to approval by Aldagi's CEO. Should Aldagi be unable to obtain reinsurance when required, its underwriting process may not function as intended, which may lead to increased losses. Aldagi's approach to risk is determined for each business on an annual basis.

There is a risk that reinsurance support will not be available in the future if the results or future prospects of Aldagi are not attractive enough to reinsurers; this is a particular risk with newer business lines where the risk of underperformance is potentially higher. If Aldagi is not able to reinsure risks above the level of desired risk retention, new business lines may be withheld until appropriate reinsurance can be found, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Aldagi is required to meet certain minimum capital and reserve requirements and to comply with a number of regulatory requirements relating to its operations.

Certain minimum regulatory capital requirements and reserve requirements apply to Aldagi's property and casualty insurance business. To maintain its non-life and life insurance licences, Aldagi must maintain a minimum share capital of GEL2,200,000, 100% of which must be retained in cash on deposit with a banking institution licenced in Georgia and free from any encumbrances. As of 31 December 2017, the regulatory capital held by Aldagi was GEL20.5 million and Aldagi was in full compliance with its other regulatory obligations. As at the date of this Prospectus, Management expects that Aldagi will continue to fully comply with all known regulatory capital requirements on an ongoing basis. Insurance companies are also required to maintain a solvency ratio, calculated as regulatory capital divided by required solvency capital, in excess of 100%. Whilst Aldagi has consistently maintained its required solvency ratio above 100%, and, as of 31 December 2017, had a solvency ratio of 180% (on the basis of a total solvency capital requirement of GEL11.4 million), regulatory capital requirements are subject to change, and such changes may have a significant impact on Aldagi's business, financial condition and results of operations. The minimum share capital requirements are expected to increase to GEL4,200,000 from 31 December 2018 and reach GEL7,200,000 by 31 December 2020. Although Management expects that Aldagi will be able to fully comply with the increased minimum share capital requirements, if it failed to do so the Insurance State Supervisory Service of Georgia could withdraw Aldagi's licence to continue operating its business. (See "*Part X: Information on Georgia Capital—The Group's Property and Casualty Insurance Business (Aldagi)—Regulation of the Property and Casualty Insurance Sector—Additional Regulations Applicable to Insurance Businesses—Regulatory Capital*).

In accordance with general industry practices and accounting regulatory requirements, Aldagi establishes reserves for reported but not settled claims (known as "**RBNS**"), incurred but not reported claims (known as "**IBNR**") and unearned premiums. Aldagi seeks to reduce losses from these claims through effective administrative processes and the terms of its policies. Claims made outside the terms or coverage period are not settled by Aldagi. However, claims that arise during the coverage period, but are referred to Aldagi after the expiration date of the policy, are still settled by Aldagi. Aldagi's IBNRs were GEL0.2 million in 2015, GEL0.3 million in 2016 and GEL0.3 million in 2017. By contrast the number of claims was 12,498 in 2015, 11,647 in 2016 and 17,435 in 2017. Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in the severity of claims, frequency of claims, legal theories of liability and other factors. Actual claims may materially exceed

Aldagi's claims reserves and have a material adverse effect on Aldagi's business, which in turn could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks relating to the Group's Beverage Business (Teliani) (15.2% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments))

Teliani's wine exports are concentrated in a small number of countries, particularly Russia and Ukraine.

Teliani's export sales constituted 68% of its total wine revenues in 2017 and were concentrated within a small number of countries, particularly Russia and Ukraine, which accounted for 13% and 42% of total exports, respectively, in 2017. In recent years, both Russia and Ukraine have experienced low economic growth, and Ukraine has experienced high levels of political instability. This has negatively impacted Teliani's revenues and may continue to do so if political and economic instability remains at high levels. To reduce its overall concentration and dependence on Russia and Ukraine, Teliani's management is actively seeking new export opportunities in China, among other countries. Although Teliani's sales to China increased by 533% year-on-year in 2017 and reached 8% of total exports, management may be unable to successfully mitigate the risk of over-concentration, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Teliani's beer production and distribution business faces significant competition.

Although Teliani has been importing and distributing beer since 2006, it only began brewing beer in 2017. The Georgian beer market is highly concentrated. There are high barriers of entry into the Georgian beer market, which include the high levels of capital expenditure required to build factories, distribution capabilities and undertake successful marketing campaigns. As a result, there were no new market entrants between 2012 and 2016. The three main producers are Efes-Georgia (with a 45.1% market share), Georgian-Beer Company (with a 30.1% market share) and Teliani (with a 12.4% market share). Each of Teliani's main competitors has high levels of brand recognition, strong flagship brands, sophisticated marketing, experience in the Georgian market, international affiliations and the ability to quickly react to market developments.

Although Teliani gained a 12.4% market share within four months following initial production and the launch of mainstream beer sales in June 2017, it had to make significant investment in its sales and marketing activities to achieve this. Therefore, Teliani may not be able to sustain such growth and acquire targeted levels of market share, sales and earnings, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks Relating to the Company's Exit Stage Portfolio Investments

The Company may not be able to monetise its holdings.

The Company has significant investments in businesses of the former BGEO Group: GHG (57% stake) and the Banking Business (19.9% stake). Shortly after the proposed Demerger becomes effective, the 19.9% stake in the Banking Business is expected to be exchanged for a 19.9% stake in Bank of Georgia Group PLC which, before this exchange of stakes takes place, is expected to become the new parent company of the Banking Business and to be listed on the premium segment of the London Stock Exchange. Following this exchange, the Company has agreed that, for as long as the Company's stake in Bank of Georgia Group PLC is greater than 9.9%, it will exercise its voting rights in Bank of Georgia Group PLC in accordance with the votes cast by all other Bank of Georgia Group PLC shareholders on all shareholder votes.

The shares of GHG are listed on the London Stock Exchange, and the shares of Bank of Georgia Group PLC are expected to be listed on the London Stock Exchange before the exchange of stakes takes place. The Company's holding in GHG is, and the Company's holding in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) is expected to be, held as liquid investments on its balance sheet that could be readily convertible into cash, and these assets could be monetised at an appropriate time.

The Company's holdings in GHG, the Banking Business and Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) are and will be (as the case may be) subject to normal market fluctuations and other risks inherent in investing in securities and other financial instruments. The value of the Company's holdings may fluctuate, sometimes materially, in response to the activities of the individual companies or because of general market and economic conditions or other events. In the event of a material reduction in the share price of GHG, or Bank of Georgia Group PLC, the Company may not be able to monetise its holdings in these assets at a sufficiently attractive price or at all, which could adversely affect the Group's business, financial condition, results of operations or prospects.

There are risks inherent in the businesses of the Company's Exit Stage Portfolio Investments.

The Company's Exit Stage Portfolio Investments consist of investments in two businesses of the former BGEO Group: GHG and the Banking Business. The stake in the Banking Business is expected to be exchanged for a 19.9% stake in Bank of Georgia Group PLC which, before this exchange of stakes takes place, is expected to become the new parent company of the Banking Business and to be listed on the premium segment of the London Stock Exchange.

The shares of GHG are listed on the London Stock Exchange, and the shares of Bank of Georgia Group PLC are expected to be listed on the London Stock Exchange. Although the Group is not and will not be involved in the day-to-day management of GHG, the Banking Business or Bank of Georgia Group PLC (if the proposed exchange of stakes takes place), and the Company's holding in GHG is, and the Company's holding in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) will be, held as liquid, tradable assets which can be monetised over time, the value of the Company's Exit Stage Portfolio Investments is dependent on the financial results, business prospects and market perception of GHG, the Banking Business and Bank of Georgia Group PLC (if the proposed exchange of stakes takes place), which, in turn, remain subject to risks inherent in the business of these entities.

Risks Relating to GHG

GHG is the largest healthcare services provider in Georgia and offers a comprehensive range of inpatient and outpatient services through its vertically integrated network of hospitals and polyclinics. GHG is also both the largest pharmaceuticals retailer and wholesaler in Georgia, and the second largest provider of medical insurance in Georgia. GHG is subject to risks inherent with the provision of healthcare services, operation of pharmacies and provision of medical insurance in Georgia, including the following:

- GHG may not be able to expand its business in line with its strategy, realise its revenue and growth targets or achieve the intended benefits or operating synergies from its development projects. As a key part of GHG's growth strategy, GHG plans to more than double its 2015 revenue by the end of 2018 and expand its healthcare services and pharmacy businesses in Georgia through acquisitions which place significant demands on its management and operational resources. GHG might not be able to expand its business in accordance with its plans and its expansion strategy might not generate the benefits expected by management. These projects are also subject to assumptions about anticipated cost savings, synergies and revenue enhancements. If GHG's assessments prove to be incorrect because other factors, not accounted for in GHG's analyses, causing actual developments to differ from its expectations, GHG may not be able to realise the anticipated cost savings, synergies and revenue enhancements from its acquisitions, which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Company's holding in GHG;
- GHG's healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers. As a result, GHG's ability to obtain favourable prices depends on its ability to maintain good working relationships with the government and private insurance providers and may be impacted by a change in the process by which the government reimburses healthcare providers including GHG, which could increase GHG's administrative costs or result in delays in obtaining payment for its services, which could adversely affect GHG's business, financial condition, results of operations or prospects which in turn could result in a reduction in the fair market value of the Company's holding in GHG;
- GHG might not be able to predict in full the evolution of the Georgian government's policy in respect of the state funding of healthcare and, in particular, changes to Georgia's Universal Healthcare Programme and any consequent effect on GHG's business. GHG's strategy assumes that the Georgian government's Universal Healthcare Programme will increase the total amount spent on healthcare services in Georgia and increase demand for "top up" private medical insurance. Reimbursement under the Universal Healthcare Programme is capped at GEL15,000 per person per annum for planned procedures and GEL15,000 per incident for emergency inpatient treatment, with certain limited exceptions. With the exception of certain vulnerable groups (including students, pensioners and children under six), policyholders cannot use private

medical insurance products to supplement the basic state healthcare coverage provided under the Universal Healthcare Programme. GHG's strategy assumes that the limited cover available under the Universal Healthcare programme will increase demand for private medical insurance, particularly as an employee benefit in the corporate insurance market. However, such opportunities may not materialise, which could adversely affect the GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Company's holding in GHG;

- GHG competes with other private and state providers of healthcare services across Georgia and a large and mainly fragmented group of competing healthcare providers in certain regions are more established than GHG, and may have greater experience, infrastructure and brand loyalty. Competition is based on factors such as reputation, clinical excellence, patient satisfaction and price. Competition is strongest in Tbilisi, although GHG faces competition in all of the regions of Georgia in which it operates. GHG may also face competition from other healthcare service providers, such as stand-alone speciality centres and laboratories, for areas such as cardiology, oncology, urology and diagnostics. Although fewer in number and more limited in reach, GHG also competes with state-owned hospitals and polyclinics. Over time, GHG may also face competition from international healthcare companies with substantially greater resources, which may begin providing services in Georgia or attracting patients from Georgia as part of medical tourism. GHG's competitors may consolidate, develop alliances or adopt predatory pricing policies to capture market share, which could adversely affect GHG's business, financial condition, and results of operations or prospects which in turn could result in a reduction in the fair market value of the Company's holding in GHG;

- GHG operates in an evolving regulatory environment and cannot predict what regulatory changes will be introduced in the future or their effect. Since 2007, there have been a number of reforms and profound transformations in the Georgia healthcare equipment market aimed at achieving higher standards of care, modernisation of equipment and facilities, wider access to healthcare and lower healthcare costs. The Georgian government may enhance the coverage it provides though the Universal Healthcare Programme and it may introduce new licencing or accreditation requirements or quality standards for healthcare providers. Non-compliance with applicable laws and regulations, including those specific to tax, insurance or healthcare, or the settling of disputes or law suits, could lead to financial detriment, penalties, increased costs of operations, censure, regulatory investigation and reputational impact, which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Company's holding in GHG;

- Healthcare providers such as GHG can be the subject of litigation by patients and it is possible that some of these cases will be decided against GHG, which could require GHG to pay increased premiums for medical malpractice insurance or risk incurring substantial damages or amounts in judgments or settlements, harm GHG's reputation and the goodwill associated with its brand, require significant time and attention from management and require GHG to incur debt to finance any judgment or settlement, all of which could adversely affect GHG's business, financial condition, results of operations or prospects;GHG's patients may contract serious infections or communicable diseases at its facilities because of the risks typically closely associated with the operation of medical care facilities. GHG's operations involve the treatment of patients with a variety of infectious diseases and previously healthy or uninfected people may contract, during their stay at or visits to GHG's facilities, serious communicable diseases, which could also infect GHG's employees and significantly reduce the treatment and care capacity of GHG's medical facilities in the short-, medium- and long-term. In addition to claims for damages, any of these events may lead to limitations on the activities of GHG's healthcare facilities as a result of regulatory restrictions, loss of reputation and reduced utilisation of GHG's hospitals which could adversely affect GHG's business, financial condition, results of operations or prospects, which in turn could result in a reduction in the fair market value of the Company's holding in GHG.

- GHG might not be able to price its insurance products correctly. GHG makes assumptions about a number of factors in determining the pricing of its medical insurance products and setting its insurance reserves. If these assumptions are incorrect or do not reflect actual market changes then GHG may under-price its insurance products and may need to increase insurance reserves for its medical insurance business. This could adversely affect GHG's business, financial condition, and results of operation or prospectus, which in turn could result in a reduction in the fair market value of the Company's holding in GHG.

Risks Relating to the Banking Business

The Banking Business is a Georgia-based banking group which provides retail banking and corporate banking services, with ancillary business lines including investment (wealth) management, leasing ("**GLC**"), investment banking, payment businesses and BNB (which provides banking operations in Belarus). The Banking Business strives to benefit from the underpenetrated banking sector in Georgia, in particular through providing best in class services in retail banking. The Banking Business is subject to risks inherent with the provision of retail banking and corporate banking services in Georgia, including the following:

- The Banking Business is subject to risks associated with political, financial and economic instability in Georgia and the wider region. The Banking Business's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Banking Business's results of operations are, and are expected to continue to be, significantly affected by political, financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia and the wider region. Any continuing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy and on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- The Banking Business may not be able to maintain the quality of its loan portfolio, which may deteriorate due to external factors beyond the Banking Business's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio;
- The Banking Business's loan portfolio is largely US Dollar denominated and the quality of the Banking Business's loan portfolio may deteriorate as a result of slower economic growth and Lari depreciations and devaluations. As of 31 December 2017 and 31 December 2016, approximately 83.1% and 83.4% and approximately 48.2% and 60.1% of the Banking Businesses corporate investment banking loan and retail banking loan portfolios, respectively, were denominated in foreign currency (predominantly US Dollars). Any depreciation of the Lari against the US Dollar may result in customers having difficulty repaying their loans. The Banking Business's impairment charges and, in turn, the cost of credit risk may increase if a single large borrower defaults or a material concentration of smaller borrowers default. In addition, fluctuations of the Lari against the US Dollar may cause the value of the Banking Businesses US Dollar loan portfolio to fluctuate;
- The Banking Business's corporate loan portfolio is concentrated. The Banking Business's top ten corporate banking borrowers accounted for 10.7% of the loan portfolio (gross of allowances for impairment) as of 31 December 2017, as compared to 11.8% as of 31 December 2016 and 12.7% as of 31 December 2015. Any loss of a key corporate borrower or deterioration in the quality of the Banking Business's corporate banking loan portfolio which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- Collateral values may decline. As of 31 December 2017 the Bank held collateral against gross loans covering 83.5% of the total gross loans. If the fair value of the collateral that the Bank holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further changes to laws or regulations may impair the value of such collateral. If any of these risks materialise, they could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- Significant changes or volatility in the Banking Business's net interest margin could have an adverse effect on the Banking Business's performance. The Banking Business derives the majority of its total net income from net interest income. As a result, the Banking Business is affected by fluctuations in its net interest margin ("**NIM**"), which is, in turn, affected by key factors such as interest rates, competition for loans and deposits, customer demand and cost of

funding. Any reduction in NIM (as a consequence of the factors outlined above) could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- Currency fluctuations have affected, and may continue to affect the Banking Business. As a substantial portion of the total assets of the Banking Business, especially the Bank's loan portfolio (61.7% of gross loans as of 31 December 2017), is denominated in foreign currencies, primarily US Dollars, while the majority of customers with foreign-currency denominated loans depend on Lari-denominated income. Consequently, any depreciation of the Lari against the currency of loans may result in customers facing difficulties repaying such loans. Although the Banking Business offers programmes to certain customers facing financial difficulties, there can be no assurance that any of these programmes will materially reduce the number of such customers. In addition, the Banking Business's operations are affected by the Lari to Belarusian Rouble exchange rate as this affects the value of the Bank's majority equity interest (99.98% as of 31 December 2017) in BNB, which may, in turn, affect the Banking Business's ability to comply with contractual covenants, calculated on a consolidated basis. A depreciation of the Belarusian Rouble against the Lari reduces BNB's contribution to the Banking Business's consolidated capital, as it directly affects BNB's results of operations and indirectly affects the value of the Banking Business's equity interest. The Lari against the Belarusian Rouble (by 3.3% in 2017, compared with depreciation of 4.9% in 2016), the regulatory capital of BNB increased in Lari terms by 8.8% and 4.4% in 2016 and 2017, respectively, and remained above the minimum regulatory capital requirement set by the National Bank of the Republic of Belarus ("**NBRB**"). As of 31 December 2017, the regulatory capital of BNB was GEL78.2 million. Any subsequent depreciation or a devaluation of the Belarusian Rouble could result in declines in BNB's regulatory capital. Any currency fluctuations could adversely affect the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- The Banking Business's risk management policies and procedures may not effectively mitigate credit risk. Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Banking Business to mitigate credit risk and to protect against loan losses prove less effective than expected which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- The Banking Business is subject to operational risk inherent in banking activities. The Banking Business is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets which could have a material adverse effect on the Banking business, and as a result have an adverse effect on the value of the Group's holding in the Banking Business;

- The Banking Business is also subject to five major cyber-security threats: data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance e-mail attacks. Although to date cyber-security threats have not materially affected the Banking Business's operations, it is expected that such threats will continue to increase, which will require the Group to closely monitor such threats, materialisation of which could adversely affect the Banking Business and as a result could have a material adverse effect on the value of the Group's holding in the Banking Business;

- The Banking Business may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion; The Banking Business aims to achieve long-term sustainable growth and profitability of its business by increasing the size of its retail banking business relative to corporate banking, mostly by increasing its product to client ratio, and generating additional non-interest income from advisory and other fee-generating businesses. Although the Banking Business currently expects to have sufficient funding to execute its strategy, there can be no assurance, however, that the Banking Business will be able to achieve its major strategic objectives, including increasing its revenue or profitability, over the longer term, as the Banking Business is subject to certain macroeconomic risks including risks relating to economic growth in Georgia and the wider region which could adversely affect the Banking Business and as a result could have a material adverse effect on the value of the Group's holding in the Banking Business;

- The Banking Business faces liquidity and funding risk. Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability which could adversely affect the Banking Business and as a result could have a material adverse effect on the value of the Group's holding in the Banking Business;
- The Banking Business faces competition. In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 January 2018, there were 16 commercial banks operating in Georgia, 12 of which had foreign capital participation. An increase in competition could lead to significant pressure on the Banking Business's market share, which could adversely affect the Banking Business and as a result could have a material adverse effect on the value of the Group's holding in the Banking Business;
- The Banking Business is subject to certain regulatory ratios. Like all regulated financial institutions in Georgia, the Bank is required to comply with certain capital adequacy and regulatory ratios set by the NBG. The Bank is not in breach of any applicable capital adequacy or regulatory ratios and expects to be able to comply with current and future capital ratios that will enter into force (including those from 31 December 2018) over the next 18 months and beyond. Failure to maintain the minimum capital adequacy, liquidity, related party credit exposure and other regulatory ratios may have a material adverse effect on the Banking Business. The Banking Business may be subject to penalties from the NBG for violations of capital adequacy and other regulatory ratios. Among other things, the NBG has introduced amendments to the regulation on capital adequacy requirements for commercial banks within Pillar 1 and additional capital buffer requirements within Pillar 2. Should the Bank fail to reach the Pillar 2 capital adequacy ratios, which it may do under certain stress scenarios, the Bank's ability to pay dividends would be limited or it might be unable to pay dividends at all during certain periods. Depending on the seriousness of any violation, the NBG is also authorised to impose other sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, in severe cases, withdrawal of the Banking Business's licence which could have a material adverse effect on the Banking business, and as a result on the value of the Group's holding in the Banking Business;
- The Banking Business operates in an evolving regulatory environment and is subject to regulatory oversight with changes to regulations being difficult to predict. The Banking Business operates in an evolving regulatory environment, which means that its retail banking business, corporate investment banking business and BNB are subject to changes in regulation imposed by various regulatory bodies. The Banking Business cannot predict what regulatory changes will be introduced in the future or their effect. In addition, the Banking Business is also subject to significant regulation and governmental supervision. If regulations change or the Banking Business expands its businesses, the Banking Business may become subject to additional rules and regulations at a national, international or supranational level, which may impact operations. There can be no assurance that the current regulatory environment in which it operates will not be subject to significant change in the future, including as a result of a change in government in, Georgia or Belarus, or that the Banking Business will be able to comply with any or all resulting regulations which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- If the Banking Business fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on the Bank. The Bank has implemented comprehensive AML, "know-your-customer" ("**KYC**"), "know your corresponding bank" and "know your employee" policies. Compliance with these policies is monitored by the Bank's and BNB's AML and Compliance Department, and the Banking Business seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective. If the Banking Business fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on the Banking Business, and as a result on the value of the Group's

holding in the Banking Business. In addition, involvement in such activities may result in criminal or regulatory fines and sanctions which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- The Banking Business's insurance policies may not cover, or fully cover, certain types of losses. The Banking Business generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in the United Kingdom and Georgia. The Bank also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect its existing operations and could, in turn, have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- The Banking Business faces certain risks associated with conducting international operations. The Banking Business has made investments in Ukraine and Belarus in the past, although it liquidated all of its interests in Ukrainian banking investments in 2014. While it retains its investment in BNB, it will continue to be subject to risks relating to its operations, including political and economic risks, compliance risks and foreign currency exchange risks, regulatory risks as well as the risk of failure to market adequately to potential customers in Belarus. Any failure to manage such risks may cause the Banking Business to incur increased liabilities, which could, in turn, have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

  The loss of key personnel or the failure to attract, develop or retain skilled or qualified employees; and could negatively impact the Banking Business. The Banking Business depends on the capabilities and performance of its key personnel, including its executive officers and employees. As there is a limited pool of potential officers and employees with the relevant expertise that can be recruited in Georgia, the Banking Business's ability to continue to retain, motivate and attract qualified and experienced management and personnel is vital to its business. There can be no assurance that the Banking Business will be able to successfully recruit and retain the necessary qualified personnel to staff the Banking Business's business. The loss or diminution in the services of members of the Banking Business's senior management team or an inability to recruit, train or retrain necessary personnel could negatively impact the Banking Business's ability to implement its strategy which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business.

Macroeconomic and Political Risks Related To Georgia

Regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories within its borders, Abkhazia and the Tskhinvali Region/South Ossetia. Ongoing political tensions within the region have led to sporadic outbreaks of violence and the straining of diplomatic relations between Georgia and its neighbours. Russia imposed sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed the international border and a state of war was declared. Although a French-brokered ceasefire was signed, calling for the withdrawal of Russian troops, Russia recognised the independence of the breakaway regions and tensions persist. The introduction of a free trade regime between Georgia and the EU in 2014 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may exacerbate tensions between these countries. For example, in 2017, Russian occupation forces deployed in central Georgia moved the occupation line further into Georgian territory. The geopolitical relationship between Russia and Ukraine remains strained following the crisis which began in 2013. Sanctions by the United States and EU (and other nations) against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. The political environment in Turkey remains tense after the civil unrest which took place in Turkey during 2016. The failed coup has led to amendments to the Turkish constitution which were approved by voters in a referendum. These amendments grant the president wider powers and could have a negative impact upon political stability in Turkey. Further geopolitical disharmony in the region, most notably between Azerbaijan and Armenia may also impact upon Georgia.

There are additional risks associated with investing in emerging markets such as Georgia.

Emerging markets may have higher volatility, more limited liquidity and a narrower export base than more mature markets and are subject to more frequent changes in the political, economic, social, legal and regulatory environment. They are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors may react to events, disfavouring an entire region or class of investment, a phenomenon known as the "contagion effect". If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis, the 2008-2009 global financial crisis, and recent regional turbulence due to lower oil prices, and may be affected by similar events in the future.

Increased volatility in global financial markets and lower capital flows to emerging market economies world-wide, weakness of global trade, elevated geopolitical risks, highly volatile and large and sustained declines in commodity prices, wide-ranging spill overs from Russia's recession, and the slowdown and rebalancing of China's economy may have an adverse effect on Georgia's economy. Financial or political instability in emerging markets also tends to have a material adverse effect on capital markets and the wider economy as investors generally move their money to more developed markets, which they may consider to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, which may include information in this document.

Political and consequently governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business.

Since regaining its independence from the former USSR in 1991, Georgia has experienced an ongoing and substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of existing reform policies or as a result of a rejection of reform policies by the president, the parliament or others.

In October 2010, the parliament of Georgia approved certain amendments to the constitution of Georgia (the "Constitution") that were intended to enhance the primary governing authority of the parliament, to increase the powers of the prime minister of Georgia and to limit the scope of functions of the president of Georgia. The parliament adopted certain constitutional amendments further limiting the powers of the president of Georgia in March 2013. In October 2017, the parliament made changes to the Constitution including the introduction of indirect elections of the members of parliament and the president, a proportional electoral system for parliamentary elections (starting from 2024), and raising the minimum age for members of parliament and the president. Opposition parties and non-governing organisations have criticised these amendments and, in particular, the postponing of fully proportional parliamentary elections and the introduction of indirect election of the president. Any further changes to Georgian parliamentary, presidential or prime ministerial powers might create political disruption or political instability or otherwise negatively affect the political climate in Georgia. Furthermore, no assurance can be given that the next parliamentary elections scheduled in 2020 will proceed without creating political disruption, which could have a negative effect on the Georgian economy.

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business.

Georgia is still developing an adequate legal framework with several fundamental civil, criminal, tax, administrative and commercial laws recently becoming effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have resulted in ambiguities and inconsistencies in their application, including their enforceability. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in Europe and the United States. The uncertainties of the Georgian judicial system, and any decision made by the Georgian courts, could have a negative effect on the Georgian economy.

There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the Deep and Comprehensive Free Trade Area (the "DCFTA").

On 27 June 2014, Georgia signed the EU Association Agreement and established a DCFTA with the EU, which envisages bilateral trade liberalisation with the EU. The implementation of the EU Association Agreement is expected to create new business opportunities, although it may pose challenges for businesses, households and the state. The implementation of the EU Association Agreement and the DCFTA may require Georgia to conform to EU trade-related and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and safety information, among others.

Georgia has been gradually conforming its trade legislation to EU norms and practices since it became a member of the World Trade Organisation in 2000. Some of the recent changes in regulation include the 2013 amendments to the labour code to bring Georgian labour regulations closer to commitments under the EU Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (from one to two months' salary), strengthened workers' rights to challenge employers' decisions in courts, prohibited dismissal without clear cause, and guaranteed basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict the Group's ability to make further acquisitions in line with its growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the EU Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow their efficiency.

As a result of expected regulatory amendments to achieve harmonisation with EU legislation, the Group may be required to adjust its policies and procedures to comply with any resulting changes in laws and regulations. For example, the Group has made changes to its labour contracts to reflect changes to the labour code described above. The Group expects that there will be further changes, although it cannot predict the extent to which it might be affected by, or able to comply with, any such changes.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies.

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with tax laws, to the extent that such tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities. Tax law enforcement can also be unpredictable, such as the imposition of liens over Group assets.

Moreover, such tax laws are subject to changes and amendments, which can result in unusual complexities for businesses. A new tax code (the "**Tax Code**") came into effect on 1 January 2011. In 2011, the Georgian Parliament passed the Organic Law on Economic Liberty prohibiting the introduction of new state-wide taxes or increases in the existing tax rates (other than excise) without a public referendum initiated by the Government (except in certain limited circumstances). This law has been in effect since 31 December 2013. Differing opinions regarding the interpretation of various provisions of the Tax Code exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. However, the Tax Code does provide for the Georgian tax authorities to give advance tax rulings on tax issues raised by taxpayers. While Management believes that the Group and members of the Group operating in Georgia are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that the Group could face fines or penalties as a result of regular tax audits.

In addition, tax laws and government tax policies may be subject to change in the future, including changes resulting from a change of government. See "*—Political and consequently governmental instability in Georgia could have a material adverse effect on the local economy and the Group's business*". Such changes could include the introduction of new taxes or an increase in the tax rates applicable to the Group or its customers, which may, in turn, have a material adverse effect on its business.

In May 2016, the Georgian Parliament adopted changes to the Tax Code related to corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the shareholders or incurs such costs or makes supplies or payments that are subject to corporate profit tax. It is expected that this change will intensify the economic activity and increase the capitalisation of the private sector. The relevant amendments to the Tax Code apply with effect from 1 January 2017 apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). There can be no assurance, however, as to whether these amendments will achieve the desired result.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group.

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2015, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (including the sum of sales and purchase but excluding activities of the NBG) amounted to US$25.8 billion and €11.7 billion, respectively, and according to the same source, in 2016, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$28.4 and €10.8 billion, respectively, and in 2017, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$26.1 billion and €6.9 billion, respectively. According to the NBG, the NBG had US$3 billion in gross official reserves as of 31 December 2017. While the Government has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market coupled with a significant current account deficit and external debt may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy given the extent of dollarisation of the Georgian economy and the large share of foreign current debt. There was significant instability in the Lari to US Dollar exchange rate following the Russian financial crisis of August 1998, following the conflict with Russia in 2008 and following the regional economic slowdown due to the fall in oil prices in 2015. In 2015, the NBG allowed the Lari to depreciate by 28.5%, in a measure aimed at alleviating the negative impact of the economic slowdown in neighbouring countries on the Georgian economy. The Lari US Dollar exchange rate was 2.3949 as of 31 December 2015, 2.6468 as of 31 December 2016, 2.5922 as of 31 December 2017 and 2.4969 as of 31 January 2018. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further depreciation of the Lari, could adversely affect Georgia's economy. According to information published by Geostat, annual inflation in Georgia, as measured by the end-of-period Consumer Price Index (**CPI**), was 4.9% in 2015, 1.8% in 2016 and 6.7% in 2017. Although inflationary pressures expected to soften in 2018 as the effects of excise tax increases and currency depreciation diminish, there is no guarantee that the Georgian economy will not be further affected by domestic or global increases in food and oil prices. Deflation, while increasing the purchasing power of the Lari, could adversely affect foreign investment and profitability in the lending activities of the Bank. On the other hand, high and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the Group's customers, which could, in turn, have a material adverse effect on its business.

The Group's financial position and trading results may be adversely affected by fluctuations in exchange rates, interest rates or the rate of inflation.

The Group has no control over changes in foreign currency exchange rates, or inflation and interest rates. In the normal course of business, many transactions are carried out by the Group's businesses in currencies other than their reporting currency, leading to transactional foreign exchange risk, although this is not material for the Group overall. Significant fluctuations in the value of currencies in which it operates, in interest rates or in rates of inflation may adversely impact the Group's financial position and results of operations.

It is the Group's policy that foreign currency transaction exposures that are material at an individual operating unit level are hedged using appropriate instruments such as forward foreign exchange contracts. The Group does not currently hedge translational impact on the income statements of subsidiaries. While the Group attempts to manage transactional and balance sheet translation risks associated with currency exchange rate fluctuations through its hedging and funding policies, fluctuations in the value of currencies in which it operates may nevertheless adversely impact the Group financial position and results of operations. Where appropriate, the Group manages its interest rate exposures using interest rate swap agreements or other instruments.

Risks Relating to The Proposals

A number of conditions precedent must be satisfied before the Proposals can be completed.

Completion of the Proposals is subject to the satisfaction (or, where permitted, waiver) of a number of conditions precedent contained in the Demerger Agreement (including the approval of the Scheme at the Court Meeting and the approval of the Proposals by the BGEO Group Shareholders at the General Meeting) and successful completion of each of the individual steps of the Proposals. If the BGEO Group Shareholders do not approve the Scheme at the Court Meeting or the Proposals at the General Meeting, or the Court fails to sanction the Scheme or confirm the BGEO Group Capital Reduction or the Bank of Georgia Group PLC Capital Reduction, the Demerger will not complete. If the Demerger does not occur in whole or in part, then the Company may experience a delay in the execution of its strategic objectives and may be unable to realise the benefits for BGEO Group Shareholders and Georgia Capital Shareholders that the Directors believes will result from the Demerger.

The Demerger may not occur even after the Scheme has become effective.

Although the Proposals are intended to be implemented in full, the Scheme and the Bank of Georgia Group PLC Capital Reduction require different Court approvals which cannot be inter-conditional. It is therefore possible that the Demerger will not occur after Bank of Georgia Group PLC has become the new holding company of the BGEO Group pursuant to the Scheme. If that happens, Bank of Georgia Group PLC Shareholders will not receive Shares and Georgia Capital will continue to be owned by Bank of Georgia Group PLC for the foreseeable future.

The financial results of the Group after the Demerger may be more volatile than those of the BGEO Group before the Demerger.

The BGEO Group currently benefits from diversification, resulting from operating the businesses which will become the Group alongside the businesses which will become Bank of Georgia Group PLC. Following the Demerger, that diversification will diminish and the Group and/or Bank of Georgia Group PLC may individually demonstrate increased volatility in terms of their operations and/or financial results and requirements.

The receipt of Shares could be a taxable transaction for BGEO Group Shareholders for US federal income tax purposes.

The receipt of Shares and Bank of Georgia Group PLC Shares by BGEO Group Shareholders is intended to qualify for non-recognition treatment for US federal income tax purposes under the US Internal Revenue Code of 1986, as amended ("**IRS Code**"). BGEO Group PLC has received an opinion from its tax adviser (the "**Opinion**") to the effect that, in the opinion of the tax adviser, the Scheme and the Demerger, while not free from doubt, should satisfy the US federal income tax statutory and regulatory requirements for non-recognition treatment for US persons who receive Shares and Bank of Georgia Group PLC Shares. The Opinion is based on certain representations made by BGEO Group PLC and on certain assumptions, and any inaccuracy in the representations made by BGEO Group PLC or the assumptions could invalidate the Opinion.

If it were ultimately determined that the receipt of Shares and/or Bank of Georgia Group PLC Shares failed to qualify for non-recognition treatment under the IRS Code, adverse US federal income tax consequences could result for a holder of BGEO Group Shares who is a US person. A summary of the US federal income tax treatment for US persons of receipt of the Shares and Bank of Georgia Group PLC Shares pursuant to the Scheme and the Demerger are set out in the section entitled "US Federal Income Tax Considerations" in Part IX: "*Taxation*" of the BGEO Group Circular.

The Demerger may give rise to other unanticipated tax consequences.

BGEO Group PLC has undertaken tax due diligence to identify the likely tax treatment of the Demerger and has structured the Demerger so as to reduce any adverse tax consequences. However, tax law and practice can be subject to differing interpretations and, in some jurisdictions, the tax authorities are entitled to exercise discretion in how the tax law should be applied in certain cases. Consequently, the Group is not able to guarantee that the tax authorities in each jurisdiction in which the Group companies have a taxable presence will interpret or apply the relevant tax law and practice in the manner in which the Group anticipates and this may give rise to adverse consequences. Details of the United Kingdom, United States and Georgia tax treatment of shareholders arising under the Scheme and the Demerger are set out in the sections entitled "United Kingdom Taxation", "US Federal Income Tax Considerations" and "Georgia Taxation" in Part XVII: "*Taxation Considerations*" of this document.

The Company and Bank of Georgia Group PLC could have significant indemnification obligations to each other as a result of the Proposals.

The Company and Bank of Georgia Group PLC have entered into certain Separation Agreements, as described in Part XIX: "*Additional Information*" of this document, that govern the allocation of the assets and liabilities of the businesses and their post-Demerger obligations to each other in respect of, among other things, taxes and transitional services. Under the terms of the Demerger Agreement, each of the Company and Bank of Georgia Group PLC has agreed to indemnify the other in respect of liabilities incurred by members of their respective groups following the Demerger Effective Time which relate to the Group Business and Bank of Georgia Group PLC Business, respectively. The amounts payable by the Company and Bank of Georgia Group PLC to the other pursuant to such indemnity obligations could be significant and are not capped. In addition, the Company will be responsible for one third of any liability incurred which is attributable to pre-Demerger transactions and certain restructuring transactions undertaken in anticipation of the Demerger, including the Reorganisation. The tax liabilities that could arise under the Tax Sharing and Indemnification Agreement could be significant and are not capped.

Bank of Georgia Group PLC has also, under the terms of the Tax Sharing and Indemnification Agreement and subject to certain conditions, agreed to indemnify the Company for taxes imposed on the Company that are attributable to certain restructuring transactions undertaken in anticipation of the Demerger (including the Reorganisation). The tax liabilities that could arise were a taxing authority successfully to challenge the treatment of the restructuring transactions could be significant. However, in the event of a change of control of the Company (i.e. more than 50 per cent. of the shares in the Company being acquired by a third party), the obligations of Bank of Georgia Group PLC to indemnify Georgia Capital for additional taxes in respect of the restructuring and other transactions may terminate, to the extent that such taxes are attributable to that change of control.

As described in paragraph 3.1 of Section B of Part IX of the BGEO Group Circular, incorporated by reference into this document in Part XX "*Information Incorporated by Reference*", were members of the Company to take certain actions that might result in the Demerger and preceding restructuring transactions failing to qualify for non-recognition treatment for US federal income tax purposes, the Company may be required to indemnify Bank of Georgia Group PLC for liabilities that are incurred as a result of such failure. Even if such a liability were to arise, based on valuations provided by its advisers, the Company expects that any such liability would not be significant. However, these valuations could be subject to differing interpretations and, as a result, there is no guarantee that they could not be successfully challenged by a tax authority. Were that to be the case, Bank of Georgia Group PLC could have a significant tax liability for which indemnification would be sought from the Company.

Risks Relating to The Shares

The price of the Shares may be volatile.

The price of the Shares following the Admission could be subject to significant fluctuations due to the volatility of the stock market in general and a variety of other factors, some of which are beyond the Group's control, including the other risks relating to an investment in the Company described in this section. The fluctuations could result from national and global economic and financial conditions, the market's response to the Demerger, market perceptions of the Group, including its ability to manage its existing debt facilities and raise new capital, regulatory changes affecting the Group's operations, variations in the Group's operating results, business developments of the Group and/or its competitors and liquidity of financial markets. Furthermore, the operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Shares.

Any future equity issues by the Company could have an adverse effect on the market price of the Shares and could dilute ownership.

Other than the proposed issue of shares under the Proposals, the Company has no current plans for an offering of its shares. However, it is possible that the Company may decide to issue additional shares in the future and if shareholders did not take up such offer or were not eligible to participate, their proportionate ownership and voting interests in the Company would be reduced and the percentage that their shares would represent of the total share capital of the Company would be reduced accordingly. A future equity issue, or significant sale of Shares by major shareholders, could have a material adverse effect on the market price of Shares as a whole.

Any change in current tax law or practice could adversely affect holders of Shares.

Statements in this document concerning the taxation of holders of Shares are based on current UK, US and Georgian tax law and practice as of the date of this document, each of which is subject to change, possibly with retrospective effect.

The taxation of an investment in Shares depends on the individual circumstances of the Shareholder and the summary of the UK, US and Georgian taxation treatment of an investment in the Shares set out in Part XVII: "Taxation Considerations" of this document is intended as a general guide only. It does not address the specific tax position of every investor and only deals with rules of UK, US and Georgian taxation of general application. Therefore, any investors who are in any doubt as to their tax position regarding the Shares and any investors subject to tax in any other jurisdiction should consult their own independent tax advisers.

Holders of Shares in the United States and other overseas jurisdictions may not be able to participate in any future equity offerings of the Company.

The Companies Act provides for pre-emption rights to be granted to Shareholders, unless such rights are disapplied by shareholder resolution. However, US shareholders may not be entitled to exercise these rights unless the rights, and the Shares issued pursuant to such rights, are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. Whilst the Company has no current intention to seek such registration and would evaluate, at the time of any rights issue, whether the offer would qualify for an exemption, as well as the indirect benefits to the Company of enabling US shareholders to exercise rights and any other factors it considers to be appropriate at the time, prior to making a decision on whether to utilise an exemption, if available, from the registration requirements of the Securities Act. Similar issues may arise in relation to other overseas jurisdictions.

The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or its Directors may be limited.

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England. The rights of holders of Shares are governed by English law and by the Company Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors and executive officers. The majority of the Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

PART III

IMPORTANT INFORMATION

Forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. They appear in a number of places throughout this Prospectus, involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' or the Group's intentions, beliefs or current expectations concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates and the general economic outlook. In particular, the statements under the headings "*Summary*", "*Risk Factors*", "*The Business*" and "*Operating and Financial Review*" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Company and the Directors, expressly disclaim any obligation or undertaking to update these forward-looking statements contained in the Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the Disclosure and Transparency Rules of the FCA.

These forward-looking statements speak only as of the date of this Prospectus. Except as required by the FCA, the London Stock Exchange, the Prospectus Rules, the Listing Rules, the Disclosure Guidance and Transparency Rules or applicable law, neither BGEO Group PLC, Bank of Georgia Group PLC or the Company undertakes any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur.

The contents of these sections relating to forward looking statements are not intended to qualify the statements made as to sufficiency of working capital in this Prospectus.

Notice to investors

Enforceability of US judgments

The Company is a public limited company incorporated under the laws of England and Wales. The majority of the Directors and officers reside outside the United States. In addition, substantially all of the Group's assets and the majority of the assets of its Directors and officers are located outside of the United States. As a result, it may not be possible for US investors to effect service of process within the United States upon the Company or its Directors and officers located outside the United States or to enforce in the US courts or outside the United States judgments obtained against them in US courts or in courts outside the United States, including judgments predicated upon the civil liability provisions of the US federal securities laws or the securities laws of any state or territory within the United States. There is also doubt as to the enforceability in England and Wales, whether by original actions or by seeking to enforce judgments of US courts, of claims based on the federal securities laws of the United States. In addition, punitive damages in actions brought in the United States or elsewhere may be unenforceable in England and Wales.

Overseas Shareholders

United States

The Shares to be issued in connection with the Scheme are expected to be issued in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) and, as a consequence, have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States.

The Shares generally should not be treated as "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and persons who receive securities in the Scheme and the Demerger may resell them without restriction under the Securities Act.

Under the US securities laws, persons who are deemed to be affiliates of BGEO Group PLC, Bank of Georgia Group PLC or the Company as of the Scheme Effective Time may not resell the Shares received pursuant to the Scheme without registration under the Securities Act, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. BGEO Group Shareholders who believe they may be affiliates for the purposes of the Securities Act should consult their own legal advisers prior to any resale of Shares received pursuant to the Scheme.

Swiss Investors

Other jurisdictions

The implications of the Proposals for Overseas Shareholders may be affected by the laws of jurisdictions outside the United Kingdom. Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of any Overseas Shareholders to satisfy themselves as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes or duties or payments due in such jurisdiction. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

This Prospectus has been prepared for the purposes of complying with English law and the rules of the UKLA and the information disclosed may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

If, in respect of any Overseas Shareholder, the Company is advised that the allotment and/or issue of Shares would or may infringe the laws of any jurisdiction outside the United Kingdom, or would or may require the Group to comply with any governmental or other consent or any registration, filing or other formality with which the Group is unable to comply or compliance with which the Company regards as unduly onerous, the Scheme provides that the Company may, in its sole discretion, either:

(a) determine that such Shares shall be sold, in which event the Shares shall be issued to such holder and the Company shall appoint a person who shall be authorised on behalf of such Overseas Shareholder to procure that any shares in respect of which the Company has made such determination shall, as soon as practicable following the Scheme Effective Time, be sold; or

(b) determine that such Shares shall not be issued to such Overseas Shareholder but shall instead be issued to a nominee for such holder appointed by the Company on terms that the nominee shall, as soon as practicable following the Scheme Effective Time, sell the Shares so issued.

Any such sale shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the relevant Overseas Shareholder by sending a cheque or creating an assured payment obligation in accordance with the terms of the Scheme. Any remittance of the net proceeds of the sale referred to shall be at the risk of the relevant Overseas Shareholder.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY, NOR SHALL THERE BE ANY SALE, ISSUANCE OR TRANSFER OF THE SECURITIES REFERRED TO IN THIS PROSPECTUS IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

OVERSEAS SHAREHOLDERS SHOULD CONSULT THEIR OWN LEGAL AND TAX ADVISERS WITH RESPECT TO THE LEGAL AND TAX CONSEQUENCES OF THE SCHEME AND THE PROPOSALS TO THEIR PARTICULAR CIRCUMSTANCES.

PART IV

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical Financial Information for the Group

The Group's combined Historical Financial Information as of and for the years ended 31 December 2015, 2016 and 2017 (the "**Historical Financial Information**") has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**") except for the application of certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. Ernst & Young LLP have issued an unqualified accountant's report on the Historical Financial Information for the Group.

Unless otherwise stated, the financial information relating to the Group has been extracted from the Historical Financial Information for the relevant financial year. Unless otherwise stated, all unaudited financial information in this document has been extracted without material adjustment from the Group's unaudited management accounts.

Non-IFRS Information

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. The non-IFRS measures described below are alternative performance measures ("**APMs**") as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the "**ESMA Guidelines**"). Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

Earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") is a financial measure. EBITDA is derived from the Historical Financial Information of the Group.

The Group has presented these figures in this document because Management uses EBITDA as a tool to measure the Group's operational performance and the profitability of its operations. Prospective investors should use caution when reviewing EBITDA calculations and should not consider EBITDA as an absolute measure of the Group's financial performance or liquidity, as alternatives to operating profit, net income or any other performance measures derived in accordance with IFRS, or as alternatives to cash flow from operating activities as a measure of the Group's performance, or consider it to be comparable to other companies' EBITDA calculations. In addition, these measures should not be used instead of, or considered as an alternative to, the Historical Financial Information of the Group under IFRS.

EBITDA is not a uniformly or legally defined measure and is not recognised under IFRS or any other generally accepted accounting principles. The Group is not presenting EBITDA measures of its financial performance. EBITDA has important limitations as analytical tools and prospective investors should not consider this financial measure in isolation or as a substitute for analysis of the Group's results of operations. The Company considers EBITDA to be an important indicator of its representative recurring operations.

Translation of amounts in foreign currency

The Company has presented figures detailing foreign exchange loss (or gain) related to non-operating cash flow items in this document because the Company's management uses this measure to reconcile cash flow using the indirect method. This can be calculated by determining the foreign currency loss (or gain) principally attributable to borrowings, debt securities issued, derivative financial instruments and amounts due from credit institutions.

Market, Industry and Economic Information

Georgian macroeconomic data was principally obtained from National Statistics Office of Georgia, the National Bank of Georgia, the Georgian National Tourism Administration, the Ministry of Finance of Georgia and the International Monetary Fund. Further macroeconomic and industry data was obtained from the Georgian National Tourism Administration and the National Centre for Disease Control and Public Health. The Company accepts responsibility for having accurately reproduced information obtained from third parties, and, so far as the Group is aware and have been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Available Information

For so long as any of the securities are in issue and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is not subject to section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of the Shares, or to any prospective purchaser of the Shares designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

PART V

EXCHANGE RATES

Solely for the convenience of the reader, this document contains translations of certain GEL amounts into U.S. dollars at exchange rates as reported by the National Bank of Georgia and effective as of the dates specified herein. These exchange rates may differ from the actual rates used in the preparation of the Historical Financial Information of the Group and other financial information appearing in this document. The inclusion of these exchange rates is not meant to suggest that the GEL amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all. References to "billions" are to thousands of millions.

The official exchange rate as reported by the National Bank of Georgia for the purchase of GEL on 31 December 2017 was GEL 2.5922 = US$1.00.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

	(Unaudited)			
GEL to U.S. dollar	**High**	**Low**	**Average**	**Period End**
2013	1.7376	1.6348	1.6634	1.7363
2014	1.9527	1.7241	1.7659	1.8636
2015	2.4499	1.8780	2.2702	2.3949
2016	2.7846	2.1272	2.3667	2.6468
2017	2.7674	2.3824	2.5090	2.5922

The following table sets forth, for the months indicated, the high, low, average and period-end official exchange rates as reported by the National Bank of Georgia, in each case for the purchase of GEL, all expressed in GEL per U.S. dollar.

	(Unaudited)			
GEL to U.S. dollar	**High**	**Low**	**Average**	**Period End**
December 2017	2.7193	2.5266	2.6125	2.5922
January 2018	2.5967	2.4578	2.5473	2.4969
February 2018	2.4962	2.4427	2.4643	2.4795
March 2018	2.4962	2.4328	2.4489	2.4400

(1) To 20 March 2018.

PART VI

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and/or date
Latest time and date for receipt of blue Forms of Proxy/ CREST Proxy Instructions for the Court Meeting	11.00 a.m. on 26 April 2018(1)
Latest time and date for lodging an electronic proxy for the Court Meeting by way of CREST Proxy Instruction or online at www.sharevote.co.uk	11.00 a.m. on 26 April 2018
Latest time and date for receipt of white Forms of Proxy/ CREST Proxy Instructions for the Annual General Meeting	11.15 a.m. on 26 April 2018(1)
Latest time and date for lodging an electronic proxy for the Annual General Meeting by way of CREST Proxy Instruction or online at www.sharevote.co.uk	11.15 a.m. on 26 April 2018
Voting Record Time in respect of the Court Meeting and Annual General Meeting	6.00 p.m. on 26 April 2018(2)
Court Meeting	11.00 a.m. on 30 April 2018
Annual General Meeting	11.15 a.m. on 30 April 2018(3)
The following dates are subject to change	
Scheme Court Hearing to sanction the Scheme and to confirm the BGEO Group Capital Reduction	18 May 2018
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, BGEO Group Shares	Up until 4.30pm on 18 May 2018(4)
Scheme Record Time	6.00 p.m. on 18 May 2018(4)
Scheme Effective Time: Bank of Georgia Group PLC becomes the holding company of the BGEO Group	Around 9.00 p.m. on 18 May 2018(4)
Cancellation of listing of BGEO Group Shares, Bank of Georgia Group PLC Admission, crediting of Bank of Georgia Group PLC Shares to CREST accounts and dealings in Bank of Georgia Group PLC Shares commence on the London Stock Exchange	8.00 a.m. on 21 May 2018(4))
Bank of Georgia Group PLC Court Hearing to confirm the Bank of Georgia Group PLC Capital Reduction	23 May 2018(4)
Demerger Record Time	6.00 p.m. on 25 May 2018(5)
Demerger Effective Time: Demerger becomes effective	Before 8.00 a.m. on 29 May 2018(5)
Georgia Capital Admission, crediting of Shares to CREST accounts and dealings in Shares commence on the London Stock Exchange	8.00 a.m. on 29 May 2018(5)
Georgia Capital Court Hearing to confirm the Georgia Capital Capital Reduction	26 June 2018(5)
Georgia Capital Capital Reduction Effective Date	On or before 26 June 2018(5)
Despatch of share certificates for Bank of Georgia Group PLC Shares	by 4 June 2018(5)
Despatch of share certificates for Shares	by 12 June 2018(5)

Unless otherwise stated, all references to times in this document are to London times.

The Court Meeting and the Annual General Meeting will each be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. and 11.15 a.m. (3), respectively, on 30 April 2018.

Notes:

(1) If the blue Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to Computershare, on behalf of the chairman of the Court Meeting, at the Court Meeting before the taking of the poll. However, the white Form of Proxy for the Annual General Meeting must be returned by no later 10.15 a.m. on 26 April 2018 to be valid.

(2) If either the Court Meeting or the General Meeting is adjourned, the Voting Record Time for the adjourned meeting will be 6.00 p.m. on the date two days before the date set for the adjourned meeting.

(3) General Meeting to commence at 11.15 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

(4) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the BGEO Group Capital Reduction. If any of the expected dates change, BGEO Group PLC will give adequate notice of the change by issuing an announcement through a Regulatory Information Service.

(5) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the BGEO Group Capital Reduction and the date upon which the Court confirms the Bank of Georgia Group PLC Capital Reduction. If any of the expected dates change, BGEO Group PLC will give adequate notice of the change by issuing an announcement through a Regulatory Information Service.

PART VII

DIRECTORS, SECRETARY, REGISTERED OFFICE, HEAD OFFICE AND ADVISERS

Directors	Irakli Gilauri David Morrison Kim Bradley Massimo Gesua' sive Salvadori William Huyett Caroline Brown Jyrki Talvitie
Company Secretary	Rebecca Wooldridge
Registered Office	84 Brook Street London W1K 5EH
Head Office in Georgia	3-5 Kazbegi Street 0179, Tbilisi Georgia
Sponsor and Joint Financial Adviser	Citigroup Global Markets Limited Citigroup Centre Canada Square Canary Wharf London, E14 5LB
Joint Financial Adviser	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London, EC4M 7LT
Legal Adviser to the Company as to English and U.S. Law	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA
Legal Adviser to the Company as to Georgian Law	Dentons Georgia LLC 10 Melikishvili Street Tbilisi 0179 Georgia
Legal Adviser to the Joint Financial Advisers as to English Law and U.S. Law	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Reporting Accountant and Independent Auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

PART VIII

INFORMATION ON THE PROPOSALS

Information on the Proposals is incorporated into this document by reference to Part II: ''Explanatory Statement'' of the BGEO Group Circular and the related definitions contained in XII of the BGEO Group Circular.

PART IX

INDUSTRY OVERVIEW

All figures in this Part IX are unaudited.

Macroeconomic Overview

Georgia is located in the South Caucasus at the crossroads of Western Asia and Eastern Europe, and is bordered to the south by Turkey and Armenia, to the west by the Black Sea, to the southeast by Azerbaijan and to the north by Russia. The population of Georgia was estimated at 3.7 million as of 1 January 2017, with Tbilisi accounting for 30% of the population, or 1.1 million people.

Georgia, one of the fastest growing countries in Eastern Europe, with real GDP growth averaging 4.5% during 2007 to 2017 (according to Geostat), is considered an open market in which to do business. Since becoming a WTO member in 2000, growth-oriented reforms and ongoing economic liberalisation have transformed Georgia into a country that is ranked by the World Bank as one of the easiest places to do business. Georgia has implemented the highest number of business regulation reforms of any country listed since the launch of the Doing Business rankings in 2003. Georgia also benefits from similarly low rates of bribery and corruption as member states of the European Union, in contrast to the high rates experienced by other economies in the Caucasus region. See ''*Georgia's key economic drivers*''.

The following table set out the GDP of Georgia from 2012 to 2017 and includes forecasts for the years 2018 to 2022:

	Nominal GDP, US$billion	**Real GDP growth, %**
2012	15.8	6.4
2013	16.1	3.4
2014	16.5	4.6
2015	14.0	2.9
2016	14.4	2.8
2017	15.2	4.5
2018F	16.7	4.2
2019F	18.0	4.5
2020F	19.5	5.0
2021F	21.2	5.5
2022F	23.0	5.5

Source: *Geostat; preliminary data for 2017. 2018-2022 forecast by International Monetary Fund.*

Georgia's key economic drivers

Liberal economic policy. Georgia was ranked 9th out of 190 economies in the "Ease of Doing Business" ranking by the World Bank in 2018 and Georgia has implemented 47 business regulation reforms, the highest number of such reforms since the launch of the "Ease of Doing Business" ranking in 2003; 16th out of 180 countries by the Index of Economic Freedom measured by the Heritage Foundation in 2018; and only 7% of people admitted to having paid a bribe during 2017, according to the 2017 Global Corruption Barometer study by Transparency International. The Liberty Act, effective from 31 December 2013, facilitated the continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated government expenditures at 30% of GDP, the fiscal deficit at 3% of GDP and public debt at 60% of GDP. Additionally, the Liberty Act introduced the need for the approval of the electorate in a nationwide referendum before the government can introduce new forms of taxation or raise existing tax rates, subject to certain exceptions. Georgia has significantly reduced the number of taxes levied by the government, from 21 in 2004 to six (the rates of corporate income tax and personal income tax remain flat at 15% and 20%, respectively), becoming one of the world's most tax-friendly regimes. Furthermore, from January 2017 corporate income tax is applicable to distributed profits while undistributed profits, reinvested or retained, are tax free. Annual consumer price inflation was 6.7% in December 2017 – above the NBG's target of 4.0%, as the world commodity prices and excise tax increases on fuels and tobacco have been putting pressure on prices in 2017. Notably, 3.0% of the increase in the consumer price inflation was due to excise-tax-related increases. With overall inflation driven broadly by fuel and food prices, core inflation of 4.7% remained below the headline figures throughout 2017. To curb inflationary expectations, the NBG increased the base rate to 7.25% in 2017 from 6.5% at end-2016. As the price pressures are considered to be transitory by the NBG, inflation is expected to decline close to the 3.0% target in 2018 once the effects of the excise tax increases fade.

Maintaining healthy economic growth is high on the political agenda. Georgia has experienced high GDP growth rates for the past decade. GDP growth rates were on average 4.5% annually from 2007 to 2017, and total GDP reached US$15.1 billion in 2017, according to GeoStat's preliminary estimates. GDP per capita increased more than fourfold to US$4,069 in 2017 from US$919 in 2003. Georgia is expected to continue to grow, with the IMF forecasting growth between 4.2% and 5.5% between 2018 and 2022. The Georgian government continues to implement low-regulation, low-tax, free market policies including privatising state entities and strengthening competition laws. After an initial increase in social spending when the new government took office in 2013, current expenditure has been contained and commitment to fiscal discipline is high on the political agenda. In 2017, Georgia's public debt to GDP ratio was 44.7% of GDP. Based on preliminary estimates by IMF, the fiscal deficit reached 2.9% of GDP (0.5% lower than projected) under the ongoing IMF programme.

Continued integration into the international markets. In June 2014, Georgia and the EU signed an Association Agreement, introducing the "Deep and Comprehensive Free Trade Area" ("**DCFTA**"), effective since 1 September 2014, which simplified Georgia's access to the EU market, a common-customs zone of approximately 500 million customers. Exports to the EU accounted for 23.7% of Georgia's total exports, in 2017, and no single country accounted for more than 15% of the total. Moreover, Georgia-China economic ties are strengthening and free trade agreement signed in 2017 is expected to further expand the Chinese market for Georgia's exports. In 2017, China was the third largest consumer of Georgian wine, after Russia and Ukraine, and the fifth largest consumer of Georgia's exports overall. The government continues to maintain strong relations with international development partners (both bilateral and multilateral), focusing primarily on infrastructure development. The ongoing US$ 285 million three-year IMF programme will help Georgia reduce economic vulnerabilities and promote economic growth. The programme includes ambitious structural reforms to generate higher and more inclusive growth and fully supports government's four-point reform programme focusing on: improving education, investing in infrastructure, making the public administration more efficient, and improving further the business environment to boost the private sector as a growth engine.

Stabilisation of the political environment. In 2013 Georgia further underscored its commitment to European values by passing constitutional amendments to enhance governing responsibility of Parliament and reduce the powers of the Presidency and by securing a democratic transfer of political power in successive parliamentary, presidential, and local elections. Georgia's economic relationship with Russia has continued to develop, although economic dependence on Russia is relatively low. Georgia has abolished visa requirements for Russians and Russia eased visa procedures for Georgians citizens from December 2015. In 2013 trade was restored with Russia and in 2017 Russia accounted for 14.5% of Georgia's exports and 9.9% of imports. Russia has however contributed just 3.5% of cumulative Foreign Direct Investment ("**FDI**") between 2003 and the end of the nine month period ended 30 September 2017.

Strong FDI inflows. FDI inflows to Georgia have remained positive in recent years, averaging 9.4% of GDP over 2007-2016. FDI is expected to remain a reliable source of current account deficit funding in 2018 and beyond as Georgia's business-friendly environment coupled with its sustainable growth prospects continue to attract foreign investment. Despite the fact that many countries faced reduced capital flows during recent economic turbulence, FDI inflows into Georgia remained relatively stable due to a business-friendly environment as well as strategic infrastructure projects such as the BP gas pipeline construction project and the railway project connecting Azerbaijan-Georgia-Turkey. FDI inflows were at all-time high in the nine months period ended 30 September 2017, reaching US$ 1.3 billion or 12.1% of GDP. In the nine months period ended 30 September 2017, FDI inflows increased by 204.1% in construction, by 287.1% in hotels and restaurants and by 68.9% in real estate, compared to the nine months period ended 30 September 2016. Along with planned investment programmes of cross-country significance such as the Anaklia deep sea port and hydro energy projects, Georgia's business-friendly environment and the growing numbers of free trade agreements are expected to lead to further strong FDI inflows to Georgia in the medium term.

Regional logistics and tourism hub. Georgia has developed a network of cross-border and internal maritime, air and land connections. It has a favourable geographic location between land-locked energy rich countries to the east and the European markets to the west of Georgia. This helps Georgia to realise its potential as a hub for transport, logistics and tourism. Continued public capital spending on roads, energy, tourism and municipal infrastructure is helping to strengthen a platform for businesses willing to trade and work in or with Georgia. Georgia is a regional energy transit corridor with approximately 1.6% of the world's oil production and diversified gas supply passing through the country. Travel inflows are a significant source of foreign currency for Georgia. Tourism into Georgia has expanded significantly with the number of visitors to Georgia increasing at a 21.7% compounded annual growth rate over 2008-2017. Tourism inflows stood at US$ 2.8 billion (18.2% of GDP) in 2017.

Stable energy supply. Georgia has a developed, stable, and competitively priced energy sector. Georgia has overcome the chronic energy shortages and gas supply interruptions of the recent past by renovating hydropower plants and by increasingly relying on natural gas imports from Azerbaijan instead of from Russia. Georgia's energy needs are growing steadily. On average, demand for electricity has grown by 3.6% per annum while demand for natural gas has increased by 5.3% per annum. These needs are satisfied by the construction of HPPs and the renovation of key infrastructure such as Georgia's internal and external electricity grids and natural gas pipelines. Currently, approximately 20-25% of Georgia's hydropower generation capacity is utilised. A total of 148 power plants are under construction or in the development stage (from feasibility studies to the granting of a construction permit). Newly refurbished and planned power lines give Georgia the opportunity to export electricity to other countries or become a transit country for electricity exports to and from other countries. Since 2012, two main power lines were commissioned and one was refurbished. Further capacity improvements over the next five years should increase Georgia's transmission capacity to Turkey (from 700MW to 1,400MW), Russia (from 700MW to 1,400 MW) and Armenia (from 150MW to 700MW), according to the Ministry of Economy and Sustainable Development of Georgia. The current transmission capacity between Georgia and Azerbaijan is sufficient to facilitate the transit of electricity exports from Azerbaijan to Turkey, via Georgia, as well as electricity imported from Azerbaijan.

Outlook for the economy

GDP growth is expected to accelerate further in 2018 as Georgia's major trading partners economic recovery continues and public infrastructure investments and growing number of free trade deals are boosting growth prospects. The 2018 budget envisages a further decline in the fiscal deficit despite an increase in capital spending. Ongoing reforms in various areas – pension reform, capital market development, and business enhancing measures – are expected to further support investments reinforcing the country's economic potential. IMF expects growth to average 4.9% annually in 2018-2022, making Georgia the fastest growing economy in the region.

The Georgian government's four pillar reforms

In February 2016, the Georgian government introduced a four point reform programme aimed at enhancing the resilience of the Georgian economy, improving the investment environment within

Georgia and transforming Georgia into a regional economic hub. These reforms are designed to build on Georgia's deepening economic integration with the EU and boost productivity, foreign investment and diversification. This reform agenda, known as the government's 'four pillars' details initiatives and programmes in key areas of the Georgian economy such as new tax benefits infrastructure, governance, as well as a widespread structural overhaul of Georgia's education system.

Structural Reforms. Under the four pillar reform programme, the Georgian government enacted corporate tax reform in January 2017. Under this legislation, undistributed profits, reinvested or retained, are tax free. The programme has also sought to reform capital markets within Georgia, raising stock exchange activity and developing Georgia's domestic bond market. Accounting reforms aim to increase transparency and financial accountability while enhancing the protections afforded to shareholders. Further, the Georgian government has overseen the introduction of a private pension system.

Infrastructure. The Georgian government plans to invest in substantial infrastructure projects including roads, rail, water and wastewater, maritime and air infrastructure with the aim of transforming Georgia into a four seasons tourism destination and regional economic hub. This includes transforming the East-West Highway into a dual carriageway and other supporting infrastructure projects with the goal of reducing the time and cost of road transport while improving the access and ease of transit. The rail network will benefit from a new line between Baku and Tbilisi alongside a general modernisation of the network. Further, the Anaklia deep sea project is seen as a major scheme to enhance regional transit hub potential. The Port of Anaklia sits on the shortest route from China to Europe, a route that has become a major focal point for Chinese infrastructure investments. Once completed, it will be the first Georgian port capable of accommodating Panamax size cargo vessels.

Promoting Open Governance. The Georgian government's Governance reform includes the establishment of Business House where businesses can access government services from one location using a single use portal. This initiative hopes to broaden public participation in the development of governance policies and decision making. By way of example, the government aims to involve the private sector in discussing early draft legislation. The Georgian government will reform its monitoring and implementation capabilities by establishing a specialised unit specifically designated for such purposes.

Education Reform. Reform in the education sector is focused on three areas: higher education, vocational education and general education reform. These reforms aim to match labour market demands with higher education provision as well as increasing the involvement of the private sector in professional education and vocational training.

Individual Sector Overview

Water Supply and Sanitation (WSS) Sector

Overview

In 2008, the 66 water companies that provided WSS services across the country were consolidated and partially privatised. The assets of those companies servicing Tbilisi, Mtskheta, Rustavi were sold to GGU. In 2016, JSC Georgia Capital completed its acquisition of a 100% stake in GGU. The other regions of Georgia were consolidated into three authorities: East Georgia, West Georgia and Adjara. In 2010, further consolidation followed and East and West Georgia were merged into one regional authority – the United Water Supply Company of Georgia (UWSCG). Adjara Tskali and the Batumi Water Company (BWC) continue to serve the autonomous republic of Adjara.

WSS Utilities Market

Georgia is a country rich in hydro resources, but approximately 45% of the country's population still has no proper access to centralised WSS services . GGU is the largest and only private company on the WSS market. GGU provides services to 30% of the Georgian population through its presence in Tbilisi, Rustavi and Mtskheta. Up to 25% of the population is supplied by the state-owned UWSCG and BWC and the rest of the population has to obtain their water supply from wells or small reservoirs in towns and villages.

The Georgian government has committed to provide 100% of the population with access to WSS services by 2020 and is actively working on upgrading the infrastructure in towns that are served by UWSCG.

Providers of WSS services are regulated by the GNERC. Both water supply and sanitation services are subject to price control policies. There are three tariff levels for the two components of WSS: water supply and waste water services. Household customers and commercial/industrial customers pay different rates. In addition, household customers' tariffs vary based on whether they are metered or pay on a per capita basis. Most household consumers pay per capita on a monthly basis. 23% (106,940) of GGU households are metered, with the remainder paying per capita on a monthly basis (350,499), according to GNERC's 2016 annual report.

Lost water remains the main challenge in the WSS sector as a majority of the assets are amortised and require continuous rehabilitation and investment to achieve efficiency. In 2017, water losses amounted to 67% in the sector, out of which 7% was lost during the water extraction process. The remaining 33% was provided to customers. The main reason for leakages is the poor condition of infrastructure, which results in a water loss rate that is about 4-5 times higher than the average rate in developed countries, according to the World Bank.

Outlook and Main Growth Drivers

The WSS sector in Georgia has the potential to utilise efficiency gains by reducing water loss. Changes in water tariff calculation methodology incentivise companies to invest, achieve returns on their investment and retain gains by decreasing the amount of non-revenue producing water resulting from increased efficiency in the delivery of water to customers. Changes in the metering policies applicable to residential customers increase the revenue streams available for the utility companies. Economic growth paired with transparent and investor friendly price control policies create a favourable environment for investors and international lenders to enter the sector and capitalise on stable revenue streams. Harmonisation with EU policies following the signing of the EU Association Agreement is contributing to the increasing reliability of WSS service provision and improvement of service standards for utility customers as well as the stability of utility operations.

Competitive landscape

GGU has a natural monopoly in the WSS sector in the cities that it operates (Tbilisi, Rustavi, Mtskheta). GGU faces no natural competition as the assets used for water extraction and supply are under GGU's ownership. Due to high barriers of entry, mainly the costs of developing new water supply infrastructure, there is no immediate or medium-term prospect of any competition arising in the market.

Renewable Power Generation Sector

Overview

Over three quarters of Georgia's electricity comes from hydro power. The remainder of electricity demand is met by thermal power plants (8.9%) and electricity imports (15.2%), mainly from Russia (according to 2017 data from ESCO). Domestic consumption increased at a rate of 7.7% year on year in 2017, and according to Georgia's ten year development plan, between 2017 and 2027 (published by JSC Georgian State Electrosystem) is projected to grow at a minimum compound annual growth rate of 3.5% over the next 10 years, reaching approximately 16.4 TWh annually by 2027 (up 6 TWh from the current 12TWh). In line with the growing demand for renewable energy supply and energy security, the Georgian government has made a policy decision to support and stimulate investments in the renewable energy sector. Incentive schemes have been in place since in 2008 and are still operative with a few modifications.

Power Generation Market

In 2008, the power generation market witnessed significant changes to facilitate market liberalisation. Before 2008, all HPPs in Georgia were regulated by GNERC, which set power generation tariffs. Since the liberalisation of the market, all HPPs constructed after August 2008 have been deregulated. Furthermore, the Electricity Law of Georgia was amended in 2017 to enable the deregulation of HPPs with a power generation capacity of below 40MW. HPPs constructed after August 2008 also have the option to negotiate priority access to the export line to Turkey, which is the main export market for excess electricity generated in Georgia during the summer months. Investor-friendly policies combined with favourable market conditions in Turkey and Georgia have created a favourable environment for the construction of HPPs and wind farms. Over the past decade, approximately 500 MW of installed hydropower capacity was added to the Georgian power grid, in addition to 230 MW of natural gas power plant capacity built by Turkish Calik Enerji that is currently operated by a subsidiary of the state-owned Georgian Oil and Gas Company ("**GOGC**").

In addition to favourable policies and a favourable investment climate for renewable energy development, the government is providing incentives via Power Purchase Agreements ("**PPAs**") that the state-owned market operator ESCO grants to new HPP operators. Usually, PPAs entail a fixed contract of 15 years for the purchase of electricity during eight months in autumn, winter and early spring from newly constructed HPPs for a fixed price. This policy provides a stable and predictable cash flow for new projects (the prices set by PPAs vary between 4.5 to 8.0 US Dollar cents/kWh), making the projects bankable and attractive for international financial institutions. In the summer months (commencing in May), excess production is exported to Turkey or sold on the local Georgian market.

The balancing electricity price, at which ESCO sells to qualified customers, currently serves as the most suitable benchmark for domestic electricity wholesale market prices. This benchmark is regularly used by deregulated HPPs to determine an offtake price. The weighted average price of ESCO is expected to continue to increase due to the long-term projected steady increase in energy consumption in Georgia of 3.5% per annum and increase of the commissioning of new projects with fixed PPA tariffs that are generally higher than ESCO's balancing price, which includes regulated HPPs with very low tariffs. In addition, the passing of the Amendment to the Electricity Law in June 2017, which deregulated all HPPs below 40 MW and forced large industrial consumers out of the regulated pricing scheme, is expected to foster a healthier market and push the average market price even higher, as large commercial consumers will be required to buy electricity from generators directly without the benefit of ESCO's blended tariffs for regulated and deregulated HPPs.

Actual and planned increases in installed power generation capacity will require the upgrade of Georgia's transmission capacity. JSC Georgian State Electrosystem, the transmission system operator, has already rolled out a comprehensive plan which is intended to significantly improve the transmission capacity over the next decade with a planned investment of approximately EUR 900 million and an additional integration capacity of 4,000 MW. Cross-border transmission capacity is also expected to increase to support the export of electricity generated in Georgia to Turkey (an increase from 700MW to and 1,400MW by 2020) as well as to Armenia (an increase from 150MW to 700MW by 2020).

Wind and solar PV power plants are expected to diversify Georgia's electricity supply mix. A 21 MW wind farm, sponsored by the government, in Gori, near Tbilisi, was completed at the end of 2016 and has been operating continually since. Feasibility studies commenced by GGU for an additional 200 MW of wind power are in progress and are expected to be completed during 2018. The total capacity of wind power generation in Georgia has been assessed at 4 billion kWh per annum, with a total installed capacity of 1,450 MW, according to the Ministry of Energy of Georgia. In order to stimulate the development of renewable energy in Georgia, the government has invested in opportunities to support the sector by offering favourable business terms and guaranteed offtake agreements.

Outlook and Main Growth Drivers

Georgia's electricity market has strong development potential. From 2009 to 2017, domestic consumption in Georgia has been growing in excess of 1.9% over the projected 3.5% per annum and cross-border markets are increasingly attractive following the downturn in Turkish electricity prices between 2014 and 2016. As Georgia's policy and political course remains pro-European and the government is committed to the development of the electricity market, it is anticipated that investors and international lenders will be attracted to the sector for years to come. Georgia has recently become a member of European Energy Community and is expected to start opening up the Georgian electricity market to make it more transparent and competitive for small and medium producers that often sell the majority of their generated electricity to the market operator.

Real Estate Sector

Overview

Georgia has an active real estate market. In 2017, the number of property registrations increased 34.1% year on year reaching 867,776 in December 2017. Of this, 29.8% were primary real estate transactions (an increase of 74.6% year on year), while the remainder were secondary transactions, an increase of 22.1% year on year in December 2017. These real estate transactions include residential and commercial properties as well as land. In the residential real estate market, Georgia benefits from high rates of home ownership, growing numbers of new flats and a corresponding increase in the number of mortgages granted. In the commercial real estate market, the amount of leasable stock continues to grow and within the hotel sector tourism inflows are increasing while at the same time the number of hotel rooms available continues to rise.

Residential Property

The average household size in Georgia is 3.4 people per household, which is appreciably higher than the EU average of 2.3. Households with two to four people make up 58% of total households, according to the 2014 census. Home ownership is the dominant tenure structure with 93% of householders owning their homes. Second only to Romania in the CEE region, according to Eurostat, Georgia outperforms all of its peers in this metric.

	People per household	**% of home ownership**
Romania	2.7	96%
Georgia	3.4	93%
Croatia	2.8	90%
Slovakia	2.8	89%
Lithuania	2.3	89%
Hungary	2.3	86%
Poland	2.8	84%
Bulgaria	2.5	82%
Estonia	2.2	82%
Latvia	2.4	80%
European Union	2.3	70%

Source: *Eurostat.*

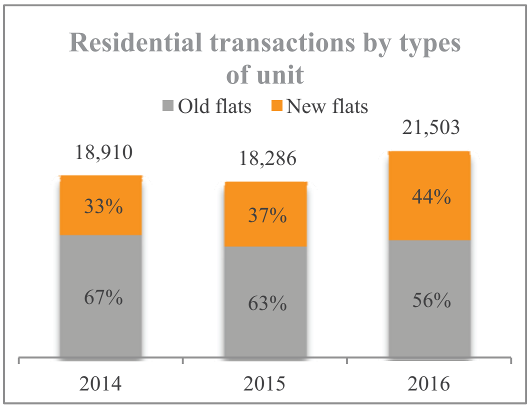
Between 1991 and 2000 there was a significant reduction in development and the bulk of housing stock was amortised by year 2000. Residential construction picked up significantly after 2003. If the current rate of development is maintained, according to IMR Research Group, 18,990 dwelling units will have been constructed between 2018 and 2020 in the thirteen neighbourhoods where most of m^2's projects are located or will be developed. As of 31 December 2017, 13,432 or 71% of these dwelling units have already been sold. This is in addition to the approximately 400,000 completed dwelling units that already exist in Tbilisi. Additional demand for housing is expected to be generated as aging stock requires replacement.

Residential real estate accounted for approximately 3% of the total number of real estate transactions in 2016. Transactions involving newly built flats increased by 40% year on year in 2016 reaching 9,375 transactions, according to Colliers International.

The consistent growth of real estate transactions is reflected in the simultaneous annual growth of mortgages. GEL and foreign currency mortgages posted a compound annual growth rate of 33.3% over the last five years as of 30 November 2017. Total mortgage loans outstanding as of 30 November 2017, granted in national and foreign currencies, were valued at GEL3.9 billion. The ratio of outstanding mortgage debt to GDP was 9.1% in 2016, by contrast, the residential mortgage to GDP ratio was 17.1% in Lithuania in 2016, 17.7% in Latvia, 27.8% in Slovakia, 31.7% in Estonia and 34.8% in Greece according to IMF. This indicates that there is a substantial room for growth in the mortgage market in Georgia as the country develops and the economy advances.

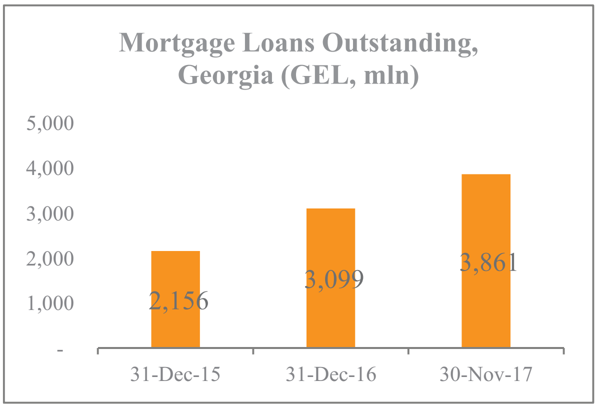
The following diagrams set out certain information on residential transactions by type of unit and mortgage loans outstanding from the periods indicated:

Figure 1: Number of real estate transactions/



Source: *Colliers International*

Figure 2: Total outstanding mortgage loans,



Source*: NBG*

Commercial Property

The Georgian retail trade volume was valued at US$3.4 billion in 2016. According to estimates prepared by Galt & Taggart, the retail trade volume has expanded at a compound annual growth rate of 18.1% between 2006 and 2016 in dollar terms, driven by higher demand for consumer high street retail and the overall commercial real estate sector.

Of the total leasable office stock in Tbilisi as of 2016, 34% of properties are classified as 'modern' and the remaining 66% as 'traditional' (old and non-refurbished Soviet era office stock). Georgia's office market is taking the initial steps toward developing modern fit-for-purpose facilities. The Georgian office market's share of owner occupied stock is significant. According to Colliers International, 50% of the country's total stock was owner occupied in 2016, significantly higher than that found in major regional business cities such as Budapest (20% according to BRF) and Warsaw (13% according to Knight Frank). Georgia's existing business centers are characterised by their high yield when compared to eastern European cities. The average yield obtained in Tbilisi's prime estimated central business district was 12% in 2015, one of the highest yields seen among EMEA cities. By contrast, in Warsaw the yield was 6%, in Prague it was 5.8%, and in Vilnius it was 7.0%).

Hotels

The Georgian Hotel market was valued at US$ 2.2 billion by gross tourism inflows in 2016 and reached US$ 2.7 billion in 2017, an increase of 26.9% year on year according to the Georgian National Tourism Administration. Based on research undertaken by Colliers International, there has been significant growth in the number of hotel rooms in Tbilisi that are supplied by international hotel chains as a proportion of the market as a whole. In particular, the internationally-supplied upper segment is projected to contribute to 23% of market supply in 2019, up from 8% in 2016. In the mid-class segment, the proportion of international supply is forecasted to increase from 13% in 2016 to 18% in 2019. This increase in hotel room supply corresponds with a sustained increase in the number of non-resident visitors arriving in Georgia, which totalled 6.4 million in 2016 and reached 7.6 million in 2017 generating compound annual growth of 21.8% between 2007 and 2017. The number of international arrivals was up 18.8% year on year, while the number of tourists who spent at least 24 hours in the country increased by 27.9% to 3.5 million tourists in 2017. The growth in the number of hotel guests in Georgia has been strong in recent years. The number of international guests at hotels and hotel-type accommodation was up 42.8% year on year to 1.7 million in 2016 according to Geostat. This rise in demand is combined with a current undersupply of hotel rooms in the Georgian hotel market. The average occupancy rate for international upscale brands was 70% in 2016 compared to 68% in 2015, followed by international midscale brands, 64% in 2016, compared to 65% in 2015. The average daily rate (the average realised room rental per day) for international upscale brands amounted to US$175 in 2016 and US$177 in 2015, while for international midscale brands recorded US$109 in 2016 and US$118 in 2015. Due to strong occupancy numbers, revenue per available room amounted to US$123 for international upscale brands in 2016 and US$121 in 2015, while for international midscale brands it amounted to US$70 in 2016 and US$77 in 2015.

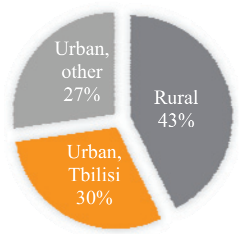
Outlook and Main Growth Drivers

The population of Tbilisi has increased by 1.2% over 2006-2016 and there were 3.4 people per household with an average living area per capita of 23 square metres as of the end of 2014. As the economy grows, average household size is likely to decrease and demand for dwelling units will increase.

The average monthly income per household in Georgia grew at a compound annual growth rate of 8.2% between 2010 and 2016. Household income consists of wages, remittances, income earned from self-employment, savings, pensions, scholarships and aid and real estate operations. International remittances account for approximately 10% of Georgia's GDP and this mirrors the proportion attributable to total household income in Georgia. In Georgia, 34% of remittances came from Russia as of 2017 compared to 40% in 2015 as a decreasing oil price had a negative impact on the Russian economy in 2015, which in turn resulted in a decrease in remittances from Georgians working in Russia. From the second quarter of 2016 remittances began to show signs of recovery reaching 6.6% increase year on year in 2016 and 19.8% in 2017. According to Geostat, remittances amounted to approximately 10% of Georgia's GDP.

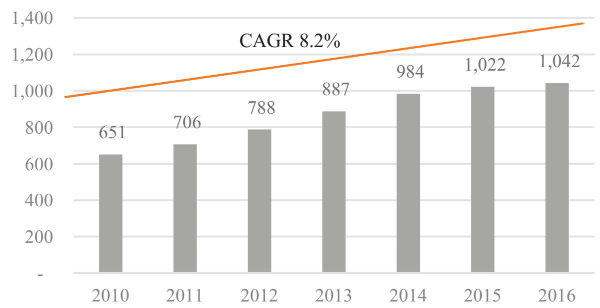
Significant changes have occurred in the demographic structure in Georgia in the past decade. According to Geostat, the rural population decreased by 23.8% in 2006- 2016 and now 57.2% of the total population of Georgia lives in urban areas with 30.0% of the total population living in Tbilisi. The number of people living in urban areas also decreased by 7.8% in 2006-2016. Currently, approximately half of Georgia's labour force is employed in agriculture and 42.8% of population lives in rural areas, according to Geostat. Despite a high share of employment, the agricultural sector's total contributions to GDP are approximately 9% as of the third quarter of 2017. As efficiency in the agricultural sector increases, more households are likely to migrate from rural to urban areas, generating greater demand for residential housing.

Figure 5: Distribution of households, 2016,



Source: *Geostat.*

Figure 6: Average monthly income per household, GEL*

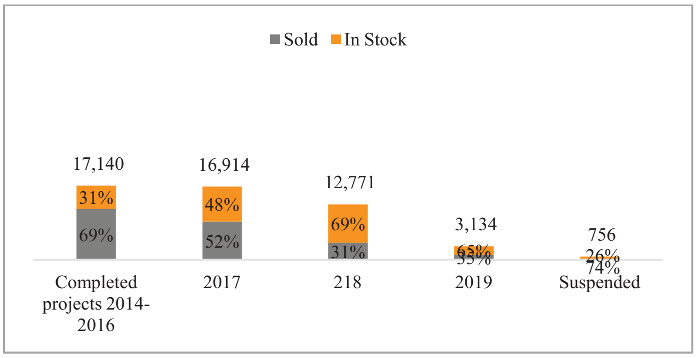


Source: *Geostat.*

**income includes wages, remittances, self-employment, savings, pensions, scholarships and aid, and real estate operations.*

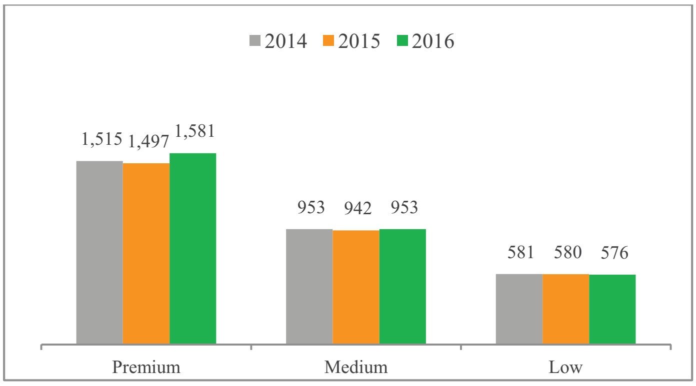
According to Colliers International, approximately 8,590 dwelling units were completed and supplied to the market in Tbilisi in 2016, 80% of which have now been sold. In the three years from 2017 to 2019, 33,575 dwelling units, comprising a total residential area of 3.47 million m^2, are expected to come on to the market, which includes residential developments commenced in previous years (according to Colliers International). Of these projects 47% are owned and/or managed by small developers, 38% by mid-sized developers and 11% by large developers. Average house prices have been declining since the beginning of 2015, overall there has been a 10% decrease year on year in primary transactions and a 5% decrease year on year in secondary transactions during 2015, although in the second half of 2016 selling prices on primary transactions increased by 3.5% compared to the second half of 2015 and selling prices on secondary transactions decreased only slightly by 0.4%. According to Colliers International, the prices for premium and mid-range housing segments of new flats decreased by 1% from US$ 1,515 and US$ 953, to US$ 1,497 and US$ 942, respectively, in 2015, whereas in 2016 the trend reversed and the average selling price of premium and medium segment flats increased by 6% and 1% to US$1,581 and US$953, respectively. The average selling price for lower segment residential real estate remained steady at US$580 in 2015 compared to 2014 and decreased slightly to US$576 in 2016. In total, as compared to the selling prices in 2015, the selling price of newly-built flats increased by 3%, while the selling price of old flats decreased insignificantly reaching US$622 and US$563, respectively. The following tables set out the supply of residential real estate by number of flats and the average selling price on the primary market by segments for the periods indicated.

Figure 7: Supply of residential real estate, number of flats under development by years



Source: *Colliers International.*

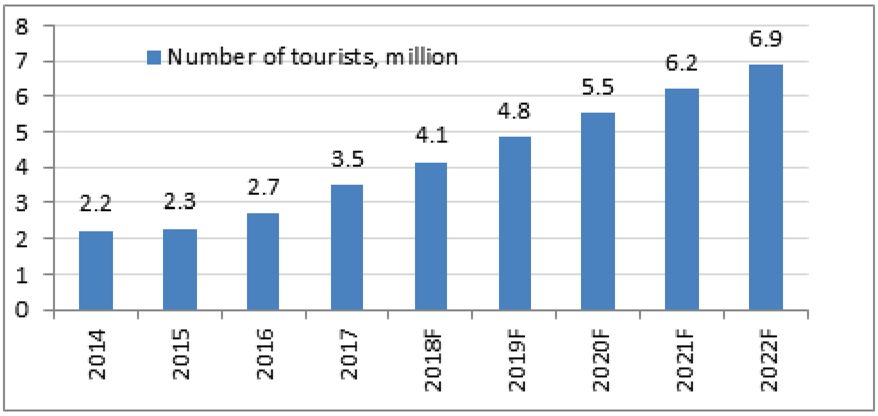
Figure 8: Average selling price on primary market by segments (US$/m²) 2014-2016



Source: *Colliers International.*

In addition to favourable domestic demographics, the growth in the number of foreign tourists visiting Georgia is driving growth in the Georgian hotels market. The number of non-resident visitors arriving in Georgia totalled 6.4 million in 2016 and 7.6 million in 2017, generating compound annual growth rate of approximately 21.8% between 2007 and 2017 according to the Georgian National Tourism Administration. The number of tourist arrivals was up 27.9% year on year to 3.5 million tourists in 2017. The number of international guests at hotels and hotel-type accommodation was up 42.8% year on year to 1.7 million in 2016 according to a survey conducted by Geostat.

According to Galt& Taggart, Georgia's tourist inflow is expected to double between 2018 and 2022. The following table sets out the number of tourists that have visited or are forecasted to visit Georgia for the periods indicated based on Galt & Taggart projections:



Source: *Galt & Taggart.*

Competitive Landscape

The residential property market in Tbilisi is characterised by a large number of developers, each with a small market share. As of 31 December 2017, there are approximately 200 developers operating in thirteen districts of Tbilisi (namely, Saburtalo, Vake, Digomi, Krtsanisi, Didi Digomi, Varketili, Vazisubani, Vashlijvari, Ortachala, Didube, Sanzona, Isani and Chughureti). As of 31 December 2017, m^2 had a market share of 11% of total area of active construction sites in those thirteen districts according to IMR Research Group. Key competitors of m^2 (Maqro (Turkey), Dirsi (Azerbaijan), Hualing (China), Dona Group (Israel) and Archi Group (Georgia)) are positioning themselves as suppliers of apartments with various finishes offered (white frame, green frame, fitted-out) and, together with m^2, represent 34% of market share.

The Georgian hotel market is experiencing significant expansion. According to Colliers International, the international upscale brands actively developing hotels as of 31 December 2017 were Rixos, Hyatt Regency, Intercontinental, Hilton, Marriott International, Pullman Hotels and Radisson Blu. According to research by Galt & Taggart, considering the extensive pipeline of developments, the international upscale segment is becoming oversaturated and investors are looking to the midscale segment to maintain profitability. As a result, seven international hotels are expected to enter the midscale segment between 2017 and 2019. These include, Park Inn, Golden Tulip, Hilton Garden Inn, Moxy and three Ramada hotels. This is in addition to the recently opened four star Mercure hotel in 2015 and the three star Ibis Styles Tbilisi Center in 2017.

Tbilisi accounts for the majority of the development pipeline, although a number of brands have opened in regional cities such as Best Western, in Kutaisi, and Best Western Plus in Bakuriani, each opening in 2017.

Property and Casualty Insurance Sector (P&C)

Overview

According to data published by the Insurance State Supervision Service of Georgia, the Georgian property and casualty insurance sector has more than doubled in size between 2009 and 2017 with insurance revenue increasing to GEL226.8 million, in 2017. According to the Insurance State Supervision Service of Georgia, the total value of gross written premiums increased from GEL73.8 million in 2007 to GEL236.6 million in 2017, (an increase of 221%) and the largest six insurance providers in Georgia account for approximately 89% of the market share in 2017.

Outlook and main growth drivers

The main growth drivers for the property and casualty insurance market in Georgia are the following:

- *Favourable macroeconomic environment.* Georgia's nominal GDP increased at an average annual growth rate of 4.5% between 2007 and 2017, according to Geostat. According to the IMF's World Economic Outlook database, real GDP is expected to grow within a range of 4.2% and 5.5% between 2018 and 2022 which Management believes will increase consumer demand for insurance products.

- *Rapidly growing insurance market.* The Georgian insurance industry has significant potential for further growth. The sector demonstrates low rates of insurance penetration compared to peer countries, which is expected to provide significant opportunities for established companies that seek to increase their relative market share.
- *Supportive government policies.* The introduction of compulsory local third party liability motor vehicle insurance in 2019 is expected to lead to increased sales of mandatory and voluntary motor vehicle insurance policies in Georgia.
- *Growing consumer awareness.* Customer awareness of insurance coverage and its availability remains underdeveloped in Georgia. Technological advances along with greater sophistication in advertising are expected to accelerate general consumer awareness and sales.

Property and Casualty Insurance in Georgia

According to data published by the Insurance State Supervision Service of Georgia, the number of property and casualty insurance policies increased from less than 350,000 in 2012 to more than 1,990,000 as of 31 December 2017. Property and casualty insurance penetration stood at 0.6% of the Georgian population for the year ended 31 December 2017. The table below illustrates Property and Casualty Insurance penetration records in Georgia for the periods indicated.

	Density (GPW per population))	**Penetration (GPW/GDP)**
2015	54	0.6%
2016	57	0.6%
2017	64	0.6%

Source: *Insurance State Supervision Service of Georgia.*

Private Insurance Penetration

Private insurance penetration as a whole (including health insurance) in Georgia is lower than in most neighbouring countries of the CIS, and is similar to Russia. However, its growth potential may still be high, as evidenced by the higher level of insurance penetration in most EU countries, varying from 2.1% in Bulgaria to 10.2% in the United Kingdom as of 31 December 2016. The table below illustrates private insurance penetration by country as of 31 December 2016.

	Gross premiums written (GPW)/GDP
	(%)
United Kingdom	10.2%
France	9.2%
Switzerland	8.9%
Belgium	6.4%
Germany	6.1%
Slovenia	4.9%
Poland	2.8%
Bulgaria	2.1%
Turkey	1.3%
Russia	1.5%
Georgia	1.2%[(1)]

Source: *Swiss Re sigma report for United Kingdom, France, Switzerland, Belgium and Germany; the Central Bank of the Russian Federation for Russia, Insurance Association of Turkey for Turkey, KNF-Polish Financial Supervision Authority for Poland, The Financial Supervision Commission of Bulgaria for Bulgaria, Insurance Supervision Agency of Slovenia for Slovenia, Insurance State Supervision Service of Georgia for Georgia.*

Notes:

(1) Penetration for P&C insurance lines for Georgia is 0.6%.

According to data published by the Insurance State Supervision Service of Georgia, the private insurance segment remained stable during 2012-2016, peaking at GEL211.7 million of gross premiums written in 2016. The table below illustrates growth in gross premiums written in Georgia for the periods indicated.

	Gross premiums written (GPW)
	(GEL million)
2012	131.5
2013	126.1
2014	167.5
2015	200.7
2016	211.7
2017	236.6

Source: *Insurance State Supervision Service of Georgia*

Insurance Competitive Landscape

According to data published by the Insurance State Supervision Service of Georgia, at present 16 companies operate in the private insurance market in Georgia.

Aldagi and GPI are the leading competitors, cumulatively accounting for nearly two thirds of total market revenues. Their combined market shares were 61% in 2016 and 59% in 2017. The table below provides certain information on the private insurance market in Georgia in terms of gross premium revenues by company for the twelve months ended 31 December 2017.

	Gross Premium Revenue	Market share by GPR
	(*GEL million*)	
Aldagi	85.7	38%
GPI Holding	47.7	21%
UNISON	21.5	9%
TBC Insurance	23.2	10%
IRAO	13.0	6%
ARDI	11.0	5%
IC Group	6.7	3%
Other	18.0	8%

Source: *Insurance State Supervision Service of Georgia.*

The table below provides certain information on the private insurance market in Georgia in terms of GPW and gross claims reimbursed by company for the twelve months ended 31 December 2017.

(GEL million)	GPW	Claims paid
Aldagi	90.1	39.3
GPI Holding	42.3	27.1
TBC Insurance	31.6	10.9
UNISON	20.4	0.3
IRAO	13.0	3.6
ARDI	12.2	1.7
IC Group	6.9	1.1
Other	20.0	6.1

Source: *Insurance State Supervision Service of Georgia.*

Management believe that the Georgian insurance market benefits from a proven track record, experienced personnel, attractive terms of insurance coverage, ease of policy purchase, ease of claim reimbursement, and the quality of contractual (preferred) service providers, which provide incumbents in the industry with a competitive advantage over potential new entrants.

Wine Production and Distribution Sector

Overview

Georgia has an 8,000-year history of wine-making and is home to over 500 unique grape types. Georgia's favourable climate for wine production and its latitude (parallel 42° N) places the country in the same band as some of the most famous winegrowing areas in the US (California/Oregon), Italy (Tuscany), and Spain (La Rioja). Currently, 40 indigenous varieties are produced commercially and the most popular of them – Saperavi (red) and Rkatsiteli (white) – produce some of Georgia's most internationally recognised and sought-after wines, such as Kindzmarauli, Mukuzani, and Tsinandali. In the recent past, Georgian wine production was mainly directed at Russian-speaking markets. This led semi-sweet wines, which are not widely consumed in Georgia, to account for approximately half of Georgian wine exports.

Georgia's Wine Exports and Imports

Registered wine producers in Georgia focus mostly on exports. Approximately 32 million litres of wine was produced in 2015 and in 2016 production increased to 41 million litres. Exports comprised 86% and 90% of the wine produced in Georgia for 2015 and 2016. Approximately 81.5 % of Georgia's wine exports went to former Soviet Union countries in 2016. Russia represented the largest portion of former Soviet Union exports and accounted for 55% of 2016 total exports. China is the third largest export market for Georgian wine (10.63% of total exports) and the fastest growing (exports grew by 98.3% between 2015 and 2016), after Ukraine at 11.6 %. As 49.3% of wine produced is exported to Russia, the industry is highly dependent on trends in the Russian market.

The share of imported wine in the Georgian market has historically been low and this dynamic is not expected to change in the near future. In the year ended 31 December 2017, the value of imported wine amounted to US$ 1.8 million, according to Geostat.

Export Pricing

Prices for Georgian wines vary depending on the importing country. Generally, Georgian wines are cheaper in CIS/post-Soviet countries due to lower transportation costs and because dry and semi-sweet table wines are more prevalent. Levels of customer awareness and availability vary, but broadly Georgian wines form part of the mass market in the CIS and the premium market in the EU, North America and Asia, where mostly Protected Designation of Origin ("**PDO**") Saperavi and PDO dry white wines are sold. Georgian wines are sold in the upper price range in the EU along with wines from New Zealand and Argentina. Australia, Chile, South Africa and the US are key wine exporters to Europe, and are especially competitive in the mid and low price range segments, due to low production costs.

Outlook and Main Growth Drivers

The main growth drivers of Georgian wine sales are:

- *Increasing tourism and changes to local consumer tastes are driving demand for domestic bottled wine.* Georgia is already an established tourism destination. The number of visitors to Georgia increased at a compound annual growth rate of 11.3% between 2012 and 2017. The Government plans to enhance Georgia's position as a four season tourism location through improved connectivity between the different regions of Georgia. Wine tours are one of the major attractions for tourists in Georgia. Domestic consumers are also expected to drive local demand as they continue to switch from homemade to branded, bottled wine. This trend is expected to intensify among domestic consumers as busier lifestyles limit the time available for preparing homemade wine.
- *Increasing export potential.* The wine production sector is becoming a lucrative part of the Georgian economy, with the value of wine exports increasing more than 49% year on year in 2017 to US$ 165 million. Wine accounts for 6.1 % of all Georgian exports and the sector shows significant potential to grow further. Management believes that there is significant potential to grow exports, since Russia re-opened its market for Georgian imports, following a foreign trade embargo with Georgia in place since 2006, in 2013 and as other markets (such as Ukraine, China, and the Baltic states) continue to show robust demand. Exports of bottled wine increased

by a compound annual growth rate of 20% between 2013 and 2017 in Russia; 70 % in China; 20% in Poland; and 13 % Estonia. In addition to increasing demand, there is significant room to increase production by re-planting vines and improving grape yields by employing more advanced viticulture techniques. Management believes that the signing of a free trade agreement between Georgia and the People's Republic of China on 13 May 2017 may result in sales to the Chinese market doubling in 2018, following the ratification of the agreement which occurred in January 2018.

- *Varieties of wine that are unique to Georgia are expected to drive growth*. A number of semi-sweet and Saperavi-based reds and unique dry whites produced in qvevris (traditional clay casks) have high commercial potential, since they are unique to Georgia and are expected to grow in appeal as a result of increasing tourism and demand from export markets. Semi-sweet reds such as Kindzmarauli and Khvanchkara accounted for around 18% of all wine exports in 2017. These wines are especially popular in Russian-speaking countries after gaining a foothold during the Soviet period. In December 2013, traditional Georgian qvevri wine-making won a special place on UNESCO's Intangible Cultural Heritage of Humanity list. Qvevri wine, made according to old Kakhetian and Imeretian winemaking traditions, leaves a higher tannin content and is considered a natural antioxidant.

Competitive Landscape

Georgian manufacturers Teliani and Telavis Marani LLC led sales of wine in Georgia in 2017 as a result of their strong distribution and long-standing brand presence. The widespread availability of their products through modern grocery retailers also supported their brands. Both Teliani and Telavis Marani are focused on export sales of bottled wine, particularly to the Russian and Ukrainian markets.

Domestic manufacturers continue to dominate sales of wine in Georgia. The variety of grapes and the long history of wine production in the country limit the opportunities available to international wine producers. As of 31 December 2017, Teliani held a 35% in premium hotels, restaurants and cafes and a modern trade segment based on bottled wine sales. Of Teliani's major competitors, Telavis Marani held a 25% market share, Badagoni held a 20% market share and Tbilvino held a 10% market share, according to internal management data.

In 2017, most of the wine sold in retail outlets was mid-priced. Economy wines cannot compete with homemade wines, which are sold cheaply, as in most cases the price per litre does not exceed GEL3-4. Mid-priced wines are the most popular price segment as there is limited competition from homemade wine. Premium products were not widely available in 2017 as disposable income levels limit demand. The premium wine segment is developing in Georgia, which presents an opportunity for local wine sales to increase.

Beer Production and Distribution Sector

Overview

Consumption rates within the Georgian beer market are characterised by highly seasonal consumer patterns. The highest rate of consumption occurs in the third quarter and is driven by higher summer temperatures, the coinciding vacation period and higher numbers of tourists. The proportion of sales conducted through off-trade (such as grocery retailers) and on-trade (such as bars) channels is 86% and 14% respectively. Consumers in Georgia favour high-volume economy packaged beer. As a result, mainstream and economy brands make up 90% of the beer market. The Georgian beer market is highly concentrated among three producers (Efes-Georgia, Georgian Beer Company and Teliani) which constitute 87% of the total beer market based on sales. Most beer producers concentrate on sales in the capital city, Tbilisi, and have smaller scale or outsourced distribution channels in Georgia's regions. As the local production of beer is a well-developed industry, 89% of Georgia's beer demand is met by locally produced beer.

Domestic beer market

In 2017, the size of Georgia's beer market was approximately 102 million litres a year. As the population of Georgia is 3.7 million, this translates into a per capita beer consumption of 27.5 litres per year. During the last decade, the beer market has shown steady growth with the exception of two years (in 2010 and 2015) where sales were negatively impacted as a result of an increase in excise tax. However, beer consumption in Georgia is lower than in a number of European peer countries such as Italy with 31 litres per year, France with 33 litres per year and Greece with 36 litres per year that experience similar per capita beer consumption rates and are also wine-producing countries.

Outlook and main growth drivers

The key drivers of beer consumption are relative disposable incomes, the size of the beer consuming population and the beer market. According to research by TBSC Consulting, per capita beer consumption in Georgia is expected to increase CAGR 9% between 2017 and 2021 (from 27.5 litres per annum to 38.5 litres per annum, respectively). The growth in the beer-consuming population is supported by the increasing number of tourists arriving in Georgia, which grew at a compound annual growth rate of 11.3% between 2012 and 2017. The current low base of beer consumption per capita in Georgia when compared to European peer countries is a further indicator of the potential for market growth.

Historically, Georgia's brewers have not focused on the beer export market owing to a lack of worldwide brand presence and recognition. As Teliani is a licensed Heineken beer producer in Georgia, this provides it with a competitive advantage among local producers without comparable international partnerships and provides opportunities to resell Heineken brands to Armenia and Azerbaijan. Teliani's principal competitors, Efes-Georgia and Georgian-Beer Company, have agreements with Kaizer, Kozel, Herrenhauser, Bavaria, König and Pilsener beer producers.

Increasing promotional activity and strong marketing strategies are also expected to augment growth of the Georgian beer market. The leading beer companies continue to increase spending in this area with the aim of understanding consumer preferences as well as improving the execution of new brand introductions and communication campaigns.

Competitive Landscape

The Georgian beer market is highly concentrated among three producers who make up 87.6% of the market: Efes-Georgia (45.1% market share by litres), Georgian-Beer Company (30.1% market share by litres) and Teliani (12.4% market share by litres). While Efes and Georgian-Beer Company are relatively established brands on the market, Teliani only started beer production and distribution in June 2017. The contribution of small and micro-breweries to the Georgian beer industry is minor.

PART X

INFORMATION ON GEORGIA CAPITAL

The financial information in this Part X is (unless otherwise indicated) extracted without material adjustment from the Historical Financial Information of the Group set out in Part XXII of this document. Investors should read all of this document (and the information incorporated by reference into it) and not just rely on key or summarised information.

This Part X contains forward looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward looking statements as a result of such risks and uncertainties. Investors should read Part III "Important Information" and Part II: "Risk Factors" of this document for a discussion of the risks and uncertainties related to these statements.

Overview

Georgia Capital is the holding company of a diversified group that is focused on creating value by investing in and developing businesses in Georgia with holdings in sectors that are expected to benefit from the continued growth and further diversification of the Georgian economy, the opening of the Georgian economy to Europe and economic development in the wider region. The Group seeks to capture growth in the sectors in which it currently operates and drive the development of new structurally attractive, high-growth businesses in Georgia, which it intends to add either by acquiring businesses in their early development stage or by establishing greenfield businesses, often consolidating fragmented or underdeveloped markets.

The Group actively manages its Portfolio Companies to maturity, setting the strategy and business plan of each business and driving its execution. As a business matures, the Group will normally seek to monetise its investment, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years from acquisition. As investments are monetised, Georgia Capital plans either to redeploy the proceeds to capture opportunities for growth in new sectors or in the Group's existing businesses, or return proceeds to shareholders in accordance with the Group's capital return policy. The Group aims to achieve an IRR of at least 25% from its investments.

The Company's Portfolio Companies are:

- GGU (35.1% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a water utility and renewable energy business. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area, where it provided water supply and sanitation ("**WSS**") services to 1.4 million people (more than one-third of Georgia's population) in 2017. It also operated hydro power plants with a total capacity of 149.3 MW as of 31 December 2017 and invests in the development of renewable energy projects in the under-supplied Georgian energy sector. The Group anticipates further growth opportunities for GGU in both of its business lines: pursuing cost efficiencies within the water utility business by targeting the reduction of technical losses and reducing energy consumption internally to preserve the supply available for sale to third parties while also building hydro, wind and solar power generation plants;
- m^2 (33.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a residential and commercial property developer that is currently delivering a weighted-average IRR of 82% on its seven completed projects. m^2 seeks to pursue an asset light strategy which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m^2 brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia;
- Aldagi (14.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), the foremost provider of property and casualty insurance products in Georgia with a market share of 38% by revenue in the Georgian property and casualty insurance sector (excluding health insurance) in the twelve months ended 31 December 2017. Aldagi has experienced sustained growth in recent years and, as of 31 December 2017, had 45,598 active retail clients and 2,125 active corporate clients. The Group sees new opportunities for Aldagi as a result of anticipated developments in mandatory third party liability insurance and other property and casualty insurance products; and

- Teliani (15.2% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a leading wine and beer producer in Georgia and a distributor of its own and third party beverage brands that has a five year exclusivity licence from Heineken with a five year extension option to produce beer to be sold in Georgia, and the right to resell in Armenia and Azerbaijan. The Group seeks future growth opportunities in Teliani's beer and wine sales by utilising Teliani's distribution platform.

In addition to the Portfolio Companies, the Company has significant investments in two businesses of the former BGEO Group: GHG, (57% stake), the London Stock Exchange premium-listed parent company of the largest and diversified healthcare provider in Georgia, which operates in the healthcare services, pharmacy and medical insurance sectors; and , JSC Bank of Georgia (the ''**Bank**'') and JSC BG Financial (together with the Bank, the ''**Banking Business**''), (19.9% stake), the leading universal bank in Georgia. Shortly after the proposed Demerger becomes effective, this stake is expected to be exchanged for a 19.9% stake in Bank of Georgia Group PLC which, before this exchange takes place, is expected to become the new parent company of the Banking Business and to be listed on the premium segment of the London Stock Exchange. Following the this exchange, the Company has agreed that, for as long as its stake in the Bank is greater than 9.9%, it will exercise its voting rights in the Bank in accordance with the votes cast by all other Bank shareholders on all shareholder votes. The stake in GHG is, and the stake in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) are expected to be, held as listed investments and considered by management to be liquid, tradeable assets on the Group's balance sheet that could be readily convertible into cash as and when the Company decides to monetise these assets.

The following table details the evolution of the Group's revenue from each of its business segments for the periods indicated:

	Year ended 31 December		
	2017	**2016**	**2015**
	(thousands of GEL)		
Total revenue	363,745	240,739	132,864
Of which:			
utility and energy revenue	127,569	56,486	—
real estate revenue	121,153	102,974	61,150
insurance revenue	52,147	43,115	40,856
beverage revenue	55,441	29,793	29,527
Other income	7,435	8,371	1,331

The following table details the evolution of the Group's total net asset value from each of its business segments as of the dates indicated:

	(Unaudited)		
	31 December		
	2017	**2016**	**2015**
	(thousands of GEL)		
Total net asset value(1)	866,551	788,363	590,533
Of which:			
utility and energy net asset value	284,938	284,712	55,544
real estate net asset value	149,252	137,873	107,787
insurance net asset value	50,901	41,803	35,252
beverage net asset value	63,637	36,229	14,063
other (GHG and Control Centre)(2)	317,823	287,746	377,887

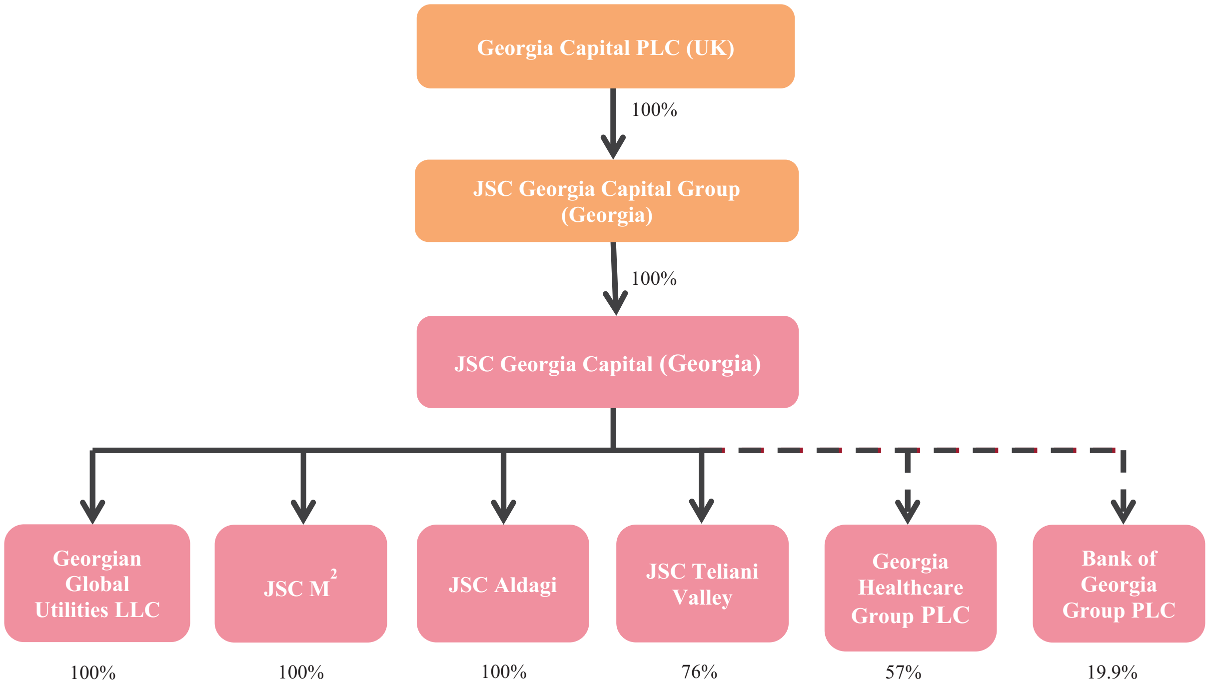
Note:

(1) All figures are unaudited with the exception of total net asset value for the years ended 31 December 2017, 2016 and 2015, which are audited.

(2) Net asset value attributable to GHG was GEL271 million as at 31 December 2017.

Corporate Structure

The following simplified diagram illustrates the Group's structure after the Demerger:



Business activities

Portfolio Companies

A summary of the business activities of each of the Company's current Portfolio Companies is set out below:

- ***GGU***: GGU carries on business in two key areas: water utility and renewable energy generation. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area (including the towns of Mtskheta and Rustavi), where it provided WSS services to 1.4 million people (more than one-third of Georgia's population) in 2017. In the renewable energy business, GGU owned three hydropower generation facilities (and managed an additional facility) with a total capacity of 149.3MW as of 31 December 2017. Currently, generated power is primarily used by GGU's water business and excess capacity is then sold to third parties. GGU also has a pipeline of developments in hydro power plants as well as wind and solar energy production. In 2014, GGU established a joint venture with RP Global (a leading Austrian hydro power company) to develop and build renewable energy projects in Georgia. GGU has a 65% share in the joint venture whilst RP Global has a 35% share. GGU was fully acquired by JSC Georgia Capital in July 2016. GGU's revenue has grown by 6.5% from 126,787 thousand in the year ended 31 December 2016 to GEL135,072 thousand in the year ended 31 December 2017. GGU distribued dividends of GEL28.0 million from its water utility business in the fourth quarter of 2017, which was the first dividend distribution since the acquisition of the remaining 75% interest in GGU in July 2016.

- ***m^2***: m^2 develops residential and commercial property in Georgia, outsourcing design while focusing on project and construction management, and sales. m^2 is also in the process of developing hotels with outsourced operations and manages a yielding real estate asset portfolio, which it accumulated through its own developments as well as opportunistic investments in high street real estate. m^2 has completed sales of 1,691 apartments worth US$144 million since 2010. 99% of apartments are sold in seven successfully completed projects and 83% of apartments are pre-sold in four ongoing projects. m^2 currently has two hotels under development, with a total capacity of 246 rooms, 1,202 apartments under construction and 10,244 m^2 commercial space under construction. m^2 launched its current business in 2011, as a result of developing land repossessed by the Bank. m^2's revenue has grown by 17.7% from GEL102,974 thousand in the year ended 31 December 2016 to GEL121,153 thousand in the year ended 31 December 2017.

- ***Aldagi***: Aldagi is the leading provider of property and casualty insurance products in Georgia with a market share of 38% by revenue in the Georgian property and casualty sector (excluding health insurance) in the twelve months ended 31 December 2017 according to the Insurance State Supervision Service of Georgia, 1.7 times more than that of its nearest competitor, and covers more than 47,000 insured customers. Aldagi offers a broad range of insurance product lines designed for corporate and retail clients. As of 31 December 2017, Aldagi had 45,598 active retail clients and 2,125 active corporate clients. Aldagi was acquired by the Bank in 2004. Aldagi's net insurance premiums earned has grown by 20.9% from GEL43,115 thousand in the year ended 31 December 2016 to GEL52,147 thousand in the year ended 31 December 2017. Aldagi has distributed dividends totalling GEL14.1 million since 1 January 2016.
- ***Teliani***: Teliani is a leading wine and beer producer in Georgia, selling over three million bottles of wine per annum in 15 countries (including Georgia). Approximately 82% of Teliani's wine sales are derived from exports. Teliani has sold over 6,800 thousand litres of beer between June 2017 (when it began brewing) and December 2017 in Georgia. In the first four months of beer sales Teliani reached a 12.4% market share in local branded beer sales and it has the capacity to produce 30 million litres of beer per annum. Teliani has a five year exclusivity licence from Heineken with a five year extention option to produce beer to be sold in Georgia for resale in Armenia and Azerbaijan (with a combined population of 17 million people). Teliani's third major business line is the distribution of its own and third party beverage brands, primarily throughout Georgia. Teliani was acquired by BGEO Group PLC in February 2010. Teliani's revenue has grown by 86.1% from GEL29,793 thousand in the year ended 31 December 2016 to GEL55,441 in the year ended 31 December 2017.

Exit Stage Portfolio Investments

The Company holds stakes in GHG (57% stake) and the Banking Business (19.9% stake). GHG's shares are traded on the London Stock Exchange. Shortly after the proposed Demerger, the stake in the Banking Business is expected to be exchanged for a 19.9% stake in Bank of Georgia Group PLC which, before this exchange of stakes takes place, is expected to become the new parent company of the Banking Business and to be listed on the premium segment of the London Stock Exchange. The Company's holdings in GHG is, and the Company's holdings in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) will be held as listed investments and considered liquid, tradeable assets on the Group's balance sheet that could be readily convertible into cash as an when the Company pursues an appropriate method of further monetising these assets.

Depending on investment opportunities, the Company intends to sell down these stakes over time and either reinvest in new opportunities in Georgia or return proceeds to shareholders in accordance with the Group's capital return policy. These holdings do not form part of the Group's long term revenue-generating business portfolio. For a summary description of the business activities of GHG and the Banking Business. See "—*Summary of Exit Stage Portfolio Investments*."

Competitive Strengths

Management believes that the Group's deep management bench, ability to attract and develop talent, management expertise and access to local and international capital markets combined with a limited competing pool of potential purchasers for large, domestic acquisitions in Georgia positions it very well to create value by acquiring high quality assets at attractive valuation levels and growing high return-on-capital operations. The Group's Management has a proven track record of creating value through successful business development and investments, institutionalising high-performance management processes, market consolidation and successful exits. In particular, Management believes that the Group benefits from the following competitive strengths:

- ***The Group is the only group of its size and scale focused on investing in and developing businesses in Georgia and is uniquely positioned to benefit from the continued growth and further diversification of the Georgian economy, giving investors a ground floor opportunity.*** The Group is the only group focused on investing in and developing businesses in Georgia and has interests in high-growth businesses in industry sectors that are expected to benefit from the ongoing growth and further diversification of the Georgian economy. The Georgian economy grew in real terms at a compound annual growth rate of 5.7% between 2003 and 2017, according to Geostat. According to the IMF's World Economic Outlook, annual average real GDP is expected to grow by 4.9% per annum from 2018 to 2022, which Management believes will drive business growth and consumer demand in the segments in which the Group currently operates (utilities, insurance products, real estate and fast-moving consumer goods (**FMCG**)). Such favourable economic environment is also expected to provide further investment opportunities for the Group, which has extensive experience of unlocking value through opportunistic acquisitions, consolidating fragmented sectors of the Georgian economy, and a hands-on approach to managing subsidiary companies. This approach is supported by good access to capital as a result of a strong track record of raising finance in both local and international capital markets and relationships with key international financial institutions and the Group's ability to monetise its liquid Exit Stage Portfolio Investments.

- ***Experienced management with a strong track record and deep understanding of the local market***. The Group's senior management team is highly experienced and all of its members have previously served as members of the BGEO Group management team that helped grow that business by approximately 33 times in asset size between 2005 and 2017, which Management believes was a result of its strength in growing businesses organically, as well as successful acquisitions and the Group's sector consolidation capabilities. This growth was achieved while maintaining an emphasis on asset quality and conservative risk management policies and increasing its total market share, measured by total assets, from 17.8% as at 31 December 2005 to 34.4% as at 31 December 2017 in the banking business; diversified its business via a number of strategic acquisitions; established itself as a borrower in the international markets and money markets; attracted new institutional equity investors (at the level of its parent company and its then healthcare subsidiary, GHG); and strengthened its transparency and corporate governance policies and procedures. This team has a successful track record of achieving strong investment returns; by way of example, this team oversaw the successful initial public offering of GHG in November 2015, which achieved returns over 90% as at 10 February 2018. Management intends to leverage its successful management experience of the BGEO Group and believes that these factors, together with its strong understanding of the Georgian market, will allow it to respond rapidly and positively to market developments and opportunities.

- ***The Group's access to capital***. The Group's access to both equity and debt capital provides flexibility in managing its balance sheet and is one of the Group's key competitive advantages in realising its goal of capturing attractive investment opportunities in Georgia. Georgian capital markets are not yet fully developed and relatively little wealth has been accumulated locally. As a result, corporates have limited options to raise local capital and domestic commercial banks remain their primary source of funding. By comparison, JSC Georgia Capital, throughout its pre-Demerger membership of the BGEO Group, has more than ten years' of international capital markets experience. The BGEO Group has raised approximately US$0.5 billion in equity on the London Stock Exchange and has carried out four Eurobond issuances which, in aggregate, raised approximately US$1.2 billion. In addition, JSC Georgia Capital has raised more than US$3 billion from the international financial institutions ("**IFIs**") (including EBRD and IFC). Furthermore, as a listed company, Georgia Capital PLC will have the ability to use its stock as acquisition currency. Further, as Management believes that the Group's Exit Stage Portfolio Investments are readily convertible into cash, the Group could access further capital by pursuing an appropriate method of monetising these assets.

- ***Shareholder aligned remuneration policy.*** The Company's remuneration policy follows the model implemented by its former parent company, BGEO Group PLC, and is aligned with its long term development strategy and the value creation interests of its shareholders. Management has a track record of structuring compensation and incentives to align management interests with those of shareholders. The Company's executive director is solely remunerated by way of long term deferred shares and receives no cash compensation. In addition, the Company's remuneration policy stipulates that the salaries of the Company's senior managers are heavily weighted towards deferred share remuneration and does not allow discretionary bonuses for senior managers to be paid in cash. The management teams of each of the Company's key portfolio companies will be paid in phantom shares of their respective companies. Management has a track record of raising the skills of Portfolio Company managers, driving cash generation, in a manner consistent with value-creating growth. There are no additional management or performance fees expected to be charged to shareholders in excess of the abovementioned management remuneration (See *Part XIX: "Additional Information—Directors' Terms of Employment*").

- ***Efficient cost structure.*** Unlike typical private equity fund structures, the Group does not charge management or success fees for managing shareholder money. Instead, the Group's management team receives total remuneration equivalent to approximately 2% of the Group's expected fair value of its net assets. Approximately two thirds of the Company's total operating expenses will be attributable to share-based compensation expected to be paid by way of long term deferred shares as described above. Management believes that this remuneration policy, combined with the Group's well-integrated management team, lean corporate structure, share-based remuneration policy, and commitment to cash preservation, enables the Group to operate in a cost efficient way.

- ***Transparency and robust corporate governance***. JSC Georgia Capital's former parent company, BGEO Group PLC, has a longstanding culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its global depositary receipts ("**GDRs**") on the London Stock Exchange. Moreover, as members of the group of companies owned by BGEO Group PLC, the Group's core businesses have complied in all material respects with the robust corporate governance standards for a premium listed company since 2012, when the shares of its UK incorporated holding company, BGEO Group PLC (formerly known as Bank of Georgia Holdings PLC), were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. The Company intends to continue to maintain these high standards of governance and transparency.

Strategy

The key elements of the Group's business strategy are set out below:

- The Group plans to continue to take advantage of the significant investment opportunities in the fast-developing Georgian corporate sector through the development of its existing businesses and by pursuing attractive investment opportunities, leveraging its superior access to capital, experienced management team and strong sector consolidation experience. By virtue of its ability to access capital, the Group is uniquely positioned to seize such opportunities by deploying capital to acquire controlling stakes in companies and sectors that have the potential to deliver substantial returns. The Group will seek to foster the development of independent businesses with robust corporate governance and management teams, with a view to divestment over the longer term, typically within five to ten years, by way of an initial public offering, strategic sale or other appropriate exit.
- The Group does not have a primary mandate to deploy funds or divest assets within a specific time-frame. As such, it can focus on shareholder returns, optimising entry and exit timing, and on opportunities which meet the Group's investment return and growth criteria. Further, the Group believes that Georgia's fast growing economy will provide ample opportunities to target attractive new investments in a number of underdeveloped sectors. In addition to equity investments, the Group will also consider investing in debt instruments of businesses in Georgia, including senior, mezzanine and subordinated debt.
- The Company will continue to pursue the same dividend and capital returns policy as the BGEO Group's Investment Business prior to the Demerger. In particular, the Company intends to:
  - target a minimum IRR of 25% for its existing and new businesses;
  - retain its current capital return policy, whereby the Company expects to buy back and cancel its shares and/or pay special dividends, either linked to exits from its investments or generally, depending on the Georgia Capital PLC share price; and
  - consider potential exits from existing businesses, starting with its previously announced plan to list shares in GGU within the next two to three years.

See "*The Group's Utility and Energy Business (GGU)—Strategy*", "*The Group's Real Estate Business (m^2)—Strategy*", "*The Group's P&C Insurance Business (Aldagi)—Strategy*" and "*The Group's Beverage Business (Teliani)—Strategy*" below for a discussion of Georgia Capital's strategy for each of its current core businesses.

The Group's approach to investing and managing companies

Businesses operating in a frontier economy such as Georgia have limited access to capital and management personnel. Consequently, those with access to these limited resources can make investments in companies in Georgia which then provide an attractive risk return profile. Management seeks to generate value for its shareholders by: investing in opportunities that are currently not directly accessible to its shareholders; changing management and governance structures; institutionalising and scaling up company operations, often to benefit from consolidating fragmented and underdeveloped markets; and unlocking value by exiting these companies over time. The Group's preferred exit strategy is to pursue initial public offerings for each developed company to generate funds for the Group while also creating opportunities for the Company's shareholders to continue to participate in such offerings. The Group's approach to investing and managing companies entails the following principles:

- *Be opportunistic and disciplined.* The Georgian economy entered a period of significant development and growth approximately ten years ago and different sectors and businesses are at an early stage of formation. Access to capital and management personnel is limited, owners of businesses are cash poor and, as a result, the Group can pursue attractive investment opportunities and acquire assets on relatively attractive terms with a view to consolidating fragmented and underdeveloped markets. Because the Group is under no time pressure to invest, its takes a selective and opportunistic approach to new investments. The Company's capital return policy is a natural self-discipline mechanism for its capital allocation decisions.

- *Active management of businesses*. The Group sets the strategy and business plan of each business it acquires or establishes and then actively manages their implementation, particularly at early stages of development.

- *Scale is important.* Achieving superior economies of scale in a small frontier economy is essential to the success of the Group's acquired businesses and helps it to manage or mitigate the risk of failure.

- *Management development.* As the availability of management personnel is limited, by developing top talent in Georgia the Group can add value for the Company's shareholders. Investing time in growing and developing management continues to be critical for the success of the Group's strategy.

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

- *Liquidity is important.* In order for the Group's strategy to succeed, the Group will be disciplined in unlocking the value of companies in which it invests and which it manages. In particular, it is crucial to set an exit strategy prior to making an investment. The Group considers various types of exit options, including initial public offerings and trade sales.

History and Development

JSC Georgia Capital has been the investment arm of BGEO Group PLC and will continue to be prior to the Demerger. The BGEO Group's principal banking business, the Bank, traces its roots to 1903 and is the successor to the former state-owned Binsotsbank, which was privatised in 1994. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange. In 2004, the Bank replaced its senior management with a team of primarily western-trained and educated professionals. Since 2004, the Bank has grown more than 30 times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. In November 2006, the Bank completed its initial public offering of GDRs, becoming the first Georgian company to list GDRs on the London Stock Exchange, which was followed by its debut Eurobond offering in 2007. In 2006, the BGEO Group's healthcare business (which was initially a subsidiary of the Bank but was subsequently demerged to form part of GHG), opened its first polyclinic in Tbilisi to capitalise on growth opportunities in the Georgian healthcare services market and diversify its sources of revenue. In 2011, the Bank decided to focus on the development of synergistic businesses, particularly in the Georgian insurance, healthcare and real estate markets, through the vertical integration of its insurance and healthcare businesses. In March 2012, Bank of Georgia Holdings PLC (as it was known until 20 November 2015, when it changed its name to BGEO Group PLC), became the Bank's ultimate parent company following a tender offer and its shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange in February 2012.

In December 2014, the Bank's parent company, BGEO Group PLC, introduced its new 4x20% strategy and revised the Bank's corporate structure, reflecting its ambition to operate as a Georgia-focused banking group with an investment arm. As part of this intra-group reorganisation, BGEO Group PLC's operating subsidiaries were organised into new banking business and investment business segments, the latter comprising Georgia Capital.

Following changes in banking regulation in Georgia in line with the NBG's stated intention to regulate banks on a standalone basis, thereby limiting investments in non-banking subsidiaries, and also in line with its new business strategy, BGEO Group PLC completed a corporate reorganisation whereby certain investment and financial services assets were demerged from the Bank and a new intermediate holding company, JSC BGEO Group, was established as a wholly owned subsidiary of BGEO Group PLC, to serve as the Georgian holding company of both the banking business and the investment business segments. JSC BGEO Group's ultimate parent company was renamed BGEO Group PLC to reflect the new structure and strategy.

In November 2015, the BGEO Group completed the successful IPO and premium listing on the London Stock Exchange, of its healthcare business, GHG.

On 3 July 2017, the Board of BGEO Group PLC announced its intention to demerge the BGEO Group into a London-listed banking business ("**Bank of Georgia Group PLC**") and a London-listed investment business ("**Georgia Capital** "). The board of directors of BGEO Group PLC believes that the Demerger will deliver additional long-term value to shareholders by creating two distinct entities which will have enhanced growth opportunities in the strongly growing Georgian economy. Both the Bank and Georgia Capital already lead in their respective fields. For Georgia Capital, the benefits of the Demerger include greater flexibility to manage the Group's capital as well as freedom to pursue strategic investment options. Further, the Demerger is expected to allow the Group to seize further consolidation opportunities and value creative partnerships whilst providing clarity to investors, sharpening management's focus and aligning their incentives.

It is expected that shortly after the Demerger Effective Time and prior to admission of the Company to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange, Bank of Georgia Group PLC will also issue 19.9% of its then current issued share capital to the Investment Business in exchange for the transfer of 19.9% of the Banking Business then held by the Investment Business to it.

Therefore the Company will, as the ultimate holding of the Investment Business, indirectly hold 19.9% of Bank of Georgia Group PLC's share capital. On 12 February 2018, it was announced that for so long as the Company together with anyone acting in concert with the Company for the purposes of the Takeover Code ("**Concert Parties**") holding in Bank of Georgia Group PLC is greater than the Floor (any such Bank of Georgia Group PLC shares being the "**Proportional Voting Shares**"), the Company and any person acting in concert with it will be subject to a proportional voting arrangement in relation to all of the voting rights comprising such shareholding. The mechanics of the proportional voting arrangement are set out in Bank of Georgia Group PLC's articles of association. This arrangement has been put in place so that, following the Demerger and for such time as Georgia Capital PLC together with its Concert Parties holds the Proportional Voting Shares, Georgia Capital PLC will not be able to influence the voting outcomes of Bank of Georgia Group PLC shareholder resolutions. The results of this arrangement are intended to meet the U.S. tax requirements for the Demerger to qualify for non-recognition treatment .For further information regarding the agreements between the Company and Bank of Georgia Group PLC, see "*Part XV (Material Contracts)—Separation Agreements" and Part XV (Material Contracts)—Exchange Agreement*"

Regulation

There is no specific Georgian regulatory regime that applies to JSC Georgia Capital, other than general tax, anti-monopoly and other regulations of general application. However, JSC Georgia Capital's subsidiaries might be subject to clearance procedures from the Georgian anti-monopoly authorities as and when they make acquisitions, depending on their respective market share, and there may be requirements to obtain approvals for acquisitions of large stakes in target companies in certain sectors. In addition, certain of JSC Georgia Capital's principal subsidiaries operate in highly regulated sectors.

See *"Regulation of the Water Supply and Sanitation (WSS) Sector"*, *"Regulation of the Real Estate Sector"*, *"Regulation of the Property and Casualty Insurance Sector"* and *"Regulation of the Beverage*

Sector" below for a discussion of the regulatory regime that applies to each of the Company's Portfolio Companies.

Recent Developments

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms. JSC BGEO Group intends to use the proceeds of the loan by JSC Georgia Capital in order to finance, in part, a transfer of funds by JSC BGEO Group to the Bank in consideration for the assumption by the Bank of JSC BGEO Group's obligations as the issuer of its $350,000,000 6.00 per cent. notes due 2023.

On 9 March 2018, JSC Georgia Capital issued U$S300,000,000 6.125% notes due 2024, which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market. Notes were sold at the price of 98.770% of par value in the initial offering.

In February 2018, JSC Georgia Capital acquired 100% of Genuine Brewing Company LLC, a producer of premium craft beer in Georgia. The Company expects the acquisition of Genuine Brewing Company LLC to further develop the capability of the Beverage Business and provide it with a presence in the growing craft beer market.

On 16 February 2018, 19.9% of the Banking Business was transferred to JSC Georgia Capital in exchange for 1,516,362 new shares in JSC Georgia Capital.

The Group's Utility and Energy Business (GGU)

Overview

The Group's Utility and Energy Business, GGU, supplies potable water, and provides wastewater collection and processing services, to 1.4 million people (more than one-third of Georgia's total population) in the cities of Tbilisi, Mtskheta and Rustavi. GGU also generates electricity, which it uses for internal consumption to power its water distribution network and for sale to third parties.

The following table sets out the breakdown of GGU's total revenue between its main business lines for the periods indicated:

	(Unaudited)	
	For the year ended 31 December	
	2017	**2016**
	(thousands of GEL)	
Total revenue	135,072[(3)]	126,787
Of which:		
Water sales	118,905	109,402
Electricity sales	9,755	10,112
Technical support	5,189	6,256
Other revenue	1,223	1,017

Notes:

(1) Full year 2016 figures are derived from GGU statutory financial statements.

(2) Gross of eliminations.

(3) all figures are unaudited with the exception of total revenue for the year ended 31 December 2017, which is audited.

GGU's Competitive Strengths

Management believes that GGU benefits from the following competitive strengths:

- ***GGU provides utility services to a large proportion the domestic population and commercial customers in Georgia.*** GGU is the largest private water utility company in Georgia that provides more than one third of the population with water supply and sanitation services. Of the five largest cities that make up approximately 60% of the total population in Georgia, two are fully serviced by GGU including Tbilisi, which accounts for 30% of the country's population and approximately 70% of national business turnover. Business customers are important because commercial entities are metered and are easier to account for compared to households which are largely unmetered. Commercial tariffs for metered entities were approximately 13 times higher per m^3 than for households in Tbilisi in 2017.

- ***GGU's professional management delivers results in substantive efficiency improvements.*** GGU's management has introduced a set of performance metrics to measure key operational parameters including: water loss ratio, water sales ratio, the proportion of internal electricity consumption, number of network failures, and cost and length of network development. Between 2015 and 2017, GGU's management has delivered considerable improvements across all key parameters (including a 9.2% increase in water sales, a 10.1% reduction in water losses, a 9.8% reduction in electricity consumption and a 29.8% reduction in the number of water network accidents) and plans to continue to further enhance performance. Between 2015 and 2017 GGU's principal subsidiary completed four successful issuances of GEL-denominated debt securities in Georgia and secured EUR 81.5 million of long-term financing from international financial institutions (Netherlands Development Finance Company ("**FMO**"), German Investment Corporation, and European Investment Bank), of which approximately 40% was secured in Lari, for use in the implementation of GGU's strategy.
- ***GGU is self-sufficient in its power usage for water transportation and is well positioned to develop further renewable generation capacity***. GGU owned and operated three hydropower generation facilities (and managed an additional facility) with a total capacity of 149.3MW as of 31 December 2017. Current average annual production by GGU varies between 380GWh and 560GWh, depending on the level of rainfall during the year. GGU's average annual electricity consumption for its own account is up to 300GWh, which means GGU has self-sufficient power for water transportation and it benefits from additional revenue from third-party electricity sales. During the last few years GGU has achieved efficiencies in terms of its own energy consumption, falling from 322kWh million in 2015 to 291kWh in 2017.
- ***GGU invests in additional capacity for electricity generation with the goal to establish a renewable energy platform***. GGU is developing new hydro power plants ("**HPP**"), as well as solar and wind power sources in Georgia through its joint venture with renewable energy specialists RP Global. Renewable projects are expected to create more value to GGU through achieving cost efficiency per MW installed capacity.

GGU's Strategy

The key elements of GGU's business strategy are set out below:

- GGU aims to achieve efficiencies in operating and maintaining its network by investing over GEL200 million in the refurbishment of its existing infrastructure over the next three years. As a result, GGU plans to substantially reduce technical and commercial water losses in the medium term, thereby reducing the water and energy consumed internally. As a result of achieving efficiencies in its own energy consumption, GGU expects to free up electricity for third-party sales. GGU intends to achieve additional cost efficiencies through reduced maintenance costs for existing water infrastructure, which Management expects to result in increased profitability.
- GGU plans to establish a renewable energy platform targeting 200MW of operating capacity, 44.3MW of hydro power capacity under construction and 100MW of ready-to-build wind power generating capacity by 2019. Additionally, GGU has identified a 200MW pipeline of renewable projects that it aims to develop in the medium-term.
- GGU is currently constructing the 50MW Mestiachala HPP in the Svaneti region and Management expects that commissioning of the plant will take place in December 2018. GGU is also developing the 44.3MW Zoti HPP in Guria region and management expects the construction of this plant to complete in Q4 2020. 100MW of wind projects are currently at the feasibility stage. Once completed, GGU expects to commence construction works.
- As part of preparing for a potential IPO, GGU aims to achieve EBITDA of more than GEL115 million in 2019. GGU plans to use IPO proceeds to fund new development initiatives, including renewable energy projects.

Water sales

Water sales are GGU's most significant revenue stream and represented 88% of GGU's total revenue in 2017. Water is sourced from the Zhinvali reservoir and the Mukhrani, Natakhtari and Khrami aquifers.

The majority of raw water is sourced from the nearby Aragvi valley. After the water flows through the Zhinvali HPP it flows to the Bodorna distribution reservoir through a tunnel that is approximately 9km in length. From the Bodorna reservoir the water flows at approximately 12-15m^3 per second towards Tbilisi via a 40km tunnel while water is spilled back to Aragvi river at approximately 35m^3 per second. The majority of water from the 40km tunnel is delivered and treated at the Grmaghele water treatment plant and the remainder is deposited into the Tbilisi water reservoir, which services as a buffer reservoir. Surface water from the Aragvi river is processed and treated in natural sand and gravel infiltration areas situated on extended land owned by GGU in the Aragvi Valley outside Tbilisi. This surface water is subsequently delivered to service reservoirs where it is chlorinated and distributed in the water supply network. Water processed by the Rustavi water infrastructure is sourced entirely from the Khrami river and is treated at the Khrami water treatment plant. GGU's total water production supplies approximately 560m^3 on an annual basis to the Georgian water network.

As part of the treatment process, water is chlorinated and, if necessary, coagulated with aluminium sulphate. All water supplied complies with World Health Organization ("**WHO**") quality standards. Water quality is monitored on a daily basis, and regular monitoring procedures are carried out in Tbilisi and its surroundings at 374 points of the water supply network. To assist with this process, GGU operates a chemical micro-biological laboratory located in the Grmaghele water treatment plant, Tbilisi.

Once treated and processed, water is distributed via an approximately 3,150 km network of water pipelines. This network consists of: main water lines, aqueducts, distribution networks and branches to customers, all of which are operated by GGU. In total, in 2017, the distribution network involved 55 pumping stations, 101 service reservoirs of pure water with a total capacity of 305 thousand m^3. The most important reservoirs are equipped with level detectors monitored by a central dispatch service.

GGU supplies the capital city of Tbilisi, as well as the neighbouring cities of Rustavi and Mtskheta, with potable water. Since 2014, GGU has also supplied water to residents within Tbilisi's new extended boundaries, increasing its customer base by 1%. GGU's total customer base includes both business and retail consumers. Among its retail customers there are unregistered households that are not metered. GGU receives information about non metered customers from a public service database to generate bills according to a per capita tariff.

The following table sets out a breakdown of GGU's water revenue by customer type for the periods indicated:

	(Unaudited)	
	For the year ended 31 December	
	2017	**2016**
Legal entities(1)	84,893	78,139
Households(1)	32,921	31,263
Total revenue from water sales	**117,814**	**109,402**

Notes:
(1) 2017 balances are unaudited with the exception of total revenue from water sales.

Water sales are billed on a monthly basis for both legal entities and households, whether metered or not. In order to minimise lost revenue from water theft by clients, GGU has a monitoring and investigation team. A client inspection is performed in the following cases:

- *Call centre information*: if a call centre receives information that a specific customer is stealing water, an investigation team inspects the customer to check whether the information received is accurate;
- *Database review*: old and new bills of the same customers are regularly compared; if a significant discrepancy is noticed, the investigation team visits the site and inspects the metering machine and water pipe infrastructure; and
- *Peer review*: bills of similar entities are compared regularly; if material differences in terms of water usage are identified, the inspection team undertakes an inspection of the customer.

Revenue from sales to legal entities represented 72.1% of total revenue from water sales in 2017. Sales to legal entities are closely tied to the Georgian economic environment. Economic growth triggers increased business activity, which results in higher water consumption. Legal entities are metered clients. Meters are read on a monthly basis. Historically GGU's collection rate has been close to 100% for legal entities.

A metering process has been also implemented among GGU's retail customers but a significant portion of this client base remains unmetered. Customers who do not have a meter are billed based on the number of individuals registered on the civil register at a particular residence and by the application of the relevant fixed tariff per capita per month.

The following table sets out the number of GGU's household and legal entity customers between 31 December 2015 and 31 December 2017:

	(Unaudited)		
Description	**2017**	**2016**	**2015**
Number of households	527,862	513,179	497,135
y/y growth	*2.9%*	*3.2%*	*1.7%*
Number of legal entities	32,648	30,348	30,002
y/y growth	*7.6%*	*1.2%*	*4.9%*

Source: *Internal Company data.*

The following table sets out GGU's revenue by customer type for the periods indicated:

	(Unaudited)		
Description	**2017**	**2016**	**2015**
Revenue from households	32,921	31,263	30,170
y/y growth	5.3%	3.6%	0.4%
Revenue from legal entities	84.893	78,139	74,587
y/y growth	8.6%	4.8%	5.4%

Source: *Internal Company data.*

Owing to the installation of new meters and the renovation of old meters during 2015 and 2016, GGU improved its accuracy in measuring water consumption and revenue from legal entities increased in both years. The increase in revenue from households during the same period is mainly due to updates to information about the number of residents for a given household, which has resulted in more efficient revenue collection.

The following table summarises GGU's collection rates by customer type for the periods indicated:

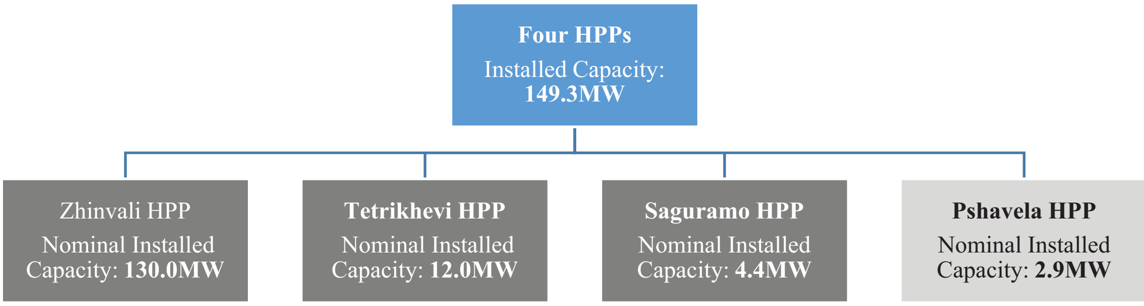
	(Unaudited)		
Collection rates	**2017**	**2016**	**2015**
Households	93.9%	94.0%	94.5%
Legal entities	97.8%	96.9%	98.0%

GGU has good receivable collection rates (within the 94-98% range). During 2017, the collection rates were 98% for legal entities and 94% for households. The Georgian water utility sector has historically recorded low receivable collection rates. The latest available countrywide data relates to 2010 and indicates an average collection rate of 72% outside Tbilisi. This is because water utility companies which operate outside Tbilisi have historically not cut off electricity to residential customers for missed payments, unlike GGU. GGU's collection rate has improved significantly from 2011, due to the changes to the Georgian Law on Electricity and Natural Gas, pursuant to which electricity suppliers are required to cut off electricity if the customers do not pay their water bills. As a result, Tbilisi's electricity suppliers receive flat monetary compensation from GGU (approximately GEL1.3 million annually since 2015) for assisting in the collection process. Following these changes, GGU's collection rates improved and have remained at approximately 96%.

Electricity Sales

Revenue generated from electricity sales totalled GEL9.8 million (or 7.2% of total revenue) in 2017. GGU owned three hydropower stations and managed a fourth with a total capacity of 149.3 MW and average electricity generation of 380-560 GWh as of 31 December 2017. GGU's average annual electricity consumption is up to 300GWh, meaning that GGU has both self-sufficient power for water transportation and benefits from additional revenue from third-party electricity sales. In recent years, GGU's efforts to increase efficiency in using electricity as part of its water distribution network have also contributed to increased electricity sales and GGU plans further efficiency improvements.

The following diagram illustrates GGU's power generation capacity by Hydro Power Plant ("**HPP**") facilities owned and leased by GGU as of 31 December 2017:



Zhinvali HPP has an installed capacity of 130 MW and 520 million m^3 of water in its reservoirs. It is the third largest hydropower station in the country . GGU uses the majority of electricity generated by Zhinvali for internal purposes. The rest is sold to third parties. Georgian law provides that HPPs constructed before August 2008 with installed capacity equal to or greater than 40 MW, as well as all power plants representing a guaranteed source of capacity, are regulated by GNERC, *inter alia*, in terms of setting electricity sales tariffs. Accordingly, the energy tariffs set by Zhinvali HPP (which has an installed capacity of 130 MW and was constructed in the mid-1980s) are determined by GNERC. As old plants comprise a significant part of the Georgian electricity system, this regulation can be used to manage prices and to maintain low market rates.

Tetrikhevi HPP is a small run-of-the-river plant that receives water from the Sioni water reservoir. The installed capacity of the plant is 12 MW, and it is therefore not regulated by GNERC and can sell generated electricity at market price.

Saguramo HPP (commissioned in September 2016) is built on existing GGU tunnel infrastructure in the Mtskheta Region. The plant also receives water from the Zhinvali water reservoir via the Bodorna-Grmagele water supply tunnel. The HPP's installed capacity is 4.4 MW and the annual generation potential is up to 32GWh. As this HPP was built after August 2008, it is fully deregulated and is able to sell generated electricity at market price.

GGU also has an operating lease of Pshavela HPP, which was fully refurbished in 2015 and is owned by Stori Power LLC. Pshavela HPP is also a small run-off-river plant, with 1.95 MW of installed capacity.

Bodorna HPP is a dam-fed plant that GGU's management is currently developing on the site of existing infrastructure. Feasibility and EIA studies have been completed and construction commenced in November 2017. The plant is scheduled to be commissioned in September 2018. The plant will receive water from the Bodorna Reservoir and its installed capacity is intended to be 2.5MW with annual generation potential of approximately 16GWh. For the first ten years after the commencement of power generation, the plant will sell electricity at market price in summer months (May-August) and at fixed power purchase agreement ("**PPA**") price during the remaining eight months. See "*Industry Overview—Individual Sector Overview—Renewable Power Generation Sector—Power Generation Market*",

In 2014, JSC Georgia Capital collaborated with RP Global (an Austrian company with 30 years' experience in developing, building, owning and operating renewable power plants, globally) to develop and build a portfolio of hydropower projects in new locations in Georgia to enhance the country's existing energy infrastructure. As part of this joint venture, GGU is planning to develop and implement a diversified renewable power portfolio in Georgia, split between the three main renewable technologies of hydro, wind and solar. GGU has identified several project opportunities and aims to develop approximately 200 MW capacity in the mid term in addition to the existing 149.3 MW installed capacity.

Mestiachala HPP is a run-of-the-river 50MW installed capacity plant that is currently under construction. The plant is scheduled to be commissioned in the fourth quarter of 2018. The annual generation capacity is projected at approximately 174GWh, with peak generation in August, when the market prices are relatively higher compared to May-June period, when most of the HPPs in Georgia have peak generation. For the first 15 years after the commencement of operations, the plant will sell electricity at market price in summer months (May-August) and at fixed PPA price during the remaining eight months.

GGU signed memoranda of understanding with the Georgian government in respect of exclusive feasibility studies for wind energy projects in early 2017 and three sites were selected for further development.

The following table sets out GGU's power generation, consumption and third party sales for the periods indicated:

	(Unaudited)		
Electricity Balance	**2017**	**2016**	**2015**
		(KW/H)	
Set on grid	341	386	416
Purchase	52	57	3
Total available electricity	393	443	419
Consumption	291	313	322
Y/y changes of consumption	*(7)%*	*(3)%*	*1%*
Third Party Sales	102	130	97

Capital Expenditure

Due to the particular characteristics of GGU's business, planning and executing capital expenditure is of key strategic importance. In the utility sector, new projects are executed to improve and increase the efficiency of the operational cycle. In the energy business, new projects are of developmental nature and are aimed at expanding GGU's market share in the Georgian renewable energy sector and increasing GGU's share of revenue from energy sales.

GGU's investment strategy for its utility business focuses on four types of capital expenditure:

- *Maintenance investment* – investments used to finance the current maintenance of GGU's assets;
- *Value accretive investment* – investments undertaken to decrease GGU's expenses and/or increase its revenues by improving efficiency. This type of investment requires additional financial analysis, discussion of alternatives and the identification of opportunities that may add value;
- *Regulation related investment* – investments to ensure that the company is in compliance with relevant regulation; and
- *Business development initiatives* – major investments in assets and infrastructure initiatives that have the potential to increase the value of the Company.

During the year ended 31 December 2017 GGU spent approximately US$85 million across all types of capital expenditure in the Utility and Energy Business. For the maintenance and development of GGU's energy business, approximately US$34 million was spent during the year ended 31 December 2017. A large proportion of GGU's capital expenditure was attributable to Mestiachala HPP, which is already under construction. The total project cost is estimated at US$62.7 million (excluding VAT).

Regulation of the Water Supply and Sanitation (WSS) Sector

Overview

Water supply and sanitation operations are regulated by the GNERC, an independent non-governmental body. Other regulatory bodies that oversee different aspects of the WSS utility operations include the Ministry of Regional Development and Infrastructure ("**MRDI**"), the Ministry of Environment Protection and Agriculture ("**MEPA**"), the Ministry of Economic and Sustainable Development ("**MoESD**") and the National Food Agency ("**NFA**"). GNERC regulates the economic and license-related aspects of the WSS services and sets price control policy for water and sanitation supply, while MEPA oversees the environmental safety and sustainability aspects of surface and underground water recovery at the intake points. MoESD oversees license-related aspects of the recovery of underground water. GNERC's independence is ensured through independent sources of financing and budgeting that is not influenced by any state authority. GNERC's revenue is mostly made up of the regulatory fee, set at a 0.002 coefficient multiplied by total revenue of a regulated entity, paid out to the GNERC annually. MRDI and the Tbilisi Municipality are responsible for channelling the funds and planning WSS infrastructure development. NFA is authorised to ensure standards of drinking water quality.

Regulatory framework for WSS sector

Location	**GNERC**	**MoESD**	**MRDI**	**MEPA**	**NFA**
Regulatory provisions and by-laws					
Environmental safety and sustainability					
Recovery of surface and underground waters					
WSS infrastructure planning and development					
WSS service licensing and regulation					
WSS services economic regulation					
Drinking water quality control					
Dispute Resolution					

Source: GNERC

Price control

As the principal regulator of the WSS sector, GNERC constantly updates the WSS utility price control methodology and other regulations that apply to WSS utilities in line with existing best practices. A new methodology was adopted by GNERC on 10 August 2017 to regulate WSS prices. The methodology is a hybrid of cost-plus and incentive-based methodologies and is in line with international best practice for utility price control. The new methodology applies from 2018 and the first regulatory period will run for three years from 1 January 2018 to 31 December 2020. The methodology is regulated asset based ("**RAB**") and the return on investment is based on the investments that the utility undertakes and on the existing assets. In addition, the new methodology compensates for maintenance by taking into account depreciation. Regulatory weighted average cost of capital ("**WACC**") is equated to the required rate of return and in the first regulatory period it is set at 15.99%.

Normative losses

GNERC defines "Normative Loss of Potable Water" as the permissible loss of potable water. Losses are calculated in accordance with specially prescribed rules. Normative losses are determined for each utility company separately, as in the case of the electricity sector. A new methodology for calculating normative losses of potable water was adopted by GNERC in December 2017. This methodology distinguishes between production losses, technical losses and losses caused as a result of excessive consumption. When calculating normative losses, the aim is for utility companies to be compensated for any loss suffered. The distinction between types of losses and the relative weighting in compensation levels is intended to trigger incentive mechanisms available for utility companies to reduce amount of non-revenue generating water in the network.

Service Quality Rules

Commercial service quality rules, adopted by GNERC in July 2016, provide quality standards for the services rendered by utility companies. The rules are intended to incentivise improvement in overall service quality among utility companies and provide standards for the response time to customer complaints, new customer registration requests and phone calls. The rules also require that subscribers are informed about planned supply interruptions through "Out of Service" notifications via email and/or text (sms) messages. The rules have a clear framework for handling unplanned interruptions and new customer connections. Where an interruption continues for 12 hours or more, the utility company must submit a detailed explanation and/or justification to GNERC. Service standards are divided into two types: (1) general standards and (2) guaranteed standards. General standards are annual targets and relate to the service of customers as a whole. Conversely, guaranteed standards apply to the service of specific customers.

The Group's Real Estate Business (m^2)

Overview

The Group's Real Estate Business, m^2, develops residential and commercial property, including hotels, in Georgia. In recent years, it has established itself as one of the most recognised residential housing brands in the country, according to TNS research. m^2 outsources design while focusing on project management, construction management and sales.

As of the date of this Prospectus, m^2 has two main business lines: residential developments and commercial property (including hotels). m^2 is also planning to build on its strong market reputation, vertically-integrated operating model and brand franchise to create a third business line that develops third party land plots and generates fee income.

m^2 is the largest developer in the centre of Tbilisi. According to Census Market Research, its share of the total construction market in Tbilisi was 11% as of 31 December 2017 in thirteen districts (market share represents the share of the total area of all active construction sites). m^2 is one of the largest developers in the wider Tbilisi metropolitan area. Its competitors include Maqro, Axis, Jikia House, Archi Group and Domus. Dirsi and Hualing (two of the other major developers) concentrate primarily on residential development in the suburbs. m^2's development services include design management, sales of apartments and commercial property, construction and property management after completion.

The following table sets out the revenue split between m^2's two main business lines and revaluation of m^2's investment property in the past three years:

	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total revenue	121,153	102,974	61,150	98.1%
Of which:				
Revenue from sale of apartments	93,470	96,372	44,917	108.1%
Income from operating leases	3,650	2,832	1,883	93.8%
Revaluation of m^2's investment property	24,033	3,770	14,350	67.5%

m^2's Competitive Strengths

Management believes that m^2 benefits from the following competitive strengths:

- ***m^2 has a proven track record of sales and benefits from high brand awareness in Georgia.*** As a result of m^2's proven track record of timely project completion, turn-key apartment developments and reputation for cost-effective, energy-efficient developments, m^2 has a loyal customer base and 92% brand awareness among real estate developers in Georgia, according to TNS research conducted in 2016. m^2 also benefits from well-developed sales and communication channels and has a vertically-integrated product offering that can deliver projects from development and construction through to sales and provide property management services.

- ***m^2 has a cost advantage through the vertical integration of its construction, project management and sales platforms.*** Owing to its vertical integration, m^2 has control over the largest part of a development's cost base, which enables m^2 to achieve construction and project development efficiencies. This cost advantage has translated into an ability to offer highly competitive products to its customers, as well as IRRs of between 31% and 329% on completed projects.

- ***m^2 has a well diversified funding base and enjoys fast track access to financing from its track record of successfully prepaying debt funding raised from various international financial institutions.*** m^2 has raised, and prepaid in full, debt from FMO and IFC . m^2 has also been active in local fixed income instruments and has issued US dollar-denominated bonds in the local market. Since its establishment in 2011, m^2 has raised approximately US$100 million of debt financing.

m²'s Strategy

m² primarily follows an asset light strategy, which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m² brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia, and the key elements of m²'s business strategy are set out below:

- m² will seek to enhance its income-generating asset portfolio by incorporating commercial elements in its residential developments and opportunistically acquiring and/or developing high street retail, commercial and office space. In addition, m² plans to leverage the value of the m² brand by developing land owned by third parties under franchise agreements and generate fees by offering design and construction management services and sales of real estate developed on behalf of third parties. In line with its "asset light" strategy, m² signed its largest ever franchise agreement in 2017 according to which m² will construct and develop a residential complex under the m² brand name on a third-party land plot in a densely populated Tbilisi suburb. It intends to build a residential complex with a total area of 190,000 square meters and expects it to be built in ten phases over the course of four to five years.
- m² also plans to develop three and four-star Ramada hotels aimed at travellers in Georgia in the next seven years in Tbilisi, Kutaisi and other parts of Georgia under its exclusive development arrangements with Wyndham. Some of these hotels are expected to be mixed-use, and will be part financed through pre-sales of residential units in the developments.
- In June 2017, m² acquired a construction company, together with accompanying plant and machinery, and intends to further enhance the vertical integration of its business model by carrying out construction work on its properties, which is currently predominantly outsourced to third parties.

Residential developments

In the residential property market, m² targets mass market customers by offering affordable, high quality and comfortable housing. m² primarily focuses on "mixed use" developments with large residential components. m² has a land bank with a book value of GEL72.9 million as of 31 December 2017, as compared to GEL72.3 million as of 31 December 2016, with the capacity to build approximately 4,690 apartments (in addition to 2,893 apartments in those development projects that have been completed or are under development) as of 31 December 2017. As of 31 December 2017, m² has completed sales of 1,676 apartments generating total revenue of US$ 144.3 million in seven separate development projects since 2011. m² has four on-going development projects which are currently at the construction phase and has already pre-sold some of the apartments in these new developments. m² is targeting the completion of 883 units in October 2018, 303 units in November 2018 and 16 units in May 2019. m²'s management estimates the total value of the housing market in Tbilisi to be between US$ 800 million and US$ 1 billion (based on the total value of housing transactions in Tbilisi in 2015 according to data from the NPRG, Colliers and m²'s internal research).

The following table sets out certain information on these residential projects as of 31 December 2017:

Project	No. of units	IRR	Equity multiple	Apartments sold/total	Pre-sales[(1)]	Start date	Completion	Sales	Land book values
				(Unaudited)					
				(US$ millions)					
Completed:									
Chubinashvili St.........	123	47%	1.9	123/123	91%	Sep. 2010	Aug. 2012	9.9	0.9
Tamarashvili St..........	525	46%	1.5	523/525	97%	May 2012	Jun. 2014	48.6	5.4
Nutsubidze St............	221	58%	1.1	221/221	89%	Dec 2013	Sep. 2015	17.4	2.2
Kazbegi St.................	295	165%	2.2	295/295	90%	Dec. 2013	Feb 2016	27.2	3.6
Tamarashvili St. II.....	270	71%	2.4	266/270	76%	Jul. 2014	June. 2016	24.3	2.7
Moscow avenue..........	238	31%	1.1	238/238	69%	Sep. 2014	June 2016	12.3	1.6
Skyline........................	19	329%[(2)]	1.1[(2)]	10/19	53%	Dec. 2015	Dec. 2017[(2)]	4.6[(2)]	3.1[(2)]
Under construction:									
Kartozia St.................	801	60%[(2)]	1.4[(2)]	703/801	88%	Nov. 2015	Oct. 2018[(2)]	48.8[(2)]	5.8[(2)]
Kazbegi St. II............	303	51%	2.2	217/303	72%	Jun. 2016	Nov. 2018	18.6	4.3
Chavchavadze avenue	82	75%	1.7	69/82	84%	Oct. 2016	Oct. 2018	8.1	3.3
Melikishvili avenue	16	101%	1.4	11/16	69%	Sep. 2017	May. 2019	2.5	0.8

Source: *Internal company data.*
Notes:
(1) Pre-sales are sales before project completion.
(2) Off-plan sales are sales before commencement of construction.

In addition, m^2 is currently designing and planning to develop the following residential projects:

- *Kavtaradze St*. This is intended to be a development of 397 affordable apartments which Management expects will generate an IRR of 47% and total sales of US$ 27.4 million. Construction has not yet started. The cost is estimated at US$ 20.2 million (excluding land costs); and
- *Digomi Project.* This is intended to be a development of up to 4,300 apartments targeting mass market which Management expects will generate an IRR of 33.8% and total sales of US$166.6 million. Construction has not yet started. The cost is estimated at US$115.3 million (excluding land costs).

m^2 plans to build developments on all of its existing land bank assets and start developing land owned by third parties.

As of 31 December 2017, the Bank and TBC Bank provided mortgage loans in an aggregate amount of US$ 77.5 million to buyers of m^2's residential properties, which represents 35% of m^2's total residential property sales revenue. The remaining 65% of m^2's total residential property sales revenue was received in cash from purchasers of m^2's residential properties.

Commercial property

m^2 makes opportunistic investments in the commercial property market and manages a diversified portfolio of properties that generate rental income. These include mainly high street properties with some industrial and office space. m^2 generated an annual yield of 9.1% on its portfolio of leased commercial property in 2017 (compared with 8.5% in 2016). It targets an annual yield of 10%. In addition to generating rental income, these assets can also deliver capital appreciation. m^2 has developed its current portfolio of commercial properties by retaining the ground floor areas of its residential developments which it leases out as commercial space and by opportunistically acquiring other commercial sites. It aims to build in prime locations, attract good tenants and negotiate favourable leases. Rental yields of commercial properties in the capital city of Tbilisi remain relatively high at 12% per annum according to market research and m^2's data.

Developing three and four-star hotels is also part of m^2's commercial property strategy. Its first internationally-branded three-star hotel opened in 2018 under Ramada Encore brand. Construction of a Ramada hotel in Tbilisi started in September 2017 and one hotel under the Ramada Encore brand in Kutaisi is in pipeline. m^2 expects demand to increase due to the increase in the number of budget-conscious travellers visiting the country. The number of visitors to Georgia grew from 1.1 million in 2007 to 7.6 million in 2017 (according to the Georgian National Tourism Administration), while the number of branded hotel rooms had only marginal growth. m^2 primarily focuses on developing mixed use hotels (which are combined with residential developments).

m^2 provides equity finance for the construction of the hotels from the proceeds of selling apartments. m^2 has entered into an exclusive development agreement with Wyndham, one of the largest international hotel franchisors, to exclusively develop Ramada Encore three-star hotels aimed at travellers in Georgia. The agreement is for a period of seven years and envisages the construction of a minimum of 300 hotel rooms.

m^2 is planning to develop three Ramada hotels, as follows:

- *Ramada Encore Kazbegi*. A mixed use three-star development comprising a 152 room hotel and 303 apartments. Construction began in June 2016 and completed in February 2018. The cost is estimated at US$13.4 million for the hotel and US$39.9 million for the apartments.
- *Ramada Melikishvili*. A mixed use four-star development comprising a 125 room hotel and 16 apartments. Construction began in September 2017 and is scheduled to complete in May 2019. The total completion cost for this project is estimated at US$13.6 million (excluding associated management fees).
- *Ramada Encore Kutaisi*. A three-star hotel comprising 121 rooms. Construction is scheduled to start in May 2018 and complete in September 2019 . The cost is estimated at US$8.9 million.

In addition, m^2 is working on the development of a 13 hectare plot of land that it owns in close proximity to the centre of Tbilisi (Digomi). The Digomi project will involve the construction of up to 4,300 new apartments and commercial properties. m^2's management anticipates that the project will cost approximately US$115.3 million excluding land value and complete during the second half of 2021.

m^2 mainly relies on pre-sales of its properties (and aims to sell approximately 20-30% of the units off-plan) and has used loans from IFIs and listed bonds to fund its developments. In December 2011, m^2 procured US$20 million in funding from FMO to proceed with a development project which was completed in 2014. In May 2013, IFC, a member of the World Bank Group, with the support of the Government of Canada, agreed to provide m^2 with a revolving loan of up to US$14.0 million (including up to US$4.0 million from the IFC-Canada Climate Change Programme) to support green housing construction and job creation in Georgia. The facility has helped m^2 to develop energy-efficient, affordable and quality housing projects in Georgia. As of 31 December 2017, both loans have been successfully prepaid. In October 2016, m^2 successfully issued US$25.0 million of debt securities that were admitted to listing on the Georgian Stock Exchange. Between 2016 and 2018, m^2 raised US$30 million in funding from IFC under two loan agreements which are outstanding as of the date of this Prospectus

Regulation of the Real Estate Sector

Overview

Obtaining building permits for new development projects and commissioning a building after construction is completed are regulated activities in Georgia.

Obtaining a building permit for a new project generally involves four stages:

Land zoning parameter submissions

The Architectural Bureau of Tbilisi City Hall will provide density and footprint parameters as well as a minimum green area requirement. This document also may contain other specific requirements if the site is located in a historic part of the city, is part of a recreational area or is adjacent to a major transport artery. The main documents to be submitted consist of land title documents, a cadastral map and pictures of the site.

Architectural project (full set of drawings) submissions

At the second stage an architectural design is submitted. All major parameters, including gross floor area and net sellable area or net leasable area must be submitted for review as well as a detailed description of the building's physical appearance and facade material. This stage does not require providing either a soil survey or any construction documentation. The mandatory documentation includes: a topographic survey, a master plan, layouts, sections, facades and a rendering of the proposed building.

Construction permit issuance

Typically, the second and third stages can be processed within one application. In addition to the documents required previously, the applicant needs to provide a soil survey, an independent engineer's report, and a construction site organisation map and time schedule. On completion of this stage, a building permit will be provided.

Commissioning

The last stage of the process is the commissioning of the building itself. A commissioning order is issued by Tbilisi City Hall after an audit of the building. A special committee is then appointed to review and monitor the completed project for compliance with the initial project parameters.

The Group's Property and Casualty Insurance Business (Aldagi)

Overview

Aldagi is the leader in property and casualty insurance (excluding health insurance) in Georgia with a 38% market share for the twelve months ended 31 December 2017 according to the Insurance State Supervision Service of Georgia. Aldagi benefits from diverse income streams including insurance revenue, interest income, fees and commission income and other operating income. For the twelve months ended 31 December 2017, Aldagi's products generated net revenue of GEL52.1 million, which comprised of GEL24.3 million from motor vehicle insurance, GEL8.6 million from property insurance, GEL7.9 million from credit life insurance and GEL11.3 million from other insurance business lines (including cargo and agricultural insurance and other lines). Aldagi's operations generated gross insurance profit of GEL27.0 million for the twelve months ended 31 December 2017. Aldagi provides insurance services to retail and corporate clients.

The following table details the split of Aldagi's revenue from its main client products.

	(Unaudited)			
	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total net insurance premiums earned(1)	52,147	43,115	40,856	27.6%
Of which				
Motor	24,307	20,358	21,738	11.8%
Property	8,636	8,265	6,487	33.1%
Credit Life	7,932	7,061	6,365	24.6%
Liability	5,688	4,917	3,057	86.1%
Other (Agro, Cargo)	5,584	2,514	3,209	74.0%

Notes:

(1) All figures are unaudited with the exception of total net insurance premiums earned for the years ended 31 December 2017, 2016 and 2015, which are audited.

Aldagi's Competitive Strengths

Management believes that Aldagi benefits from the following competitive strengths:

- ***Aldagi is well placed to take advantage of the developing insurance market in Georgia.*** When gross written premiums are compared against GDP the Georgian property and casualty market had a penetration rate of 0.6% in 2017, 0.6% in 2016, and 0.6% in 2015 according to the Insurance State Supervision Service of Georgia. Aldagi's leadership position in the property and casualty insurance market in Georgia, with a 38% market share, means that it is well positioned to benefit from anticipated growth in this sector. This is bolstered by the preeminence of Aldagi's client base in Georgia. Aldagi provides insurance to a majority of domestic and overseas holders of strategic assets in Georgia including: British American Tobacco, Commerzbank, Marriott (GMT Hotels), NRC, McDonalds, Nestle, Sheraton (Nurol), Phillip Morris, Bosch, Socar, and TNT. The introduction of compulsory local third party liability motor vehicle insurance in 2019 is expected by Management to lead to increased sales of motor third party liability and motor vehicle mandatory and voluntary insurance policies in Georgia, products in which Aldagi already benefits from a 45.4% and 39.5% market share, respectively, according to the Insurance State Supervision Service of Georgia.

- ***Aldagi benefits from its experienced management team who understand the complexity of emerging market demands and respond quickly to them.*** The expertise of Aldagi's management team has led to a track record of increasing market share and superior returns as evidenced by a ROAE of 38.5% for 2017. This was primarily achieved by pursuing solid underwriting practices and rigorous claims reimbursement procedures to maintain a combined ratio of 75% for 2017.
- ***Aldagi has established diverse sales channels enabling it to reach the majority of the Georgian population and Georgia's businesses.*** As at 31 December 2017, Aldagi's sales network included 130 full-time sales personnel and 547 sales agents. Further, Aldagi had partnerships with eight auto dealerships and 14 brokers, banks and microfinance organisations. The diversity of these sales channels has enabled Aldagi to grow its retail customer base by 38% from 32,994 clients in 2016 to 45,598 clients in 2017.

Aldagi's class risk management practices and procedures are industry leading. Aldagi has employed the head of the Georgian Actuarial Association as the head of its underwriting unit. Furthermore, Aldagi has established partnerships with approximately 30 reinsurers to manage its exposure to risk. The majority of Aldagi's reinsurers have ratings of A and A+, including Chubb European Group Limited, Allianz Global, HDI Gerling, Everest, Catlin, China re, Trans re, Hannover re. Moreover, Aldagi has implemented a robust claims reimbursement process with the aim of ensuring that potentially fraudulent claims are detected as early as possible. This approach has allowed Aldagi to maintain a healthy combined ratio of 78% in 2015, 73% in 2016, and 75% in 2017.

Aldagi's Strategy

Aldagi aims to triple its current net profit and become a GEL50 million net profit company by 2022. Aldagi aims to achieve this by strategically focusing on each of its three main business lines and the core aims set out below:

- *Growing revenue from retail customers*. The level of insurance penetration within the retail segment is very low. The introduction of compulsory local third party liability motor vehicle insurance in 2019 is expected to lead to an increase in sales of mandatory and voluntary motor vehicle insurance policies. In addition to supportive governmental policies, Aldagi expects to grow its retail segment concentration by developing simple products for mass retail. Through the digitalisation of its processes, Aldagi intends to solidify its position as a market leader in digital insurance by increasing the percentage of retail sales conducted online to approximately 20% of total retail sales, increasing the percentage of motor claims processed online to 25% of total motor claims and enhancing the number of Aldagi web-mobile users.
- *Growing revenue from the SME segment.* The level of insurance penetration in the SME segment is negligible. Aldagi's strategy is to focus the attention of its experienced retail sales force (in addition to the corporate sales department) towards entering this underpenetrated segment. Aldagi intends to develop tailored insurance products that will be offered both through digital portals created especially for SMEs and Aldagi's direct distribution channel of sales managers and captive agents.
- *Growing revenue from large corporates*. Although the level of insurance penetration within the corporate segment is relatively high when compared to the retail and SME segments, Management believes that a combination of favourable Georgian macroeconomic conditions, a good investment climate, stable economic growth and an increase in infrastructure projects is expected to further increase consumer demand for insurance products.

Products

Overview

Aldagi organises its insurance business by the types of products it offers and serves both retail and corporate customers. Aldagi participates primarily in the Georgian motor vehicle, property, credit life, and liability insurance markets and also participates in other markets offering cargo and agricultural ("**Agro**") insurance. Within these markets Aldagi has chosen to concentrate on motor vehicle insurance due to its low penetration level (only 5% of registered vehicles in Georgia are insured). On 15 December 2017, the Parliament of Georgia adopted the Law of Compulsory Civil Liability Insurance of Foreign Registered Vehicles Crossing the Georgian Territory which, from 1 March 2018, will provide for compulsory cross-border third party liability motor vehicle insurance. Moreover, on 28 December 2017, the Georgian Government introduced mandatory third party liability insurance for operators of hotels, petrol stations and trade centres (shopping malls), which will take full effect from 1 March 2018. As a result of these changes, Aldagi's management expects to boost both the mandatory and voluntary motor vehicle insurance market, and third party liability insurance market. In addition, in an effort to deconcentrate its portfolio, Aldagi has begun to focus on property insurance.

Further, Aldagi is planning to expand into the retail mass market by offering simple and affordable products such as livestock insurance via multi-channel distributions outlets. Aldagi has already entered the under-penetrated regional markets of Georgia with these products, resulting in the sale of more than 19,000 insurance policies during 2017.

Aldagi manages its customer relationships (sales, service and renewals) through its sales department, the Customer Relationship Management Unit (which covers both retail and corporate sales departments) and its extensive network of captive sales agents. Aldagi aims to deliver a straightforward service and good customer outcomes. Aldagi emphasises a customer-centric culture and staff are incentivised not only on the basis of sales, but also by performance indicators linked to customer feedback.

Aldagi benefits from diverse income streams including insurance revenue, interest income, fees, commission income and other operating income. For the twelve months ended 31 December 2017, Aldagi's products generated net revenue of GEL52.1 million, which comprised of GEL24.3 million from motor vehicle insurance, GEL8.6 million from property insurance, GEL7.9 million from credit life insurance, GEL5.7 million from liability insurance and GEL5.6 million from other insurance business lines (including cargo and agricultural insurance and other lines). Aldagi's operations generated operating profit of GEL19.1 million for the twelve months ended 31 December 2017.

In 2017, Aldagi increased its strategic focus on expanding into the mass-retail market through affordable products such as livestock insurance to increase its offerings to customers and expand its footprint. In terms of Aldagi's corporate product offering, the focus has been on motor vehicle and property insurance in Georgia. In 2017, Aldagi expanded its focus on the SME business sector and unpenetrated regional markets in order to increase its product offerings and expand its footprint.

Motor vehicle insurance

For the twelve months ended 31 December 2017, Aldagi's combined retail and corporate market share in motor insurance was 41% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This represents 22,552 active retail motor insurance clients and 1,097 active corporate clients. Aldagi's core retail product offerings are casco motor insurance and third party liability motor insurance, which together constituted 44% of Aldagi's total retail revenue and 29% of Aldagi's total corporate revenue as of 31 December 2017. Aldagi's motor vehicle insurance is offered with a number of different features including cover for risks such as road accidents, fire, explosion, vandalism, natural disasters, theft, hijack or robbery as well as third party liability cover insurance and driver and passenger accident insurance.

Property insurance

For the twelve months ended 31 December 2017, Aldagi's combined retail and corporate market share was also 39% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This consisted of 11,450 active retail clients and 871 active corporate clients. Key products within the property segment are commercial property, household and machinery breakdown insurance. Property insurance is Aldagi's core product offering for its corporate clients which constituted 38.7% of Aldagi's total corporate revenue in 2017. By comparison, property insurance constituted 10% of Aldagi's total retail revenue in the same period. Aldagi's property insurance market share based on current customer policies increased by 54% to approximately 41% for the twelve months ended 31 December 2017 from approximately 20% in 2016. Aldagi is also looking to explore offering home insurance to a greater proportion of the holders of its existing 11,450 active retail customer policies.

Credit life insurance

For the twelve months ended 31 December 2017, Aldagi's combined retail and corporate market share in credit life insurance was 30% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. Credit life insurance clients constituted 25% of Aldagi's total retail revenue as of 31 December 2017 and 10% of Aldagi's total revenues as of 31 December 2017. Aldagi has a 30% market share in credit life insurance, according to the Insurance State Supervision Service of Georgia Aldagi is also considering offering credit life assurance to a greater proportion of its existing 563,926 active retail customers. The number of Aldagi's credit life assurance active retail customer policies increased by 15% to approximately 768,000 as of 31 December 2017 from approximately 668,000 as of 31 December 2016.

Liability insurance

For the nine months ended 30 September 2017, Aldagi's combined retail and corporate market share in liability insurance was 43% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This accounts for 518 active retail clients and 511 active corporate clients. Liability insurance policies constituted 21% of Aldagi's total corporate revenue as of 31 December 2017. Aldagi's liability insurance products include cover for financial risk, employer's liability, professional indemnity, general third party liability insurance, freight and forward liability ("**FFL**") insurance, household general third party liability insurance, CMR liability insurance, product liability insurance.

Other (Agro, Cargo) insurance

In 2017, Agro insurance policies constituted 18% of Aldagi's total retail revenue. Aldagi has a 54% market share in Agro insurance in Georgia, according to the Insurance State Supervision Service of Georgia. The number of Aldagi's Agro written retail customer policies increased by 46% to 13,118 as of 31 December 2017 from 7,038 as of 31 December 2016. Aldagi's Agro insurance products comprise insurance against unforeseen risks such as hail, prolonged rain, storms, autumn frosts and for products, including cereals, legumes, vegetables, horticultural crops and fruit trees. The Aldagi Agro insurance program is conducted in conjunction with the Ministry of Agriculture and the Agriculture Projects Management Agency. As part of this program, in order to stimulate Agro insurance, the government pays a contribution towards the insurance premiums for farmers and Agro-based industries.

Aldagi's combined retail and corporate market share in cargo insurance was 57% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This accounted for 24 active retail policies and 143 active corporate policies. Cargo insurance policies constituted 6% of Aldagi's total corporate revenue as of 31 December 2017. The number of Aldagi's cargo corporate customer policies increased by 28% to 7,161 as of 31 December 2017 from 5,121 as of 31 December 2016.

Brands and marketing

In the retail space, Aldagi focuses on product development and an in-depth analysis of customer trends to attract new customers, manage sales and build brand awareness. Aldagi's extensive sales channels are also complementary to its branding and marketing efforts. Aldagi's product development department identifies specific target audiences by sorting them into groups based on criteria such as consumer needs and social status and then aligning them with Aldagi's services.

In addition, the product development department also manages the digital design process, using digital tools to increase brand awareness. This process also aims to facilitate awareness of the Georgian insurance sector as a whole, which continues to be underdeveloped in the mass retail market. Aldagi plans to harness this approach and use it to develop online customer profiles for both retail and corporate clients that would enable customers to manage renewals, invoice add-on products and monitor the settlement process in relation to their specific claim or claims. This project is earmarked for 2018.

Customers and Customer Retention

Aldagi had 47,723 active clients (of which 45,598 were retail clients and 2,125 were corporate clients) as of 31 December 2017. This compares with 19,285 active retail clients and 1,747 active corporate clients and as of 31 December 2015 and 32,994 active retail clients and 1,976 active corporate clients as of 31 December 2016 respectively. Aldagi's continued growth in its number of active policies is a result of a number of factors, including a strong agency network, developing distribution channels, innovative product development focused on the needs of retail and corporate customers alike, and the ability to recognise and respond quickly to changing client needs.

Based on Aldagi's written retail policies distributed during the twelve months ended 31 December 2017, 97% of Aldagi's policy holders were older than 25 years of age. Aldagi's customers are concentrated in Tbilisi, with 91% of its customers living in the country's capital city based on Aldagi's distributed written policies during the twelve months ended 31 December 2017. This is a further opportunity for growth as Aldagi aims to benefit from growth in the property and casualty insurance markets outside of Tbilisi.

Aldagi values customer retention. Its retail customer retention rate was 57% in the year ended 31 December 2017, which it achieved through its overall customer service proposition and use of sophisticated pricing and communication strategies such as tailor-made offers, no-claim bonuses, loyalty schemes, discount fuel cards, car washes and gift cards for different supermarkets. Aldagi had a corporate customer retention rate of 88% and 92% in the years ended 31 December 2017 and 2016, respectively. Management believe that, as with its retail customers, this strong corporate customer retention rate is the result of its overall customer service proposition and use of sophisticated pricing and communication strategies. Aldagi's ability to retain its existing customers on renewal is influenced by its financial strength, experienced sales staff, premium service and loyalty schemes. Aldagi continues to improve the sophistication of its pricing on renewal, enhancing its data-centric approach and improving its infrastructure and systems to simplify the ability of Aldagi to modify the price paid by its corporate and retail customers by adjusting its broking commission, either upward or downward, so that price competitiveness is optimised.

Pricing and analytics

As at 31 December 2017, Aldagi had a dedicated pricing team of 17 full-time employees supported by two developers. Aldagi believes that a key to its success has been a data-driven approach to pricing. Customer information is translated into rating variables that are used to refine and improve its pricing methodologies. Aldagi applies daily price and competitiveness tracking across all segment categories. Additionally, Aldagi uses a range of statistical predictive assessments, a defined timetable to refresh and rebuild models, embedded peer review and a model review committee. Aldagi's agile pricing capability allows it to make prompt changes to its methodologies, enabling it to quickly adapt in response to changes in the market. Aldagi has been able to refine its pricing methodologies by applying a database of customer and quote information and its proprietary technologies.

All insurance policies are underwritten by Aldagi. After a customer requests a quote, whether from Aldagi or through a direct distribution channel, the customer's details are automatically forwarded to the chief underwriter (who is the head of the underwriting division). The chief underwriter decides whether the risk should be insured or not and if so, whether it should it be retained by Aldagi (whereby an insurance company agrees to accept all of the risk), placed under treaty or reinsured on a facultative basis. Complex or large risks are referred to the board of the underwriting department for approval.

If a risk is retained by Aldagi or placed under a treaty, Aldagi will issue a quote (sometimes in cooperation with treaty reinsurers).Where appropriate, counter-fraud testing is applied. The line underwriter studies the risk using external credit ratings and other non-traditional pricing data, taking into account the structure of the existing portfolio, the customer's insurance history, market situation, actuarial considerations and other factors. The underwriter then generates an underwriting rate which is intended to generate a reasonable profit per policy but remain competitive in the market. This process is generally completed within a day.

If a risk is to be reinsured, all details are provided to the reinsurer, who develops the technical net rate. Aldagi then applies an increase or discount within certain limits to the quotation using a range of sophisticated pricing technologies and a data-driven assessment of customer value, price elasticity and other factors to optimise income per policy. If the customer chooses to purchase the insurance at the quoted price, Aldagi collects the full policy price from the customer and passes the net premium (the technical net rate) on to the facultative reinsurers.

Aldagi's Underwriting function

Aldagi's underwriting process consists of the following key functions:

- *Fraud detection:* Aldagi believes that the most effective counter-fraud systems run throughout the operation, from the point of quotation to analysis of claims. Aldagi has invested in proprietary systems to validate the risks presented by customers.
- *Risk pricing*: Aldagi uses state of the art risk pricing tools to regularly review the adequacy of its price level at both book and segment level. These tools take into account the mix of business written, company loss trends, market loss trends, company actions and market actions. Aldagi believes that it has created a market leading pricing scheme by combining the use of sophisticated statistical tools with extensive market knowledge and rapid execution, which have resulted in a higher conversion for rate decreases, and lower estimated cost of claims incurred per exposure.

- *Reinsurance:* Aldagi employs both proportional (quota share) and non-proportional (excess of loss) structures in order to maximise return on equity, provide balance sheet protection and minimise volatility of profits.
- *Claims handling:* The claims handling department has two core objectives, (i) delivering straightforward quality service to Aldagi's customers following an incident, and (ii) minimising payments to third parties through efficient, pro-active case management.
- *Reserving:* Aldagi conducts quarterly reserve reviews at a product and peril level. These reviews are conducted utilising accepted actuarial procedures. In addition, Aldagi validates its claims reserves through an independent third-party actuarial opinion every six months.

Aldagi exclusively underwrites policies sold through its retail function. Under the broking relationship, Aldagi pays a broking commission on each customer contract which it applies to the underwriting net rate. The retail department also receives a performance commission in accordance with the performance of the value added services it provides to the underwriting team against certain key metrics.

Aldagi generates underwriting revenue from: (i) net earned premiums from insurance policies underwritten by the underwriting department (consisting of gross earned premiums received less reinsurance); (ii) investment income (consisting of income and gains from the Aldagi's investment portfolio); and (iii) profit commission, (consisting of performance-based payments from reinsurers based on contractual performance targets). Underwriting contributed GEL28.6 million of gross profit and GEL19.1 million of operating profit in the twelve months ended 31 December 2017.

The underwriting department was staffed with 17 individuals who perform actuarial, underwriting and reinsurance claims functions, as of 31 December 2017.

Investment portfolio

Aldagi makes investments to generate income from the capital it is required to hold. Aldagi management believes that these are stable, low-risk investments. Aldagi carefully balances the risk-return trade-off in the portfolio and adopts a cautious approach to ensure compliance with Georgian guidelines, with a primary focus on maintaining capital. In order to ensure the diversification of Aldagi's investment portfolio and compliance with regulatory capital requirements, the majority of the Aldagi's investments are in investment grade corporate bonds, cash and cash equivalents and absolute return funds. To the extent Aldagi experiences gains and losses in its investments, such gains and losses impact Aldagi by generating more or less investment income. Changes in the valuation Aldagi's investments also impact its results, as it is required to regularly conduct valuations and write up or down the value of its assets under applicable accounting rules, with such changes in valuation flowing through Aldagi's consolidated statement of profit or loss and consolidated statement of comprehensive income.

Reinsurance

Aldagi's results are impacted by the availability and pricing of reinsurance. Aldagi's proportional and non-proportional quota share reinsurance increases its underwriting capacity and reduces its capital requirements relative to the business it underwrites. The main requirements for the selection, conclusion and maintenance of reinsurance contracts are outlined in Aldagi's reinsurance policy. Aldagi's reinsurance policy is designed to ensure the contingent growth of the company's portfolio, taking account of the risk appetite of each business line. The policy sets out Aldagi's criteria for eligible reinsurers, internal procedures for selecting reinsurance providers, the requirements that must be met by any reinsurance contracts Aldagi enters in to and its registration, reporting and monitoring requirements of Aldagi. The reinsurance policy is subject to permanent monitoring, optimisation and revision.

Claims department

The frequency, severity and the number of claimants per claim made against Aldagi's insurance policies impacts its results. Risk selection and pricing primarily influence the frequency of the claims received, and to some extent, the severity. However, it is the role of the claims department and counter-fraud unit to ensure that customer claims are paid fairly and that third-party claims are validated and mitigated to the extent possible.

Aldagi also invests in the training of its employees to enable them to be effective in helping its customers and increase their efficiency in handling claims. Aldagi's employees are highly trained and its mobile group managers are able to inspect sites where accidents have occurred soon after they have happened. This enables mobile group users to give Aldagi's clients detailed instruction on what further documents and actions are required. For claims of a particularly complex nature, Aldagi contacts foreign independent claims adjusters who can determine the cause of the loss, the cost of repairs, the extent to which such loss is within the client's insurance coverage, and the amount of reimbursement.

Aldagi operates in a competitive environment. Aldagi tries to differentiate its business by offering innovative services. From 2018, Aldagi's customers may choose their claim settlement process to be dealt with online as well as available on mobile devices. Aldagi anticipates that between 15% and 25% of total motor claims will be settled online using this method. Aldagi uses data-driven analytics and quality assurance procedures to ensure that claims are constantly handles in a proactive manger by experiences claim handlers.

Capital and risk management

Internal controls

Aldagi's internal controls are managed by its internal control unit ("**ICU**"). The ICU is an independent unit under the supervision of the CEO of Aldagi. The ICU assesses potential risks to Aldagi's business and the adequacy of internal controls implemented to mitigate such risks. Further, the ICU assesses the reliability of financial information, recommends improvements to Aldagi's processes, and ensures that Aldagi's resources are safeguarded. The ICU operates on a risk-based approach where higher risk processes are given higher importance. Any potential risks are evaluated and internal quality controls are implemented. The ICU may audit any Aldagi process and access any information deemed necessary. All Aldagi employees are required by the ICU charter to cooperate with the ICU. If any wrongdoing is detected, the ICU may identify the responsible employee and discuss the penalty with management. Any findings or subsequent recommendations are presented to relevant members of management.

Regulatory Capital

Aldagi's compliance with regulatory capital and solvency requirements is overseen by the ICU. To maintain its non-life and life insurance licences, Aldagi must maintain a minimum share capital of GEL2,200,000, 100% of which must be retained in cash on deposit with a banking institution licenced in Georgia and free from any encumbrances. The minimum share capital requirements are expected to increase to GEL4,200,000 from 31 December 2018 and reach GEL7,200,000 by 31 December 2020. Since Aldagi was acquired by the Bank in 2004, Aldagi has at all times maintained the required minimum capital requirements, solvency ratio and all other regulatory requirements imposed by the Insurance State Supervisory Service of Georgia (the "**ISSSG**") and Management expects to continue to be able to do so going forwards. As at 31 December 2017, Aldagi had GEL20.5 million in regulatory capital reserves and its solvency ratio was 180% (on the basis of a total solvency capital requirement of GEL11.4 million. For more information regarding the solvency and capital requirements applicable to Aldagi see "*Regulation of the Property and Casualty Insurance Sector—Additional Regulations Applicable to Insurance Businesses—Reserve Requirements*" and "*Regulation of the Property and Casualty Insurance Sector—Additional Regulations Applicable to Insurance Buinsess-Regulatory capital*" below.

Fraud prevention and detection

External fraud detection forms part of Aldagi's insurance claims regulation procedure. The claims management department carefully analyses details of reported accidents to identify signs of fraud. If there is sufficient evidence the legal department gets involved to take further action. In addition, to address the recent issue of increasing numbers of external fraud cases in the motor insurance sector, Aldagi's operational risks management unit within the operations department was tasked with designing additional preventive controls to cope with potential fraud. The unit identifies key indicators (red flags) such as credit scores, vehicle history, personal driving record, overstated sums insured, and insurance claims history. An internal scoring model is expected to be implemented in Aldagi's software as of 31 March 2018 so that potential clients falling under a certain threshold will be automatically prevented from obtaining insurance.

Regulation of the Property and Casualty Insurance Sector

Overview

The Group's property and casualty insurance business is subject to the general regulatory framework that applies to all other insurance companies in Georgia.

Key Regulatory Authority

Insurance State Supervisory Service of Georgia is the state regulator authorised to supervise and regulate insurance companies in Georgia. The ISSSG is responsible for issuing insurance licences and supervising the compliance of licenced operators with the applicable regulatory requirements. The ISSSG operates as a legal entity of public law and is accountable to the Georgian government. The ISSSG is entitled to revoke the insurance licence of any insurance provider on grounds specified by the Law of Georgia on Insurance (the "**Insurance Law**") adopted in May 1997, including on the ground of insolvency of the insurance provider.

Regulated Activities in the Insurance Industry

The ISSSG requires insurance companies in Georgia to comply with the following forms of regulation:

- capital adequacy requirements;
- reporting, transparency and accountability;
- "fit and proper" criteria for senior management and significant shareholders (direct and indirect holders of 10% or more of the capital);
- minimum requirements for certain types of insurance contracts (such as non state pension insurance); and
- principles of dispute resolution with consumers.

Licensing of insurance companies

Insurance companies must obtain a licence from ISSSG to carry out insurance activities in Georgia. Three types of licences are available to insurance providers:

- life insurance licences, to provide pension insurance and life assurance (both contributory and refundable);
- non-life insurance licences, to provide all other types of insurance, including medical insurance; and
- reinsurance licences, which are mandatory for providers of reinsurance activities.

Additional Regulations Applicable to Insurance Businesses

Reserve Requirements

Under implementing legislation adopted by the ISSSG, insurance providers must keep insurance reserves (which are offsetting assets to cover future liabilities if they are required to pay out under any insurance policy). Insurance providers that provide non-life insurance and life insurance (other than contributory and refundable life insurance and private pension insurance) must keep a reserve for unearned premium ("**UPR**"), a reported, but not settled claims reserve ("**RBNS**") and a reserve for incurred, but not reported claims ("**IBNR**"). Insurance providers that provide contributory and refundable life insurance must keep a life insurance reserve. Insurance providers who provide insurance for private pension liabilities must keep a private pension insurance reserve.

Additional regulations specify the types of assets that can be used as insurance reserves, the structure of such reserves, the conditions for investing these assets and the mandatory ratio between the insurance provider's net undertakings and equity for individual types of insurance product.

Any breach of applicable ratios and regulatory requirements may result in the imposition of sanctions on insurance providers. In addition, insurance providers may not declare or pay dividends or reduce their capital if they are, or would be immediately after such declaration, payment or reduction, in breach of ratios and regulatory requirements applicable to insurance providers.

Regulatory Capital

The minimum share capital requirement for insurance providers is currently set by ISSSG at GEL2,200,000 for a life insurance licence; GEL2,000,000 for a non-life insurance licence and GEL2,200,000 for a reinsurance licence. As a result of an ongoing review by the ISSSG, the minimum share capital requirements for non-life insurance licence holders are expected to increase to GEL4,200,000 from 31 December 2018 and to GEL7,200,000 from 31 December 2020. Insurance providers must keep 100% of their minimum share capital in cash on deposit with a banking institution licenced in Georgia and free from any encumbrances.

In addition to the minimum share capital requirement, insurance companies are also required to maintain a solvency ratio, calculated as regulatory capital divided by the required solvency capital, in excess of 100%. The ISSSG defines the types of assets that can be used by an insurer to meet its regulatory capital requirements. The required solvency capital is the greater of 18% of premium written up to GEL100 million plus 16% of premiums above GEL100 million; and 26% of claims up to GEL70 million plus 23% of claims above GEL70 million. Other adjustments are also made. Premiums for high risk classes of business are increased for the purpose of this calculation and an adjustment is made for reinsurance.

Reporting Requirements

All insurance providers are subject to inspection by ISSSG which may examine an insurance provider's accounts, books, documents and other records and may require its officers and employees to provide any information and documents upon their request. Insurance providers are required to submit annual external audit reports together with their audited annual IFRS financial statements and other financial and statistical reports to ISSSG in the required format on a regular basis.

Corporate Governance

Under the Insurance Law, all directors, members of supervisory boards and significant shareholders of insurance providers must meet the "fit and proper" requirements set by the law. Compliance with this requirement is a precondition for issuing a valid insurance activities licence. In particular, a person may not be appointed as a director or a supervisory board member, or be a significant shareholder, if such person: (a) has been declared legally incapable by a court; (b) has been convicted of any grave or especially grave crime including money laundering, terrorism financing and/or any other economic crime; (c) is a first or second ranking heir (such as a spouse, parent, son, daughter or sibling) of a director, or member of the supervisory board, of an insurance company, or a person connected to that member and having a commercial interest; (d) is a director, or a member of the supervisory board, in more than five Georgian companies, or is a director in the same insurance company; (e) does not have relevant education and/or experience; (f) is a director or a member of the supervisory board of another insurance provider (except where this other insurance provider is controlling or controlled by such insurance company); (g) has previously held, either directly or indirectly, 10% or more of the shares in an insurance company, or served as a director or supervisory board member, and during that time, that insurance company was declared bankrupt; or (h) is prohibited from carrying out insurance activities by a court decision. For these purposes, the term "significant shareholder" means any person who holds either directly or indirectly a 10% or more of the authorised or paid up share capital of an insurance company (a "**Significant Interest**").

Pursuant to the Insurance Law, a person who intends to acquire shares in a Georgian insurance provider and who, as a result of the relevant acquisition, would hold, either directly or indirectly, a Significant Interest must obtain prior approval from the ISSSG. Generally, the ISSSG should issue or deny its consent within 10 days from the date of submission of the application. If the ISSSG fails to provide a response within 10 days, consent is deemed to be issued.

A transaction by which a person directly or indirectly acquires a Significant Interest of a Georgian insurance provider without submission of an application to the ISSSG or despite the ISSSG's refusal, is deemed to be null and void.

There are certain reporting obligations related to the ownership of a Significant Interest of a Georgian insurance provider. Pursuant to the Insurance Law, insurance providers may be required to submit to the ISSSG information on the legal and beneficial holders of a Significant Interest.

See also *Part XIX*: "*Additional Information—Articles of Association*" for related provisions in the Articles of Association.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating the Elimination of the Legalisation of Illegal Income (the "**AML Law**"), imposes controls over the movement of funds within Georgia. The Financial Monitoring Service ("**FMS**") monitors and supervises anti-money laundering measures and issues orders setting out additional measures and reporting requirements. The FMS operates as an independent body under the auspices of the Georgian government. The FMS conducts its activities in close cooperation with MONEYVAL (the anti-money laundering body of the Council of Europe, of which Georgia is a member) and in accordance with the Financial Action Task Force's ("**FATF**") recommendations and EU directives (although Georgia is not a member of FATF or the EU). In addition, following amendments to the Georgian Criminal Code between 2006 and 2008, all material elements of money laundering and terrorist financing offences are provided for by Georgian criminal legislation, including in relation to legal persons.

Under the AML Law and applicable FMS regulations, insurance providers are obliged to monitor all suspicious transactions, irrespective of their value, and certain types of transactions listed in the AML Law and the relevant regulation if the value of such transaction or group of linked transactions exceeds GEL30,000 (or the foreign currency equivalent) and report such transactions to the FMS. If the FMS receives a report of a transaction that it believes may be related to the laundering of illicit income or financing terrorism, the report must be forwarded to the appropriate departments of the Prosecutor General's Office and the Georgian Ministry of Internal Affairs.

In addition, the ISSSG is also authorised to carry out on-site audits of insurance providers' compliance with anti-money laundering regulations. It reports breaches of anti-money laundering regulations to the FMS.

Insolvency, Liquidation and Compulsory Administration of Insurance Companies

The ISSSG is entitled to revoke the insurance licence of any insurance provider on grounds specified by law, including, among others, insolvency and breach of applicable regulatory requirements by the insurance provider. Upon revocation of its licence(s), an insurance provider is liquidated in accordance with the procedure set out in the Insurance Law and its implementing regulations. If, however, the licence is revoked on grounds of insolvency or if it is established during the course of liquidation proceedings that the company is insolvent (where the total book value of its assets is less than the value of its liabilities), then the ISSSG will commence bankrupcy proceedings.

ISSSG is authorised to supervise the conduct of the insurance provider's insolvency and liquidation procedures. During the bankrupcy process, claims are settled in the following order of priority: (i) expenses incurred in connection with the appointment of the bankruptcy manager and performance of its obligations, as well as any obligations incurred by the insurance provider following the revocation of its insurance licence; (ii) secured creditors (except for those secured by a tax lien); (iii) claim arising out of life insurance and private pension insurance contracts, the amount of life insurance liabilities for contributory and refundable types of life insurance being the amount of the life insurance reserve; (iv) claims arising out of accident insurance contracts; (v) all other claims arising out of other insurance contracts; (vi) indebtedness to the state budget, including claims secured by tax liens; and (vii) all other claims against the insurance provider and belatedly submitted claims.

If the funds available are insufficient to cover all claims listed in the above categories in full, the claims of each creditor in a given category are paid on pro-rata basis (except for claims under the first category which are payable in full). The claims of creditors in each subsequent category are paid only after satisfaction in full of the claims ranking ahead.

If there is a threat of a breach of applicable regulatory ratios requirements, non-performance of insurance obligations by an insurance provider, or a significant deterioration of its financial standing or the interest of the insured beneficiary, the ISSSG may appoint a compulsory administrator who meets the qualification requirements applicable to the insurance company administrators. With the consent of the ISSSG, the compulsory administrator is authorised to reorganise the insurance provider's corporate structure and transfer all or any part of the insurance provider's assets and liabilities to another legal entity. The compulsory administrator has the authority to take such action as may be required to improve of the financial condition of the insurance provider, including by way of the sale of the insurance provider or authorising or suspending payments. The compulsory administrator is also authorised to propose to the ISSSG such changes to the constitution of the insurance provider's senior management as he/she believes are necessary. Compulsory administration terminates upon (i) the expiry of term of the appointment; or (ii) termination of the appointment by ISSSG; or (iii) revocation of the insurance licence.

As part of the Demerger, the holding companies of Aldagi will change and all necessary approvals in connection with such change have been obtained from the ISSSG.

The Group's Beverage Business (Teliani)

Teliani is a leading beverage producer and distributor in Georgia. It has three major business lines:

- The production and sale of wine. Teliani has a winery in East Georgia and distributes its own wine in Georgia as well as exporting to 14 countries. During 2017, Teliani exported approximately 1.5 million litres of wine or 65% of its production.

- Teliani launched beer production in June 2017, having distributed Heineken beer in Georgia since 2006. Teliani sold 9,186 thousand litres of beer in Georgia in 2017.
- The distribution of its own beverages and third party brands within Georgia.

The following table sets out the split of revenue between Teliani 's three main business lines for the periods indicated:

	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total revenue	55,441	29,793	29,527	87.8%
Of which:				
Revenue from wine sales	22,156	17,675	17,825	24.3%
Revenue from beer sales	16,406	—	—	—
Revenue from distribution of imported goods and other beverage revenue	16,879	12,118	11,702	44.2%

Teliani's Competitive Strengths

Management believes that Teliani benefits from the following competitive strengths:

- ***Teliani's extensive domestic and international distribution network.*** As at 31 December 2017, Teliani had one of the widest distribution franchise in Georgia, covering up to 6,700 sales points and strong export channels to 14 countries including all countries of the former Soviet Union, Poland, Sweden, USA, Canada and China. This enables Teliani to accelerate the growth of its distribution portfolio and achieve distribution cost efficiencies.
- ***Teliani has a strong management team with a proven track record of growth.*** The current Teliani management team has built a strong sales franchise and has established itself as a leading Georgian distributor in the wine and sparkling wine segment by achieving a market share of 35% in premium hotels, restaurants and cafes and a modern trade segment based on bottled wine sales in 2017.
- ***Teliani's ten-year exclusive partnership and support agreement with Heineken Group and advanced brewery facilities.*** As a result of its successful sales track record of imported Heineken beer, Teliani secured a five year exclusivity licence with Heineken in May 2015 which Teliani has an option to extend for a further five years and began mainstream beer production in June 2017. Teliani's brewery is equipped with advanced technologies, which meet the highest standards of beer production and has the capacity to double its current levels of production without further material capital investments. Since commencing beer production in June 2017, Teliani has obtained a 12.4% market share in the domestic beer market by selling over 68,459 hectolitres of mainstream-branded beer.

Teliani's Strategy

The key elements of Teliani 's business strategy are set out below:

- Teliani plans to become the leading beverage producer and distributor in the South Caucasus by leveraging its strong existing production and distribution franchise. Teliani expects its EBITDA to grow to in excess of US$5.5 million in 2021 from US$0.5 million (GEL1.2 million) in 2017, which management anticipates will be primarily driven by expansion into the production and sale of beer.
- Teliani intends to grow its domestic and international wine sales by benefiting from favourable market trends in Georgia and expanding exports by developing new sales channels in high-growth countries, including China.
- Teliani plans to increase its market share in beer production to 30% by 2022.
- Teliani plans to enhance its third-party brand product portfolio and become the leading fast-moving consumer goods distributor in Georgia by 2021.

Wine business

Teliani currently sells approximately 2.3 million litres of wine per annum. The following table sets out the total litres of wine sold between 2015 and 2017:

Litres of wine sold	*(Unaudited)*
2015	1,532,140
2016	1,573,550
2017	2,330,510

The majority of wine produced by Teliani approximately 65% in the year ended 31 December 2017 is exported globally to 14 countries. The following table sets out the revenue split between domestic wine sales and export sales:

	(Unaudited)[1]			
	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total wine sales revenue[1]	22,156	17,675	17,825	24.3%
Of which:				
Domestic sales	4,039	6,859	7,172	(43.7)%
Export sales	17,811	10,816	10,653	67.2%

Notes:

(1) All figures are unaudited with the exception of total net wine sales revenue for the years ended 31 December 2017, 2016 and 2015, which are audited.

Teliani's winery is located in Telavi in the eastern part of Georgia. The winery is equipped with advanced Italian grape processing equipment that enables Teliani to produce still wine, sparkling wine, grappa (known locally as chacha) and brandy in full compliance with European wine-making standards. Teliani produces a variety of wine products under the following brands: Teliani Valley, Teluri, Glekhuri, Mossano, Kvareli, Lazuri, Gruzia, Old Gruzia and Le Caucase. Teliani's brands have been recognised by a number of international wine festivals, including the Concours Mondial de Bruxelles, IWC, IWSC, and Decanter.

Beer business

Teliani's brewery is located in Tsilkani, approximately 15 kilometers from Tbilisi. The location was selected because of the ecologically clean surroundings and quality of the local spring water. Beer is produced in accordance with the terms of an agreement with Heineken that grants Teliani exclusive production and distribution rights in Georgia and the right to produce products for resale by Heineken Group in Armenia and Azerbaijan. The brewery is equipped with modern and efficient European brewery and bottling technology and, installed under Heineken's direct supervision. The brewery has four bottling lines (for cans, plastic (PET) bottles, kegs, and glass bottles) and the capacity to produce up to 30 million litres of beer annually.

The Tsilkani brewery also produces mainstream beer under the ICY brand as well as some soft drinks. The ICY beer brand has performed well since its launch in June 2017, achieving a market share of 12.4% of the total beer market by the end of the year.

Beverage distribution

Teliani's distribution operation has two main business lines: distribution of third party brands and distribution of Teliani Valley produced beverages. The following table details the split in revenue between these two business lines over the past three years:

	(Unaudited)			
	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total beverage distribution revenue	31,621	24,001	23,252	36.0%
Of which				
Third party brands distribution revenue	17,031	12,118	11,702	45.5%
Teliani Valley produced beverage distribution revenue	14,590	11,883	11,550	26.3%

As of 31 December 2017, Teliani had one of the biggest distribution network in Georgia, including 6,700 sale points, five main warehouses, 241 distribution vehicles and 411 sales representatives. This unit distributes wine and beer produced by Teliani in addition to imported third party brands. However, it is the distribution of third party brands that represents the main driver of revenue growth for the distribution unit as the distribution of Teliani's wine and beer are provided at cost. Teliani distributes high profile Georgian and international brands within Georgia, including wine produced by Teliani, sparkling wine (Bagrationi), imported vodka (Medoff and Sobieski), Granini and locally produced fruit juices (Kampa), imported whisky (Macallan and Famous Grouse), other imported spirits (Marie Brizard) and imported coffee (Lavazza and Mondo). Sales points for beer are expected to reach 10,000 by the end of 2018. In addition to distributing overseas brands within Georgia, Teliani intends to export, beer and soft drinks to neighbouring countries and former members of the Soviet Union.

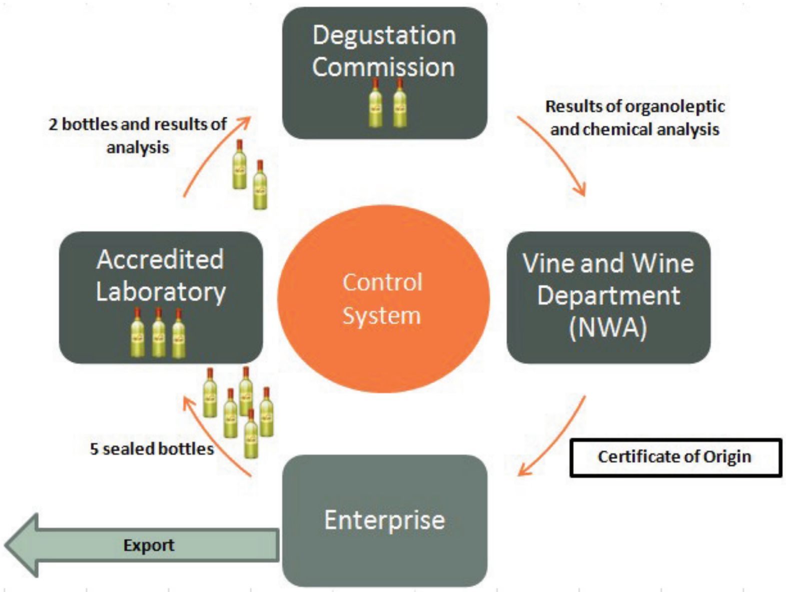
Regulation of the Beverage Sector

Overview

The National Wine Agency ("**NWA**") forms part of the Ministry of Agriculture and is the government department dedicated to establishing a well-regulated wine industry. The NWA regulates wine production and ensures that producers comply with production standards. The agency monitors quality and supports the development of viticulture and winemaking, regulating activities ranging from the breeding of vine grafts and vineyard planning to grape processing, wine production and sales. The agency is also responsible for overseeing the certification and labelling of quality wines and grants rights to use a registered protected designation of origin ("**PDO**").

Key Legislation

The Law on Appellations of Origin and Geographical Indications ("**GI**") was adopted in Georgia in June 1999. The law seeks to ensure that production is of the highest quality by setting out basic manufacturing procedures and product registration requirements based on GI. This protects the market against counterfeit and low quality products.



Source: Ministry of Agriculture of Georgia

As at 31 December 2017, Georgia had 18 PDOs: 14 in Kakheti, 2 in Racha-Lechkhumi, and 1 each in Inner Kartli and Imereti. PDO wines are subject to strict control procedures and are regulated from initial grape production to the export stage. Georgia is taking further significant steps to protect its wines with intellectual property. The National Intellectual Property Centre of Georgia and the Wine Association aim to promote a competitive market for Georgian wine and look to protect the Georgian wine industry from counterfeiting both in the country and abroad. In 2013, the Georgian government implemented several measures in support of the wine sector, including the subsidisation of grape purchases and the provision of cheap credit. As part of the Preferential Agrocredit Project ("**PAP**"), wineries that purchase grapes for GEL1/kg or more will be eligible for 15-month term loans at a 11.5-15% interest rate, of which 8.5% will be covered by the government. The government also provides a subsidy of GEL0.35/kg for Rkatsiteli and Kaxuri Mtsvane, if grapes purchased for at least GEL0.7/kg and with the objective of producing Grappa and GEL2.0/kg for Aleksandrouli and Mujuretuli, if acquired from the Racha-Lechkhmuni region.

Summary of Exit Stage Portfolio Investments

GHG

GHG is the largest healthcare services provider in Georgia and offers a comprehensive range of inpatient and outpatient services through its vertically integrated network of hospitals and polyclinics. GHG is also both the largest pharmaceuticals retailer and wholesaler in Georgia, and the second largest provider of medical insurance in Georgia. As of 31 December 2017, GHG's market share in healthcare services in Georgia was 24.5% by number of beds, in the pharmacy sector it was 30.0% by revenue and in the medical insurance sector it was 29.0% by net insurance premiums, according to the Insurance State Supervision Service of Georgia.

The following table details the evolution of GHG's gross profit for the periods indicated:

	Year ended 31 December		
	2017	2016	2015
	(thousands of GEL)		
Gross profit	227,999	146,018	93,129
Of which:			
Gross healthcare profit	112,785	113,084	84,133
Gross pharma profit	110,105	27,530	—
Gross insurance profit(1)	5,109	5,404	8,996

Note:
(1) Net of intersegment transaction and consolidation adjustment.

Overview of GHG's Main Lines

- ***Healthcare services.*** GHG is the single largest market participant in health care services in Georgia and offers a comprehensive range of inpatient and outpatient healthcare services through a vertically integrated network of hospitals and polyclinics. Healthcare services generated GEL263.4 million net revenue in the year ended 31 December 2017, comprising 35% of GHG's total revenue and 65% of GHG's total EBITDA. Of this amount, 32.6% was generated from private medical insurance companies and out-of-pocket payments by individual customers and 67.4% was generated from state-funded healthcare programmes.
- ***Pharmaceutical goods.*** GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with approximately 30% market share by revenue as of 31 December 2017. GHG has two pharmacy brands: GPC for the higher-end customer segment and Pharmadepot for the mass retail segment. GHG's 255 pharmacies are located in Tbilisi and other major regional cities. Pharmaceutical products generated GEL450.3 million revenue in the year ended 31 December 2017, comprising 60% of GHG's total revenue and 36% of GHG's total EBITDA.
- ***Medical insurance.*** GHG is the largest medical insurance provider in Georgia offers a variety of medical insurance products via a wide distribution network. GHG had approximately 155,000 medical insurance customers as at 31 December 2017. Medical insurance generated GEL53.7 million of total revenue in the year ended 31 December 2017 comprising 7% of GHG's total revenue and an insignificant percentage of GHG's EBITDA. All of this revenue was generated by private medical insurance customers.

Banking Business

The Banking Business provides retail banking and corporate banking services, with ancillary business lines including investment (wealth) management, GLC, investment banking, payment businesses and BNB (which provides banking operations in Belarus). The Bank's market share in Georgia was 34.4%, 32.4%, 33.9% and 29.3% based on total assets, total gross loans, total client deposits and notes and total equity, respectively, according to statistics published by the NBG as of 31 December 2017. The Banking Business strives to benefit from the underpenetrated banking sector in Georgia, in particular through providing best in class services in retail banking. The Banking Business focuses on retail banking and corporate investment banking in Georgia, and also provides banking operations in Belarus. The Banking Business believes that recent, and potential future, growth in the Georgian economy provides opportunities in a number of underdeveloped markets and that it is well positioned to capture growth opportunities in the Georgian corporate sector. The Banking Business aims to deliver on its strategy, targeting a return on average equity ("**ROAE**") of at least 20% and annual growth of its loan book by 15% to 20%.

The following tables set forth combined figures in Lari relating to the Banking Business, extracted without material adjustment from the historical financial information of the Banking Business incorporated by reference into this Prospectus in "*Part XX (Information Incorporated by Reference)*":

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(Unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	4,979,430	12,907,678	11,123,358	9,051,291
Loans to customers and finance lease receivables, net	2,986,429	7,741,420	6,681,672	5,366,764
Client deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Total invested capital	598,990	1,552,702	1,352,502	1,248,727

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

	For the year ended 31 December			
	2017		2016	2015
	(thousands of US Dollars)[(1)] *(Unaudited)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Profit for the year	142,552	369,522	295,696	261,792

Notes:

(1) US Dollar figures in the table above are unaudited and are converted into US Dollars for convenience using an exchange rate of GEL2.5922 per US$1.00, being the official Lari to US Dollar exchange rate reported by the NBG on 31 December 2017.

Overview of the Banking Business's Main Lines

- ***Retail Banking.*** The Banking Business is the leader in retail banking in Georgia in terms of its distribution network, with 281 branches and 850 ATMs as at 31 December 2017. As of 31 December 2017, the Bank had a 34.6% market share based on deposits from individuals and a 35.5% market share in retail loans (based on loans to individuals), according to information published by the NBG. The Banking Business's management believes that it offers the most comprehensive range of financial products in the Georgian retail market. Through its client-centric, multi-brand strategy, the Banking Business reaches the entire spectrum of retail customers. The Banking Business's retail banking products and services include retail lending, deposit accounts, ATM services, internet, mobile, telephone and SMS banking, utility bill payments and money transfer services. For the years ended 31 December 2017 and 31 December 2016, the Banking Business's retail banking business generated profit of GEL249.7 million (US$96.3 million) and GEL209.3 million, respectively, corresponding to 67.6% and 70.8%, respectively, of the Banking Business's total profit for the respective periods.
- ***Corporate Investment Banking (CIB).*** The Banking Business's combined corporate banking and investment management unit consists of the Bank's corporate banking unit, the Banking Business's investment management business and the Bank's Georgian leasing subsidiary. The Bank is one of the leading corporate banks in Georgia, with a market share of 33.1% based on total customer deposits (based on deposits from legal entities) and 28.9% based on total corporate loans (based on loans to legal entities) as of 31 December 2017, according to information published by the NBG. The Bank provides corporate lending and finance leasing (principally in US Dollars), in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. The Banking Business's investment management arm consists of the Bank's wealth management and the Banking Business's brokerage firm, Galt & Taggart. The Bank's wealth management provides private banking services to high net-worth individuals from more than 75 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Galt & Taggart is a leading provider of investment banking and investment management services in Georgia and offers corporate advisory, private equity and brokerage services under one brand. For the years ended 31 December 2017 and 31 December 2016, the Banking Business's corporate investment banking generated profit of GEL105.9 million (US$40.9 million) and GEL88.3 million, respectively, corresponding to 28.7% and 29.9%, respectively, of the Banking Business's total profit for the respective periods.
- ***Belarusky Narodny Bank (BNB).*** Through BNB, its 99.98% owned subsidiary, the Banking Business provides small and medium enterprises ("**SME**") and retail banking services in Belarus. For the year ended 31 December 2017 and 31 December 2016, BNB generated profit of GEL10.3 million (US$4.0 million) and GEL2.7 million, respectively, corresponding to 2.8% and 0.9%, respectively, of the Banking Business's total profit for the respective periods.

Strategy and Strategy of Exit Stage Portfolio Investments

Strengths of GHG

- *The market leading healthcare services provider, with a reputation for delivering high quality care in a market with significant barriers to entry.* GHG operates the largest healthcare provider network in Georgia based on bed capacity (according to the National Centre for Disease

Control and Public Health), the largest pharmaceutical retailer and wholesaler (according to the Group's internal estimates) and the largest medical insurance business based on revenue (according to the Insurance State Supervision Service Agency of Georgia).

- *Well positioned to take advantage of the expected long term macroeconomic and structural growth drivers that are favourably influencing the Georgian healthcare services market* including: a favourable macroeconomic environment in Georgia, the rapid growth of the Georgian healthcare services market, an ageing population, the increasing incidence of lifestyle-related diseases and supportive government policy.
- *An integrated, synergistic business model that allows GHG access to a larger patient population and to manage utilisation effectively.* Management believe that GHG's vertically integrated network of referral hospitals, community hospitals and polyclinics enhances GHG's ability to capture a greater share of the growing Georgian healthcare services market.
- *A model with significant cost benefits from economies of scale and a well invested asset base.* With 16 referral hospitals, 21 community hospitals, 16 polyclinics, centralised functions and the widest geographic coverage in Georgia (as at 31 December 2017), GHG's healthcare services business provides substantial benefits derived from economies of scale.
- *A leading service quality focused franchise.* Management believe that GHG's focus on quality differentiates GHG from its competitors within Georgia. GHG's scale, reputation, focus on quality and in house training help to attract the best available medical personnel.
- *Strong and experienced management and a track record of growth.* GHG's board of directors and senior management team includes individuals with extensive experience in relevant fields including healthcare entrepreneurship and management, strategy and legal advisory, national healthcare policy setting, healthcare research analysis, financial services and advisory.
- *Transparency and robust corporate governance.* GHG and the BGEO Group PLC have, and GHG will continue to have, a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when BGEO Group PLC became the first Georgian entity to list its global depositary receipts ("**GDRs**") on the London Stock Exchange.

Strategy of GHG

GHG's long term growth strategy is focused on increasing profitability whilst achieving a one third market share by both number of beds and revenue in GHG's hospital business, achieving a 15% market share in its polyclinic business, retaining at least a one-third market share in its medical insurance and gaining a one-third market share in its pharmaceutical goods business. In particular, it will focus on the following strategic goals:

- *double 2015 healthcare services revenue from hospitals by the end of 2018.* This is expected to be achieved by increasing GHG's hospital footprint in Tbilisi, expanding GHG's emergency treatment services, adding to GHG's elective surgery offering and filling other existing service gaps.
- *achieve a market share above 15% in the polyclinics market by the end of 2018*. This is expected to be achieved by accelerating the launch of additional outpatient clusters, increasing the proportion of polyclinic revenue generated by corporate clients, and entering into state-funded primary healthcare programmes.
- *increase the EBITDA margin of GHG's pharmaceutical goods business to above 8%.* This is expected to be achieved by the extraction of synergies between GPC and Pharmadepot, cross-selling to GHG's polyclinics, growing wholesale revenues in hospitals and drugstores by signing new corporate accounts, increasing customer loyalty programmes and expanding its retail footprint.
- *increase synergies between GHG's medical insurance business, polyclinics and pharmaceutical goods business*. This is expected to be achieved by ensuring that policyholders are referred to GHG's polyclinics and pharmacies.
- *achieve a medical insurance combined ratio of less than 97% by the end of 2018*. This is expected to be achieved by repricing the insurance business' portfolio and not renewing contracts with loss making clients.

Strengths of the Banking Business

Management believes that the Banking Business benefits from the following strengths:

- *Comprehensive retail banking franchise with opportunities for cross and up-selling.* Management believes that the Banking Business offers the most comprehensive range of financial products in the Georgian retail market. The Bank's Retail Banking products and services include retail lending, deposit accounts, ATM services, internet, mobile, telephone and SMS banking, utility bill payments and money transfer services. The Bank's credit card operations serve approximately 0.7 million credit cards, and the Bank is the exclusive issuer of American Express credit cards in Georgia to 2023 (inclusive). The retail banking business operates a client-centric, multi-brand strategy which reaches the entire spectrum of retail customers in Georgia through three well-established and recognised brands:
  - *Mass Retail is a flagship brand in Georgia.* Through its network of 113 mass retail branches as of 31 December 2017, it targets the mass retail segment, and had approximately 1.6 million individual clients and more than 166 thousand MSME customers as of 31 December 2017.
  - *Express.* As of 31 December 2017, the Bank's Express brand served 524,366 emerging retail customers, providing banking services through cost-efficient channels such as ATMs, internet and mobile banking and technology-intensive Express branches.
  - *Solo.* In 2015, the Bank introduced the Solo brand to target the emerging mass affluent segment (that is, individuals with a monthly income of at least GEL 3,000). As of 31 December 2017, over 32,104 Solo customers were served by personal bankers.
- *Strong corporate investment banking franchise and market share.* The Bank had a market share of 33.1% based on total customer deposits of legal entities and 28.9% based on total loans to legal entities as of 31 December 2017, according to information published by the NBG. As of 31 December 2017, the Bank had 2,584 corporate banking customers, a corporate investment banking gross loan portfolio of GEL2,412.6 million (US$930.7 million) and client deposits and notes of GEL3,457.3 million (US$1,333.7 million). Of the Bank's corporate investment banking client deposits and notes, as of 31 December 2017, GEL1,276.4 million (US$492.4 million) were Lari-denominated and GEL2,180.9 million (US$841.3 million) were foreign currency denominated, providing it with a strong funding base.
- ***Strong liquidity and regulatory capital at the Bank.*** The Bank is well capitalised and maintains strong liquidity positions. According to NBG Basel II/III standards as applied in Georgia, on a stand-alone basis, the Bank had a Tier I Capital ratio of 10.3% and 9.1% and a total capital ratio of 14.8% and 14.4%, as of 31 December 2017 and 31 December 2016, respectively. These NBG ratios are in excess of the minimum ratio requirements of 8.5% for Tier I Capital and 10.5% for total capital. As of 31 December 2017, the Bank's Tier I and total capital adequacy ratios were 12.4% and 17.9%, respectively, above the minimum ratio requirement of 9.9% for Basel III Tier I Capital and 12.4% for Basel III total capital, which were introduced by the NBG in December 2017.
- *Prudent risk management and focus on sound asset quality.* The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security.
- *Track record of profitable growth while reducing risk.* The Banking Business's gross loans have increased from GEL5,567.9 million as of 31 December 2015 to GEL8,020.5 million, as of 31 December 2017, or by 44.1%, and client deposits and notes have increased by 41.2 % from GEL5,011.3 million as of 31 December 2015 to GEL7,078.1 million, as of 31 December 2017. From the year ended 31 December 2015 to the year ended 31 December 2017, the Banking Business's profit grew from GEL261.8 million to GEL369.5 million and ROAE increased from 22.2% to 25.2%.
- *Galt & Taggart is a market leader in the region for investment banking.* Since 2014, the Banking Business has underwritten GEL1.025 billion of capital market issuances. It regularly provides research papers on the Georgian market, as well as Belarus, Ukraine, Azerbaijan, Armenia and Kazakhstan. It also regularly participates in debt financing syndications.

- *Transparency and robust corporate governance*. BGEO Group PLC and the Existing BGEO Group have, and the Banking Business will continue to have, a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its global depositary receipts ("GDRs") on the London Stock Exchange. Moreover, BGEO Group PLC has complied in all material respects with the robust corporate governance standards for a premium listed company since 2011, when the shares of its UK incorporated holding company, BGEO Group PLC, were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
- *Experienced management with a deep understanding of the local market.* Bank of Georgia Group PLC's senior management team is comprised of experienced, primarily Western-educated and trained professionals with significant domestic banking and international investment banking expertise.
- *Strong institutional investor support.* The ultimate parent company of the Existing BGEO Group, BGEO Group PLC has strong institutional investor support with shareholdings of 8.43%, 4.96% and 3.52% held by Harding Loevner Management LP, Schroders Investment Management and LGM Investments Ltd, respectively, as of 31 December 2017. This indicates support for the strategy of the Banking Business.

Strategy of the Banking Business

The Banking Business is expected to continue to strive to benefit from the underpenetrated banking sector in Georgia. In particular, it will focus on the following strategic goals:

- *Increase its product to client ratio.* The Bank aims to increase its product to client ratio in its mass retail segment from 1.7 in 2015 to 3.0 by the end of 2019 by shifting to a client-centric model, which includes rolling out branches redesigned in consultation with a global management consulting firm, an independent consultant; providing a more client-centric service by training front office personnel to sell and service the Banking Business's entire product range and freeing up their time by moving processes that are not client-facing to the back office; and developing client-centric digital channels.
- *Grow its premier banking and SME businesses.* As of 31 December 2017, the Bank currently has over 32,000 Solo clients and intends to increase this number of clients in the mass affluent segment to 40,000 by the end of 2018 and generate customer loyalty by improving the Solo offering. The Bank also intends to increase the number of its SME customers and continue to cross-sell Solo banking services to the owners and executives of its SME customers, and Retail Banking services to their employees.
- *Grow fee income.* The Bank aims to focus on further increasing fees and commission income from corporate investment banking customers, and in particular from its trade finance franchise, which the Bank believes is the strongest in the region.
- *Become regional private banking hub.* Investment (wealth) management of the Banking Business provides private banking services to high net worth individuals from up to 75 countries and offers investment (wealth) management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Bank of Georgia Group PLC believes that Georgia is well placed to become the regional private banking hub due to its relatively sophisticated regulatory system, high standards of customer protection and favourable tax laws.

The key elements of the Bank's business strategy are set out below:

- *Gain leading position in the growing and still under-penetrated Georgian banking market.* The Bank intends to continue to focus on growth, with particular emphasis on retail banking, and has set a target loan portfolio comprising 65% retail and 35% corporate loans, which it has already achieved, as of 31 December 2017. The Bank believes that the Bank has completed the customer acquisition phase of its development and is now focused on increasing the "share of wallet", or product to client ratio. The Bank intends to increase its mass retail product-per-client ratio from 1.8 as of 31 December 2017 to 3.0 as of 31 December 2019 through an expanded product offering and cross-selling.
- *Increase the Bank's loan portfolio while maintaining asset quality*. The Bank will seek to expand its loan portfolio and deposit base by expanding its retail and corporate investment banking portfolios, capturing a part of the previously unbanked or underbanked population and

targeting mass affluent customers (that is, customers with a monthly income in excess of GEL3,000 who are not investment (wealth) management customers) and SME customers (that is, businesses that have a total annual turnover of less than GEL5.0 million and/or that are applying to borrow up to US$500,000).

- *Improve cost and operating efficiency.* The Banking Business maintained a relatively stable cost to income ratio of 35.5% in the year ended 31 December 2015 and 37.7% in the year ended 31 December 2017. In line with the Bank's aim to improve its cost efficiency, in part, through operating efficiencies resulting from centralising back office functions the Bank intends to continue and is focusing on expanding its Express Banking strategy, which entails the rollout of cost-efficient smaller express branches to further shift towards electronic channels and away from standard and flagship branches. Management considers the acquisition of Privatbank in 2015 to have been in line with the Express growth strategy.

Employment, Regulatory and Related Matters

Health, Safety and Environmental Matters

Health, safety and environmental issues are governed by a number of laws and guidelines that affect businesses operating in Georgia. Accordingly, the Group is required to comply with a number of health, safety and environmental requirements in each of the sectors in which it operates. In order to comply with these health, safety and environmental requirements, the Group has adopted a number of policies that are used throughout its facilities.

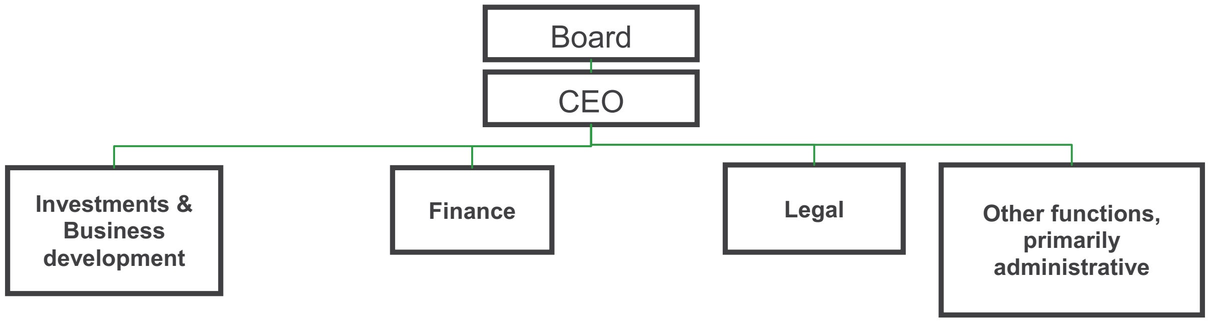
People and Infrastructure

As of 31 December 2017, 2016 and 2015, the Group had a total of 3,548, 2,885 and 448 full-time employees, respectively, of which 3,548, 2,885 and 448, respectively, had standard long-term employment agreements.

The following table details the average number of the Group's full time employees during the years ended 31 December 2015, 2016 and 2017:

	(Unaudited)
	Year Ended 31 December 2017
JSC Georgia Capital	—
GGU	2,631
m^2	156
Aldagi	328
Teliani	585
Other	4
TOTAL	**3,548**

As of March 2018, the Group has a core management team of 4 individuals. An organisational chart detailing the Group's management team structure is set out below:



None of the Group's employees are covered by a collective bargaining agreement or represented by a labour organisation. To date, the Group has not experienced a labour-related work stoppage. The Group considers its relations with its employees to be good.

Employee compensation

The compensation structure for Group staff (other than directors, key executives, insurance sales staff and underwriters) consists primarily of salaries, benefits packages and insurance coverage. Remuneration is negotiated on an individual basis within a framework of pre-set criteria, depending on the specific job category in the sector in which the employee works.

All administrative personnel receive fixed pay and may be eligible to receive an annual bonus, subject to annual profit and the employee's performance. Salaries are paid monthly.

For directors and key executives, the compensation package is composed of a monthly salary, annual bonus and/or share based compensation based on achieving annual goals.

There are special bonus arrangements for key Aldagi personnel including: insurance underwriters, claims department personnel and debt recovery officers in addition to their base salary, which are calculated depending on key performance indicators such as the loss ratio, cost per insured, provision targets, number of loyal customers or average cost per claim, depending on their job.

Aldagi's insurance sales staff receive a commission based on sales, adjusted to reflect renewal rates, product mix and premium collection. Underwriters are eligible for a bonus based on the revenue and loss ratio of different commercial and retail portfolios. Debt recovery officers are eligible for commission from premiums collected from debtors, adjusted by the level of provision in a given month.

Intellectual property

The Group's Portfolio Companies operate under the trade names GGU, Aldagi, m^2 and Teliani. The Group's investment companies operate under the trade names GHG and Bank of Georgia. The majority of the Group's trademarks and logos have been registered.

IT systems

Each of the Group's businesses operates its own IT systems, with a separate management accounting system at the parent company.

Insurance IT systems

There are two main in-house developed insurance systems: Pyxis-for policy administration, billing and invoicing; and iMED-for claims management, patients registration, medical history, debt management, and invoicing and an additional web module for pharmacies and clinics' employees.

Property

As of 31 December 2017, the total net book value of the investment property owned by the Group on a combined basis was GEL160.0 million (US$61.7 million).

Aldagi rents the Bank's old head office and uses it as Aldagi's head office in Tbilisi.

m^2 has a land bank with a book value of GEL72.9 million (US$28.1 million) as of 31 December 2017, with the capacity to build approximately 4,690 apartments (in addition to 2,893 apartments in those development projects that have been completed or are under development).

Litigation and Other Proceedings

Save as disclosed in this *Part X: Information on Georgia Capial*, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

Imedi

On 16 April 2015, some of the former shareholders of Insurance Company Imedi L filed a claim in the Tbilisi City Court against Insurance Company Aldagi and the GHG's subsidiaries, Insurance Company Imedi L and Evex Medical Corporation, all of which are legal successors of Insurance Company Aldagi BCI. Pursuant to a demerger agreement entered into in 2014, the business and assets and liabilities of Insurance Company Aldagi BCI were spun off into three entities: Insurance Company Imedi L acquired the medical and travel insurance (limited to cover for emergency medical treatment) business, Evex Medical Corporation acquired the healthcare services business and Insurance Company Aldagi continues to operate the property and casualty and pension business. The claim alleges that 66.0% shares owned by the claimants in the share capital of Insurance Company Imedi L were sold to Insurance Company Aldagi BCI in 2012 under duress at a price below market value, and the claim seeks damages in the amount of US$17.1 million. The action is in a preparatory stage and as of 31 December 2017 2018 several preliminary hearings took place. A further preliminary hearing is pending to be scheduled. The Group has not created any reserves in respect of the Imedi L litigation.

Management believes that the claim is without merit and the shares in Insurance Company Imedi L were acquired by Insurance Company Aldagi BCI at a fair price on the basis of *bona fide* agreements. However, if the claim is decided in favour of the claimants, the relevant Group subsidiaries would be required to pay to the claimants' damages in the amount as determined by the court. No reserves have been created for the Imedi L ligiation.

Rustavi Azoti

In 2016, following the default by Rustavi Azoti LLC ("**Rustavi Azoti**") and its parent company Agrochim S.A. (the "**Borrowers**") on loans made by the Bank, the Bank initiated the sale of collateral pledged by Rustavi Azoti. The collateral assets were sold to a third party, with which the Bank has a lending relationship but is otherwise unrelated, at a public auction in Tbilisi. On 15 November 2016, East-West United Bank S.A., and Sistema Holding Limited (which were creditors of Agrochim's holding company) and Agrochim initiated proceedings against the Bank, JSC BGEO Group, the purchaser of the assets, Rustavi Azoti and one individual (Roman Pipia, previous majority holder of Rustavi Azoti, in the Tbilisi City Court, requesting damages of approximately US$93.6 million and alleging that the Bank used fraudulent agreements to misappropriate the Rustavi Azoti assets, thereby depriving other creditors of the opportunity to be repaid. The related claims also sought the annulment of the Borrowers' acknowledgment of their debt to the Bank, and the annulment of the results of the auction that resulted in the sale of the collateral. As of the date of this Prospectus, the Tbilisi City Court has not considered the claims on the merits as the first main hearing was held on 12 March 2018, with a further hearing scheduled for 26 March 2018. The BGEO Group considers the claims against the Bank to be without merit and intends to vigorously contest them. The BGEO Group has not created any reserves in respect of the Rustavi Azoti litigation.

Although the Bank has not been provided with details of the underlying allegations, the Investigation Service of the Ministry of Finance of Georgia financial police are also carrying out investigations, which appear to be related to certain allegations made in relation to the sale of the assets pledged by Rustavi Azoti to secure its obligations in respect of the loans made to it by the Bank. The Bank is fully cooperating with the investigation and has provided all requested and other relevant information and materials. The Bank does not believe that there are any grounds under which it or any of its employees or affiliates would be subject to any charges. To the Company's knowledge, as at the date of this Prospectus, no charges have been made against any party.

On 20 March 2018, BGEO Group PLC was served with a notice of claim by Roman Pipia, the previous beneficial owner of Rustavi Azoti. The claim was filed in the High Court of Justice Business and Property Courts of England and Wales Queen's Bench Division Commercial Court. The claim names BGEO Group PLC, JSC BGEO Group, JSC Bank of Georgia, certain of their officers, and JSC EU Investments and its director as defendants. The claim is made under the laws of Georgia and asserts that the defendants are liable to the claimant under the Georgian Civil Code for harm to the claimant in relation to the loss of the Rustavi Azot plant, which he formerly owned as described above. The claimant claims losses and damages of up to US$995 million, or as may be determined by the Court. The claim also refers to the proposed Demerger and states that, to the extent required, the claimant will seek relief against Bank of Georgia Group PLC and the Company. BGEO Group PLC considers that the claim is without merit and intends to oppose it vigorously. Neither BGEO Group PLC nor its affiliates intend to create any reserves in respect of the claim. Further to the above, the Bank is currently in the process of claiming repayment of approximately US$20 million in respect of outstanding loans owed by Roman Pipia and his affiliated parties in separate proceedings in Georgia.

See "*Material Contracts—Separation Agreements—Demerger Agreement—Releases and indemnities*" which states that Bank of Georgia Group PLC will indemnify the Company for any loss incurred due to a third party claim to the extent that the claim relates to the operation of the Banking Business prior to the Demerger.

PART XI

SELECTED HISTORICAL FINANCIAL INFORMATION

The selected historical financial information set out below has been extracted without material adjustment from Part XXII: "Historical Financial Information".

Combined Income Statement

	For the year ended 31 December				
	2017	**2017-2016**	**2016**	**2016-2015**	**2015**
	(thousands of GEL)	*Change (%)*	*(thousands of GEL)*	*Change (%)*	*(thousands of GEL)*
Utility and energy revenue	127,569	125.84%	56,486	—	—
Cost of utility and energy	(39,198)	120.14%	(17,806)	—	—
Gross utility and energy profit	**88,371**	**128.47%**	**38,680**	—	**—**
Real estate revenue	121,153	17.65%	102,974	68.4%	61,150
Cost of real estate	(85,765)	5.75%	(81,098)	104.17%	(39,721)
Gross real estate profit	**35,388**	**61.77%**	**21,876**	2.09%	**21,429**
Net insurance premiums earned	52,147	20.95%	43,115	5.53%	40,856
Net insurance claims incurred	(25,098)	40.54%	(17,858)	(11.22)%	(20,114)
Gross insurance profit	**27,049**	**7.10%**	**25,257**	21.77%	**20,742**
Beverage revenue	55,441	86.09%	29,793	0.90%	29,527
Cost of beverage	(32,313)	110.19%	(15,373)	5.12%	(14,624)
Gross beverage profit	**23,128**	**60.39%**	**14,420**	(3.24)%	**14,903**
Other income	7,435	(11.18)%	8,371	528.93%	1,331
Gross profit	**181,371**	**67.00%**	**108,604**	85.95%	**58,405**
Salaries and other employee benefits	(34,548)	112.22%	(16,279)	37.96%	(11,800)
Administrative expenses	(38,351)	82.13%	(21,057)	33.29%	(15,798)
Other operating expenses	(1,892)	1.56%	(1,863)	407.63%	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(3,417)	240.34%	(1,004)	(10.44)%	(1,121)
EBITDA(1)	**103,163**	**50.82%**	**68,401**	133.30%	**29,319**
Profit from associates	—	—	4,074	0.59%	4,050
Depreciation and amortisation	(28,237)	180.66%	(10,061)	320.43%	(2,393)
Net foreign currency (loss) gain	(4,938)	57.66%	(3,132)	(138.39)%	8,158
Interest income	12,971	204.48%	4,260	66.21%	2,563
Interest expense	(30,014)	121.90%	(13,526)	524.18%	(2,167)
Net operating income before non-recurring items	**52,945**	**5.86%**	**50,016**	26.53%	**39,530**
Net non-recurring items	(624)	(101.94)%	32,104	(2,953.69)%	(1,125)
Profit before income tax expense from continuing operations	**52,321**	**(36.29)%**	**82,120**	113.83%	**38,405**
Income tax expense	(5,749)	(26.41)%	(7,812)	73.60%	(4,500)
Profit for the year from continuing operations	**46,572**	**(37.33)%**	**74,308**	119.17%	**33,905**
Profit from discontinued operations	47,351	(21.21)%	60,099	309.39%	14,680
Profit for the year	**93,923**	(30.12)%	**134,407**	176.64%	**48,585**
Total profit attributable to:					
– shareholders of Georgia Capital	69,778	(34.72)%	106,893	136.88%	45,125
– non-controlling interests	24,145	(12.24)%	27,514	695.20%	3,460
Profit from continuing operations attributable to:					
– shareholders of Georgia Capital	50,382	(32.07)%	74,170	108.03%	35,653

	For the year ended 31 December				
	2017	2017-2016	2016	2016-2015	2015
	(thousands of GEL)	*Change (%)*	*(thousands of GEL)*	*Change (%)*	*(thousands of GEL)*
– non-controlling interests	(3,810)	(2860.87)%	138	107.89%	(1,748)
Profit from discontinued operations attributable to:					
– shareholders of Georgia Capital	19,396	(40.73)%	32,723	245.47%	9,472
– non-controlling interests	27,955	2.11%	27,376	425.65%	5,208
Basic earnings per share:	1.7717	(34.72)%	2.7141	136.89%	1.1457
– earnings per share from continuing operations	1.2792	(32.07)%	1.8832	108.04%	0.9052
– earnings per share from discontinued operations	0.4925	(40.73)%	0.8309	245.49%	0.2405

Note: (1) EBITDA is calculated as profit for the year, before interest, taxes, depreciation and amortization, foreign currency gain/(loss), profit from associates and net non-recuring items.

Combined Statement of Financial Position

	As of 31 December				
	2017	2017-2016	2016	2016-2015	2015
	(audited) (thousands of GEL)	*Change (%)*	*(audited) (thousands of GEL)*	*Change (%)*	*(audited) (thousands of GEL)*
ASSETS					
Cash and cash equivalents	374,299	(6.88)%	401,970	37.21%	292,955
Amounts due from credit institutions	38,141	(78.62)%	178,425	423.72%	34,069
Investment securities	33,060	800.33%	3,672	105.83%	1,784
Accounts receivables	35,341	(71.10)%	122,300	66.80%	73,321
Insurance premiums receivable	30,855	(36.24)%	48,390	18.37%	40,881
Inventories	80,132	(55.37)%	179,534	52.52%	117,713
Investment properties	159,989	14.07%	140,254	26.42%	110,945
Property and equipment	657,635	(32.02)%	967,461	108.16%	464,778
Goodwill	21,935	(70.21)%	73,643	85.77%	39,641
Intangible assets	5,457	(71.23)%	18,965	189.98%	6,540
Income tax assets	1,374	(69.85)%	4,557	(32.91)%	6,792
Prepayments	88,027	51.46%	58,120	52.96%	37,998
Other assets	73,537	(18.30)%	90,010	(20.92)%	113,824
Assets of disposal group held for sale	1,148,584	—	—	—	—
Total assets	**2,748,366**	**20.16%**	**2,287,301**	**70.54%**	**1,341,241**
Accounts payable	46,479	(57.42)%	109,146	147.66%	44,071
Insurance contracts liabilities	46,403	(31.63)%	67,871	21.53%	55,846
Borrowings	657,109	(8.46)%	717,876	403.91%	142,460
Debt securities issued	77,835	(36.34)%	122,263	48.16%	82,522
Income tax liabilities	860	(77.92)%	3,895	(88.66)%	34,334
Deferred income	73,066	(13.81)%	84,770	(17.58)%	102,846
Other liabilities	63,469	(61.37)%	164,303	91.72%	85,699
Liabilities of disposal group held for sale	619,029	—	—	—	—
Total liabilities	**1,584,250**	**24.73%**	**1,270,124**	**131.87%**	**547,778**
Invested capital attributable to shareholders of the parent	866,551	9.92%	788,363	33.50%	590,533
Non-controlling interests	297,565	30.05%	228,814	12.76%	202,930
Invested Capital	**1,164,116**	**14.45%**	**1,017,177**	**28.19%**	**793,463**

Combined Statement of Cash Flows

	For the year ended 31 December				
	2017	2017-2016	2016	2016-2015	2015
	(thousands of GEL)	*Change (%)*	*(thousands of GEL)*	*Change (%)*	*(thousands of GEL)*
Net cash flows from operating activities from continuing operations before income tax	59,753	220.32%	18,654	70.57%	10,936
Net cash flows from operating activities from continuing operations	53,414	336.67%	12,232	34.91%	9,067
Net cash flows from operating activities from discontinued operations	27,832	43.40%	19,409	(11.84)%	22,016
Net Cash flow from operating activities	81,246	156.77%	31,641	1.80%	31,083
Net cash flows used in investing activities from continuing operations	(212,895)	(41.38)%	(363,173)	(1487.59)%	26,173
Net cash flows used in investing activities from discontinued operations	(133,142)	(25.95)%	(179,791)	36.27%	(131,936)
Net cash flows used in investing activities	(346,037)	(36.27)%	(542,964)	413.38%	(105,763)
Net cash from financing activities from continuing operations	165,612	(71.76)%	586,353	1001.28%	53,243
Net cash from financing activities from discontinued operations	136,819	250.20%	39,069	(78.52)%	181,902
Net cash from financing activities	302,431	(51.64)%	625,422	165.97%	235,145
Effect of exchange rates	(16,471)	223.98%	(5,084)	(113.75)%	36,985
Net increase (decrease) in cash and cash equivalents	21,169	(80.58)%	109,015	(44.79)%	197,450
Cash and cash equivalents, beginning	401,970	37.21%	292,955	206.74%	95,505
Cash and cash equivalents of disposal group held for sale	48,840	—	—	—	—
Cash and cash equivalents, end	374,299	(6.88)%	401,970	37.21%	292,955

PART XII

OPERATING AND FINANCIAL REVIEW

Overview

Georgia Capital is the holding company of a diversified group that is focused on creating value by investing in and developing businesses in Georgia with holdings in sectors that are expected to benefit from the continued growth and further diversification of the Georgian economy, the opening of the Georgian economy to Europe and economic development in the wider region. The Group seeks to capture growth in the sectors in which it currently operates and drive the development of new structurally attractive, high-growth businesses in Georgia, which it intends to add either by acquiring businesses in their early development stage or by establishing greenfield businesses, often consolidating fragmented or underdeveloped markets.

The Group actively manages its portfolio companies to maturity, setting the strategy and business plan of each business and driving its execution. As a business matures, the Group will normally seek to monetise its investment, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years from acquisition. As investments are monetised, Georgia Capital plans either to redeploy the proceeds to capture opportunities for growth in new sectors or in the Group's existing businesses, or return proceeds to shareholders in accordance with the Group's capital return policy. The Group aims to achieve an IRR of at least 25% from its investments.

The Company's Portfolio Companies are:

- GGU (35.1% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a water utility and renewable energy business. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area, where it provided WSS services to 1.4 million people (more than one-third of Georgia's population) in 2017. It also operated hydro power plants with a total capacity of 149.3 MW, as of 31 December 2017 and invests in the development of renewable energy projects in the under-supplied Georgian energy sector. The Group anticipates further growth opportunities for GGU in both of its business lines: pursuing cost efficiencies within the water utility business by targeting the reduction of technical losses and reducing energy consumption internally to preserve the supply available for sale to third parties while also planning the construction of hydro, wind and solar power generation plants;
- m^2 (33.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a residential and commercial property developer that is currently delivering a weighted average IRR of 82% on its seven completed projects. m^2 seeks to pursue an asset light strategy which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m^2 brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia;
- Aldagi (14.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), the foremost provider of property and casualty insurance products in Georgia with a market share of 39% by revenue in the Georgian property and casualty insurance sector (excluding health insurance) in the nine months ended 30 September 2017. Aldagi has experienced sustained growth in recent years and, as of 31 December 2017, had 45,598 active retail clients and 2,125 active corporate clients. The Group sees new opportunities for Aldagi as a result of anticipated developments in mandatory third party liability insurance and other property and casualty insurance products; and
- Teliani (15.2% of the revenue of the Group in 2017 (excluding revenue generated by Exit Stage Portfolio Investments)), a leading wine and beer producer in Georgia and a distributor of its own and third party beverage brands that has a five year exclusivity licence from Heineken with a five year extension option to produce beer to be sold in Georgia, and the right to resell in Armenia and Azerbaijan. The Group seeks future growth opportunities in Teliani's beer and wine sales by utilising Teliani's distribution platform.

The following table details the evolution of the Group's revenue from each of its business segments for the periods indicated:

	Year ended 31 December		
	2017	2016	2015
	(thousands of GEL)		
Total revenue	363,745	240,739	132,864
Of which:			
utility and energy revenue	127,569	56,486	—
real estate revenue	121,153	102,974	61,150
insurance revenue	52,147	43,115	40,856
beverage revenue	55,441	29,793	29,527
Other income	7,435	8,371	1,331

The following table details the evolution of the Group's total net asset value from each of its business segments for the periods indicated:

	(Unaudited)		
	Year ended 31 December		
	2017	2016	2015
	(thousands of GEL)		
Total net asset value(1)(2)	866,551	788,363	590,533
Of which			
utility and energy net asset value	284,938	284,712	55,544
real estate net asset value	149,252	137,873	107,787
insurance net asset value	50,901	41,803	35,252
beverage net asset value	63,637	36,229	14,063
other (GHG and CC)(2)	317,823	287,746	377,887

Note:

(1) All figures are unaudited with the exception of total net asset value for the years ended 31 December 2017, 2016 and 2015, which are audited.

(2) Net asset value attributable to GHG was GEL271 million as at 31 December 2017.

In addition to its Portfolio Companies, the Company has significant investments in two businesses of the former BGEO Group: GHG (57% stake), the London Stock Exchange premium-listed parent company of the largest diversified healthcare provider in Georgia, which operates in the healthcare services, pharmacy and medical insurance sectors; and the Banking Business (19.9% stake).

GHG is the largest healthcare services provider in Georgia and offers a comprehensive range of inpatient and outpatient services through its vertically integrated network of hospitals and polyclinics. GHG is also both the largest pharmaceuticals retailer and wholesaler in Georgia, and the second largest provider of medical insurance in Georgia. As of 31 December 2017, GHG's market share in healthcare services in Georgia was 24.5% by number of beds according to the National Centre for Disease Control and Public Health, in the pharmacy sector it was 30.0% by revenue according to management estimates and in the medical insurance sector it was 29.0% by net insurance premiums, according to the Insurance State Supervision Service of Georgia.

The Group reduced its stake in GHG from 65% to 57% in May 2017. In line with the Group's strategy, it is highly probably that the Group will own less than a 50% stake in GHG at the end of 2018 and as a result and in line with IFRS requirements, the Group has reclassified its investment in GHG as a "disposal group held-for-sale" and reports GHG's results of operations under "discontinued operations" in the BGEO Preliminary Financial Information in the combined Historical Fiancial Information of the Group, and, as a result, does not form part of the Group's discussion of the results of its continuing operation for the track record period. Given that GHG was a significant subsidiary of the Group during the track record period, a summary discussion of its results is included under "*—Information on Exit Stage Portfolio Investments for the twelve months ended*

31 December 2017 compared to the twelve months ended 31 December 2016 and twelve months ended 31 December 2015".

The Banking Business provides retail banking and corporate banking services, with ancillary business lines including investment (wealth) management, GLC, investment banking, payment businesses and BNB (which provides banking operations in Belarus). The Bank's market share in Georgia was 34.4%, 32.4%, 33.9% and 29.3% based on total assets, total gross loans, total client deposits and notes and total equity, respectively, according to statistics published by the NBG as of 31 December 2017. The Banking Business strives to benefit from the underpenetrated banking sector in Georgia, in particular through the provision of retail banking services.

Shortly after the proposed Demerger becomes effective, the stake in the Banking Business is expected to be exchanged for a 19.9% stake in Bank of Georgia Group PLC which, before this exchange of stakes takes place, is expected to become the new parent company of the Banking Business and to be listed on the premium segment of the London Stock Exchange. See "*Description of Business—Demerger*".

The stake in GHG and the stake in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) are expected to be held as listed investments and considered by management to be liquid, tradeable assets on the Group's balance sheet that could be readily convertible into cash as and when the Company decides to monetise these assets.

Key factors affecting results of operations

Acquisitions, developments and disposals

The Group seeks to capture growth in the fast-developing Georgian corporate sector by pursuing attractive acquisition opportunities, establishing new greenfield businesses or investing in its existing actively-managed portfolio companies. When an existing business reaches maturity, the Group will normally seek to monetise its investment, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years from acquisition.

As part of its strategy, the Group has made four acquisitions and one disposal during the periods under review, which have affected the Group's total revenue, expenses and profitability. The Group's significant acquisitions for the period from 1 January 2015 to 31 December 2017 are described below.

Acquisition of the remaining 75% interest in GGU. In June 2016, JSC Georgia Capital entered into a share purchase agreement to acquire the remaining 75% interest in GGU (having acquired a 25% stake in December 2014). The acquisition was completed on 21 July 2016. As a result of this acquisition, the contribution of the Utility and Energy Business to the Group's total revenue increased from nil to GEL63,246 thousand in the twelve months ended 31 December 2016. Consequently, while revenues generated by the P&C Insurance Business, the Real Estate Business and the Beverage Business remained stable, their contribution to the Group's total revenue decreased as a proportion of the Group's operations. See *"Material Contracts—GGU Share Purchase Agreement"*.

Acquisition of BK Construction LLC by m^2. In June 2017, m^2 acquired 100% of BK Construction LLC, a local real estate construction company operating in Georgia. m^2 expects that the vertical integration brought by this new construction company will enable it to bring construction costs down and further improve profitability within the Real Estate Business.

Acquisition of New Coffee Company LLC by Global Coffee Georgia LLC. In February 2017, Global Coffee Georgia LLC, a 100% subsidiary of JSC Georgia Capital, acquired 100% of New Coffee Company LLC, a coffee distribution company operating in Georgia, which now forms part of the Group's Beverage Business. The total consideration for the acquisition was GEL5.7 million.

Acquisition of LLC Kass 1 by m^2 Hospitality LLC. In December 2017, m^2 Hospitality LLC acquired 60% of LLC Kass 1, a boutique hotel developing company operating in Georgia. The acquisition is in line with m2's strategy to pursue hotel development and capitalise on growing tourist activities in Georgia.

Disposal of GHG. In May 2017, the Group sold 9.5 million GHG shares, reducing its stake in GHG by 7.2% to 57.0%, and received gross proceeds of GEL98.0 million to realise a gain on sale of GEL 63,4 million, which was recorded as an increase in the Group's shareholder equity.

The Group has also made the following significant acquisitions after the periods under review.

Acquisition of the Banking Business. On 16 February 2018, the JSC Georgia Capital acquired 19.9% of the Banking Business in exchange for 1,516,362 new shares in JSC Georgia Capital.

Acquisition of Genuine Brewing Company LLC by JSC Georgia Capital. In February 2018, JSC Georgia Capital acquired 100% of Genuine Brewing Company LLC, a producer of premium craft beer in Georgia. JSC Georgia Capital expects the acquisition of Genuine Brewing Company LLC to further develop the capability of the Beverage Business and provide it with a presence in the growing craft beer market.

As the Group intends to continue to seek strategic acquisitions and disposals, Management expects that the financial results of the Group will continue to be affected by such events in future periods; however, the Group's ability to complete significant acquisitions or dispose of its businesses may be subject to market conditions. See *''Risk Factors—Market conditions may adversely impact the Group's operating results and its ability to execute its investment strategy.''*

Macroeconomic Conditions

The Group operates primarily in Georgia with its Georgian operations accounting for 95.1% of the Group's total combined revenue for the year ended 31 December 2017, respectively (95.5% and 92.0% in the years ended 31 December 2016 and 2015, respectively). Accordingly, the Group's results of operations, growth and development are and the Group's results of operations, growth and development will continue to be, significantly affected by Georgian economic factors, including those in the below table.

	(Unaudited)		
	As of and for the year ended 31 December		
	2017	**2016**	**2015**
GDP growth (%)	4.8	2.8	2.9
Nominal GDP (US$ million)	15,127(1)	14,378	13,988
Nominal GDP per capita (US$)	4,069(1)	3,865	3,767
Current account deficit (US$ million)	784(1)	1,840	1,680
Inflation (end of period, %)	6.7	1.8	4.9
Foreign direct investments (US$ million)	1,347(2)	1,584	1,576
Public debt as a % of GDP	44.7(1)	44.4	41.4
Total international arrivals (tourists, transit and other)	7,554,936	6,360,509	5,901,473

Source: *Preliminary 2017 GDP data by GeoStat*

Notes:

(1) Based on preliminary 2017 nominal GDP estimate.

(2) Data as of and for the nine months ended 30 September 2017.

Real GDP growth in Georgia accelerated to 4.8% in 2017 as compared to 2.8% growth in 2016 and 2.9% in 2015, according to Geostat. According to the latest IMF forecast, real GDP growth in Georgia is expected to be 4.2% and 4.5% in 2018 and 2019, respectively. The slowdown in 2015-2016 mainly reflected a weak external environment as Georgia's major trading partners' economies were affected by lower oil prices since the second half of 2014. Economic conditions in Georgia and regionally began to improve considerably in 2017, as foreign earnings from exports, remittances and tourism increased.

Inflation was 6.7% in 2017 and remained above the NBG's target of 4.0% for 2017 due to the lagged effects of exchange rate depreciation, higher world commodity prices, and recent increases of excise taxes on tobacco, cars and fuels to compensate for a shortfall in revenue as a result of new tax exemptions for the corporate sector since the beginning of 2017.

The NBG raised its refinancing rate by 25 basis points to 6.75% in January 2017, by 25 basis points to 7.0% in May 2017 and by 25 basis points to 7.25% on 13 December 2017, due to increased inflation expectations. As factors affecting inflation are expected to be temporary, the NBG stated that it expects inflation to be close to its 3.0% target in 2018. As price pressures are expected to ease in 2018, this should enable the NBG to lower the refinancing rate gradually from 7.25% to 6.75% in 2018.

Due to the global strengthening of the US Dollar and the related slump in world commodity prices and slowdown of growth in Georgia and the economies of its main trading partners, the Lari depreciated by 28.5% against the US Dollar in 2015. In 2016, growing uncertainty in global and regional financial markets, and a stronger US Dollar following the elections in the United States resulted in resumed pressures and contributed to a further depreciation of the Lari by 10.5%. These depreciations helped Georgia to facilitate adjustment to external shocks as imports decreased by 15.1% in 2015, as compared to 2014, and 0.1% in 2016, as compared to 2015, although exports have shown signs of growth since September 2016. As foreign exchange interventions have been limited to smoothing excessive exchange rate volatility, the NBG's gross foreign reserves have been preserved, although the depreciation of the Lari has contributed to an overall increase in Georgia's public debt to 41.4% of GDP and 43.9% of GDP in 2015 and 2016, respectively, as compared to 35.7% of GDP in 2014. The Lari appreciated by 2.1% against the US Dollar in 2017 as exports, remittances and tourism revenues increased significantly and continued appreciating against the US Dollar in the beginning of 2018.

Despite the regional economic slowdown, tourism revenues increased during the periods under review, with tourism inflows at US$2,166 million in 2016 and US$2,750 million in 2017. Supported by tourism inflows, service exports increased by 20.6% to US$3.1billion in the nine months ended 30 September 2017 from US$2.6 billion in the nine months ended 30 September 2016. Moreover, FDI increased by 2.9%, to US$1,346 million, in the nine months ended 30 September 2017 from US$1,308 million the nine months ended 30 September 2016.

Cost of Funds

The Group acquires and manages businesses in a high-growth environment and has raised funds to invest in and develop its Portfolio Companies and make significant acquisitions during the period under review. As of 31 December 2017, the Group's principal liabilities were:

- borrowings from international credit institutions (21.2% of total Group liabilities as of 31 December 2017);
- borrowings from local credit institutions (2.6% of total Group liabilities as of 31 December 2017);
- other borrowings (17.6% of total Group liabilities as of 31 December 2017);
- debt securities issued (4.9% of total Group liabilities as of 31 December 2017);
- liabilities of disposal group held for sale (39.1% of total Group liabilities as of 31 December 2017); and
- other liabilities (14.6% of total Group liabilities as of 31 December 2017).

As a result of the increase in liabilities during the periods under review, the Group's total interest expense has increased from GEL2,167 for the twelve months ended 31 December 2015 to GEL30,014 for the twelve months ended 31 December 2017. This increase was primarily attributable to an increase in debt assumed in connection with the acquisition of the remaining 75% interest in GGU in July 2016 and interest expense of the Utility and Energy Business itself.

As the Group intends to continue to make significant investments in its Portfolio Companies and seek strategic acquisitions, Management expects that the Group's cost of funds will continue to affect the Group's financial results in future periods.

Currency Fluctuations

Each of the Group's Portfolio Companies is subject to currency fluctuations in line with the business environment and industry sector in which it operates. Due to the high degree of dollarisation of the Georgian economy (as measured by the dollarisation of bank deposits and loans, which stood at 65.6% and 56.9% as of 31 December 2017, respectively), the purchasing power of the customers of the Group's companies may be affected by currency fluctuations, in particular the depreciation of the Lari against the Dollar and the Euro.

Additionally, the Group incurs debt by undertaking borrowings from international and local credit institutions and issuing debt securities, a significant proportion of which (83.4 % as of 31 December 2017) are linked to foreign currencies (mainly in US Dollars and Euros). The Lari depreciated by 28.5% in 2015, 10.5% in 2016 and appreciated by 2.1% in 2017 against the US Dollar and depreciated by 15.5% in 2015, 6.8% in 2016 and 11.1% in 2017 against the Euro. A further depreciation of the Lari will increase the interest expenses and other costs of the Group.

Although the Group seeks to minimise the effect of currency fluctuations, such fluctuations may affect its results. As of 16 February 2018, the official Lari/US Dollar rate published by the NBG was GEL2.4592 = US$1.00 and the official Lari/Euro rate published by the NBG was

GEL3.0691 = EUR 1.00 . To the extent that the Group acquires or develops businesses in other industry sectors, the nature of the Group's exposure to currency fluctuations may change.

Efficiencies and cost management

Capturing economies of scale is a significant part of the Group's growth strategy. During the period under review, the Group has invested significantly in the development of its Portfolio Companies and consolidated the acquisition of the remaining 75% of GGU in July 2016. Although this has resulted in a 144.9% increase in the cost of the Group's cost of goods and services between 31 December 2015 and 31 December 2017, during the same period the Group's EBITDA has grown by 251.9%. This reduction in costs relative to revenue is the result of the Group's focus on the implementation of cost management programmes in newly acquired companies and the economies of scale that have resulted from the Group's consolidation of fragmented markets in which certain of the Group's businesses operate. Management believes that in future periods, the continued implementation of its efficiency and cost management across all of the Group's operating businesses will have a positive impact on the Group's future gross profit margins and EBITDA.

Factors affecting the Group's Portfolio Companies

In addition to the above factors, the following factors affect the Group's Portfolio Companies.

GGU

- *Increased infrastructure spending.* As some parts of the water supply network in Georgia date back to the Soviet period and are in poor condition, GGU is gradually replacing and rehabilitating its water supply network, extending existing infrastructure, and replacing or rehabilitating property, plant and equipment, all of which entail significant capital expenditure. Continued significant capital expenditure will continue to impact the Group's results in future periods, as Management expects that this will ultimately result in a reduction in technical water loss as a result of improved water supply infrastructure.
- *Tariffs applicable to GGU's water sales.* GGU's water sales revenue depends substantially on the rates it charges to customers and on its ability to recover costs in a timely manner. In particular, tariffs charged by GGU on its water sales may be altered by GNERC which could materially affect the overall performance of the Company. Although the methodology applied by the GNERC to calculate the tariffs GGU charges has remained consistent during the periods under review, a new methodology has applied from 1 January 2018, which Management expects will positively impact GGU's water sales revenue and gross profit in future periods.

m^2

- *New apartment sales volume.* m^2's real estate revenue depends substantially on the number of new apartments m^2 sells to customers, which is in turn dependent on trends in the Georgian residential property market and the timely completion of m^2 developments. Between the twelve months ended 31 December 2015 and the twelve months ended 31 December 2016 m^2's revenue from sales of apartments increased by 114.6% as a result of an increased proportion of new apartments sold in Georgia and the completion of ongoing m^2 development projects. Revenue trends between the twelve months ended 31 December 2016 and the twelve months ended 31 December 2017 are not comparable given the early adoption of IFRS 15 from 1 January 2017. Prior to 1 January 2017, m^2 recognised revenues from sales of residential units upon completion and handover of the units to customers in line with IAS 18 while under IFRS 15 revenue is recognised according to the percentage of completion method. Management expects that the trends in the Georgian residential property market will continue to affect the Group's real estate revenue in future periods.

Aldagi

- *Risk selection, pricing and claims handling.* Risk selection and pricing drives the P&C Insurance Business's underwriting results and determine the footprint of risk the company insures, as well as the premium charged for such risk. Underwriting takes a data-driven approach to risk selection through claims cost modelling and market expertise. In general, the more accurately the company is able to select and appropriately price risks, the better the results of underwriting. While overly conservative risk selection and pricing could result in reduced volumes or reduced premiums per policy, imprudence in risk selection and pricing could result in excess risk and losses from claims. Aldagi's loss ratios were 43%, 36% and 40% for the years ended 31 December 2015, 2016 and 2017. The Company's ability to mitigate losses through claims handling also materially impacts its profitability and the use of technology and strategy to negotiate fair settlements with third parties is vital to the maintenance of relatively low calendar year loss ratio.

Teliani

- *Growth in beverage sales*. Teliani's wine production and distribution business revenue has grown consistently during the track record period (from GEL17,825 thousand for the year ended 31 December 2015 to GEL22,156 thousand for the year ended 31 December 2017), which has impacted Teliani's results of operations. In addition, Teliani has obtained a 12.4% share of the domestic beer market in Georgia in the first six months of beer production in 2017. Management expects that this will impact Teliani's future gross profit as a result of increased beer sales revenue and the reduction of capital expenditure required following significant investments in plant and machinery and sales and marketing activities required to launch beer production operations.

For key factors affecting results of operations of Exit Stage Portfolio Investments, see ''—*Information on Exit Stage Portfolio Investments for the twelve months ended 31 December 2017 compared to the twelve months ended 31 December 2016 and twelve months ended 31 December 2015—Factors Affecting Financial Results of the Group's Portolio Investments*''.

Disposal group held for sale

In 2017, in line with IFRS requirements, the Group reviewed the continued classification of its operating segments as at 31 December 2017 and concluded that GHG met the necessary criteria for reclassification as a ''disposal group held for sale''. This change resulted from the Group's expectation that, in line with Georgia Capital's strategy, it is highly probable that the Group will own less than a 50% stake in GHG by the end of 2018. As a result, and in line with IFRS, the Group classified GHG as a ''disposal group held for sale'' and its results of operations are reported under ''discontinued operations'' as a single amount in the combined income statement. GHG is presented as a discontinued operation in the Historical Financial Information and, as a result, does not form part of the Group's discussion of the results of its continued operation for the track record period.

Segment information

The Group's segments are organised under its Utility and Energy Business (GGU), Real Estate Business (m^2), P&C Insurance Business (Aldagi) and Beverage Business (Teliani). Intercompany revenue and expenses are eliminated in the Group's combined financial statements. The following tables set forth the proportion of the Group's total gross profit attributable to its primary operating segments for the periods indicated.

	For the 12 months ended 31 December 2017						
	GGU	m^2	Aldagi	Teliani	Corporate Centre	Inter-Business Eliminations	Group Total
	(thousands of GEL)						
Gross profit by segment							
Gross utility and energy profit	89,462	—	—	—	—	(1,091)	88,371
Gross real estate profit	—	35,452	144	—	—	(208)	35,388
Gross insurance profit	—	—	28,572	—	—	(1,523)	27,049
Gross beverage profit	—	—	—	23,128	—	—	23,128
Other income	6,414	92	1,001	247	1,305	(1,624)	7,435
Gross profit	**95,876**	**35,544**	**29,717**	**23,375**	**1,305**	**(4,446)**	**181,371**

For the 12 months ended 31 December 2016	GGU	m^2	Aldagi	Teliani	Other IB	Inter-Business Eliminations	Group Total
						(thousands of GEL)	
Gross profit by segment							
Gross utility and energy profit	39,075	—	—	—	—	(395)	38,680
Gross real estate profit	—	21,957	33	—	—	(114)	21,876
Gross insurance profit	—	—	25,789	—	—	(532)	25,257
Gross beverage profit	—	—	—	14,420	—	—	14,420
Other income	6,365	72	1,506	(49)	130	347	8,371
Gross profit	**45,440**	**22,029**	**27,328**	**14,371**	**130**	**(694)**	**108,604**

For the 12 months ended 31 December 2015	GGU	m^2	Aldagi	Teliani	Other IB	Inter-Business Eliminations	Group Total
						(thousands of GEL)	
Gross profit by segment							
Gross real estate profit	—	21,399	30	—	—	—	21,429
Gross insurance profit	—	—	21,180	—	—	(438)	20,742
Gross beverage profit	—	—	—	14,903	—	—	14,903
Other income	(22)	235	1,272	(59)	(48)	(47)	1,331
Gross profit	**(22)**	**21,634**	**22,482**	**14,844**	**(48)**	**(485)**	**58,405**

The Real Estate Business contribution to the Group's total revenue decreased from 46.2% in the twelve months ended 31 December 2015 to 42.4% in the twelve months ended 31 December 2016. The P&C Insurance Business contribution to the Group's total revenue decreased from 32.1% in the twelve months ended 31 December 2015 to 18.8% in the twelve months ended 31 December 2016. The Beverage Business contribution to the Group's total revenue decreased from 22.2% in the twelve months ended 31 December 2015 to 12.4% in the twelve months ended 31 December 2016. These decreases where primarily due to the Group's acquisition of the remaining 75% of GGU in July 2016. As a result of this acquisition, the contribution of the Utility and Energy Business to the Group's total revenue increased from nil to GEL63,246 thousand in the twelve months ended 31 December 2016. Consequently, while revenue generated by the P&C Insurance Business, the Real Estate Business, Beverage and Business increased, their contribution to the Group's total revenue decreased as the Group's operations were materially affected by acquisition of the remaining 75% of the Utility and Energy Business in July 2016, which contributed GEL45,440 thousand or 42% of Group's total gross profit for the twelve months ended 31 December 2016.

For the twelve months ended 31 December 2017 compared to the twelve months ended 31 December 2016

Gross utility and energy profit

The Group's utility and energy profit comprises revenues less costs of GGU. The following table sets forth the principal components of the Group's gross utility and energy profit for the periods indicated:

	For the year ended 31 December	
	2017	**2016**
	(GEL thousand)	
Utility and energy revenue	127,569	56,486
Cost of utility and energy	(39,198)	(17,806)
Gross utility and energy profit	**88,371**	**38,680**

Utility and energy revenue increased by GEL71,083 thousand, or 125.8%, to GEL127,569 thousand (US$49,213 thousand) in the twelve months ended 31 December 2017 from GEL56,486 thousand in the twelve months of 2016, primarily due to GGU's full year consolidation into the Group for the twelve months ended 31 December 2017. The Group owned 25% of GGU's equity until July 2016 and GGU's profits were reported under "profit from associates" in the Group's combined income statement during the period ended 21 July 2016.

Cost of utility and energy increased by GEL21,392 thousand, or 120.1%, to GEL39,198 thousand (US$15,122 thousand) in the twelve months ended 31 December 2017 from GEL17,806 thousand in the twelve months ended 31 December 2016, primarily due to GGU's full year consolidation into the Group in the twelve months ended 31 December 2017.

Gross real estate profit

Gross real estate profit consists of revenue from the Real Estate Business less the direct costs of this revenue, as well as operating lease income. The following table sets forth the components of the Group's gross real estate profit for the periods indicated:

	For the year ended 31 December	
	2017	**2016**
	(GEL thousand)	
Real estate revenue	121,153	102,974
Cost of real estate	(85,765)	(81,098)
Gross real estate profit	**35,388**	**21,876**

Real estate revenue increased by GEL18,179 thousand, or 17.7%, to GEL121,153 thousand (US$46,738 thousand) in the twelve months ended 31 December 2017 from GEL102,974 thousand in the twelve months ended 31 December 2016, primarily due to a GEL21.4 million revaluation realised on three investment properties which are currently under construction. Revenue generated from the sale of apartments decreased by GEL2,902 or 3.0% in the twelve months ended 31 December 2017 compared to twelve months 31 December 2016. Management believes that revenues from the sale of apartments in 2016 and 2017 are not comparable because m^2 adopted IFRS 15 from 1 January 2017. Prior to that date, m^2 recognised revenues from sales of residential units upon completion and handover of the units to customers in line with IAS 18, while under IFRS 15 revenue is recognised according to the percentage of completion method. See Note 3 to the Historical Financial Information for the Group.

Cost of real estate increased by GEL4,667 thousand, or 5.8%, to GEL85,765 thousand (US$33,086 thousand) in the twelve months ended 31 December 2017 from GEL81,098 thousand in the 12 months ended 31 December 2016. As a result of m^2's early adoption of IFRS 15 from

1 January 2017, trends for the twelve months ended 31 December 2017 and the twelve months ended 31 December 2016 are not comparable.

Gross insurance profit

The Group's gross insurance profit equals net insurance premiums earned from clients, less net insurance claims incurred, in Aldagi's property and casualty insurance business. Net insurance premiums earned consist of premium income from insurance contracts, net of reinsurance. Net insurance claims represent incurred claim expenses on insurance contracts, net of reinsurance. The following table sets forth the principal components of the Group's gross insurance profit for the periods indicated:

	For the year ended 31 December	
	2017	**2016**
	(GEL thousand)	
Net insurance premiums earned	52,147	43,115
Net insurance claims incurred	(25,098)	(17,858)
Gross insurance profit	**27,049**	**25,257**

Gross insurance revenue increased by GEL9,032 thousand, or 20.9%, to GEL52,147 thousand (US$20,117 thousand) in the twelve months ended 31 December 2017, as compared to GEL43,115 thousand in the twelve months ended December 2016, primarily due to organic growth in Aldagi's motor insurance, property insurance and credit life insurance businesses lines

Net insurance claims incurred increased by GEL7,240 thousand, or 40.5%, to GEL25,098 thousand (US$9,682 thousand) in the twelve months ended 31 December 2017 from GEL17,858 thousand in the 12 months ended 31 December 2016, primarily due to an increase in property insurance claims following a major fire incident in Tbilisi in the first half of 2017 and an increase in a number of accidents including flooding and bad weather conditions in the fourth quarter of 2017. Additionally, Aldagi's motor insurance business also experienced an overall increase in the severity and frequency of loss in 2017 due to shifts in the business towards the retail segment, which is historically characterised by a higher loss ratio than the corporate segment. These increases were partially offset by improved loss ratios in liability insurance, life insurance and other insurance products in 2017 due to the growth of its performing (i.e., not loss-making) portfolio.

Gross beverage profit

The Group's beverage profit comprises revenues less costs of beverage. The following table sets forth the principal components of the Group's beverage profit for the periods indicated:

	For the year ended 31 December	
	2017	**2016**
	(GEL thousand)	
Beverage revenue	55,441	29,793
Cost of beverage	(32,313)	(15,373)
Gross beverage profit	**23,128**	**14,420**

Beverage revenue increased by GEL25,648 thousand, or 86.1%, to GEL55,441 thousand (US$21,388 thousand) in the twelve months ended 31 December 2017 from GEL29,793 thousand in the twelve months ended 31 December 2016, primarily due to the launch of beer production in June 2017, which contributed to GEL16,406 thousand in total beverage revenue. Beverage revenue from wine sales also increased by GEL4,481 thousand due to the increased volumes of export sales.

Cost of beverage increased by GEL16,940 thousand, or 110.2%, to GEL32,313 thousand (US$12,465 thousand) in the twelve months ended 31 December 2017 from GEL15,373 thousand in the twelve months ended 31 December of 2016, primarily due to increased costs associated with the launch of beer production in June 2017.

Other income

Other income principally comprises the revenue derived from connection services provided by the Utility and Energy Business to customers in Georgia. Other income decreased by GEL936 thousand, or (11.2)%, from GEL8,371 thousand for the twelve months ended 31 December 2016, to GEL7,435 thousand for the twelve months ended 31 December 2017, primarily due to a GEL945 thousand decrease in connection revenues generated by the Utility and Energy Business.

Gross profit

As a result of the foregoing, the Group's gross profit increased by GEL72,767 thousand, or 67.0%, from GEL108,604 thousand for the twelve months ended 31 December 2016, to GEL181,371 thousand for the twelve months ended 31 December 2017.

Salaries and other employee benefits

Salaries and other employee benefits refers to the salaries, bonuses, share based compensation, and other benefits provided to personnel. This includes employees working exclusively in back office and other support functions. Salaries and other employee benefits increased by GEL18,269 thousand, or 112.2%, from GEL16,279 thousand for the twelve months ended 31 December 2016, to GEL34,548 thousand for the twelve months ended 31 December 2017. The increase in expense was primarily attributable to GGU's full year consolidation into the Group in 2017, which contributed to a GEL5,687 thousand increase in salaries and other employee benefits, a GEL6,478 thousand increase was attributable to an increase in salaries and other employee benefits allocated to the Group's corporate centre and a GEL3,845 thousand increase in expenses attributable to the Beverage Business due to the launch of its beer production in June 2017.

Administrative expenses

Administrative expenses principally includes charges relating to rent, the purchase of office supplies, marketing and advertising costs, professional service fees, representative costs, expenditure on communication, bank fees and commissions, administrative utilities, travel expenses and other expenses. The following table sets forth the principal components of the Group's administrative expenses for the periods indicated:

	For the year ended 31 December		
	2017	**2016**	**Change**
	(GEL thousands)		*(%)*
Marketing and advertising	(11,436)	(7,452)	53.5%
Legal and other professional services	(6,970)	(3,114)	123.8%
Operating taxes	(5,439)	(2,327)	133.7%
Occupancy and rent	(3,171)	(1,981)	60.1%
Repairs and maintenance	(1,958)	(1,205)	62.5%
Office supplies	(1,885)	(836)	125.5%
Corporate hospitality and entertainment	(1,052)	(810)	29.9%
Communication	(742)	(442)	67.9%
Travel expenses	(604)	(296)	104.1%
Security	(367)	(250)	46.8%
Personnel training and recruitment	(206)	(1,007)	(79.5)%
Insurance	(243)	(113)	115.0%
Other	(4,278)	(1,224)	249.5%
Total administrative expenses	**(38,351)**	**(21,057)**	**82.1%**

Administrative expenses increased by GEL17,294 thousand, or 82.1%, from GEL21,057 thousand in 2016 to GEL38,351 thousand in 2017. The increase in expense was primarily attributable to GGU's full year consolidation into the Group and an increase in expenses from marketing and advertising attributable to the launch of beer sales by the Beverage Business in June 2017.

Other operating expenses

Other operating expenses primarily include losses from write offs of fixed assets and other items. Other operating expenses remained relatively stable, totalling GEL1,863 thousand for the twelve months ended 31 December 2016 and GEL1,892 thousand for the twelve months ended 31 December 2017.

Impairment charge on insurance premium receivables, account receivables, other assets and provisions

Impairment charge on insurance premium receivables, account receivables, other assets and provisions primarily includes impairment charges on accounts receivable from the Group's Utility and Energy Business and Beverage Business and impairment charges on insurance premiums receivable. Impairment charge on insurance premium receivables, account receivables, other assets and provisions increased by GEL2,413 thousand, or 240.3%, from GEL1,004 thousand for the twelve months ended 31 December 2016, to GEL3,417 thousand for the twelve months ended 31 December 2017. The increase was primarily attributable to a GEL1,678 thousand increase in GGU's impairment charges due to GGU's full year consolidation into the Group in the twelve months ended 31 December 2017 and GEL870 thousand increase in impairment charges of the Beverage Business due to the launch of beer sales.

EBITDA

As a result of the foregoing factors, the Group's EBITDA increased by GEL34,762 thousand, or 50.8%, to GEL103,163 thousand (US$39,797 thousand) in the twelve months ended 31 December 2017 from GEL68,401 thousand in the twelve months ending 31 December 2016.

Depreciation and amortisation

Depreciation and amortisation reflects depreciation on property and equipment and the amortisation of intangible assets. Depreciation and amortisation increased by GEL18,176 thousand, or 180.7%, from GEL10,061 thousand in 2016 to GEL28,237 thousand in 2017. The increase in expense was primarily attributable to a GEL12,979 thousand increase in GGU's depreciation expense primarily due to GGU's full year consolidation into the Group in 2017 and a GEL4,990 thousand increase in depreciation expense of the Beverage Business due to the completion of the construction of the brewery.

Net foreign currency gain/(loss)

Net foreign currency gain/(loss) relates to the relevant expenses for the Group. Net losses from foreign currencies increased by GEL1,806 thousand, or 57.7%, from GEL3,132 thousand for the twelve months ended 31 December 2016, to GEL4,938 thousand for the twelve months ended 31 December 2017. The increase in loss was primarily attributable to losses on the short position of the Euro which apprecated by 11.1% against Lari during the twelve months ended 31 December 2017.

Interest income

Interest income primarily comprises interest income from amounts due from credit institutions and investment securities. Interest income increased by GEL8,711 thousand, or 204.5%, from GEL4,260 thousand for the twelve months ended 31 December 2016, to GEL12,971 thousand for the twelve months ended 31 December 2017. The increase in interest income was primarily attributable to interest income earned on liquid assets held at holding company level.

Interest expense

Interest expense refers to the value of interest expense from borrowings undertaken by the Company and debt securities issued. Interest expense increased by GEL16,488 thousand, or 121.9%, from GEL13,526 thousand for the twelve months ended 31 December 2016, to GEL30,014 thousand for the twelve months ended 31 December 2017. The increase in interest expenses was primarily attributable to an increase in interest expense on debt assumed in connection with the acquisition of the remaining 75% interest in GGU in July 2016 and a corresponding increase in expense of the Utility and Energy Business itself.

Net non-recurring items

Net non-recurring items refers to those income and expenses that are non-recurring by nature. Net non-recurring items decreased by GEL32,728 thousand from a gain of GEL32,104 thousand for the twelve months ended 31 December 2016, to a loss of GEL624 thousand for the twelve months ended 31 December 2017. The decrease in net non-recurring items was primarily attributable to the fact that the Group recorded a gain from the acquisition of the remaining 75% of GGU in 2016 in the amount of GEL31,770 thousand and no such gain was made in 2017.

Profit for the year from continuing operations

As a result of the foregoing factors, the Group's profit for the year from continuing operations decreased by GEL27,736 thousand, or 37.3%, from GEL74,308 thousand for the twelve months ended 31 December 2016, to GEL46,572 thousand for the twelve months ended 31 December 2017.

	For the year ended 31 December		
	2017	**2016**	**Change**
	(GEL thousands)		*(%)*
Profit from associates	—	4,074	—
Depreciation and amortisation	(28,237)	(10,061)	180.7%
Net foreign currency loss	(4,938)	(3,132)	57.7%
Interest income	12,971	4,260	204.6%
Interest expense	(30,014)	(13,526)	121.9%
Net non-recurring items	(624)	32,104	(101.9)%
Profit before income tax expense from continuing operations	**52,321**	**82,120**	**(36.3)%**
Income tax expense	(5,749)	(7,812)	(26.4)%
Profit from continuing operations	**46,572**	**74,308**	**(37.3)%**
Profit from discontinued operations	47,351	60,099	(21.2)%
Profit for the year	**93,923**	**134,407**	**(30.1)%**

For the twelve months ended 31 December 2016 compared to the twelve months ended 31 December 2015

Gross utility and energy profit

The following table sets forth the principal components of the Group's gross utility and energy profit for the periods indicated:

	For the year ended 31 December	
	2016	**2015**
	(GEL thousand)	
Utility and energy revenue	56,486	—
Cost of utility and energy	(17,806)	—
Gross utility and energy profit	**38,680**	**—**

Utility and energy revenue increased by GEL56,486 thousand to GEL56,486 thousand (US$21,341 thousand) in the twelve months ended 31 December 2016 from nil in the twelve months ended 31 December 2015.

Cost of utility and energy increased by GEL17,806 thousand to GEL17,806 thousand (US$6,727 thousand) in the twelve months ended 31 December 2016 from nil in the twelve months ended 31 December 2015. In each case, the increase was fully attributable to the acquisition of the remaining 75% stake of GGU in July 2016.

Gross real estate profit

The following table sets forth the components of the Group's gross real estate profit for the periods indicated:

	For the year ended 31 December	
	2016	2015
	(GEL thousand)	
Real estate revenue	102,974	61,150
Cost of real estate	(81,098)	(39,721)
Gross real estate profit	**21,876**	**21,429**

Real estate revenue increased by GEL41,824 thousand, or 68.4%, to GEL102,974 thousand (US$38,905 million) in the twelve months ended 31 December 2016 from GEL61,150 thousand in the twelve months ended 31 December 2015, primarily due to stronger sales and project completion performance. During 2016, three residential projects comprising 803 apartments were completed and delivered to clients compared to one project comprising 221 apartments in 2015.

Cost of real estate increased by GEL41,377 thousand, or 104.2%, to GEL81,098 thousand (US$30,640 million) in the twelve months ended 31 December 2016 from GEL39,721 thousand in the twelve months ended 31 December 2015, primarily due to the increased number of projects completed by m^2 in 2016.

Gross insurance profit

The following table sets forth the principal components of the Group's gross insurance profit for the periods indicated:

	For the year ended 31 December	
	2016	2015
	(GEL thousand)	
Net insurance premiums earned	43,115	40,856
Net insurance claims incurred	(17,858)	(20,114)
Gross insurance profit	**25,257**	**20,742**

Gross insurance profit increased by GEL4,515 thousand, or 21.8%, to GEL25,257 thousand (US$9,542 thousand) in the twelve months ended December 2016, as compared to GEL20,742 thousand in the twelve months ended December 2015, primarily due to an improvement in the quality of the Aldagi's insurance portfolio, which resulted from the termination of relationships with loss-making clients as net insurance premiums earned increased by 5.5% while net insurance claims incurred decreased by GEL2,256 thousands, or 11.2%.

Gross beverage profit

The following table sets forth the principal components of the Group's beverage profit for the periods indicated:

	For the year ended 31 December	
	2016	2015
	(GEL thousand)	
Beverage revenue	29,793	29,527
Cost of beverage	(15,373)	(14,624)
Gross beverage profit	**14,420**	**14,903**

Beverage revenue increased by GEL266 thousand, or 0.9%, to GEL29,793 thousand (US$11,256 thousand) in the twelve months ended 31 December 2016 from GEL29,527 thousand in the twelve months ended 31 December 2015, primarily due to an increase in revenue from the distribution of the new local 'Icy' brand. Cost of beverage increased by GEL749 thousand, or 5.1%, to GEL15,373 thousand (US$5,808 thousand) in the twelve months ended 31 December 2016 from GEL14,624 thousand in the twelve months ended 31 December 2015, primarily due an increase in the cost of re-sold goods.

Other income

Other income increased by GEL7,040 thousand, or 528.9%, from GEL1,331 thousand in 2015 to GEL8,371 thousand in 2016. The increase in other income was primarily attributable to new revenue from connection services generated by GGU since the acquisition of the remaining 75% stake in July 2016.

Gross profit

As a result of the foregoing, the Group's gross profit increased by GEL50,199 thousand, or 85.9%, from GEL58,405 thousand for the twelve months ended 31 December 2015, to GEL108,604 thousand for the twelve months ended 31 December 2016.

Salaries and other employee benefits

Salaries and other employee benefits increased by GEL4,479 thousand, or 38.0%, from GEL11,800 thousand in 2015 to GEL16,279 thousand in 2016. The increase in expense was primarily attributable to increased personnel costs associated with the acquisition of the remaining 75% stake of the Utility and Energy Business which increased the Group's headcount by 2,291 employees and an increase in P&C Insurance Business salaries and other benefits.

Administrative expenses

The following table sets forth the principal components of the Group's administrative expenses for the periods indicated:

	For the year ended 31 December		
	2016	**2015**	**Change**
	(GEL thousands)		*(%)*
Marketing and advertising	(7,452)	(8,030)	(7.2)%
Legal and other professional services	(3,114)	(1,980)	57.3%
Operating taxes	(2,327)	(422)	451.4%
Occupancy and rent	(1,981)	(1,961)	1.0%
Repairs and maintenance	(1,205)	(855)	40.9%
Personnel training and recruitment	(1,007)	(119)	746.2%
Office supplies	(836)	(559)	49.6%
Corporate hospitality and entertainment	(810)	(479)	69.1%
Communication	(442)	(289)	52.9%
Travel expenses	(296)	(222)	33.3%
Security	(250)	(253)	(1.2)%
Insurance	(113)	(43)	162.8%
Other	(1,224)	(586)	108.9%
Total administrative expenses	**(21,057)**	**(15,798)**	**33.3%**

Administrative expenses increased by GEL5,259 thousand, or 33.3%, from GEL15,798 thousand in 2015 to GEL21,057 thousand in 2016. The increase in expense was primarily attributable to the acquisition of the remaining 75% stake in GGU and related administrative expenses.

Other operating expenses

Other operating expenses increased by GEL1,496 thousand, or 407.6%, from GEL367 thousand for the twelve months ended 31 December 2015, to GEL1,863 thousand for the twelve months ended

31 December 2016. The increase was primarily attributable to write-offs of fixed assets by the Utility and Energy Business.

Impairment charge on insurance premium receivables, account receivables, other assets and provisions

Impairment charge on insurance premium receivables, account receivables, other assets and provisions decreased by GEL117 thousand, or 10.4%, from GEL1,121 thousand for the twelve months ended 31 December 2015, to GEL1,004 thousand for the twelve months ended 31 December 2016. The decrease in impairment charges on insurance premium receivables, account receivables, other assets and provisions was primarily attributable to a decrease in the impairment charge of other assets.

EBITDA

As a result of the foregoing factors, the Group's EBITDA increased by GEL39,082 thousand, or 133.3%, to GEL68,401 thousand (US$25,843 thousand) in the twelve months ended 31 December 2016 from GEL29,319 thousand in the twelve months ended 31 December 2015.

Depreciation and amortisation

Depreciation and amortisation increased by GEL7,668 thousand, or 320.4%, from GEL2,393 thousand in 2015 to GEL10,061 thousand in 2016. The increase in expense was primarily attributable to the acquisition of the remaining 75% of the Utility and Energy Business during the twelve months ended 31 December 2016.

Net foreign currency (loss)/gain

Net foreign currency loss increased by GEL11,290 thousand, or 138%, from a net gain of GEL8,158 thousand for the twelve months ended 31 December 2015, to a net loss of GEL3,132 thousand for the twelve months ended 31 December 2016. This decrease was primarily attributable to the decrease of the foreign currency position of the Group in 2016 compared to 2015. The Lari depreciated by 9.5% during the twelve months ended 31 December 2016, compared to depreciation of 28.5% during the twelve months ended 31 December 2015.

Interest income

Interest income increased by GEL1,697 thousand, or 66.2%, from GEL2,563 thousand for the twelve months ended 31 December 2015, to GEL4,260 thousand for the twelve months ended 31 December 2016. The increase in interest income was primarily attributable to an increase in interest income from bank deposit placements by the P&C Insurance Business.

Interest expense

Interest expense increased by GEL11,359 thousand, or 524.2%, from GEL2,167 thousand for the twelve months ended 31 December 2015, to GEL13,526 thousand for the twelve months ended 31 December 2016. The increase in interest expenses was primarily attributable to a GEL7,810 thousand increase in holding company interest expense in connection with the acquisition of the remaining 75% of the Utility and Energy Business in July 2016 and GEL5,053 thousand interest expense attributable to the Utility and Energy Business itself.

Net non-recurring items

Net non-recurring items increased by GEL33,229 thousand, or 2953.7%, from a loss of GEL1,125 thousand for the twelve months ended 31 December 2015, to a gain of GEL32,104 thousand for the twelve months ended 31 December 2016. The increase in net non-recurring items was primarily attributable to the fact that the Group recorded a gain from the acquisition of the remaining 75% of GGU in 2016 in the amount of GEL31,770 and no such gain was made in 2015.

Profit for the year from continuing operations

As a result of the foregoing factors, the Group's profit for the year from continuing operations increased by GEL40,403 thousand, or 119.2%, from GEL33,905 thousand for the twelve months ended 31 December 2015, to GEL74,308 thousand for the twelve months ended 31 December 2016. The following table sets forth the principal components of the Group's profit for the year for the periods indicated:

	For the year ended 31 December		
	2016	**2015**	**Change**
			(%)
Profit from associates	4,074	4,050	0.6%
Depreciation and amortisation	(10,061)	(2,393)	320.4%
Net foreign currency (loss) gain	(3,132)	8,158	—
Interest income	4,260	2,563	66.2%
Interest expense	(13,526)	(2,167)	524.2%
Net non-recurring items	32,104	(1,125)	—
Profit before income tax expense from continuing operations	**82,120**	**38,405**	**113.8%**
Income tax expense	(7,812)	(4,500)	73.6%
Profit from continuing operations	**74,308**	**33,905**	**119.2%**
Profit from discontinued operations	60,099	14,680	309.4%
Profit for the year	**134,407**	**48,585**	**176.6%**

Liquidity and capital resources

The primary source of liquidity for the Group's operations is cash provided by its operating activities, although it also partially funds its operations from third-party debt.

Analysis of combined cash flows

The following table summarises the Group's cash flows for the years ended 31 December 2015, 2016 and 2017.

	As of and for the year ended 31 December		
	2017	**2016**	**2015**
	(GEL thousands)		
Net cash flows from operating activities from continuing operations before income tax	59,753	18,654	10,936
Net cash flows from operating activities from continuing operations	53,414	12,232	9,067
Net cash flows from operating activities from discontinued operations	27,832	19,409	22,016
Net Cash flow from operating activities	81,246	31,641	31,083
Net cash flows used in investing activities from continuing operations	(212,895)	(363,173)	26,173
Net cash flows used in investing activities from discontinued operations	(133,142)	(179,791)	(131,936)
Net cash flows used in investing activities	(346,037)	(542,964)	(105,763)
Net cash from financing activities from continuing operations	165,612	586,353	53,243
Net cash from financing activities from discontinued operations	136,819	39,069	181,902
Net cash from financing activities	302,431	625,422	235,145
Effect of exchange rates	(16,471)	(5,084)	36,985
Net increase (decrease) in cash and cash equivalents	21,169	109,015	197,450
Cash and cash equivalents, beginning	401,970	292,955	95,505
Cash and cash equivalents of disposal group held for sale	48,840	—	—
Cash and cash equivalents, end	374,299	401,970	292,955

Net cash flows from operating activities from continuing operations

Net cash flows from operating activities from continuing operations increased by GEL41,182 thousand, or 336.7%, from GEL12,232 thousand in the year ended 31 December 2016 to GEL53,414 thousand in the year ended 31 December 2017. The increase in net cash flows from operating activities from 2016 to 2017 was primarily attributable to an increase in utility and energy revenue received, which was primarily attributable to the full consolidation of the Utility and Energy Business in 2017.

Net cash flows from operating activities from continuing operations increased by GEL3,165, or 34.9%, from GEL9,067 thousand in the year ended 31 December 2015 to GEL12,232 thousand in the year ended 31 December 2016 The increase in net cash flows from operating activities from continuing operations from 2015 to 2016 was primarily attributable to operating cash received from the operations of the Utility and Energy Business.

Net cash flows used in investing activities from continuing operations

Net cash used in investing activities from continuing operations decreased by GEL150,278 thousand, or (41.4)%, from GEL363,173 thousand in the year ended 31 December 2016 to GEL212,895 thousand in the year ended 31 December 2017. The decrease in net cash flows from operating activities from 2016 to 2017 was attributable to a decrease in cash paid for the acquisition of subsidiaries driven by the acquisition of the remaining 75% of GGU in July 2016.

Net cash used in investing activities from continuing operations increased by GEL389,346 thousand, from the net inflow of GEL26,173 thousand in the year ended 31 December 2015 to the net outflow of GEL363,173 thousand in the year ended 31 December 2016. The increase in net cash used in investing activities from continuing operations from 2015 to 2016 was attributable to the cash consideration paid for the acquisition of the remaining 75% of the Utility and Energy Business in July 2016.

Net cash flows from financing activities from continuing operations

Net cash flows from financing activities from continuing operations decreased by GEL420,741 thousand or (71.8)%, from GEL586,353 thousand in the twelve months ended 31 December 2016 to GEL165,612 thousand in the twelve months ended 31 December 2017. The decrease resulted from a decrease in net cash contributions from the Banking Business of GEL229,920 thousand and a GEL276,277 thousand decrease in net proceeds from borrowings and debt securities issued.

Net cash flows from financing activities from continuing operations increased by GEL533,110, or 1,001.3%, from GEL53,243 thousand in the year ended 31 December 2015 to GEL586,353 in the year ended 31 December 2016. The increase in net cash flows from financing activities from continuing operations from 2015 to 2016 was attributable to net proceeds from borrowings, primarily comprising of loan received from JSC BGEO Group to fund acquisition of the remaining 75% of the Utility and Energy Business in July 2016.

Liabilities and Indebtedness

As of 31 December 2017, the Group also had GEL657.1 million of term loans outstanding, of which approximately GEL72.5 million were current and due within one year and approximately GEL584.6 million were non-current. In addition, as of 31 December 2017, JSC Georgia Capital had GEL272.3 million of intra-group indebtedness owed to JSC BGEO Group (the "**BGEO Group Debt**"), which formed part of the proceeds of a US$350 million bond offering by JSC BGEO Group that was allocated to the BGEO Group's investment business and applied towards the acquisition of GGU.

Capital Expenditure

The table below sets out a breakdown of capital expenditure for the years 2017, 2016 and 2015.

	(Unaudited)		
	For the year ended 31 December		
	2017	**2016**	**2015**
	(GEL thousands)		
Property type			
Office buildings	4,374	1,735	973
Computers & equipment	3,708	1,228	1,086
Assets under construction	93,769	190	6
Infrastructure Assets	78,341	30,035	—
Factory and equipment	31,986	59,099	—
Other	21,830	5,485	851
Total	**234,008**	**97,772**	**2,916**

Notes:
(1) Excludes capital expenditures of GHG.

In addition, the long term investment in acquisitions for the years ended 31 December 2017, 2016 and 2015 were GEL18,052, GEL164,213 and nil, respectively.

The Group had no committed capital expenditure as of 31 December 2017.

m^2, Aldagi and Teliani do not expect to incur material capital expenditure over the next two to three years. For details of GGU's capital expenditure, see "*Part X: Information on Georgia Capital PLC—The Group's Utility and Energy Business(GGU)—Capital Expenditure*".

Contractual Obligations

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2017 based on undiscounted future cash outflow.

	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
As of 31 December 2017					
Borrowings	12,011	55,633	291,775	535,704	895,123
Debt securities issued	400	6,034	87,898	—	94,332
Accounts payable	35,724	—	10,755	—	46,479
Other financial liabilities	1,770	13,533	21,041	—	36,344
Total undiscounted financial liabilities	49,905	75,200	411,469	535,704	1,072,278

Operating Lease Commitments

The following table sets out the Group's operating lease commitments at the dates indicated:

	As of 31 December 2017	As of 31 December 2016
Operating lease commitments:		
– Not later than 1 year	4,075	14,477
– Later than 1 year but not later than 5 years	10,448	65,211
– Later than 5 years	9,302	1,910
Total operating lease commitments	23,825	81,598

Commitments and Contingencies

The Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. For a discussion of the Group's committed capital expenditure see "*Capital Expenditure*".

Off-Balance Sheet Arrangements

As of 31 December 2017, other than operating lease commitments and committed capital expenditure (as described above), the Company is not a party to any off-balance sheet obligations or arrangements.

Qualitative and Quantitative Data About Market Risk

As part of overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes of insurance liabilities risks, interest rates and foreign currencies. The Group actively uses credit terms and credit limit systems on both sides, accounts receivable as well as accounts payable to mitigate the risk of excessive or high risk exposures. For a full discussion of the Group's risk management policies, see Note 28 to the Historical Financial Information for the Group.

Risk Management Policy

The Group has adopted various risk management measures to manage its stand-alone credit profile. These measures include the following:

- liquid assets (defined as marketable debt securities, cash at bank and short-term and long-term deposits with financial institutions) should amount to at least US$50 million at all times;
- the cash expense coverage ratio (defined as the sum of annual cash inflows from dividends and interest income from on-lent loans divided by sum of annual cash outflows in bond interest payments and cash operating expenses) should be in excess of 1.25 at all times;

- the ratio of extra cash (defined as cash in excess of liquid assets of US$50 million) divided by expected cash outflows over the next 180 days should be in excess of 1.0 at all times; and
- the Net Debt to Asset Portfolio should be no more than 30% at all times, where "Net Debt" is defined as borrowings plus guarantees issued and commitments from financial institutions minus liquid assets and "Asset Portfolio" is defined as the sum of fair values of portfolio company investments and loans issued.

Factors Affecting Financial Results of the Group's Exit Stage Portfolio Investments

GHG

- *Introduction of Universal Healthcare in Georgia.* During the periods under review the United Healthcare Programme (the "**UHC**"), which is a Government-funded healthcare programme that was introduced in Georgia in 2013, has increased, and will continue to increase, the demand for, and the total amount spent on, healthcare services in Georgia. This increased demand has contributed, and is expected to continue to contribute, to an increase in GHG's healthcare services revenue, particularly revenue from its referral hospitals. However, the introduction of the UHC has, to date, had a negative effect on GHG's medical insurance revenues as a result of the phasing out of prior state medical insurance programmes under which the government purchased medical insurance coverage on behalf of certain population groups in Georgia from private medical insurers.
- *Efficiencies and cost management.* Capturing economies of scale is a significant part of GHG's growth strategy. GHG has centralised certain functions across its healthcare services facilities and medical insurance business, and focused on implementing other efficient cost management practices. Management believes that in future periods, the continued implementation of its efficiency and cost management programme across all of GHG's facilities will have a positive impact on GHG's gross profit margins and EBITDA.
- *Fluctuations in Currency Exchange Rates.* Fluctuations in the prevailing foreign currency exchange rates affect GHG's financial position and cash flows. While all GHG's revenues and expenses are in GEL, a significant portion of medicines and medical disposables that GHG purchases are imported and therefore prices are pegged to foreign currency (mostly U.S. dollar and/or euro). Furthermore, prices of almost all medical equipment that GHG purchases are also set in foreign currency (mostly U.S. dollar and/or euro). 21.7% of GHG's borrowings drawn primarily to fund its expansion plans are denominated in U.S. dollars.
- *Macroeconomic Conditions.* GHG operates in Georgia with its Georgian operations accounting for almost 100% of its total combined revenue for the years ended 31 December 2017, 2016 and 2015. Accordingly, the demand for Georgian healthcare services, pharmaceutical products and medical insurance and, by extension, GHG's results of operations and financial condition are, and will continue to be, significantly affected by Georgian political and economic factors.
- *Acquisitions.* GHG has made significant acquisitions during the period under review, including the acquisition of two pharmaceutical retailers (JSC GPC was acquired for consideration of GEL32.7 million and JSC ABC Pharmacia was acquired for consideration of GEL73.8 million of which GEL 63.5 million was cash consideration and the remainder was 33% of the issued shares of GPC), which have affected GHG's revenue, expenses and profitability. As GHG intends to continue to seek strategic acquisitions in the future, Management expects that GHG's financial results will continue to be affected by acquisitions.

Banking Business

- *Changes in the size of the Loan Portfolio.* Increases or decreases in the overall size of the Banking Business's loan portfolio and in the mix of its portfolio significantly impact the Banking Business's total interest income and NIM. In addition, the proportion of loans to total interest-earning assets also has an effect, as non-loan interest-earning assets (which are primarily amounts due from credit institutions or investment securities) generally have lower yields. Similarly, the percentage of Lari-denominated loans affects total interest income and NIM as these loans generally have a higher yield.
- *Cost of Credit Risk.* The Banking Business's cost of credit risk is comprised of impairment charges on loans to customers, finance lease receivables and other assets and provisions, such as guarantees and other debts. The Banking Business had loan impairment charges of GEL167.3 million (including GEL110.8 million in retail banking and GEL47.4 million in

corporate investment banking) in the year ended 31 December 2017, GEL167.8 million (including GEL75.7 million in retail banking and GEL76.3 million in corporate investment banking) in the year ended 31 December 2016 and GEL150.8 million (including GEL75.4 million in retail banking and GEL56.1 million in corporate investment banking) in the year ended 31 December 2015.

- *Changes in Client Deposits and Notes.* Client deposits and notes are the Banking Business's largest source of funding, accounting for 62.3% of total liabilities as of 31 December 2017, as compared to 58.9% as of 31 December 2016 and 64.2% as of 31 December 2015. The Banking Business's client deposits and notes were GEL7,078.1 million as of 31 December 2017, GEL5,755.8 million as of 31 December 2016 and GEL5,011.3 million as of 31 December 2015.
- *Cost of Funds.*The Banking Business's principal liabilities are:
  - client deposits and notes (62.3% of total Banking Business liabilities as of 31 December 2017);
  - borrowings from international credit institutions, including Development Finance Institutions ("**DFIs**") and non-convertible subordinated debt (as a source of long-term funding), and deposits and loans from the inter-bank market (to manage short-term liquidity needs) (24.5% of total Banking Business liabilities as of 31 December 2017);
  - debt securities issued (12.2% of total Banking Business liabilities as of 31 December 2017); and
  - other liabilities (1.0% of total Banking Business liabilities as of 31 December 2017).
- *Cost Management.* In 2015, the Bank's ultimate parent company announced that cost efficiency would be a strategic priority for the Banking Business, and that it would seek to reduce the Banking Business's cost to income ratio to no more than 35%. In each of 2016 and 2017, the Banking Business's operating expenses increased by 12.9% and 17.6%, respectively, while revenue increased by 6.4% and 17.5 %, respectively, resulting in a 37.7% cost to income ratio for 2016 and a 37.7% cost to income ratio for 2017. The Banking Business is implementing more disciplined budgeting, cost analysis and control procedures across all business lines.
- *Currency Fluctuations.* Fluctuations in the US Dollar to Lari exchange rate affect the value, in Lari terms (the functional currency in which the Banking Business reports results), of the Banking Business 's gross loans to customers and, in turn, total assets. In addition, the Banking Business incurs expenses that are linked to foreign currencies, primarily rental expenses that are US Dollar-linked. A depreciation of the Lari will increase these costs. The Banking Business is also affected by fluctuations in the Belarusian Rouble to Lari exchange rate, as the depreciation of Belarusian Rouble in relation to the Lari tends to reduce the value of the non-monetary assets of BNB, which are fixed in Belarusian Roubles, in Lari terms.
- *The Banking Business Restructuring.* Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities, the Banking Business completed a legal restructuring in August 2015 ("**Reorganisation**").
- *Acquisitions.* In January 2015, the Bank completed the acquisition of PrivatBank for cash consideration of GEL94 million. PrivatBank, the ninth largest bank in Georgia by total assets at the time of acquisition with a focus on retail banking, was a strategic match for the Bank and was acquired with the aim of strengthening the Bank's focus on retail banking.

Summary Information on Exit Stage Portfolio Investments for the twelve months ended 31 December 2017 compared to the twelve months ended 31 December 2016 and twelve months ended 31 December 2015

GHG

Results of Operations

Revenue

GHG's revenue before corrections and rebates and eliminations increased by GEL321.4 million, or 75.4%, to GEL747.8 million (US$288.5 million) in 2017 from GEL426.4 million in 2016, having increased by GEL180.4 million, or 73.4%, from GEL246.0 million in 2015. This increase was driven by the consolidation of revenues from the pharmaceutical retail businesses acquired during the periods under review, including JSC GPC and JSC ABC Pharmacia and strong organic growth attributable to investments in new healthcare services to close service gaps in hospitals and the roll out of new polyclinics.

Costs of services

As a result of GHG's overall growth, costs of services before eliminations increased by GEL240.0 million, or 86.4%, to GEL517.7 million (US$199.7 million) in 2017 from GEL277.7 million in 2016, which in turn increased by GEL128.5 million, or 86.1%, from GEL149.2 million in 2015. These increases were principally due primarily due to additional costs from the acquisitions of JSC GPC and JSC ABC Pharmacia and investments in new services and the organic growth of GHG's referral hospitals and polyclinics. As a percentage of revenue, costs of services increased from 60.7% in 2015 to 65.1% in 2016 and increased to 69.2% in 2017.

Profit for the year

As a result of the factors described above, GHG generated a net profit for the period of GEL45.9 thousand in 2017 as compared to GEL60.1 million for 2016 and GEL23.3 million for 2015.

Total assets

As of 31 December 2017, GHG had total assets of GEL1,149.8 million (US$443.5 million), as compared to total assets of GEL889.6 million as of 31 December 2016. The GEL260.1 million, or 29.2%, increase was primarily due to the completion of the acquisition of JSC ABC Pharmacia and an increase in borrowed funds used to fund growth in capital expenditure. As of 31 December 2016, GHG had total assets of GEL889.6 million, as compared to total assets of GEL759.1 million as of 31 December 2015. The GEL130.5 million, or 17.2%, increase in total assets was mostly driven by the acquisition of JSC GPC and an increase in borrowings.

Total liabilities

As of 31 December 2017, GHG had total liabilities of GEL619.4 million (US$238.9 million), as compared to total liabilities of GEL370.2 million as of 31 December 2016. The GEL249.2 million, or 67.3% increase was primarily due to acquisition of JSC ABC Pharmacia and an increase in borrowings. As of 31 December 2016, GHG had total liabilities of GEL370.2 million, as compared to total liabilities of GEL286.9 million as of 31 December 2015. The GEL83.3 million, or 29.0%, increase was primarily due to the acquisition of JSC GPC and attraction of new IFI funding.

Banking Business

Results of Operations

Revenue

The Banking Business's revenue increased by GEL135.4 million, or 17.5%, to GEL909.3 million (US$350.8 million) in 2017 from GEL773.9 million in 2016, having increased by GEL46.8 million, or 6.4%, from GEL727.1 million in 2015. This was principally due to a GEL161.5 million, or 31.6%, increase in net interest income from GEL510.6 million in 2015 to GEL672.1 million in 2017 as a result of increase of loan portfolio. GEL10.3 million, or 8.5%, increase in net fee and commission income from GEL121.2 million in 2015 to GEL131.5 million in 2017 as a result of increase in settlement operations due to the expansion of the Group's Express Banking operations, and GEL10.2 million, or 13.4%, increase in net gain from foreign currencies from GEL75.9 million in 2015 to GEL86.1 million in 2017 as a result of continued volatility in the Lari exchange rate.

The Banking Business's retail banking revenue as a percentage of total revenue, increased to 67.6% in the year ended 31 December 2017 from 63.8% in the corresponding period in 2016, while revenue contributions from the corporate banking segment decreased from 30.2% in 2016 to 26.3% in the year ended 31 December 2017.

The Banking Business's retail banking revenue as a percentage of total revenue increased to 63.8% in 2016 from 58.8% in 2015, while revenue contributions from the corporate investment banking and BNB decreased from 33.3% and 7.9% in 2015 to 30.2% and 5.9% in 2016, respectively.

These changes are in line with the strategic focus on growth in the retail banking business and de-concentration efforts in the corporate investment banking segment over the last two years.

Operating expenses

As a result of the overall growth of the Banking Business, operating expenses increased by GEL51.4 million, or 17.6%, to GEL342.9 million (US$132.3 million) in 2017 from GEL291.5 million in 2016, which in turn increased by GEL33.3 million, or 12.9%, from GEL258.3 million in 2015.

These increases were principally due to a GEL29.8 million, or 17.7 %, and a GEL19.5 million, or 13.1 %, increases in salaries and other employee benefits and the GEL18.2 million, or 22.1%, and GEL9.3 million, or 12.8 %, increases in general and administrative expenses in 2017 and 2016, respectively. As a percentage of revenue, operating expenses increased from 35.5% in 2015 to 37.7% in 2016 and in 2017.

Profit for the year

As a result of the factors described above, the Banking Business generated a net profit for the year of GEL369.5 million in 2017 as compared to GEL295.7 million for 2016 and GEL261.8 million for 2015.

Total assets

As of 31 December 2017, the Banking Business had total assets of GEL12,907.7 million (US$4,979.4 million), as compared to total assets of GEL11,123.4 million as of 31 December 2016. The GEL1,784.3 million, or 16.0%, increase was primarily due to a GEL1,059.8 million, or 15.9%, increase in loans to customers and finance lease receivables, a GEL329.9 million, or 25.7%, increase in investment securities and aGEL275.9 ,or 29.3%, increase in amounts due from credit institutions.

As of 31 December 2016, the Banking Business had total assets of GEL11,123.4 million, as compared to total assets of GEL9,051.4 million as of 31 December 2015. The GEL2,072.1 million, or 22.9%, increase in total assets was mostly driven by the GEL1,314.9 million, 24.5%, increase in loans to customers and finance lease receivables, the GEL102.5 million, or 7.4%, increase in cash and cash equivalents, the GEL221.8 million, or 30.9%, increase in amounts due from credit institutions, the GEL379.8 million, or 42.0% , increase in investment securities.

Total liabilities

As of 31 December 2017, the Banking Business had total liabilities of GEL11,355.0 million (US$4,308.4 million), as compared to total liabilities of GEL9,770.9 million as of 31 December 2016. The GEL1,584.1 million, or 16.2% increase was primarily due to GEL1,322.3 million, or 23.0% increase in client deposits and notes and GEL528.4 million, or 61.6% increase in debt securities issued partially offset by a GEL289.3 million, or 9.4%, decrease in amounts due to credit institutions.

As of 31 December 2016, the Banking Business had total liabilities of GEL9,770.9 million, as compared to total liabilities of GEL7,802.7 million as of 31 December 2015. The GEL1,968.2 million, or 25.2%, increase was primarily due to the GEL1,375.1 million, or 81.2%, increase in amounts due to credit institutions and the GEL744.5 million, or 14.9%, increase in client deposits and notes, partially offset by the GEL103.9 million, or 10.8%, decrease in debt securities issued and the GEL62.4 million, or 73.5%, decrease in income tax liabilities.

Recent and Prospective Changes in Accounting Policies

GHG is treated as a disposal group held for sale and discontinued operation in the 2017 Historical Financial Information. As a result, comparative 2015 and 2016 financial statements are shown for continuing operations.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group will adopt the new standard from the effective date by recognising the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information.

Critical Accounting Policies

In the process of applying the Group's accounting policies, the management board use their judgement and make estimate in determining the amounts recognised in the combined historical financial information. The most significant judgment and estimates are as follows:

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and infrastructure assets included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuations of its investment properties and infrastructure assets included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Impairment of insurance premiums receivable, accounts receivable and other assets

The impairment provision for insurance premiums receivable, accounts receivable and other assets is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (for example, the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If the Group determines that objective evidence of impairment exists, the proper provision rate is applied. If the Group determines that no objective evidence of impairment exists, whether significant or not, it includes the trade and other receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Actual results may differ from the estimates.

The amount of allowance for impairment of the accounts receivable as at 31 December 2017 was GEL4,003 (GEL2,292 as of 31 December 2016 and GEL6,935 as of 31 December 2015).

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2017 was GEL4,243 (GEL8,762 as of 31 December 2016 and GEL7,031 as of 31 December 2015).

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNRs at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such as water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was not able to perfect legal ownership title on certain fixed assets including infrastructure assets as at the date of these Listing Particulars.

However, based on the provisions of privatisation agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will perfect legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognized infrastructure assets as the Group's property, plant and equipment.

PART XIII

CAPITALISATION AND INDEBTEDNESS

Georgia Capital PLC

The Company was incorporated on 5 July 2017 as a private limited company with the name BGEO Investments Limited and registered in England and Wales with registered number 10852406, changed its name on 13 December 2017 to Georgia Capital Limited and registered as a public limited company on 7 February 2018 with its current name (Georgia Capital PLC). The Company will be the holding company of the Group from the Demerger Effective Time. Since incorporation the Company has not incurred any indebtedness and has no material equity reserves. The issued and fully paid up capital of the Company was 50,001 (being the Subscriber Shares and the Redeemable Preference Shares) as at the date of this Prospectus.

The table below sets out the capitalisation and indebtedness of the Group as of 31 December 2017 and, unless otherwise stated has been extracted without material adjustment from the Historical Financial Information of the Group, as included in *Part XXII: "Historical Financial Information"* section, Combined Historical Information for the Investment Business of BGEO Group PLC, as at and for each of the years ended 31 December 2015, 31 December 2016 and 31 December 2017.

	As of 31 December 2017
	(thousands of GEL)
Total current debt	**73,823**
Secured(1)	23,861
Unguaranteed/unsecured(1)	49,962
Total non-current debt (excluding current portion of long term debt)	**661,121**
Secured(1)	122,841
Unguaranteed/unsecured(1)	538,280
Total invested capital	**1,164,116**

Notes:

(1) Unaudited.

Secured debt comprises borrowings under which the Group has pledged real estate collateral as a security for loan.

Unguaranteed/unsecured debt comprises bank loans which have neither collateral nor third party guarantee.

Net Indebtedness

The first column in the following table shows the Group's net indebtedness as of 31 December 2017 and has been extracted without material adjustment from Historical Financial Information of the Group. The remaining columns show the effect of transactions since 31 December 2017.

	31-Dec-17	Transactions after 31 December 2017(1)	As adjusted
		(thousands of GEL)	
Cash and cash equivalents	374,299	350,617	724,916
Amounts due from credit institutions	38,141	—	38,141
Investment securities	33,060	732,484	765,544
Liquidity	**445,500**	**1,083,101**	**1,528,601**
Current Financial Receivable	**66,025**	**—**	**66,025**
Current debt	73,823	—	73,823
Current Financial Debt	**73,823**	**—**	**73,823**
Net Current Financial Indebtedness	**437,702**	**1,083,101**	**1,520,803**
Non-current Financial Indebtedness	**661,121**	**480,227**	**1,141,348**
Net Financial Indebtedness	**(223,419)**	**602,874**	**379,455**

Notes:

(1) The 'transactions after 31 December 2017' column reflects the following changes:

a. On 9 March 2018 JSC Georgia Capital issued US$300 million 6.125% notes due March 2024, net proceed from the notes, net of discount in the amount of US$ 3.7 million and issuance related fees in the amount of US$ 3.2 million, was US$293.1 million (GEL 760 million).

b. In March 2018, as part of the demerger process, the loans from JSC Georgia Capital described on page 130 were repaid, together with accrued interest in the amount of US$ 108 million (GEL 280 million).

c. In March 2018, JSC Georgia Capital issued a US$ 50 million (GEL 130 million) 9% loan to the Banking Business.

On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC BG Financial for fair value of GEL 732 million were transferred to the Investment Business as an equity contribution from JSC BGEO Group, and will be exchanged for a 19.9% stake in Bank of Georgia Group PLC following the demerger.

Save as disclosed above, there has been no material change in the total capitalisation and indebtedness of the Group since 31 December 2017.

As of 31 December 2017 the Group has no contingent or indirect indebtedness.

PART XIV

RELATED PARTY TRANSACTIONS

Save as disclosed in the Historical Financial Information of the Group's as included in *Part XXII*: "*Historical Financial Information*" and as set out below, there were no related party transactions entered into by the Group during the years ended 31 December 2015, 2016 and 2017 through the period to the publication of this Prospectus.

JSC Georgia Capital's loan agreements with JSC BGEO Group

On 11 July 2016, JSC Georgia Capital entered into two year GEL56,000,000 loan agreement (as amended by Amendment Agreement dated 11 July 2017) with JSC BGEO Group. The financing was used in connection with the acquisition of the remaining 75% interest in GGU. As of 31 December 2017, the aggregate amount outstanding under the loan facility was GEL59,975,682 million.

On 15 July 2016, JSC Georgia Capital entered into two year GEL79,799,000 loan agreement (as amended by Amendment Agreement dated 15 July 2017) with JSC BGEO Group. The financing was used in connection with the acquisition of the remaining 75% interest in GGU. As of 31 December 2017, the aggregate amount outstanding under the loan facility was GEL92,957,636 million.

On 28 December 2017, JSC Georgia Capital entered into a seven month US$ 46,000,000 loan agreement with JSC BGEO Group. The JSC BGEO Group financing is used for general corporate purposes. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$46,040,329 million.

JSC BGEO Group's loan agreement with JSC Georgia Capital

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms. JSC BGEO Group intends to use the proceeds of the loan by JSC Georgia Capital in order to finance, in part, a transfer of funds by JSC BGEO Group to the Bank in consideration for the assumption by the Bank of JSC BGEO Group's obligations as the issuer of its $350,000,000 6.00 per cent. notes due 2023.

International Insurance Company Imedi-L's Credit Line agreement with JSC Bank of Georgia

In September 2010, JSC International Insurance Company Imedi-L, Unimed Adjara LLC, Unimed Kakheti LLC, Unimed Samtskhe LLC, collectively as the borrowers, entered into US$15 million general credit line agreement with JSC Bank of Georgia. Subsequently, JSC Medical Corporation EVEX and GHG also joined the general credit line agreement and the amount of the credit facility was increased up to US$90 million. The general credit line matures in September 2030. The agreement imposes certain non-financial and financial restrictions on the borrowers. Each of the borrowers has covenanted not to undertake additional credit and/or other financial obligations in excess of US$1 million without the prior written consent of JSC Bank of Georgia. The agreement is governed by Georgian law.

Issue of USD 300 million Notes due in 2024 by JSC Georgia Capital

On 9 March 2018 JSC Georgia Capital successfully issued US$300 million 6.125% notes due 2024, denominated in US Dollars, which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market (the "**Notes**"). Notes were sold at the price of 98.770% of par value in the initial offering. Members of the BGEO Group purchased an aggregate amount of US$27 million of the Notes; as of the date of this Prospectus the Bank holds US$ 10.7 million and JSC Georgia Capital holds US$ 14.8 million of this amount. Certain of the directors and their affiliates and senior managers of the Group and the BGEO Group purchased an aggregate amount of US$16.1 million of the Notes.

PART XV

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the Group, and (b) at any time and contain provisions under which the Group has an obligation or entitlement which is, or may be, material as of the date of this document:

Separation Agreements

DEMERGER AGREEMENT

1. Overview of the Demerger Agreement

The Demerger Agreement sets out the agreement between BGEO Group PLC, Bank of Georgia Group PLC and the Company regarding the principal transactions necessary to effect the Scheme and the Demerger and other provisions that will govern certain aspects of the Company's relationship with Bank of Georgia Group PLC after the Demerger Effective Time.

2. Implementation of the Proposals

Each party has agreed to use its reasonable endeavours to ensure that the Reorganisation, the Scheme, the Bank of Georgia Group Capital Reduction, the Georgia Capital Capital Reduction and all other steps in connection with the Demerger, Bank of Georgia Group PLC Admission and Admission become effective as contemplated by, and in accordance with, the Reorganisation steps plan and the timetable set out in this Prospectus.

3. Mechanics of the Demerger and settlement

The Demerger Agreement sets out in detail the mechanics for implementing the transfer of the Investment Business to the Company and the allotment and issue of the Shares and Bank of Georgia Group PLC Shares. These mechanics are subject to a number of conditions precedent including the successful implementation of the Scheme and the approval of the Bank of Georgia Group Capital Reduction. Should the Bank of Georgia Group Capital Reduction be sanctioned by the High Court, Bank of Georgia Group PLC will repay capital to its shareholders by transferring the Investment Business to the Company in consideration for the Company issuing shares to Shareholders who are shareholders at the Demerger Record Time on a 1 for 1 basis.

3. Releases and indemnities

Bank of Georgia Group PLC indemnifies the Company against any losses incurred by any member of the Company after the Demerger Effective Time to the extent such losses relate to the operation of the Banking Business prior to the Demerger Effective Time. The Company similarly indemnifies Bank of Georgia Group PLC in respect of losses incurred in relation to the operation of the Investment Business prior to the Demerger Effective Time. Both of the Company and Bank of Georgia Group PLC also indemnify each other in relation to any untrue, inaccurate or misleading statement (or omission) contained in their respective prospectuses. These indemnities do not have a fixed time period or monetary cap. Should there be an instance where a claim must be split between the two businesses as any claim does not related directly to the operation of the Banking Business or the Investment Business, this will be allocated proportionately based on the size of the two businesses on a two thirds to one third basis between the Banking Business, and the Investment Business, respectively.

4. Transfer of assets

The Company agrees that if, following the Demerger, any property, right or asset forming part of the Bank of Georgia Group business is found to have been transferred to the Company in error, the Company shall transfer or procure the transfer of such property, right or asset to a member of the Bank of Georgia Group PLC group and pending such transfer shall, so far as legally possible, hold such assets on trust for the relevant member of the Bank of Georgia Group PLC group. Bank of Georgia Group PLC similarly agrees in relation to any property, right or asset which forms part of the Group's business and which remains legally owned by any member of the Bank of Georgia Group PLC group following the Demerger.

5. Release of guarantees etc.

The Company and Bank of Georgia Group PLC agree to procure, as soon as reasonably practicable following the Demerger Effective Time, the release of any securities, guarantees or indemnities which remain in place between the two groups following the Demerger Effective Time and to indemnify the other pending the release of such securities, guarantees or indemnities. This provision does not apply to the guarantees in this agreement.

The Company and Bank of Georgia Group PLC also agree that if they become aware of any guarantees with third parties that involve any member of the other's group guaranteeing any obligation of its group, they will, subject to certain exceptions, use their reasonable endeavours to procure the release of such member of the other's group from its obligations under such guarantees and shall indemnify such member of the other's group from and against all losses it incurs in connection with any such guarantee.

6. Proportional Voting

Under the terms of the Demerger Agreement while there are any Proportional Voting Shares:

- each of BGEO Group, the Company and Bank of Georgia Group PLC has agreed that for so long as there are Proportional Voting Shares they will use all reasonable endeavours to procure (so far as they are reasonably able) that the Proportional Voting Shares are voted in general meetings of Bank of Georgia Group PLC in accordance with the Proportional Voting Mechanism;
- Bank of Georgia Group PLC has agreed it will conduct all shareholder votes on a poll in a general meetings and the poll will be taken in accordance with the Proportional Voting Mechanism set out in Bank of Georgia Group PLC Articles; and
- the Company has agreed that it, and its Concert Parties, will:
- vote the Proportional Voting Shares in general meetings of Bank of Georgia Group PLC in accordance with the Proportional Voting Mechanism; and
- notify Bank of Georgia Group PLC of any acquisition or disposal of Bank of Georgia Group PLC Shares by them irrespective of whether any such acquisition or disposal would trigger a public disclosure obligation for them.

7. Other matters

Other matters governed by the Demerger Agreement include:

- the transfer of assets or novation of contracts belonging to the Banking Business or the Investment Business which have been transferred to the wrong business back to the correct business;
- allocation of expenses arising pre-Demerger so that the Banking Business pays all costs and expenses which relate to its business and the Investment Business pays all costs and expenses which relate to its business. Should there be an instance where a cost or expense must be split between the two businesses, this will be allocated proportionately based on the size of the two businesses on a two thirds to one third basis between the Banking Business, and the Investment Business, respectively;
- administration of the employee share plans, including undertakings to administer any awards between for employees of the Banking Business or the Investment Business in the other businesses trust;
- confidentiality (save where required to disclose under applicable law or regulation);
- resolution of disputes between the parties relating to the Demerger Agreement through a process whereby the directors of each entity can resolve any disputes directly.

TAX SHARING AND INDEMNIFICATION AGREEMENT

1. Overview of the Tax Sharing and Indemnification Agreement

Bank of Georgia Group PLC and the Company have entered into the Tax Sharing and Indemnification Agreement which sets forth the rights and obligations of Bank of Georgia Group PLC and the Company with respect to taxes.

This includes:

- the apportionment of tax liabilities relating to taxable periods before and after the Demerger; and
- the responsibility for payment of those tax liabilities (including any subsequent adjustments to such tax liabilities).

2. General division of responsibility

In general, under the terms of the Tax Sharing and Indemnification Agreement, Bank of Georgia Group PLC and the Company will each be responsible for taxes imposed on their respective businesses for all taxable periods, whether ending on, before or after the date of the Demerger.

There are, however, some specific allocations of tax liabilities between Bank of Georgia Group PLC and the Company for certain circumstances.

3. The Company's indemnity for restructuring transactions undertaken prior to the Scheme and the Demerger

Bank of Georgia Group PLC and the Company will undertake certain restructuring transactions in anticipation of the Scheme and the Demerger (including the Reorganisation).

The Company and Bank of Georgia Group PLC will indemnify each other in respect of any tax liabilities arising from these transactions, such that any such liabilities are allocated proportionately on a two thirds to one third basis between Bank of Georgia Group PLC and the Company, respectively.

4. Georgia Capital PLC's indemnity for US tax liabilities triggered by activities of Georgia Capital PLC

It is anticipated that non-recognition treatment for US federal income tax purposes should apply in respect of the Scheme, the Demerger and the preceding restructuring transactions.

Such non-recognition treatment may, however, not apply if members of the Company engage in certain activities following the Demerger. In that case, the Company will be required to indemnify Bank of Georgia Group PLC generally for any liabilities, taxes and other charges that are imposed on Bank of Georgia Group PLC, to the extent such liabilities, taxes or other charges are attributable to those activities.

In particular, the activities of members of the Company which could, potentially, give rise to such an indemnification obligation include (i) the Company discontinuing the active conduct of its historic business or liquidating, merging or consolidating members of the Company conducting such active business or (ii) undertaking certain change-of-control transactions.

5. Tax administration

The Tax Sharing and Indemnification Agreement sets forth the rights of the parties in respect of the preparation and filing of tax returns, the control of audits or other tax proceedings and assistance and co-operation in respect of tax matters, in each case, for taxable periods ending on or before, or that otherwise include, the date of the Demerger. For taxable periods ending after the Demerger Effective Date which do not include the Demerger Effective Date, this provision will not apply.

TRANSITIONAL SERVICES AGREEMENT

1. Overview of the Transitional Services Agreement

This agreement between the Company and Bank of Georgia Group PLC sets out the arrangement between the Company and Bank of Georgia Group PLC regarding the provision by the Bank of Georgia Group PLC group to the Group of ongoing transitional services following the Demerger Effective Time.

2. Conditionality

The Transitional Services Agreement is conditional upon the Demerger becoming effective.

3. Duration

Services will be provided under the Transitional Services Agreement for a duration of 12 months (or such longer period as the parties may agree).

4. Services

The services to be provided under the Transitional Services Agreement are IT support services for an initial period of 12 months to afford the Investment Business time to develop its own IT infrastructure at holding company level.

5. Fees

For any service provided under the Transitional Services Agreement there will be a set fee payable monthly on arms lengths terms by the relevant Investment Business entity to JSC BGEO Group. For the first month following the Demerger Effective Date a maximum fee of GEL 1,000 will be payable by the Company to Bank of Georgia Group PLC for the IT support services described at paragraph 4, above.

6. Termination

The Transitional Services Agreement will terminate 12 months after coming into effect, by which time the Company will have its own IT operations, unless extended by the parties. Either party may terminate the agreement following a material breach (which is not capable of being remedied within 30 days) by the other.

EXCHANGE AGREEMENT

1. Overview of the Exchange Agreement

This agreement between JSC Georgia Capital and Bank of Georgia Group PLC will set out the terms and conditions for the transfer of the stakes in JSC Bank of Georgia and JSC BG Financial held by JSC Georgia Capital (the "**Stakes**") in exchange for a number of Bank of Georgia Group PLC Shares as is equal to 19.90% of the enlarged issued share capital (on a fully diluted basis) of Bank of Georgia Group PLC.

2. Conditionality

The Exchange Agreement is conditional upon the Scheme having become effective, Bank of Georgia Group PLC Admission and the Demerger Agreement having become unconditional in all respects. No condition is capable of being waived.

3. Completion

The Exchange Agreement will complete once the conditions, set out at 2 above, have been satisfied. At completion, the Company shall determine the number of Bank of Georgia Group PLC Shares that it will issue to JSC Georgia Capital in exchange for the Stakes. Bank of Georgia Group PLC will credit the CREST account of JSC Georgia Capital with such number of shares and JSC Georgia Capital will effect the transfer of the Stakes to it simultaneously.

4. Price

The subscription value for the Stakes shall be their market value calculated as being an amount equal to the aggregate of the closing price per ordinary share in Bank of Georgia Group PLC on the business day prior to the issue of such shares multiplied by the number of Bank of Georgia Group PLC Shares which will be issued (which will be such number of new ordinary shares as will represent 19.90% of the enlarged issued share capital of Bank of Georgia Group PLC (on a fully diluted basis)).

5. Warranties

Each of Bank of Georgia Group PLC and JSC Georgia Capital will warrant to the other that they have full power and authority to enter into the Exchange Agreement. Bank of Georgia Group PLC will warrant that it is validly authorised to issue the consideration shares to JSC Georgia Capital. JSC Georgia Capital warranties that it has full title and interest in the Stakes.

m^2's Development and Licensing Agreements with Wyndham Hotel Group (UK) East Limited

On 25 June 2015, m^2 entered into an exclusive development agreement and a licensing agreement with Wyndham Hotel Group (UK) East Limited ("**Wyndham**") regarding the development of three Ramada brand hotels in Georgia.

The exclusive development agreement has a term of seven years from the date of execution with an optional renewable period of ten years. The agreement is governed by English law. m^2 will develop and operate three hotels during this term. With Wyndham's approval, m^2 may develop additional three star hotels where there is sufficient demand and the agreement contains certain restrictions on m2's ability to develop hotels with Wydham's competitors. Wyndham will be entitled to terminate the development agreement if m^2 defaults on any of its obligations. On such termination m^2 will lose, with immediate effect, the exclusive right to develop the Ramada Encore brand in Georgia.

The licence agreement for each hotel carries a term of ten years from the date of opening, with an option to extend for another ten years subject to agreement by both parties. An initial fee of US$40,000 per property applies in addition to a one off integrated services fee. Ongoing royalty, marketing and reservation fees apply. Under the licence agreement, m^2 is obliged to operate the property according to Wyndham's standards, hire a professional management team and adhere to insurance requirements. Wyndham retains the right to undertake further developments. Liquidated damages will apply if the agreement is terminated within the last two years of the term.

m^2's Management Agreement with Sophos Hotels S.A.

On 11 September 2015, m^2 entered into a management agreement with Sophos Hotels S.A. ("**Sophos**") regarding the management of three Ramada Encore branded hotels in Tbilisi to be developed by m^2.

The management agreement has a term commencing on the date of the agreement and ending on the opening date of the relevant hotel. During this period, Sophos will provide pre-opening services and technical assistance. A further term of ten years will operate from the opening of each hotel with the option for a ten year extension with mutual agreement. Either party may terminate the agreement at the end of any term with six months' written notice. m^2 may terminate with 30 days' written notice along with a termination fee. If less than 85% of budget gross operating profit is achieved in three successive years m^2 may terminate the agreement within 30 working days.

An initial fee of Euro 50,000 per hotel is payable to Sophos to prepare each complex for the arrival of guests.

An exclusivity clause imposes restrictions on Sophos' ability to operate certain hotels in or in the proximity of Tbilisi and other Georgian cities. Sophos will have discretion over the operation of the complex. Operating, management and various incentive fees will be payable to Sophos.

m^2's Loan Agreements with International Finance Corporation

On 3 November 2015, M^2 Residential LLC, a 100% subsidiary of m^2, entered into a four-year US$23 million loan agreement with the International Finance Corporation (the "**IFC**"). The IFC loan is being used to finance the development of affordable housing projects and low-income housing projects in Georgia. The loan agreement is secured by pledges over shares, mortgages and corporate guarantees. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$17 million (GEL44.2 million).

On 3 November 2015, JSC m^2, an indirect 100% subsidiary of m^2, entered into an eleven-year US$7 million loan agreement with IFC. The loan is being used to finance the construction, equipping and placing into operation of the 152 room three star Ramada Encore hotel to be located in Tbilisi, Georgia. The loan agreement is secured by pledges over shares, a debt service reserve account, mortgages and a corporate guarantee. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$4.8 million (GEL12.5 million).

m^2's US$ Bonds (US$ 25 million)

In October 2016, m^2 issued US$25,000,000 local bonds maturing in October 2019. The bonds bear annual interest at a rate of 7.5% of the nominal value per annum. m^2 may, prior to the final redemption date, redeem the bonds in whole (but not in part) at their outstanding principal amount together with accrued and unpaid interest (if any) to the date of redemption if, due to amendments to the laws of Georgia, m^2 is obliged to pay additional amounts of tax relating to the bonds. The terms and conditions of the bonds include covenants restricting m^2 from creating or permitting security other than permitted security and undertaking a merger or similar reorganisation unless the surviving entity is m^2.

GGU's GWP Privatisation Agreement

GGU acquired 100% of the shareholding interest in GWP and in other smaller scale state owned water utility companies under a share sale and purchase agreement concluded with the Government of Georgia, Ministry of Economic Development and the Government of Tbilisi on 14 May 2008, as amended on 22 December 2009 (the "**Privatisation Agreement**"). The Privatisation Agreement was concluded pursuant to the Law of Georgia on Privatisation and Transfer of the Rights of Use over the State owned and Municipal Property. The Privatisation Agreement includes several technical and investment obligations that are to be completed by GGU by specific dates. Fulfilment of GGU's obligations must be confirmed by the relevant state authorities. As of the date of this Prospectus, GGU has performed all but two of its major privatisation obligations: the obligation to modernise and rehabilitate Gardabani Wastewater Treatment Plant and to invest not less than US$220 million in aggregate in the performance of all privatisation obligations under the Privatisation Agreement. Third party expert reports (Grant Thornton and Levan Samkharauli National Forensics Bureau) have been prepared and submitted to the relevant state authorities. The rehabilitation and modernisation of Gardabani Wastewater Treatment Plant is scheduled to complete in May 2018. Following completion of the rehabilitation and modernisation works, the obligation to invest at least US$220 million is also expected to be discharged.

GGU Share Purchase Agreement

On 21 June 2016, JSC Georgia Capital signed a Share Purchase Agreement, to acquire the remaining 75% equity stake in GGU for cash consideration of US$70 million (approximately GEL152.6 million). Previously, in December 2014, Georgia Capital acquired a 25% shareholding in GGU for approximately GEL47.6 million (US$26.25 million) and as a result of the buy-out in 2016 JSC Georgia Capital became the owner of 100% of GGU.

GGU's GWP Loan Agreement with EIB

On 28 July 2017, GWP entered into a EUR 21,470,000 Finance Contract with the European Investment Bank ("**EIB**"). The EIB facility is financing the rehabilitation of GGU's water supply infrastructure in Georgia. In 28 November 2017, the EIB Finance Contract was amended and restated. The loan is to be drawn down in two tranches and will be due and repayable after ten years from the draw down. As of 31 December 2017, the aggregate amount outstanding under the loan facility was EUR12.9 million (GEL40 million).

GGU's GWP Loan Agreement with FMO and DEG

On 15 August 2017, GWP entered into a ten year EUR25,000,000 and US$40,000,000 Term Facility Agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("**FMO**") and Deutsche Investitions- Und Entwicklungsgesellschaft MBH ("**DEG**"). The FMO-DEG loan is being used to finance the refinancing of existing loans, capital expenditure in connection with rehabilitation and modernisation of the water supply and waste water treatment facilities (including the rehabilitation of Gardabani Wastewater Treatment Plant) located in Georgia and the payment of costs and fees incurred in connection with the loan. As of 31 December 2017, the aggregate amount outstanding under the loan facility was EUR 25 million and US$40 million (GEL176.4 million).

GGU's GWP GEL Bonds (GEL30 million)

In December 2016, GWP issued local currency denominated GEL30,000,000 bonds maturing in December 2021. The bonds bear interest at a floating rate of 350 basis points over the National Bank of Georgia's monetary policy (refinancing) rate. GWP has the option to redeem the bonds prior to maturity upon giving 30 business days advance notice to the bondholders at the second, third and fourth anniversary of the bonds' issuance date. The terms and conditions of the bonds include customary covenants restricting GWP's ability to grant further security interests, undertake certain corporate transactions and to incur indebtedness.

GGU's GWP Local Currency Bonds (GEL40 million, private placement)

In August 2017, GWP issued GEL40,000,000 that were scheduled to mature in February 2018 but were redeemed in December 2017. The bonds accrued interest at a floating rate of 400 basis points over the National Bank of Georgia's monetary policy (refinancing) rate. GWP had the option to redeem the bonds after 30 calendar days following the issuance of the bonds provided that if GWP had redeemed the bonds prior to expiration of 2 months after the issue date, GWP would have had to pay to the bondholders an additional 0.2% premium over the redemption price. The terms and conditions of the bonds included customary covenants that restricted GWP's ability to grant further security interests, undertake corporate transactions and to incur indebtedness.

GGU's JSC Svaneti Hydro Memoranda of Understanding with the Government of Georgia

On 31 October 2014 and 25 December 2015, JSC Svaneti Hydro signed two Memoranda of Understanding with the Government of Georgia and state owned electricity companies – JSC Georgian State Electrosystem, JSC United Energy System Sakrusenergo, JSC Electricity System Commercial Operator and Energotrans LLC, as amended. JSC Svaneti Hydro undertook an obligation to build a cascade of two hydro power plants: 20 MW (Mestiachala 1) and 30 MW (Mestiachala 2) on the Mestiachala river located in Svaneti region of Georgia. The Memoranda of Understanding include several technical and investment obligations that are to be completed by JSC Svaneti Hydro by specific dates. The Government and the state owned entities have an obligation to support and facilitate construction works of the project as well as secure construction of a high voltage line for enabling the connection of the HPPs to the power grid. The Memorandum of Understanding also sets out JSC Svaneti Hydro's obligation to sell electricity exclusively to JSC Electricity System Commercial Operator during the eight months between September and April of each year at a fixed price. Commissioning is scheduled to take place during the first quarter of 2019. As of the date of this Prospectus, preconstruction is complete. The main construction phase officially commenced on 28 February 2017.

GGU's JSC Zoti Hydro Memorandum of Understanding with the Government of Georgia

On 25 December 2015, a Memorandum of Understanding was signed between the Government of Georgia, JSC Zoti Hydro, JSC Galt & Taggart and state owned electricity companies JSC Georgian State Electrosystem, JSC United Energy System Sakrusenergo, JSC Electricity System Commercial Operator and Energotrans LLC, as amended. According to the Memorandum of Understanding, JSC Zoti Hydro is under an obligation to build a cascade of two power plants, 24 MW and 20 MW each, in village of Zoti, in the Guria region of Western Georgia. The Memorandum of Understanding includes several technical and investment obligations that are to be completed by JSC Zoti Hydro by specific dates. The Government and the state owned entities have an obligation to support and facilitate the construction of the project as well as secure construction of a high voltage line for enabling the connection of the HPPs to the power grid. Further, the Memorandum of Understanding prescribes JSC Zoti Hydro's obligation to sell electricity exclusively to JSC Electricity System Commercial Operator during winter months at a fixed price. Planned commissioning is scheduled in December, 2020. As of the date of this Prospectus, preconstruction is complete. The construction phase officially started on 18 October 2017.

GGU's JSC Svaneti Hydro Loan Agreement with TBC Bank

On 19 April 2017, JSC Svaneti Hydro entered into a twelve year US$33 million loan agreement with JSC TBC Bank ("**TBC**"). The TBC loan is being used to finance the Mestiachala 1 and Mestiachala 2 HPP constructions. The loan agreement is secured by pledges over shares and intangible and movable property, ands mortgages. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$4 million (GEL10.4 million).

GGU's JSC Svaneti Hydro Civil Works Contract with Synergy

The civil works contract for the construction of Mestiachala 1 and 2 HPPs was signed on 1^{st} of March 2017 by and between JSC Svaneti Hydro and Synergy Construction LLC. The contract is based on FIDIC – conditions of contract for construction for Building and Engineering Works Designed by Employer General Conditions, first edition 1999 (RED BOOK). The contract price is US$26 million and the term expires in November 2018.

GGU's JSC Svaneti Hydro Turbine & Generator Works/Kossler

The contract for the supply and installation of turbine, generator and electrical equipment for Mestiachala 1 and 2 HPPs was signed on 1 July 2016 between JSC Svaneti Hydro and Koessler GmbH & Co KG. The contract is based on FIDIC – conditions of contract for construction for Building and Engineering Works Designed by Employer General Conditions, first edition 1999 (RED BOOK). The contract price is US$10 million and the term expires in November 2018.

GGU's Gardabani Sewage Treatment Plant LLC (GSTP) Contract with Strabag AG on Reconstruction of Wastewater Treatment Plant in Gardabani

The contract for the execution of works for reconstruction of the wastewater treatment plant in Gardabani was signed on 17 August 2017 between GSTP and Strabag AG. The contractual provisions detail Strabag AG's obligation to carry out civil and installation, mechanical, electrical and instrumentation, works for the reconstruction of the wastewater treatment plant. The contract price is EUR14.3 million and the expected date for completion of the works is May 2018.

GGU's Shareholders' Agreement of JSC Georgian Renewable Power Company ("GRPC")

In June 2017, JSC Georgia Capital and RP Global Investment GmbH, an Austrian company, as the 65% and 35% shareholders of GRPC signed a shareholders' agreement. The agreement sets forth the rights and obligations of the shareholders with respect to the development of a renewable energy projects in Georgia, including the ongoing project of 50 MW HPPs construction in Mestia, Georgia and 44 MW HPP project in Zoti, Georgia. The parties have additionally agreed on a pipeline of further 100-150 MW renewable energy projects with respect to which the parties have agreed a Euro 3 million initial feasibility budget to be funded *pro rata* by the shareholders. The shareholders' agreement contains customary minority protection and consultation rights. The agreement contains pre-emptive and first refusal rights with respect to the shares in GRPC and provides for a number of exit options for the shareholders.

Teliani's Global Beer Georgia Loan Agreement with EBRD and DEG

On 22 December 2016, Global Beer Georgia LLC, a 100% subsidiary of Teliani, signed a Euro 12.33 million loan agreement with EBRD and Euro 6.17 million loan agreement with DEG. The proceeds of both loans are to be applied to the construction, equipment and operation of, and the provision of working capital for, Teliani 's greenfield beer production plant with an annual production capacity of 250k HL. The loan agreements envisage a two-year grace period for the repayment of the principal. The final instalment of the principal is due to be repaid on 20 October 2025. The loan shall be fully repaid in fourteen equal semi-annual instalments after the grace period. The loan is secured by a pledge over shares, a pledge over property, a mortgage and a corporate guarantee. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$22.5 million (GEL58.3 million).

Teliani 's Loan Agreement with Overseas Private Investment Corporation

On 25 October 2011, Teliani entered into a ten-year US$8 million loan agreement with Overseas Private Investment Corporation ("**OPIC**"). The proceeds of the loan are to be applied for the expansion of borrower's production operations, an equipment upgrade for winery operations, a refinancing of existing indebtedness and funding of capital expenditures for distribution operations. The loan is secured by pledges over shares and movables, a debt service reserve account, and a mortgage over certain real property. As of 31 December 2017, the aggregate amount outstanding under the loan facility was US$3.1 million (GEL8.1 million).

Teliani 's License Agreement with Heineken

In 2015, Global Beer Georgia LLC a subsidiary of Teliani signed Trademark License Agreements with various Heineken Group (comprising of Heineken N.V. and its affiliates) entities under which GBG has exclusive rights until 2025 to use certain trademarks in relation to the product (beer) produced by it in Georgia.

PART XVI

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Part A – Pro Forma Financial Information

The unaudited *pro forma* statement of net assets as at 31 December 2017 set out below has been prepared to illustrate the impact on the net assets of the Company of (i) the acquisition of the Investment Business of BGEO Group PLC; (ii) the expenses incurred by the Company in implementing the Demerger and Admission; (iii) the bond issuance; (iv) the repayment of certain borrowings; (v) the transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC BG Financial (together, the "**Banking Business**"), (vi) issuance of loan to JSC BGEO, and as if each of these events had occurred on 31 December 2017.

The unaudited *pro forma* income statement for the year ending 31 December 2017 set out below has been prepared to illustrate the impact on the financial performance of the Company of (i) the acquisition of the Investment Business of BGEO Group PLC; (ii) the expenses incurred by the Company in implementing the Demerger and Admission; (iii) the bond issuance; (iv) the repayment of certain borrowings; (v) dividends from investment in Banking Business; (vi) issuance of loan to JSC BGEO, and as if each of these events had occurred on 1 January 2017.

The unaudited *pro forma* statement of net assets and income statement have been prepared on a basis consistent with the accounting policies of the Company as applied in preparing its financial statements as at and for the period ended 31 December 2017 as set out in Section B of Part XXII and on the basis set out in the notes below and in accordance with Annex II to the Prospectus Directive Regulation.

The unaudited *pro forma* statement of net assets and *pro forma* income statement have been prepared for illustrative purposes only and, because of their nature, address a hypothetical situation and, therefore, do not represent the Company's actual financial position or results. They may not, therefore, give a true picture of the Company's financial position or results nor are they indicative of the financial position and performance that may or may not be expected to be achieved in the future.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS AT 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

		Adjustments						
	Georgia Capital PLC as at 31 December 2017 (note 1)	Acquisition of Investment business as at 31 December 2017 (note 2)	Demerger and Admission expenses (note 3)	Bond issuance (note 4)	Repayment of borrowings (note 5)	Transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC BG Financial (note 6)	Loan issued to the Banking Business (note 7)	Pro-forma Group as at 31 December 2017
Assets								
Cash and cash equivalents	—	374,299	(9,499)	759,835	(279,608)	—	(129,610)	**715,417**
Amounts due from credit institutions	—	38,141	—	—	—	—	—	**38,141**
Investment securities	—	33,060	—	—	—	732,484	—	**765,544**
Accounts receivable	175	35,341	—	—	—	—	—	**35,516**
Insurance premiums receivable	—	30,855	—	—	—	—	—	**30,855**
Inventories	—	80,132	—	—	—	—	—	**80,132**
Investment properties	—	159,989	—	—	—	—	—	**159,989**
Property and equipment	—	657,635	—	—	—	—	—	**657,635**
Goodwill	—	21,935	—	—	—	—	—	**21,935**
Intangible assets	—	5,457	—	—	—	—	—	**5,457**
Income tax assets	—	1,374	—	—	—	—	—	**1,374**
Prepayments	—	88,027	—	—	—	—	—	**88,027**
Other assets	—	73,537	—	—	—	—	129,610	**203,147**
Assets of disposal group held for sale	—	1,148,584	—	—	—	—	—	**1,148,584**
Total assets	**175**	**2,748,366**	**(9,499)**	**759,835**	**(279,608)**	**732,484**	**—**	**3,951,753**
Liabilities								
Accounts payable	—	46,479	—	—	—	—	—	**46,479**
Insurance contracts liabilities	—	46,403	—	—	—	—	—	**46,403**
Borrowings	—	657,109	—	—	(279,608)	—	—	**377,501**
Debt securities issued	—	77,835	—	759,835	—	—	—	**837,670**
Income tax liabilities	—	860	—	—	—	—	—	**860**
Deferred income	—	73,066	—	—	—	—	—	**73,066**
Other liabilities	—	63,469	—	—	—	—	—	**63,469**
Liabilities of disposal group held for sale	—	619,029	—	—	—	—	—	**619,029**
Total liabilities	**—**	**1,584,250**	**—**	**759,835**	**(279,608)**	**—**	**—**	**2,064,477**
Net Assets	**175**	**1,164,116**	**(9,499)**	**—**	**—**	**732,484**	**—**	**1,887,276**

UNAUDITED PRO FORMA INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

All amounts are in thousands of Georgian Lari

		Adjustments						
	Georgia Capital PLC for the period ending 31 December 2017 (note 1)	**Acquisition of investment business (note 2)**	**Demerger and Admission expenses (note 3)**	**Bond issuance (note 4)**	**Repayment of borrowings (note 5)**	**Dividends from investment in Banking Business (note 6)**	**Loan issued to the Banking Business (note 7)**	**Pro-forma Group for the year ending 31 December 2017**
Gross profit	**—**	**181,371**	**—**	**—**	**—**	**—**	**—**	**181,371**
Salaries and other employee benefits	—	(34,548)	—	—	—	—	—	(34,548)
Administrative expenses	—	(38,351)	—	—	—	—	—	(38,351)
Other operating expenses	—	(1,892)	—	—	—	—	—	(1,892)
Impairment charge	—	(3,417)	—	—	—	—	—	(3,417)
EBITDA	**—**	**103,163**	**—**	**—**	**—**	**—**	**—**	**103,163**
Dividend income	—	—	—	—	—	20,241	—	20,241
Depreciation and amortisation	—	(28,237)	—	—	—	—	—	(28,237)
Net foreign currency loss	3	(4,938)	—	—	—	—	—	(4,935)
Interest income	—	12,971	—	—	—	—	11,665	24,636
Interest expense	—	(30,014)	—	(50,104)	16,706	—	—	(63,413)
Net operating income before non-recurring items	**3**	**52,945**	**—**	**(50,104)**	**16,706**	**20,241**	**11,665**	**51,455**
Net non-recurring items	—	(624)	(9,499)	—	—	—	—	(10,123)
Profit before tax from continuing operations	**3**	**52,321**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**41,332**
Income tax expense	—	(5,749)	—	—	—	—	—	(5,749)
Profit from continuing operations	**3**	**46,572**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**35,583**
Profit from discontinued operations	—	47,351	—	—	—	—	—	47,351
Profit for the year	**3**	**93,923**	**(9,499)**	**(50,104)**	**16,706**	**20,241**	**11,665**	**82,934**

1 The net assets and income statement of Georgia Capital PLC have been extracted without material adjustments from the audited financial statements set out on pages F-83 to F-89 of this Prospectus.

2 The net assets and income statement for the Investment Business have been extracted without material adjustments from the Historical Financial Information set out on pages F-4 to F-74 of this Prospectus. This adjustment is expected to have a continuing impact on the Group income statement.

3 The total expected expenses in relation to the demerger and Admission are GEL 28.8 million. These have been incurred in the following proportion GEL 19.3 million to Bank of Georgia Group plc and GEL 9.5 million to Georgia Capital PLC. The proportion incurred by the Investment Business are included in the unaudited *pro forma* statement of net assets as a cash outflow and in the unaudited *pro forma* income statement as an expense. This adjustment is not expected to have a continuing impact on the Group income statement.

4 As described in Part X of this prospectus, the Company has issued US$ 300 million 6.125% notes due March 2024, sold at an issue price of 98.770%. The adjustment to the unaudited *pro forma* statement of net assets reflects the gross proceeds of the bond issuance of US$ 296.3 million less related issue expenses of US$ 3.2 million. The adjustment to the unaudited *pro forma* income statement reflects interest charges of GEL 50.1 million representing effective interest expense of 6.59%, taking into consideration discount on notes issued, together with amortisation of the issue expenses. The amount shown in the unaudited *pro forma* income statement represents the increase in interest expense, as if the bond issuance had occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

5 In March 2018, as part of the demerger process, the loans from JSC BGEO to JSC Georgia Capital described on page 130 were repaid, together with accrued interest. The unaudited *pro forma* statement of net assets includes this repayment as cash outflow. The amount shown in the unaudited *pro forma* income statement represents the reduction in interest expense, as if the repayment had occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

6 On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC Bank of Georgia Financial Group were transferred to the Investment Business as an equity contribution from JSC BGEO Group, (and will be exchanged for a 19.9% stake in Bank of Georgia Group plc following the demerger, as described in Part X of this prospectus). The investment in these entities is reflected in the unaudited *pro forma* statement of net assets and the adjustment in the unaudited *pro forma* income statement reflects 19.9% of the dividend paid by JSC Bank of Georgia to its shareholders in the year ending 31 December 2017. This adjustment is expected to have a continuing impact on the Group income statement.

7 In March 2018 JSC Georgia Capital issued a US$50 million 9% Loan to the Banking Business. The adjustment to net assets reflects the cash outflow of the respective amount. The amount shown in the unaudited *pro forma* income statement represents the interest income, as if the loan issuance occurred on 1 January 2017. This adjustment is expected to have a continuing impact on the Group income statement.

8 In preparing the unaudited *pro forma* income statement, no account has been taken of the trading or transactions of the Group or Georgia Capital PLC since 31 December 2017.

Part B – Accountant's report on the unaudited *pro forma* financial information

The Board of Directors
Georgia Capital PLC
84 Brook Street
London
W1K 5EH

26 March 2018

Dear Sirs

We report on the *pro forma* financial information (the "Pro Forma Financial Information") set out in Section A of Part XVI of the Prospectus dated 26 March 2018, which has been prepared on the basis described in the notes to the Pro Forma Financial information for illustrative purposes only, to provide information about how the acquisition of the investment business of BGEO Group PLC, transaction costs in connection with the demerger from BGEO Group PLC and Admission of Georgia Capital PLC, the bond issuance, the repayment of certain borrowings, the issuance of loan to JSC BGEO and the transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC Bank of Georgia Financial Group might have affected the financial information presented on the basis of the accounting policies adopted by Georgia Capital PLC in preparing the financial statements for the period ended 31 December 2017 in Part XXII of the Prospectus. This report is required by item 7 of Annex II of Commission Regulation (EC) No 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I of the PD Regulation, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of Georgia Capital PLC to prepare the Pro Forma Financial Information in accordance with items 1 to 6 of Annex II of the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the UK. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of Georgia Capital PLC.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Georgia Capital PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Georgia Capital PLC

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully

Ernst & Young LLP

PART XVII

TAXATION CONSIDERATIONS

United Kingdom

United Kingdom Taxation

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs ("**HMRC**") practice (which may not be binding on HMRC) as of the date of this document, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to shareholders resident and, in the case of an individual, domiciled, for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Shares as an investment and who are the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the Shares. Certain categories of shareholders, such as traders, brokers, dealers, banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons connected with the Company or JSC Georgia Capital, persons holding the Shares as part of hedging or conversion transactions, shareholders who are not domiciled in the United Kingdom, shareholders who have (or are deemed to have) acquired their Shares by virtue of an office or employment, and shareholders who are or have been officers or employees of the Company, BGEO Group PLC or a company forming part of the Group or the BGEO Group, may be subject to special rules and this summary does not apply to such shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers.

Shareholders are also referred to Part IX of the BGEO Group Circular which contains further considerations as to the UK tax consequences of the receipt of Shares pursuant to the Demerger and the Scheme.

Taxation of Dividends

The Company will not be required to withhold tax at source when paying a dividend.

A United Kingdom resident individual shareholder who receives a dividend from the Company will be entitled to a tax-free annual allowance of £5,000 in the tax year 2017/18 (note that this allowance will decrease to £2,000 with effect from 6 April 2018). Any dividend income received by such individual shareholder in excess of this tax-free allowance in the tax year 2017/18 will be taxed at the rates of 7.5%, 32.5%, and 38.1% for basic rate, higher rate, and additional rate taxpayers respectively. Dividend income that is within the allowance will count towards an individual's basic or higher rate limits. Dividend income will be treated as the top slice of individual shareholder's income.

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company at the rate of 19%, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. It is expected that the dividends paid by the Company would generally be exempt for such shareholders. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from Georgia Capital.

Taxation of Capital Gains

A disposal or deemed disposal of the Shares by an individual shareholder may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax liability of an individual shareholder on a disposal of the Shares are the extent to which the shareholder realises any other chargeable gains in the tax year in which the disposal is made, the extent to which the shareholder has incurred allowable losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the "**Annual Exemption**"). The Annual Exemption for the

2017/18 tax year is £11,300, meaning the first £11,300 of capital gains realised do not fall within the charge to capital gains tax. If, after all allowable deductions, an individual shareholder's taxable income for the year exceeds the basic rate income tax limit, taxable chargeable gains arising on a disposal or deemed disposal of the Shares by an individual shareholder will be taxed at 20%. In other cases, taxable chargeable gains may be taxed at 10% or 20% or at a combination of both rates.

An individual shareholder who ceases to be resident for tax purposes in the United Kingdom or is treated as resident outside the United Kingdom for the purposes of a double tax treaty for a period of five years or less and who disposes of his or her Shares during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions or reliefs).

A disposal of the Shares by a UK tax resident corporate shareholder may give rise to a chargeable gain or an allowable loss for the purpose of UK corporation tax. Such a shareholder should be entitled to an indexation allowance, which (broadly) applies to reduce capital gains to the extent that such gains arise due to inflation. The allowance may reduce a chargeable gain but will not create an allowable loss.

An individual or corporate holder of the Shares resident outside the UK may be subject to foreign taxation on disposal of the shares under applicable local law. If potential investors are in any doubt as to their position, they should consult their own professional advisers.

Inheritance Tax

Shares in certificated form will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. As a matter of United Kingdom law and HMRC practice, the situs of securities dealt with through computerised clearing systems is unclear but the Shares in uncertificated form in CREST should also be assets situated in the United Kingdom for these purposes.

A gift of such United Kingdom situs assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Shares bringing them within the charge to inheritance tax. Holders of Shares should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Shares through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of Shares in registered form by Georgia Capital.

An agreement to transfer Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of Shares will generally be subject to stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is generally repayable, normally with interest, and otherwise the SDRT charge is cancelled.

CREST

Paperless transfers of Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Depositary Receipt Systems and Clearance Services

Following the ECJ decision in C-569/07 HSBC Holdings PLC, Vidacos Nominees Limited v The Commissioners of Her Majesty's Revenue & Customs and the First-tier Tax Tribunal decision in HSBC Holdings PLC and The Bank of New York Mellon Corporation v The Commissioners of Her Majesty's Revenue & Customs, HMRC has confirmed that 1.5 per cent. SDRT is no longer payable when new shares are issued to a clearance service or depositary receipt system.

Where Shares are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer will arise on any transfer of Shares into such an account and on subsequent agreements to transfer such Shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

United States of America

US Federal Income Tax Considerations

To ensure compliance with requirements imposed by Treasury Department Circular 230, US Holders are hereby informed that (a) any US federal tax advice contained herein (including any attachments or enclosures) was not intended or written to be used, and cannot be used, for the purpose of avoiding US federal tax penalties, (b) any such advice was written to support the promotion or marketing of the transactions or matters addressed herein and (c) holders should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain material US federal income tax consequences to US Holders (as defined below) of the ownership and disposition of Shares. This summary does not cover all aspects of US federal income taxation that may be relevant to the ownership or disposition of Shares and does not address the effects of any state, local, US non-income, or foreign tax laws. In particular, this summary does not address all the tax considerations that may be applicable to investors subject to special treatment under US federal income tax laws (such as financial institutions, insurance companies, holders subject to the alternative minimum tax or the wash sale rules, investors that own or will own (directly, indirectly or constructively) 5 per cent. or more of the share capital or voting shares of Georgia Capital, pass-through entities or holders of interests in such entities, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, traders that elect to mark to market, holders who acquired their Shares upon the exercise of employee stock options or otherwise as compensation, holders whose functional currency is not the US Dollar, or holders that will hold their Shares, as part of straddles, hedging transactions, or conversion transactions for US federal income tax purposes). This summary assumes that US Holders will hold the Shares, as capital assets within the meaning of section 1221 of the IRS Code.

As used herein, the term "US Holder" means a beneficial owner of Shares that is, for US federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any State thereof; (iii) an estate the income of which is subject to US federal income tax without regard to its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that will hold Shares will depend on the status of the partner and the activities of the entity. Holders that are partnerships for US federal income tax purposes should consult their tax advisers concerning the US federal income tax consequences to their partners of owning shares in Georgia Capital .

This summary also assumes that the Company will not be a passive foreign investment company ("**PFIC**") for US federal income tax purposes. If the Company were to be a PFIC in any year, special, possibly materially adverse, consequences could result for US Holders.

This summary is based on the US federal income tax laws, including the IRS Code, its legislative history, existing and proposed regulations thereunder, published rulings, court decisions, and the current US-UK income tax treaty and interpretations thereof, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. A change in law or any of these authorities upon which this summary is based could adversely affect the US federal income tax consequences set out below.

The summary of US federal income tax consequences set out below is for general information only and is subject to the limitations and qualifications set forth herein. US Holders are urged to consult their own tax advisers as to the particular tax consequences to them of owning and disposing of shares in Georgia Capital .

US Holders are also referred to the BGEO Group Circular which contains further considerations as to the US federal income tax consequences of the receipt of Shares in the Demerger.

Taxation of Dividends

Distributions made after the Demerger by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes) generally will be taxable to a US Holder as foreign-source dividend income, and generally will not be eligible for the dividends-received deduction allowed to corporations. To the extent the amount of aggregate distributions exceed current and accumulated earnings and profits the distributions will be treated as a non-taxable return of capital, reducing the US Holder's adjusted tax basis in its Shares. To the extent the distributions in excess of earnings and profits exceed the US Holder's adjusted tax basis, the excess will be taxed as capital gain. However, the Company will not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of any distribution received from Georgia Capital .

Dividends paid in pounds sterling will be included in income in a US Dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the pounds sterling are converted into US Dollars at that time. If dividends received in pounds sterling are converted into US Dollars on the day they are received, the US Holder generally will not be required to recognise foreign-currency gain or loss in respect of the dividend income. A US Holder who elects to receive dividends from the Company in US Dollars will not recognise any foreign-currency gain or loss in respect of any such dividends.

Disposition of Shares

Upon a sale or other disposition of Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the Shares. This capital gain or loss generally will be US-source income and will be long-term capital gain or loss if the US Holder's holding period in the Shares exceeds one year.

The amount realised on a sale or other disposition of Shares for an amount in foreign currency will be the US Dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will recognise US-source foreign-currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US Dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Shares traded on an established securities market that are sold by a cash-basis US Holder (or accrual-basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

Backup Withholding and Information Reporting

Dividend payments with respect to Shares, and proceeds from the sale, exchange, or redemption of such shares may be subject to (i) information reporting to the IRS and to US Holders, and (ii) possible US backup withholding tax. Backup withholding will not apply, however, to a US Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. US Holders should consult their tax advisers regarding the application of the US information reporting and backup withholding rules.

Backup withholding is not an additional tax. Rather, any amounts withheld as backup withholding may be credited against a US Holder's US federal income tax liability, and the US Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Foreign Financial Asset Reporting

Recently enacted legislation imposes reporting requirements on the holding of certain foreign financial assets, including equity of foreign entities, if the aggregate value of all of these assets exceeds $50,000 at the end of the taxable year or $75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. The Shares are expected to constitute foreign financial assets subject to these requirements, unless the Shares are held in an account at a financial institution, in which case the account may be reportable if maintained by a foreign financial institution. US Holders should consult their tax advisers regarding the application of this legislation.

Georgia

Georgia Taxation

The sections set out below summarise the Georgian income tax treatment for an Georgia Capital Shareholder that is a Georgia resident company or a non-Georgia resident company with a Georgian permanent establishment.

These sections are based on Georgia income tax law and practice in force as of the date of this document. The sections are intended as a general guide only and do not constitute legal or tax advice. If you are in any doubt as to your tax position, you should consult an independent professional adviser immediately.

Except where otherwise expressly stated, the analysis below is based on the assumption that the Company is a UK resident for taxation purposes.

Taxation of dividends

Pursuant to the Tax Code of Georgia, payments of dividends on Shares to Georgia Capital Shareholders (whether they are resident legal entities or non-resident legal entities having a permanent establishment ("**PE**") in Georgia) will not be subject to taxation in Georgia.

Taxation of sale of Shares

Georgian resident legal entities and non-resident legal entities having a PE in Georgia (except commercial banks, credit unions, insurance organisations, micro finance organisations and pawnshops until 1 January 2019) will be liable to pay 15% corporate profit tax upon the disposal of Shares on the difference between the initial purchase and subsequent sale price after the distribution of the profit.

Until 1 January 2019, surplus income (the difference between the initial purchase and subsequent sale price of the Notes) received from the sale of Shares by commercial banks, credit unions, insurance organisations, micro finance organisations and pawnshops will be included in their gross taxable income and after the permitted deductions will be subject to profit tax at the rate of 15%.

Value Added Tax

Sale (supply) of Shares is exempt from Value Added Tax in Georgia. Georgian VAT payers will be obliged to report in their VAT returns the sale of Shares on the territory of Georgia.

Other considerations

Under the Tax Code of Georgia, the tax authorities are entitled to re-examine the transaction price indicated by the parties buying and selling securities, subject to certain requirements.

PART XVIII

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

Directors

The following table sets out the name, age, position and term of appointment of each of the Company's Directors.

Name	Date of birth	Position
Irakli Gilauri	05/12/1976	Chairman and Chief Executive
David Morrison	08/05/1952	Senior Non-Executive Director
Kim Bradley	23/02/1955	Non-Executive Director
Massimo Gesua' sive Salvadori	16/02/1975	Non-Executive Director
William Huyett	12/02/1955	Non-Executive Director
Caroline Brown	14/06/1962	Non-Executive Director
Jyrki Talvitie	04/02/1966	Non-Executive Director

The term of appointment of all of the non-executive directors commenced on 24 February 2018. All Directors will be required to seek election by the Georgia Capital Shareholders at the next annual general meeting of the Company ("**AGM**"). Continued appointment is contingent on continued satisfactory performance and re-election by the Shareholders at each AGM. Continued appointment is also subject to any relevant statutory provisions relating to removal of a Director. The non-executive Directors will also be required to adhere to any succession plan adopted by the Board.

The business address of each of the Directors is 84 Brook Street, London, W1K 5EH, United Kingdom. Biographical details of each of the Directors, together with details of their responsibilities within the Group are set out below.

Irakli Gilauri (Chairman and Chief Executive)

Irakli Gilauri was appointed as Chairman and Executive Director of the Company on 24 February 2018. He also serves as a member of the Company's Investment and Nomination committees.

Mr Gilauri was appointed as Executive Director of BGEO Group PLC on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Gilauri has served as CEO of BGEO Group PLC since his appointment in 2011, and was appointed Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Mr Gilauri also serves as CEO of JSC BGEO Group, JSC BGEO Investment and JSC BG Financial Group. He is also currently Chairman of the Supervisory Board for the following subsidiaries: m^2 Real Estate, Georgian Renewable Power Company and Teliani Valley. He is also a member of the Supervisory Board of Georgia Global Utilities and Agron Group. In addition, Mr Gilauri is the Chairman of Georgia Healthcare Group PLC and Chairman of the supervisory board of JSC Georgia Healthcare Group. He is also a member of the Supervisory Board of Georgia Global Utilities and Agron Group. Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the CASS Business School of City University, London, where he obtained his MSc in Banking and International Finance.

David Morrison (Senior Independent Non-executive Director)

David Morrison was appointed as the Senior Independent Non-Executive Director of the Company on 24 February 2018. David Morrison also serves as the Chairman of the Company's Audit Committee and as a member of the Company's Investment and Nomination committees.

Mr Morrison was appointed as the Senior Independent Non-Executive Director of BGEO Group PLC in October 2011 and has been re-elected by Shareholders at each AGM thereafter. Mr Morrison assumed the role of Chairman of BGEO Group PLC's Audit Committee in December 2013. Mr Morrison is also a member of BGEO Group PLC's Remuneration and Nomination Committees, and serves as a member of the Bank's Audit and Remuneration Committees, positions he has held since 2010. Mr Morrison is also a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group PLC. Mr Morrison is a member of the New York bar and worked for 28 years at Sullivan & Cromwell LLP until he withdrew from the firm in 2007 to pursue other interests. At Sullivan & Cromwell, he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs and mergers and acquisitions. Mr Morrison is the author of several publications on securities law-related topics, and has been recognised as a leading lawyer in Germany and France. In 2008, Mr Morrison turned his attention to nature protection financing. He became the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. He resigned as CEO in March 2016 and now serves on the Board of Directors of CNF, as well as on the boards of two new conservation trusts he helped to create in 2015 and 2016. Mr Morrison received his undergraduate degree from Yale College, received his law degree from the University of California, Los Angeles, and was a Fulbright scholar at the University of Frankfurt.

Kim Bradley (Non-executive Director)

Kim Bradley was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves on the Remuneration and Nomination committees, and as Chairman of the Investment Committee.

Mr Bradley was appointed as an Independent Non-Executive Director of BGEO Group PLC on 19 December 2013 and has been re-elected by shareholders at each AGM thereafter. Mr Bradley serves as Chairman of BGEO Group PLC's Risk Committee and as a member of BGEO Group PLC's Audit and Nomination Committees, Mr Bradley was also appointed to the Bank's Supervisory Board in December 2013 and serves as Chairman of the Bank's Risk Committee and as a member of the Bank's Audit Committee. Mr Bradley retired from Goldman Sachs in early 2013, following 15 years as a professional in the Real Estate Principal Investments and Realty Management divisions, where he focused on investment in both European real estate and distressed debt. In addition to his investment activities, Mr Bradley led Goldman Sachs' asset management affiliates in France, Italy and Germany, where he was involved in financial and tax auditors as well as the management of internal audit activities. He has also served as President of Societa Gestione Crediti, a member of the Board of Directors of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in both the United States and Europe, where his activities included real estate workouts and restructuring, as well as acquisitions. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon. Mr Bradley serves as a director of a mental health charity, Gould Farm. Mr Bradley holds an MA in International Affairs from the Columbia University School of International Affairs and an undergraduate degree in English Literature from the University of Arizona.

Massimo Gesua' sive Salvadori (Non-executive Director)

Massimo Gesua' sive Salvadori was appointed as an Independent Non- Executive Director of the Company on 24 February 2018. He also serves as a member of the Company's Investment, Nomination and Audit committees.

Mr. Gesua' sive Salvadori is a bank analyst covering banking stocks globally. He works for Odey asset management, a London based hedge fund, which he joined in 2011. His professional focus consists of: formulating investment recommendations; assessing potential risks and the balance between potential risks and rewards; developing investment themes; understanding the thinking of management teams and regulators; linking macro themes to individual investment opportunities. Prior to working as a buy side analyst, Mr. Gesua' sive Salvadori worked as a management consultant at the London office of McKinsey and Co. between 2002 and 2011. He specialised in financial services and served clients across different geographies in developed and emerging markets. Mr. Gesua' sive Salvadori belonged to the banking strategy practice. Mr. Gesua' sive Salvadori, a native of Venice, obtained an M.Phil. and a Ph.D. from Oxford University, where he attended St. Antony's College. He graduated with a B.Sc. in Economics from Warwick University. He attended the United World College of the Adriatic in Duino. His postgraduate studies were funded through scholarships by the Foreign and Commonwealth Office, the Economic Research council, the Fondazione Einaudi and the Ente Einaudi.

William Huyett (Non-executive Director)

William Huyett was appointed as a Independent Non-Executive Director of the Company on 24 February 2018. He also serves as the Chairman of the Company's Remuneration Committee and as a member of the Company's Investment and Nomination committees.

Mr Huyett was appointed as a Non-Executive Director of Georgia Healthcare Group PLC on 18 June 2017 and serves as a member of the Clinical Quality and Safety Committee. He also serves as a member of the Supervisory Board of JSC Georgia Healthcare Group and on its Clinical and Safety Committee. Mr Huyett is a Director Emeritus of McKinsey and Company, Inc. During his 28-year career there, he served clients in health care and other technology-intensive industries. He currently serves on the boards of Rockefeller University (Member of the Technology Transfer committee), the University of Virginia Darden School Foundation (Chair of Nominating and Governance), the National Parks Conservation Association, and the Concord Museum, where he serves as Treasurer. He is Vice-Chair of the Board of the Greater Boston YMCA and was recently appointed as Chief Operating Officer of Ironwood Pharmaceuticals. He recently retired from the boards of McKinsey and Company (where he chaired the Finance Committee), and the Marine Biological Laboratory (Woods Hole), where he served as Vice-Chair. Prior to joining McKinsey, Mr. Huyett held a variety of line management positions in the automation industry with Rockwell/Allen-Bradley. Mr Huyett earned a BS in Electrical Engineering and an MBA from the University of Virginia.

Caroline Brown (Independent Non-executive Director)

Caroline Brown was appointed as in Independent Non-Executive Director of the Company on 24 February 2018. She also serves as a member of the Investment, Nomination and Audit committees.

Dr Brown became an advisor to the Board of Georgia Healthcare Group PLC on 24 February 2018. Dr Brown has managed divisions of FTSE100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC. Dr Brown has chaired audit committees of listed companies for the past 15 years and is a Fellow of the Chartered Institute of Management Accountants. Dr Brown holds a first-class degree and PhD in Natural Sciences from the University of Cambridge and a Masters of Business Administration from the Cass Business School, University of London. Dr Brown currently serves as an independent Non-Executive Director, and audit chair on the boards of several London quoted companies including Luceco plc, Hydrodec Group plc and Earthport plc and serves on the MBA Advisory Board of the Cass Business School, University of London.

Jyrki Talvitie (Independent Non-executive Director)

Jyrki Talvitie was appointed as in Independent Non-Executive Director of the Company on 24 February 2018. He also serves as the Chairman of the Company's Nomination Committee and as a member of the Company's Investment and Remuneration committees.

Mr Talvitie has worked in the financial industry for 28 years in banks as well as on both the buy and sell side of the markets. Prior to joining the Board, Mr Talvitie worked in Moscow for 14 years, his latest position being in charge of Strategic Partners and Investors at Sberbank, the largest bank in Russia and top 15 in the world. Before Sberbank Mr Talvitie was a Board Member at Russian Direct Investment Fund, Head of Investor Relations at VTB Bank and established and ran the Russian operations of East Capital, a Swedish Private Equity and Asset Management company, while also managing a Financials Fund. Prior to moving to Russia in 2003, Mr Talvitie worked for BNP Paribas in Paris, Bank of New York in London and Moscow as well as several Nordic banks both in Helsinki and Moscow. Mr Talvitie has extensive board experience, having served on over 10 boards of both public and private companies in Georgia, Finland, Russia, Kazachstan and Ukraine. Mr Talvitie holds an Executive MBA from London Business School as well as a Masters of Law from Helsinki University. Mr Talvitie also holds a Diploma in Company Direction from the Institute of Directors in London.

Senior Managers

The following table sets out the name, age, position and term of appointment of each of Georgia Capital's Senior Managers.

Name	Date of birth	Position	Term of appointment/Reappointment
Avto Namicheishvili	02/04/1974	Deputy CEO, Legal	May 2019
Ekaterina Shavguildze	16/09/1982	Chief Investment Officer	May 2019
Giorgi Alpaidze	26/06/1986	Chief Financial Officer	August 2018

Each of Georgia Capital's Senior Managers can be contacted through Georgia Capital's head office at 3-5 Kazbegi Street, Tbilisi, 0179, Georgia. Biographical details of the Senior Managers are set out below.

Avto Namicheishvili (Deputy CEO, Legal)

Avto Namicheishvili became a member of the Board of Directors of JSC BGEO Group on 28 May 2015. He previously served as Deputy CEO (Legal) of JSC Bank of Georgia from July 2008, prior to which he served as the Bank's general counsel from March 2007. Before joining the Bank, Mr. Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as external legal adviser for the Bank from 2004. He has undergraduate degrees in law and international economic relations from Tbilisi State University and a graduate degree (LLM) in international business law from Central European University, Hungary.

Ekaterina Shavguildze (Chief Investment Officer)

Ekaterina Shavguildze became a member of the Board of Directors of JSC BGEO Group on 26 April 2016. She serves as Group head of Investor Relations and Funding. Ms. Shavgulidze previously served at various executive positions (including as a member of the supervisory board of Aldagi and 122 GHG) from 2011. Before her employment with the Group, Ms. Shavgulidze was an Associate Finance Director at AstraZeneca, UK for two years, where she worked on finance projects in Eastern Europe, including her assignment as Chief Financial Officer and co-leading the reorganisation of AstraZeneca's Central Asian business. Ms. Shavgulidze received her undergraduate degree in Business Administration from the European School of Management in Georgia and an MBA from Wharton Business School, majoring in Finance and Entrepreneurship.

Giorgi Alpaidze (Chief Financial Officer)

Giorgi Alpaidze was appointed as CFO of JSC BGEO Group in September 2017, prior to which he served as Head of the Group's Finance, Funding and Investor Relations teams. Mr Alpaidze has extensive international experience in banking, accounting and finance. He joined the JSC Georgia Capital in August 2016 from Ernst & Young LLP's Greater New York City's assurance practice, where he was a senior manager serving Ernst & Young's financial services clients. Mr. Alpaidze started his career at Ernst & Young Georgia in 2005 and moved to Ernst & Young's United States practice in 2010. Mr Alpaidze is a U.S. Certified Public Accountant and received his undergraduate degree in Business Administration from the European School of Management in Georgia.

Corporate Governance Policy and Board Committees

The Board recognises the importance of maintaining sound corporate governance practices and supports high standards of corporate governance. In considering Board policies and composition The Board has carefully considered the requirements of the UK Corporate Governance Code published in April 2016 by the Financial Reporting Council (the "**Corporate Governance Code**"). In addition, the Board has considered a number of other factors including in particular the experience and independence of the Company's executive and non-executive directors and the value they can bring to the Board and its committees.

Given that the Group's operations are wholly based in Georgia the Company considers that it is an advantage for the Board to include non-executive directors who have deep familiarity with Georgia. However, since it is an emerging market with few companies listed on international markets, there are a limited number of potential candidates who have the relevant knowledge and experience of the market and of being a director of a UK listed company.

The Corporate Governance Code provides that the board of directors of a UK public company should include a balance of executive and non-executive directors, with at least half of the board (excluding the Chairman) being independent non-executive directors. The Board comprises seven directors-one, the Company's Chairman and Chief Executive, Irakli Gilauri, is an executive director, while the other six, being David Morrison, Kim Bradley, Massimo Gesua' sive Salvadori, William Huyett, Caroline Brown and Jyrki Talvitie are non-executive directors. This model, of having one executive director on the Board, complies with the Corporate Governance Code and has been successfully used by BGEO Group. It has allowed BGEO Group to bring a wealth of external experience to its board through its non-executive directors, while keeping it appropriately sized. Georgia Capital PLC is therefore replicating this model at the Company.

The Corporate Governance Code states that the Board should determine whether non-executive directors are "independent", meaning whether they are independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board has therefore considered the independence of the Company's non-executive directors and the Board has determined that all non-executive directors are independent.

The Corporate Governance Code recommends that the board of directors of a UK public company shall appoint one of its independent non-executive directors as the Senior Independent Director. Given his experience with the role at BGEO Group and his background, the Board has appointed David Morrison to fill this role. The Senior Independent Director will be available to Shareholders if they have concerns which contact with the Chairman or CEO has failed to resolve or for which such contact is inappropriate.

As described above, the Company is in compliance with all of the requirements of the Corporate Governance Code, except that the Company's Chairman, Irakli Gilauri, also serves as the Company's Chief Executive Officer. Nevertheless, the Board believes that it is in the Company's best interests to take advantage of Mr Gilauri's capabilities and experience in leading the Board, in particular as the Company transitions to a standalone, publicly listed company.

The Board is assisted in fulfilling its responsibilities by four principal committees, being the audit, nomination, remuneration and investment committees. The terms of reference for each of these committees are summarised below. The members of such committees are appointed by the Board.

Audit committee

The members of the Company's audit committee are David Morrison (Chairman), Massimo Gesua' sive Salvadori and Caroline Brown all of whom are considered by the Board to be independent. The Board is satisfied that all three audit committee members have recent and relevant financial experience and that Dr. Brown has competency in accounting.

The Company's audit committee will have responsibility for, amongst other matters: (i) recommending the financial statements to the Board and for reviewing the Company's financial reporting and accounting policies, including formal announcements and trading statements relating to the Company's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing the Company's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the Board the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) approving the audit fee and on an annual basis assessing the effectiveness and independence of the external auditors; and (vii) keeping under review the Company's internal controls and systems for assessing and mitigating financial and non-financial risk.

Nomination committee

The members of the Company's nomination committee are Jyrki Talvitie (Chairman), David Morrison, Kim Bradley, Massimo Gesua' sive Salvadori, William Huyett and Caroline Brown, all of whom are considered by the Board to be independent. The nomination committee will normally meet at least twice per year.

The nomination committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations for new appointments of executive and non-executive directors and on the membership of board committees to the Board. The committee will also oversee the annual review of board effectiveness.

Remuneration committee

The members of the Company's remuneration committee are William Huyett (Chairman), Kim Bradley and Jyrki Talvitie all of whom are considered by the Board to be independent.

The remuneration committee is constituted to determine and make recommendations to the Board regarding the framework or broad policy for the remuneration of the Company's Chairman, the CEO, the Group Company Secretary and such other members of the Company's executive management as it is designated to consider. The remuneration committee shall also oversee any major changes in the Group's employee benefits structures. The remuneration committee is also required to produce a report of the Group's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval.

Investment committee

The members of the Company's investment committee are Kim Bradley (Chairman), David Morrison, Massimo Gesua' sive Salvadori, William Huyett, Jyrki Talvitie, Caroline Brown and Irakli Gilauri, all of whom, except Irakli Gilauri, are considered by the Board to be independent.

The investment committee is constituted to determine and make recommendations to the Board regarding investment policy and strategy and to consider, assess and monitor investment opportunities. It will review major transactions, recommendations of the Executive Committee and ensure the Group has in place an appropriate risk framework and that management has the appropriate plans and controls in place to manage the investment risk framework.

Share Dealing Code

The Company will adopt, with effect from Admission, a share dealing code which ensures compliance with the Market Abuse Regulation and the Listing Rules. This share dealing code will apply to the Board, other persons discharging managerial functions and certain employees of the Group.

Inside Information Disclosure Policy

The Company has adopted an Inside Information Disclosure Policy, which will be in effect by Admission. The policy is designed to prevent market abuse, insider dealing and other similar offences by ensuring the timely identification and escalation of inside information as well as co-ordinating the announcement of inside information using appropriate information services. The policy applies to all members of the Group and their respective directors, officers and employees.

Conflicts of Interest

There are no actual or potential conflicts of interest between any duties owed by the Directors or Senior Managers to the Company and their private interests or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management.

PART XIX

ADDITIONAL INFORMATION

All figures in this Part XIX are unaudited.

1. Persons responsible

The Directors, whose names appear on page 40, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The BGEO Group PLC Directors and BGEO Group PLC accept responsibility for the information about BGEO Group PLC contained in this prospectus. To the best of the knowledge of the BGEO Group PLC Directors and BGEO Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The Bank of Georgia Group PLC Directors and Bank of Georgia Group PLC accept responsibility for the information about Bank of Georgia Group PLC contained in this prospectus. To the best of the knowledge of the Bank of Georgia Group Directors and Bank of Georgia Group PLC (each of whom has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

2. Georgia Capital PLC

The Company was incorporated as a private limited company on 5 July 2017 with the name BGEO Investments Limited and registered in England and Wales with registered number 10852406, changed its name on 13 December 2017 to Georgia Capital Limited and registered as a public limited company on 7 February 2018 with its current name (Georgia Capital PLC). Since the date of its incorporation, the Company has operated in conformity with its constitution. The Shares conform with the laws of England and Wales and the issuance of the Shares was duly authorised according to the requirements of the Company's constitution. All necessary statutory and other consents have been obtained.

The principal legislation under which the Company operates and under which the Shares have been created is the Companies Act and regulations made thereunder.

The Company is domiciled in England and Wales. The address of its registered and head office is 84 Brook Street, London W1K 5EH.

The Company has not traded since its incorporation.

On incorporation, the Company's share capital consisted of one ordinary share with a par value of £1.00 (the "**Subscriber Share**") which was issued, fully paid, to the Initial Shareholder. The Company also issued one additional ordinary share with a par value of £1.00 shortly after incorporation.

On 15 December 2017, 49,999 redeemable deferred shares of £1.00 each (the "**Redeemable Preference Shares**") were issued to the Initial Shareholder at par value credited as fully paid

3. Authorities

At a general meeting of the Company held on 26 March 2018, the Initial Shareholder resolved, *inter alia*, that:

1. the Demerger be approved and, in connection with the Demerger:

   (a) the directors of the Company be authorised and instructed to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as they consider necessary or expedient for the purpose of giving effect to the Demerger; and

   (b) the entry by the Company into any such documents as the directors of the Company deem to be necessary or desirable for the purpose of giving effect to the Demerger be and are hereby approved and the directors of the Company (or a duly authorised committee of the directors of the Company) be authorised to carry the same into effect;

2. the directors of the Company be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 to allot shares in the Company, at a nominal value to be determined by the directors, to Bank of Georgia Group PLC shareholders on a one for one basis in consideration for the transfer to the Company of the entire issued share capital of JSC Georgia Capital by Bank of Georgia Group PLC by way of repayment of Capital by Bank of Georgia Group PLC to its shareholders, provided that the authority conferred by this resolution 2 will expire on 31 March 2019.

3. in addition to the authority in resolution 2, above, and conditional on and with effect from the Demerger becoming effective, the directors of the Company be and are hereby generally and unconditionally authorised to capitalise the full amount standing to the credit of the merger reserve (if any) established by the Company in connection with the Demerger and the directors be and are hereby unconditionally authorised to apply the sum so capitalised in issuing Class C Shares to the registered holders of ordinary shares of the Company in the same proportions in which sum would have been divisible among them if it were distributed by way of a dividend and applying such sum on their behalf in paying up in full such Class C Shares and to allot such shares at a nominal value of £0.01 *pro rata* to such holders (or if the Company so determines, to such person as the Company may procure as a nominee for such holders) credited as fully paid with fractional entitlements to Class C Shares to be aggregated into whole Class C Shares and dealt with by the directors as they see fit, with the Class C Shares having the rights and subject to the conditions below:

   (i) the holder(s) of Class C Shares shall have no right to receive any dividend or other distribution whether of capital or income;

   (ii) the holder(s) of Class C Shares shall have no right to receive notice of or to attend or vote at any general meeting of the Company's shareholders;

   (iii) the holder(s) of Class C Shares shall, on a return of capital on a liquidation, but not otherwise, be entitled to receive the nominal amount of each such share but only after the holder of each ordinary share shall have received the amount paid up or credited as paid up on such ordinary share together with the sum of £100,000 on each such ordinary share;

   (iv) except as provided by (iii), the holder(s) of Class C Shares shall not be entitled to any further participation in the assets or profits of the Company;

   (v) the holder(s) of Class C Shares shall not be entitled to and shall not receive a share certificate in respect of the Class C Shares;

   (vi) the Company may at its discretion and any time, without prior notice, redeem some or all of the Class C Shares then in issue, in each case for a total aggregate price not exceeding £0.01 for all such Class C Shares so redeemed, and where some but not all of the Class C Shares then in issue are redeemed in part, for a total aggregate price not exceeding £0.01 in aggregate for such redemption. Upon redemption all such Class C Shares shall be immediately and automatically cancelled; and

   (vii) a reduction by the Company of the capital paid up or credited as paid up on the Class C Shares and the cancellation of such shares will be treated as being in accordance with the rights attaching to the Class C Shares and will not involve a variation of such rights for any purpose. The Company will be authorized at any time without obtaining the consent of the holder(s) of Class C Shares to reduce its capital (in accordance with the CA 2006).

4. in addition to the authorities in resolutions 2 and 3, above, and conditional on and with effect from the Demerger becoming effective, the directors be and are generally and unconditionally authorised for the purposes of section 551 of CA 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company ("**Rights**"):

   (a) up to an aggregate nominal amount of £475,504,756.21 before the Reduction of Capital (defined below) has become effective and £131,282.37 thereafter (representing 13,128,237 ordinary shares, which represents approximately one-third of the Company's expected issued ordinary share capital following the utilisation of the authority granted pursuant to resolution 2 above); and

   (b) in addition to the amount referred to in paragraph (a) above, up to an aggregate nominal amount of £475,504,756.21 before the Reduction of Capital (defined below) has become effective and £131,282.37 thereafter (representing 13,128,237ordinary shares, which represents approximately one-third of the Company's expected issued ordinary share capital following the exercise of the authority granted by resolution 2 above) in connection with an offer by way of a rights issue to:

(i) holders of ordinary shares made in proportion (as nearly as practicable) to their respective existing holdings of ordinary shares; and

(ii) holders of other equity securities of any class if this is required by the rights attaching to those securities or, if the directors consider it necessary, as permitted by the rights attaching to those securities,

subject to the directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter,

for a period expiring at the conclusion of the Company's next annual general meeting (or at close of business on 23 June 2019, if earlier) save that the Company may before the expiry of this authority make an offer and/or enter into an agreement which would, or might, require shares to be allotted or Rights to be granted after the authority granted by this resolution 4 expires and the directors may allot shares or grant Rights to subscribe for or convert a security into shares as if the authority conferred by this resolution had not expired.

5. conditional on and with effect from the Demerger becoming effective, in accordance with section 366 and 367 of the CA 2006, the Company and all of its subsidiaries at any time during the period for which this resolution has effect, be generally and unconditionally authorised to:

(i) make donations to political parties or independent election candidates, not exceeding £100,000 in total;

(ii) make donations to political organisations other than political parties, not exceeding £100,000 in total; and

(iii) incur political expenditure, not exceeding £50,000 in total,

during the period beginning with the date of the passing of this resolution and expiring at the conclusion of the Company's annual general meeting in 2019 (unless this authority has been otherwise renewed, revoked or varied by the Company in a general meeting) and provided that the aggregate amount of political donations and political expenditure so made or incurred by the Company and its subsidiaries shall not exceed £100,000.

Any terms used in this resolution 5 which are defined in part 14 of CA 2006 shall have the same meaning in this resolution 5.

6. subject to and conditional on the Demerger becoming effective, the establishment of the share plan (a draft of which is circulated with this resolution marked ''A'') and the employee benefit trust (a draft of which is circulated with this resolution marked ''B'') be approved and:

(a) the directors of the Company and/or the remuneration committee of the Company be and are hereby authorised to make such amendments to the share plan and employee benefit trust as they consider necessary or desirable and to do all things necessary or expedient to carry the share plan and employee benefit trust into effect; and

(i) the remuneration committee of the Company be and is hereby authorised to recommend awards be granted over shares in the Company pursuant to and in accordance with the share plan or any part of it;

(ii) the directors of the Company and/or the remuneration committee of the Company be and are hereby approved to make recommendations to JSC Georgia Capital on the administration of the share plan; and

(iii) the directors of the Company be and are hereby authorised to establish further employee share plans based on the share plan, but modified to take account of local tax, exchange control or securities laws in any overseas jurisdiction provided that the shares made available under such further employee share plans are treated as counting towards the limits on participation in the share plan.

7. conditional on and with effect from immediately prior to the admission of the Company to the FCA's Official List and to trading on the London Stock Exchange, the articles of association of the Company contained in the document produced to the general meeting marked "C" be adopted as the new articles of association of the Company in substitution for, and to the exclusion of, all the Company's existing articles of association.

8. subject to the passing of resolution 4 above, the directors be generally empowered pursuant to sections 570 and 573 of CA 2006 to allot equity securities (within the meaning of section 560(1) of CA 2006) for cash pursuant to the authority conferred by resolution 4 above, and/or to sell treasury shares, as if section 561 of CA 2006 did not apply to any such allotment or sale, provided that the power conferred by this resolution 8 shall be limited to:

   (a) the allotment of equity securities for cash and/or sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities:

      (i) to ordinary shareholders in proportion (as nearly as practicable) to their respective existing holdings of ordinary shares held by them on the relevant record date; and

      (ii) to holders of other equity securities, as required by the rights attaching to those securities, or if the directors otherwise consider it necessary as permitted by the rights attaching to those securities,

   but so long as the directors may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter whatsoever; and

   (b) the allotment of equity securities for cash and/or sale of treasury shares (otherwise than under paragraph a) above) up to a nominal amount of £71,325,713.43 before the Reduction of Capital (defined below) has become effective and £19,692.36 thereafter (being approximately 1,969,2356 ordinary shares, which represent approximately 5% of the Company's expected issued ordinary share capital following the exercise of the authority granted by resolution 2 above),

   such authority to expire at the conclusion of the Company's next annual general meeting "**AGM**" in 2019 or, if earlier, at the close of business on 23 June 2019, being 15 months after the date of the forthcoming AGM), save that in each case, prior to its expiry, the Company may make an offer, and/or enter into an agreement, which would, or might, require equity securities to be allotted (and/or treasury shares to be sold) after this authority expires and the directors may allot equity securities (and/or sell treasury shares) under any such offer or agreement as if the authority given by this resolution had not expired.

9. subject to the passing of resolution 4 above, the directors be generally empowered, in addition to any authority granted under resolution 4, pursuant to sections 570 and 573 of CA 2006 to allot equity securities (within the meaning of section 560(1) of CA 2006) for cash pursuant to the authority conferred by resolution 4, and/or to sell treasury shares, as if section 561 of CA 2006 did not apply to any such allotment or sale provided that the power conferred by this resolution shall be:

   (a) limited to the allotment of equity securities for cash and/or sale of treasury shares, up to a nominal amount not exceeding in aggregate £71,325,713.43 before the Reduction of Capital (defined below) has become effective and £19,692.36 thereafter (representing 1,969,236

   (b) ordinary shares, which represents approximately 5% of the Company's expected issued ordinary share capital following the exercise of the authority granted by resolution 2 above); and

   (c) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

   provided that the powers conferred by this resolution 9 will expire at the Company's next AGM (or at close of business on 23 June 2019, if earlier) save that, in each case, the Company may before the expiry of such powers make an offer or agreement which would or might require equity securities to be allotted and/or treasury shares to be sold after such authority expires and the directors may allot equity securities and/or sell treasury shares in pursuance of such offer or agreement as if the powers conferred by this resolution 9 had not expired.

10. subject to and conditional upon the Demerger becoming effective in accordance with its terms, the share capital of the Company be reduced by:

    (i) cancelling and extinguishing paid-up capital on each of the Company shares in issue immediately prior to the confirmation by the court of the capital reduction to the extent that the amount paid up on each such Company share immediately following such cancellation shall be £0.01;

    (ii) reducing the nominal value of each of the shares to £0.01; and

    (iii) cancelling the Class C Shares in issue (if any) immediately prior to the confirmation by the court of the capital reduction, issued and allotted pursuant to the authority conferred by resolution 3 without payment of any amount in respect thereof to the holders of such Class C Shares,

    (i) to (iii) being the "**Reduction of Capital**".

11. subject to and conditional on the Demerger becoming effective, pursuant to the Company's articles of association adopted pursuant to resolution 7, the Company be generally and unconditionally authorised for the purpose of section 701 of the CA 2006 to make market purchases (as defined in section 693 of the CA 2006) of Company's shares, on such terms and in such manner as the directors of the Company may from time to time determine, and where such shares are held as treasury shares, the Company may use them for the purposes of its employee share schemes, provided that:

    (i) the maximum number of shares which may be purchased is 3,938,471 (representing approximately 10% of the Company's expected issued ordinary share capital following the exercise of the authority granted by resolution 2, being 39,384,712);

    (ii) the minimum price (exclusive of expenses) which may be paid for each ordinary share is £0.01;

    (iii) the maximum price (exclusive of expenses) which may be paid for each share is the higher of:

        (A) 105 per cent. of the average of the middle-market price of an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased; and

        (B) an amount equal to the higher of the price of the last independent trade of shares and the highest current independent purchase bid for an ordinary share as derived from the London Stock Exchange Trading System at the time the purchase is carried out,

    such authority to expire (unless varied, revoked or removed prior to such time) at the conclusion of Company's annual general meeting in 2019 or, if earlier, at the close of business on 23 June 2019, being 15 months after the date of the resolution save that the Company may before the expiry of this authority make a contract to purchase ordinary shares which will or might be expected wholly, or partly, after the expiry of this authority and may make a purchase of ordinary shares in pursuance of such contract as if the authority conferred by this resolution had not expired.

4. Share Capital

At the date of this document, the issued and fully paid share capital of the Company is as follows:

Class of share	Number of shares in issue	Total nominal value (£)
Ordinary shares with a par value of £1.00	2	2.00
Redeemable Deferred Shares with a par value of £1.00	49,999	49,999

At the Demerger Effective Time, the Company will issue Shares, credited as fully paid, to the holders of Bank of Georgia Group PLC Shares in consideration for the transfer to it by Bank of Georgia Group PLC of the Investment Business. Bank of Georgia Group PLC Shareholders will receive one new Share for Bank of Georgia Group PLC Share held by them. It is proposed then to convert the Subscriber Share into a deferred share (the "**Deferred Share**").

Accordingly, the issued and fully paid share capital of Georgia Capital immediately following Admission is expected to be as follows (on the assumption that no new Shares or Bank of Georgia Group PLC Shares will be issued between the date of this Prospectus and the Demerger Effective Time).

Class of share	Number of shares in issue	Total nominal value (£)
Shares	39,384,714	1,426,514,341
Redeemable Deferred Shares	49,999	49,999.00

Following Admission, it is proposed that the Company will reduce its share capital in order to create distributable reserves. In the event that a merger reserve is created in connection with the Demerger, the Class C Shares resulting from the capitalisation of that merger reserve shall be allotted *pro rata* to those holders of Shares and are registered or are entitled to be registered as holders of Shares (or, if the Company so determines, to such person as the Company may procure as nominee for such holders) and are to be cancelled shortly thereafter pursuant to the Reduction of Capital. The sole purpose of the Class C Shares is for the capitalisation of the merger reserve, and they will not be listed nor do they carry any voting or dividend rights.

As of the date of this document, the Company does not hold any Shares in treasury.

No commissions, discounts, brokerages or other special terms have been granted in respect of the issue of any share capital of the Company.

Application will be made to the UK Listing Authority and the London Stock Exchange for up to 39,384,712 Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's market for listed securities, respectively. As of the date of this document, no Shares are admitted to trading on a regulated market. If the Demerger proceeds as currently envisaged, it is expected that Admission will become effective, and that dealings in the Shares will commence on the London Stock Exchange, at 8 a.m. (London time) 29 May 2018. The Shares have not been marketed to, and are not available in whole or in part for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the Shares to the premium listing segment of the Official List. No application has been or is currently intended to be made for the Shares to be admitted to listing elsewhere or dealt in on any other exchange.

The Shares are in registered form and are capable of being held in certificated or uncertificated form. Application has been made to Euroclear for the Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. The International Securities Identification Number (ISIN) for the Shares is GB00BF4HYV08.

5. Summary of the Articles

The following summary description of the Company's share capital and corporate structure is based on, and qualified by reference to, the Articles. This summary does not purport to give a complete overview and should be read in conjunction with the Articles, the Companies Act and regulations made thereunder, and the relevant provisions of English law, and should not be considered legal advice regarding these matters. This summary is subject to the provisions of the Companies Act, so far as they apply to or affect the Company.

The Articles, adopted by a special resolution of the Company passed on 26 March 2018, contain, *inter alia*, provisions to the following effect:

Voting rights

Subject to any special rights or restrictions as regards voting for the time being attached to any class of the Shares and certain other provisions of the Articles, on a show of hands, every Shareholder present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote, and on a poll every Shareholder present in person or by proxy shall have one vote for each Share of which he or she is the holder.

In the case of joint holders, unless such joint holders shall have chosen one of their number to represent them and have so notified the Company in writing, the vote of the most senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names of the holders stand in the register.

Unless the Directors otherwise decide, no Shareholder shall be entitled to vote at any general meeting, unless all calls or other sums presently payable by him or her in respect of any Shares, of which he or she is holder or one of the joint holders, have been paid.

Dividends

Georgia Capital PLC may by ordinary resolution declare dividends, provided that no dividend may exceed the amount recommended by the Georgia Capital Directors. Dividends must be paid out of profits available for distribution. The Georgia Capital Directors may also from time to time pay interim dividends on shares of any class of such amounts, on such dates, and in respect of such periods as they think fit. If the Georgia Capital Directors act in good faith, the Georgia Capital Directors shall not incur any liability to BGEO Shareholders for any loss they may suffer by the lawful payment on any other class of Shares having no preferred or deferred rights of any such fixed or interim dividend.

The Directors may, with the prior authority of an ordinary resolution of the Company, direct payment of a dividend in whole or in part in specie and the Directors shall give effect to such resolution. No dividend or other monies payable in respect of a share in Bank of Georgia Group PLC shall bear interest against the Company unless interest is provided by the rights attached to those shares.

The Directors may deduct from any dividend or other moneys payable to a Shareholder, on or, in respect of such Shares all sums of money (if any) presently payable by the holder to the Company on account of calls or otherwise in relation to such shares.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared or became due for payment shall be forfeited and revert to the Company.

The Directors may, if authorised by an ordinary resolution of the Company, offer those holders of a particular class of the Shares that have elected to receive them further Shares of that class or Shares by way of scrip dividend instead of cash.

The Directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made.

Capitalisation of Reserves

The Directors may, with the authority of an ordinary resolution of the Company: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Company (including share premium account, capital redemption reserve, merger reserve and profit and loss account) or any sum standing to the credit of profit and loss account (whether or not it is available for distribution); and (ii) appropriate that sum as capital to Shareholders in proportion to the nominal amount of share capital held by them respectively and apply that sum on their behalf in paying up in full any unissued shares or debentures of the Company of a nominal amount equal to that sum and allot shares or debentures credited as fully paid to those Shareholders, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued the Shares held by them respectively, or otherwise deal with such sum as directed by the resolution.

Shares

Subject to any relevant authority given by the Company in a general meeting, the Directors may exercise any power of the Company to allot the Shares, or to grant rights to subscribe for or to convert any security into the Shares, to such persons, at such times and on such terms as the Directors may decide.

Subject to any rights attached to any existing shares, any share in the Company may be allotted or issued with, or have attached to it, such rights or restrictions as the Company may by ordinary resolution determine, or, subject to and in default of such determination, as the Directors may determine.

Subject to any rights attached to any existing shares, the Shares may be issued which are to be redeemed or are liable to be redeemed at the option of the Company or the holder, and the Directors may determine the terms, conditions and manner of redemption of any redeemable Shares so issued.

The Company may exercise all the powers conferred or permitted by the provisions of the Companies Act and regulations made thereunder of paying commission or brokerage. Subject to the provisions of the Companies Act, any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or other securities or by the grant of an option to call for such an allotment or by any combination of such methods as the Directors think fit.

Variation of Rights

The rights attached to a class of the Shares may be varied or abrogated either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued Shares of that class (excluding any share in the Company of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the issued Shares of that class validly held in accordance with the relevant provisions of the Articles.

The rights attached to a class of the Shares are not, unless otherwise expressly provided for in the rights attaching to those Shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Companies Act.

Interests in the Shares/Failure to disclose interests in the Shares

Where notice is served by the Company under section 793 of the Companies Act (a "**section 793 notice**") on a Shareholder, or another person appearing to be interested in Shares held by that Shareholder, and the Shareholder or other person has failed in relation to any Shares (the "**default shares**"), to give the Company the information required within 14 days from the date of service of the section 793 notice, the following sanctions apply, unless the Directors otherwise decide:

(c) The Shareholder shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of the Shares or on a poll;

(d) where the default shares represent at least 0.25% in nominal value of the issued Shares of their class (excluding any share in Bank of Georgia Group PLC of their class held as treasury shares):

(e) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it, and the Shareholder shall not be entitled to elect, pursuant to the Articles, to receive the Shares instead of a dividend; and

(f) no transfer of any certificated default shares shall be registered, unless the transfer is an excepted transfer, or the Shareholder is not himself or herself in default in supplying the information required; and the Shareholder proves to the satisfaction of the Directors that no person in default in supplying the information required is interested in any of the Shares that are the subject of the transfer.

Ownership Restrictions and Related Reporting Obligations

Each Shareholder acknowledges that the Company may from time to time directly or indirectly hold interests in shares or otherwise have the direct or indirect ability to exercise voting rights in any subsidiary undertaking of the Group from time to time which is licensed and/or supervised by a regulatory authority (a "**regulated group company**") and that such holding or ability to exercise voting rights may impose regulatory requirements on the Shareholder or any other person (as a person indirectly interested in such a regulated group company).

No person may directly or indirectly acquire (through a transaction or series of transactions), hold and/or otherwise have the direct or indirect ability to exercise voting rights in respect of, interests in Shares which would result in such person directly or indirectly, alone or together with any of its related person(s), having a direct or indirect interest in shares of or ability to exercise voting rights over at least 10 per cent., 25 per cent. or 50 per cent. (or such other percentages as a regulatory authority may determine from time to time) in any regulated group company (a "significant interest") without the prior satisfaction of, or timely compliance with, all regulatory requirements. If a person acquires or otherwise holds a significant interest he or she shall be required to:

a) disclose to the Company the identity of the ultimate beneficial owner(s) of such significant interest; and

b) certify to the Company that such person(s) (or such ultimate beneficial owner(s)) has/ have complied with all regulatory requirements in respect of the acquisition and/or holding (as applicable) of such significant interest.

If the Company knows or has reasonable cause to believe that a person has failed to comply with the above requirements and the Company determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause the Company and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on the Company and/or any of its subsidiaries and/or any regulated group company, the Company shall forthwith either:

a) send a notice (a "**default notice**") to the person(s) requiring such person(s), to disclose within 30 days of the date of the default notice the identity of the ultimate beneficial owner(s) of any significant interest held by him and/or any of his related persons and certify that all regulatory requirements in respect of the relevant holding have been satisfied; or

b) send a notice (a "**disenfranchisement notice**") to the relevant Shareholder informing him/ them that in respect of such part of his/ their holding of interests in Shares (including, for the avoidance of doubt, any interests in Shares allotted or issued after the date of the disenfranchisement notice in respect of that holding) he/ they shall not be entitled to vote (either in person or by proxy) that holding at a general meeting or at a separate meeting of the holders of a class of shares or on a poll until 7 days after the earlier of: (i) any holding subject to a default notice is transferred pursuant to an excepted transfer (as defined in Article 65 of the Articles); or (ii) the Company is reasonably satisfied that the above provisions have been complied with.

Where a default notice is served by the Company and the Shareholder or other person fails to give the Company the required disclosures and certifications in an acceptable form within 30 days of the date of the default notice and the Company determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause the Company and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on the Company and/or any of its subsidiaries and/or any regulated group company, the Company shall forthwith send a disenfranchisement notice to the relevant member(s).

For the purpose of enforcing these sanctions, the Company may give notice to a Shareholder requiring the Shareholder to convert the shares subject to a disenfranchisement notice held in uncertificated form to certificated form by the time stated in the notice. For the purposes of these provisions in the Articles:

"**regulatory authority**" means the relevant regulator in relation to a regulatory requirement being, at the date of adoption of the Articles, Insurance State Supervisory Service of Georgia (or, in either case, any successor body(ies) thereto or other entity with the authority to regulate the relevant regulatory requirement); and

"**regulatory requirement**" means a requirement pursuant to Georgian law, orders, normative acts or regulations adopted pursuant thereto (in each case from time to time) to notify, seek approval of or otherwise comply with any requirement of a Regulatory Authority in relation to the acquisition or holding of a Significant Interest..

Transfer of shares

A Shareholder may transfer all or any of his or her certificated Shares by instrument of transfer in writing in any usual form or in any other form approved by the Directors, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a Share in the Company which is not fully paid) by or on behalf of the transferee. A Shareholder may transfer all or any of his or her uncertificated Shares in accordance with the Uncertificated Securities Regulations

2001 (the "**Regulations**"). Subject to the provisions of the Regulations, the transferor of a Share is deemed to remain the Shareholder until the name of the transferee is entered in the register in respect of it. The Directors may, in their absolute discretion, refuse to register the transfer of a certificated Share unless all of the following conditions are satisfied:

(a) it is in respect of only one class of the Shares;

(b) it is in favour of (as the case may be) a single transferee or not more than four joint transferees;

(c) it is duly stamped (if required); and

(d) it is delivered for registration to the office or such other place as the Directors may decide, accompanied by the certificate for the Shares to which it relates and such other evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer.

If the Directors refuse to register the transfer of a certificated Share they shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal, together with their reasons for the refusal, to the transferee. An instrument of transfer which the refuse to register shall (except in the case of suspected fraud) be returned to the person depositing it. the Company may retain all instruments of transfer which are registered, but any instrument of transfer of any Share in the Company which the Directors refuse to register shall (except in the case of suspected fraud) be returned to the person lodging it when notice of the refusal is given.

Subject to the provisions of the Regulations, the Directors have the power to resolve that a class of the Shares shall become a participating security and/or that a class of shares shall cease to be a participating security. Uncertificated Shares of a class are not to be regarded as forming a separate class from certificated Shares of that class. A Shareholder may, in accordance with the Regulations, change a Share of a class which is a participating security from a certificated Share to an uncertificated Share and from an uncertificated Share to a certificated Share. In accordance with and subject to the provisions of the Regulations, a transfer of title to any uncertificated Share shall be registered unless the Regulations permit a transfer to be refused. If the transfer of an uncertificated Share is refused within the time period stipulated by the Regulations, notice of the refusal shall be sent to the transferee. The Company (in its absolute discretion) may or may not charge a fee for registering the transfer of a Share or other document or instructions relating to or affecting the title to a Share or the right to transfer it or for making any other entry in the register.

Lien and Forfeiture

The Company has a first and paramount lien on all partly paid Shares for an amount payable in respect of the Share, whether the due date for payment has arrived or not. The lien applies to all dividends from time to time declared, or other amounts payable in respect of the Share.

The Directors may either generally or, in a particular case, declare a Share to be wholly or partly exempt from a lien. Unless otherwise agreed with the transferee, the registration of a transfer of a Share in the Company operates as a waiver of the Company's lien (if any) on that Share. For the purpose of enforcing the lien referred to in the Articles, the Directors may sell all or any of the Shares subject to the lien at such time or times and in such manner as it may decide provided that:

a) the due date for payment of the relevant amounts has arrived; and

b) the Directors have served a written notice on the Shareholder concerned stating the amounts due, demanding payment thereof and giving notice that if payment has not been made within 14 clear days after the service of the notice that the Company intends to sell the Shares.

To give effect to a sale, the Directors may authorise a person to transfer the Shares in the name and on behalf of the holder, or to cause the transfer of such Shares, to the purchaser or his or her nominee. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity in or invalidity of the proceedings connected with the sale. The net proceeds of a sale effected under the Articles, after payment of the Company's costs of the sale, shall be applied in or towards satisfaction of the amount in respect of which the lien exists. The balance (if any) shall be paid to the Shareholder immediately before the sale.

General Meetings

An annual general meeting shall be held within each period of six months beginning with the day following the Company's accounting reference date, at such place or places within the United Kingdom, and at such date and time as may be decided by the Directors.

The Directors may, whenever they think fit, call a general meeting. The Directors are also required to call a general meeting once the Company has received requests from Shareholders representing at least 5% of the paid-up capital of the Company (disregarding any treasury shares) to do so in accordance with the Companies Act and regulations made thereunder. The Directors must call a general meeting with 21 days of receiving a valid request from Shareholders and provide for the general meeting to be held on a date not more than 28 days after the date of the notice of meeting. Where the Shareholders request for a general meeting identified a resolution intended to be moved at the meeting, the notice of meeting must include notice of this resolution.

An annual general meeting shall be called by not less than 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice.

The Directors may determine that persons entitled to receive notices of meeting are those persons entered on the register at the close of business on a day determined by the Directors, provided that, if Bank of Georgia PLC is a participating issuer, the day determined by the Directors may not be more than 21 days before the day that the relevant notice of meeting is being given. The notice of meeting must also specify a time (which shall not be more than 48 hours before the time for the holding of the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. No business may be transacted at a general meeting unless a quorum is present. The quorum for a general meeting is two Shareholders present in person or by proxy and entitled to vote.

The Articles allow for general meetings to be jointly held electronically as well as physically in accordance with the Companies (Shareholders' Rights Regulation) 2009 and the Companies Act. Meetings may be held and conducted in such a way that persons who are not present at the physical meeting together at the same place may also attend, speak and vote at the meeting by electronic means. Nothing in the Articles precludes physical meetings being held.

Appointment of the Directors

The number of the Directors must not be less than two and must not be more than fifteen unless otherwise decided by the Company by ordinary resolution. The Directors may appoint a person who is willing to act as a director, either to fill a vacancy or as an addition to the existing number of Directors. The Company may by ordinary resolution appoint any person to office as a Director.

Subject to the provisions of the Companies Act and regulations made thereunder, the Directors may appoint one or more of their body to hold an executive office with the Company for such term and on such other terms and conditions as the Directors think fit. The Directors may revoke or terminate an appointment at any time, without prejudice to a claim for damages for breach of the contract of service between the Director and Bank of Georgia PLC or otherwise. No person other than a Director retiring (by rotation or otherwise) may be appointed or reappointed at a general meeting unless:

a) he or she is recommended by the Directors; or

b) not less than seven nor more than 42 days before the date fixed for the meeting, notice has been given to the Company by a Shareholder (other than the person to be proposed) qualified to vote at the meeting of the intention to propose that person for appointment or reappointment.

Election, Re-election, Removal and Retirement of Directors

A Director is not required to hold any Shares.

The Company may, by ordinary resolution of which special notice is given in accordance with the Companies Act and regulations made thereunder, remove any Director before the expiration of his or her period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such Director, but is without prejudice to any claim the Director may have for damages for breach of any such agreement.

Subject to the Articles, at each annual general meeting not less than one-third of the Directors who are subject to retirement by rotation shall retire from office provided that if there are fewer than three directors who are subject to retirement by rotation, at least one shall retire from office.

If any one or more of the Directors were last appointed or reappointed three years or more prior to the meeting, were last appointed or reappointed at the third immediately preceding annual general meeting, or at the time of the meeting will have served more than eight years as a non-executive director of the Company (excluding as the chairman of the Directors), he or she or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of directors required to retire shall be increased to the extent necessary to comply with the Articles.

Subject to the provisions of the Articles, the Directors shall retire by rotation at an annual general meeting include, so far as necessary to obtain the number required, first, a Director who wishes to retire and not offer himself or herself for reappointment, and, second, those Directors who have been longest in office since their last appointment or reappointment.

A Director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he or she is not reappointed or deemed reappointed, he or she may retain office until the meeting appoints someone in his or her place or, if it does not do so, until the end of the meeting.

Powers of the Board

Subject to the Articles and to directions given by special resolution, the business and affairs of the Company shall be managed by the Directors who may exercise all the powers of whether relating to the management of the business or not. No alteration of the Articles and no direction given by the Company shall invalidate a prior act of the Directors which would have been valid if the alteration had not been made or the direction had not been given. The provisions of the Articles giving specific powers to the Directors do not limit the general powers given to the Directors.

The Board may delegate to one of the Directors holding executive office any of their powers, authorities and discretions for such time and on such terms and conditions as they think fit. In particular, without limitation, the Board may grant the power to sub-delegate, and may retain or exclude the right of the Board to exercise the delegated powers, authorities or discretions collaterally with the Director. The Board may at any time revoke the delegation or alter such terms and conditions. The Board may delegate any of their powers, authorities and discretions, for such time and on such terms and conditions as they think fit, to a committee, the majority of which consists of the Directors.

The Board may establish any local or divisional boards or agencies for managing any of the affairs of the Company in any specified locality, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local or divisional board, or any managers or agents, and may fix their remuneration. The Company Board may delegate to any local or divisional board, manager or agent so appointed any of their powers, authorities and discretions (with power to sub-delegate) and may authorise any persons to be members for the time being of any such local or divisional board, or any of them, to fill any vacancies and to act notwithstanding vacancies; and any such appointment or delegation may be made for such time, on such terms and subject to such conditions as the Company Board may think fit.

The Board may by power of attorney or otherwise appoint a person to be the agent of the Company and may delegate to that person any of its powers, authorities and discretions for such purposes, for such time and on such terms and conditions as they think fit.

Proceedings of the Directors

Subject to the Articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as they think fit. The quorum necessary for the transaction of business may be decided by the Board and until otherwise decided is two Directors present in person or by alternate Director.

The Board may appoint one of their body as chairman to preside at every board meeting at which he or she is present and one or more deputy chairman or chairmen and decide the period for which he or she is or they are to hold office (and may at any time remove him or her or them from office). If no chairman or deputy chairman or chairmen is elected, or if at a meeting neither the chairman nor a deputy chairman or chairmen is present within five minutes of the time fixed for the start of the meeting, the Directors and alternate Directors present shall choose one of their number to be chairman. In case of an equality of votes at a meeting the chairman has a second or casting vote.

Directors' Remuneration

The Directors' fees are determined by the Directors from time to time except that they may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of the Company. The Board may arrange for part of such fee payable to a Director to be provided in the form of fully-paid Shares.

The salary or other remuneration of a Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Directors, and may be in addition to or instead of a fee payable to him or her for his or her services as Director pursuant to the Articles.

Directors' Indemnification

Subject to the provisions of the Companies Act and provisions made thereunder, the Company may:

a) indemnify to any extent any person who is or was a director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him or her) against any loss or liability, whether in connection with any negligence, default, breach of duty or breach of trust by him or her or otherwise, in relation to the Company or any associated company;

b) indemnify to any extent any person who is or was a director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him or her in connection with the Company's activities as trustee of an occupational pension scheme.

Where a person is indemnified against any liability in accordance with the Articles, such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by him or her in relation thereto.

Directors' Interests

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a holder of such company shares or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him or her as a director or officer of or from his or her interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which conflicts with the interests of the Company and of which he or she has actual knowledge shall disclose to Company (by notice to the Directors) the nature and extent of his or her interest. Subject thereto and the provisions of the Companies Act and regulations made thereunder, any such Director shall not be liable to account to the Company for any profit or gain realised by him or her on such transactions.

A notice in writing given to the Company by a Director that he or she is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his or her interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may not vote in respect of certain transactions and if he or she does so vote his or her vote shall not be counted and he or she shall not be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Companies Act and regulations made thereunder, a Director may act by himself or herself or his or her firm in a professional capacity for the Company and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a Director.

Restrictions on Voting

Except as provided below, a Director may not vote in respect of any contract, arrangement or any other proposal in which he or she, or a person connected to him or her, is interested. Any vote of a Director in respect of a matter where he or she is not entitled to vote shall be disregarded.

A Director is entitled to vote and be counted in the quorum in respect of any resolution concerning, *inter alia*, any contract, transaction or arrangement, or any other proposal:

a) in which he or she has an interest, of which he or she is not aware, or which cannot be reasonably be regarded as likely to give rise to a conflict of interest;

b) in which he or she has an interest only by virtue of interests in shares, debentures or other securities or otherwise in or through the Company;

c) which involves the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he/himself or she/herself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

d) concerning an offer of securities by the Company or any of its subsidiary undertakings in which he or she is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;

e) concerning any other body corporate in which he or she is interested, provided that he or she and any connected persons do not own or have a beneficial interest in 1%, or more of any class of the equity share capital or the voting rights of such body corporate;

f) relating to an arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

g) concerning the purchase or maintenance of insurance policy for the benefit of the Directors;

h) concerning the giving of indemnities in favour of the Directors;

i) concerning the funding of expenditure by any Director or Directors (A) on defending criminal, civil or regulatory proceedings or actions against him, her or them, (B) in connection with an application to the court for relief, (C) on defending him, her or them in any regulator investigations, or (D) incurred doing anything to enable him, her or them to avoid incurring such expenditure; or

j) in respect of which his or her interest, or the interest of the Directors generally, has been authorised by ordinary resolution at a general meeting of the Shareholders.

Borrowing Powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Service of Notices, Documents and Information on the Shareholders

Any notice, document or information may be given, sent or supplied by the Company to any Shareholder: (i) personally; (ii) by sending it by post in a pre-paid envelope addressed to the Shareholder at his registered address or to the UK address that the Shareholder has provided to the Company; (iii) by sending it in electronic form to the electronic address specified for the purpose by the Shareholder (generally or specifically), provided that the Shareholder has agreed (generally or specifically) that the notice, document or information may be sent or supplied in that form (and has not revoked that agreement); or (iv) subject to the provisions of the Companies Act, by making it available on a website and notifying the Shareholder that the notice, document or information is available on that website, provided that certain conditions have been satisfied, including that the Shareholder has been asked by the Company to agree to the Company sending notices, documents and information by making them available on a website and has either agreed (generally or specifically) or has not responded to the Company's request.

Winding Up

On a voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the Shareholders (excluding any Shareholder holding Shares as treasury shares) in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the Shareholders as he or she, with the like sanction, shall determine. For this purpose, the liquidator may set the value he or she deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of the Shareholders how the division is to be carried out between the Shareholders or classes of the Shareholders. The liquidator may not, however, distribute to a

Shareholder without his or her consent an asset to which there is attached a liability or potential liability for the owner.

6. Summary of differences between the BGEO Group Articles and the Articles

The Articles will be substantially identical to the BGEO Group PLC Articles with the exception of:

- the Articles will permit the Directors to call general meetings either as physical only general meetings or as combined electronic and physical general meetings. A combined electronic and physical general meeting will allow for general meetings to be held and conducted in such a way that persons not present together could participate and vote in the general meeting using electronic means. If a combined physical and electronic meeting was to be called by the Directors, this would be explained in the notice of meeting;
- a provision will be included in the Articles which will enable the Directors to pay shareholders by cheque or assured payment obligation rather than allot and issue Shares to them (at the Demerger effective Time only) where to issue a share to them would or could put Bank of Georgia Group PLC in breach of overseas securities laws;
- given the change in the interest rate environment since the BGEO Group PLC Articles were adopted, the interest rate due from shareholders when a call is made on shares or shares are forfeited will be reduced from 15 per cent. to a rate not exceeding the Bank of England base rate by 5 per cent.; and
- the Articles will no longer enable Georgia Capital PLC to issue share warrants as the ability for UK Companies to issue bearer shares was abolished in 2015.

7. Major shareholders

As of 22 March 2018 (being the latest practicable date prior to the publication of this document), insofar as it is known to BGEO Group PLC by reference to relevant notifications made in accordance with rule 5.1 of the Disclosure Guidance and Transparency rules, the name of each person, other than an Director, who holds voting rights representing 3 per cent. or more of the total voting rights in respect of BGEO Group PLC Shares, and the amount of such person's holding of the total voting rights in respect of Shares following the completion of the Demerger is expected to be as follows:

Name	Number of BGEO Group Shares	Percentage of BGEO Group PLC issued share capital (%)	Number of Shares	Percentage of issued share capital (%)
Harding Loevner LP	3,320,410	8.43	3,320,410	8.43
Schroder Investment Management	1,956,588	4.97	1,956,588	4.97
Standard Life Aberdeen plc	1,944,825	4.94	1,944,825	4.94
Sanne Fiduciary Services	1,709,688	4.34	1,709,688	4.34
LGM Investments	1,384,669	3.52	1,384,669	3.52
Norges Bank Investment Management	1,220,508	3.10	1,220,508	3.10

Save as disclosed in this section ("*Major Shareholders*"), the Company is not aware of any person who, as of 22 March 2018 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds the threshold of 3 per cent. or more of the total voting rights attaching to the issued share capital of BGEO Group PLC.

The Company is not aware of any persons who, as of 22 March 2018 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, will exercise or could exercise control over the Company nor is it aware of any arrangements the operation of which may at a subsequent date result in a change in control of the Company.

None of the shareholders referred to in this section ("*Major Shareholders*") has or will have different voting rights from any other holder of Shares in the Company in respect of any Shares held by them.

8. Remuneration of the Company's Management

The remuneration of the Executive Managers of the Company will consist of (a) a salary paid partly in cash and partly in the form of deferred shares for which the average vesting period will be 5 years and (b) performance-based discretionary deferred shares. The remuneration of the non-executive directors of the Company will be in the form of cash salary but, subject to the changes to the FRC Corporate Governance Code, the Company may consider remunerating non-executive directors in Shares.

On Demerger, subject to shareholder approval, the number of awards relating to the deferred share salary (which is currently fixed in the Executive Managers' contracts over a specific number of shares) will be increased to compensate for the price difference between Shares and Bank of Georgia Group PLC Shares.

In addition, to compensate for the termination of contracts that the Company's Executive Managers had with BGEO Group PLC, the Executive Managers of the Company will receive a one-off compensation equal to 12-16 months fixed deferred share salary.

9. Non-Executive Directors

The following table summarises the letters of appointment entered into with the Company's non-executive directors:

Name	Current Position	Year appointed	Compensation from the Company(1)	Compensation from other Georgia Capital PLC committees(1)	Compensation for JSC Georgia Capital(1)(2)	Total Compensation
David Morrison	Senior Non-Executive Director	2018	48,180	29,346	124,100	201,626
Kim Bradley	Non-Executive Director	2018	36,135	24,873	99,458	160,466
Massimo Gesua' sive Salvadori	Non-Executive Director	2018	36,135	25,842	94,973	156,950
William Huyett	Non-Executive Director	2018	36,135	25,842	94,973	156,950
Caroline Brown	Non-Executive Director	2018	36,135	25,842	94,973	156,950
Jyrki Talvitie	Non-Executive Director	2018	36,135	22,776	90,885	149,796

Notes:

(1) Compensation is in U.S. dollars and all figures are gross.

(3) Compensation for JSC Georgia Capital roles is in U.S. dollars, all figures are gross and the figure for each director includes both their board salary and committee salary.

Pursuant to separate indemnity agreements, the Company has agreed, subject to certain terms and only to the extent not prohibited by law, to indemnify each of the Company's non-executive directors against all losses suffered or incurred by them which arise out of or in connection with their role as a director.

10. Senior Managers

The following table summarises the service agreements with the Group's Senior Managers.

Name	Position	Date of Group Service Contract	Expiration of Term of Office	Group Base Salary, USD	Guaranteed Company Securities
Avto Namicheishvili	Deputy CEO, Legal	1 November 2015	May 2019	150,000	30,000
Ekaterina Shavguildze	Chief Investment Officer	1 January 2016	May 2019	150,000	18,000
Giorgi Alpaidze	Chief Financial Officer	1 August 2016	August 2018	120,000	0

11. Directors and Senior Managers' Remuneration and Benefits in 2017

The aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Company in respect of services provided by the Directors and Senior Managers for the year ended 31 December 2017 are set out in the table below.

	31 December 2017
	(GEL thousands)
Salaries and other benefits	4,508
Share-based compensation	12,450
Long-term benefits	2,243
Total key management compensation	**19,201**

There is no arrangement under which any of the Directors or Senior Managers have waived or agreed to waive benefits or allowances during the financial year immediately prior to the date of this Prospectus or any future benefits or involvements.

12. Outstanding awards over BGEO Group Shares

The following table sets out the Directors' and the Senior Managers' direct and indirect shareholdings and stock options in BGEO Group Shares as at 22 March 2018 (being the latest practicable date prior to the publication of this Prospectus)and their anticipated shareholdings and stock options in the Company following the Scheme Effective Date.

	Immediately prior to Scheme		**Immediately following Scheme**	
Director/Senior Manger	**Number of ordinary shares**	**Percentage of issued ordinary share capital**	**Number of ordinary shares**	**Percentage of issued ordinary share capital**
Irakli Gilauri	726,416	1.84%	726,416	1.84%
David Morrison	26,357	0.07%	26,357	0.07%
Kim Bradley	1,250	0%	1,250	0%
Massimo Gesua' sive Salvadori	1,113	0%	1,113	0%
William Huyett	500	0%	500	0%
Caroline Brown	0	0%	0	0%
Jyrki Talvitie	1,762	0%	1,762	0%
Avto Namicheishvili	227,695	0.58%	227,695	0.58%
Ekaterina Shavguildze	71,080	0.18%	71,080	0.18%
Giorgi Alpaidze	14,668	0.04%	14,668	0.04%

None of the Directors or any of the Senior Managers has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of BGEO Group PLC and which were effected by BGEO Group PLC or any subsidiary of BGEO Group PLC during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed as at the date of this Prospectus.

13. Loans to Directors and Senior Managers

There are no outstanding loans or guarantees granted or provided by the Company or any of its subsidiaries to or for the benefit of the Directors and/or Senior Managers.

14. Directors' and Senior Managers' Current and Past Directorships

Set out below are the directorships (unless otherwise stated) held by the Directors in the five years prior to the date of this document excluding any directorships in the Company and its subsidiaries:

Name	Current or former directorships/partnerships	Position still held (Y/N)
Irakli Gilauri	BGEO Group PLC	Y
	JSC BGEO Group	Y
	JSC BGEO Investments	Y
	JSC BG Financial	Y
	JSC Bank of Georgia	Y
	Georgia Healthcare Group PLC	Y
	JSC Georgia Healthcare Group	Y
	Gemstock Growth Fund	Y
	Igeneration	Y
	Galt & Taggart	Y
	BNB	Y
	Tree of Life Foundation	Y
	Agron Group	Y
David Morrison	BGEO Group PLC	Y
	JSC BGEO Group	Y
	Georgia Healthcare Group PLC	Y
	JSC Georgia Healthcare Group	Y
	Caucasus Nature Fund	Y
	Prespa Ohrid Nature Trust	Y
	Blue Action Fund	Y
Kim Bradley	BGEO Group PLC	Y
	JSC Bank of Georgia	Y
	Gould Farm	Y
William Huyett	Georgia Healthcare Group PLC	Y
	JSC Georgia Healthcare Group	Y
	Ironwood Pharmaceuticals	Y
	McKinsey and Company, Inc.	Y
Jyrkie Talavitie	Via L'Inverno	Y
Caroline Brown	Luceco PLC	Y
	Earthport PLC	Y
	Hydrodec Group PLC	Y
	LB-Shell PLC	Y
	Gray's Inn Mansion Limited	Y
	KBC Process Technology Limited	N
	KBC Advanced Technologies Limited	N
	Penspen Limited	N
	The Penspen Group Limited	N
	Mirland Development Corporation plc	N
	KBC Advanced Technologies Sdn Bhd	N
	KBC Advanced Technologies SL	N
	Bridge Energy ASA	N

None of the Senior Managers has held directorships in the five years prior to the date of this document, excluding any directorships in the Company and its subsidiaries.

Except as set forth below, within the period of five years preceding the date of this document, none of the Directors or Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

Save as set out in *Part XVIII: "Directors, Senior Management and Corporate Governance-Conflicts of interest,"* as of the date of this document, none of the Directors or Senior Managers has any actual or potential conflict of interest between his or her duties to the Company and his or her private interest or other duties and there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management. Each of the Directors is permitted by his or her other directorships or employments to act in his or her capacity as a Director.

15. BGEO Group Share Plans and the Company's Share Plans

BGEO Group currently operates the following share plans under which senior managers of BGEO Group receive awards over BGEO Group Shares ("**Awardholders**") – The Rubicon Executive Equity Compensation Plan 2011 (the "**Rubicon Plan**") and the Bank of Georgia Group Senior Executive Equity Compensation Plan (the "**Bank Plan**", together with the Rubicon Plan, the "**BGEO Group Share Plans**"). The principal features of the BGEO Group Share Plans are summarised below.

A) The Rubicon Executive Equity Compensation Plan 2011

Under the Rubicon Plan, the trustees grant awards to employees (in practice BGEO Group has decided to limit this plan to senior executives), which to date have been in the form of nil-cost options over BGEO Group Shares. These awards vest over a period of time subject to continued employment with the BGEO Group.

B) The Bank of Georgia Group Senior Executive Equity Compensation Plan

Under the Bank Plan, the trustees grant awards to employees (in practice BGEO Group PLC has decided to limit this plan to senior managers), which to date have been in the form of nil-cost options over BGEO Group Shares. These awards vest over a period of time subject to continued employment with the BGEO Group.

C) Effect of the Proposals on the BGEO Group PLC Share Plans

Letters are being sent to BGEO Group Awardholders to explain the effects of the Proposals on awards which they hold under the BGEO Group Share Plans. In summary, the effects are as follows:

- On the Demerger, existing awards (in the form of nil-cost options, for both deferred share salary and discretionary deferred shares) over BGEO Group Shares will be converted into awards over Shares and Bank of Georgia Group PLC shares, so that for each BGEO Group Share under an existing award, Awardholders will have an award over one Share and one share of Bank of Georgia Group PLC. Awards over shares in the employees' future employing group will continue to vest and all other awards will vest immediately. For Awardholders who will be employed by the Group, this means that the awards over Shares will have the same vesting schedule as the current awards over BGEO Group Shares – the awards over Bank of Georgia Group PLC shares will be vested immediately.
- Awardholders who will be employed by the Group will only receive vested awards (as explained above), if they agree that their original awards over BGEO Group Shares will be converted into awards over Bank of Georgia Group Shares and Shares. If Awardholders do not agree, they will get awards over an adjusted number of Bank of Georgia Group Shares, but they will not get any acceleration and the whole of their award will have the same vesting schedule as the current awards.
- A new share plan will be put in place by JSC Georgia Capital, which will operate in a similar way as to existing BGEO Group Share Plans, but will be over Shares, be for the benefit of Group employees and will have different vesting periods from the BGEO Group Share Plans. JSC Georgia Capital will establish a new trust for the operation of the new share plan.
- Former BGEO Group Awardholders who left the BGEO Group and have outstanding awards will receive awards over Bank of Georgia Group Shares and Shares that will continue to have the same vesting schedule as the current awards over BGEO Group Shares.

D) Effect of the Proposals on the Deferred Share Salary

The remuneration of the members of the BGEO Group executive management team ("**Executive Managers**") consists of (a) a salary paid partly in cash and partly in deferred shares (in the form of nil-cost options over BGEO Group Shares) and (b) performance-based discretionary deferred shares. The current service contracts of the executive director (Irakli Gilauri) and senior managers (Ekaterina Shavgulidze, Giorgi Alpaidze and Avto Namicheishvili) that will be joining the Group ("**Group Executive Managers**") set out their respective deferred share salary entitlement. These contracts will be terminated and new service contracts will be entered into upon the Demerger.

(a) Deferred Share Salary

Following the Demerger, Irakli Gilauri and Avto Namicheishvili will not receive cash remuneration, only deferred share salary (in the form of nil-cost options over Shares). Other Group Executive Managers (Ekaterina Shavgulidze and Giorgi Alpaidze) will continue to receive both cash salary and deferred share salary under their respective service contracts.

Following the Demerger, deferred share salary will be over Shares. The number of Shares subject to the deferred share salary will be adjusted from the existing service contracts, as determined by the Committee shortly after the Demerger. The remuneration of the Group Executive Managers will be adjusted so that their respective total salaries post Demerger will be approximately 75 per cent of the value of their respective total salaries prior to Demerger.

The determination as to the number of Shares subject to deferred share salary will be made by the Remuneration Committee within a month of the Demerger. This will take into account the price differential between BGEO Group Shares and Shares at the time of the Demerger. The respective share prices will be determined based on an average share price (over a period to be determined by the Remuneration Committee) based on pre-Demerger share prices in respect of BGEO Group Shares and post-Demerger share prices in respect of Shares. The precise terms of the new service contracts, the methodology for establishing the average share prices and the number of Shares subject to the deferred share salary will be determined by the Remuneration Committee after the Demerger.

Deferred share salary awards are usually made in January of the next work year. Given the Demerger is scheduled to occur in May 2018, the first portion of the deferred share salary for the period of the work year prior to the Demerger would be paid in awards over BGEO Group Shares, and the second portion of the deferred share salary for the period of the work year after the Demerger would be paid in awards over Shares. Group Executive Managers will receive their deferred share salary in respect of the first portion of 2018 prior to the Demerger in awards (in the form of nil-cost options) over BGEO Group Shares and these will be granted prior to the Demerger (and converted as set out above. The deferred share salary for the second portion of 2018 after the Demerger will be paid in awards (in the form of nil-cost options) over Shares. Such awards will be granted in January 2019 in line with the current grant cycle.

Deferred share salary awards (in the form of nil-cost options) vest on vesting dates set at the time of grant. For such awards granted after the Demerger over Shares, deferred share salary will vest over six years straight line from the start of the year in which it is earned instead of over the current five year vesting period with a larger last year payment. For example, awards relating to FY18 will vest 20% in each of 2020-2024, rather than vesting 20% in each of 2020-2022 and 40% in 2023. At vesting (upon exercise of the nil-cost options), the Group Executive Managers will receive (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

Compensation payments

Termination of the existing service contracts of Group Executive Managers would entitle them to cash salary until termination (i.e. the Demerger becoming effective), 12 months' cash salary after the Demerger becoming effective and full vesting of all outstanding awards (for both deferred share salary and discretionary deferred shares). It has been decided that it would be more appropriate upon a Demerger to only vest awards in relation to Bank of Georgia Group PLC Shares and for awards over Shares to continue with their current vesting schedule.

As Group Executive Managers will be accepting a cancellation of their existing service contracts without full vesting of their existing awards and waiving other benefits under their contracts, entering into new service contracts with a 25% reduction in their starting total salary post-Demerger, subject to extended vesting periods for awards granted with respect to deferred share salary and discretionary deferred shares, and some of the Group Executive Managers will be fully waiving their entitlement to cash salary, it has been decided that prior to the Demerger, but conditional on shareholder approval and the Scheme and the Demerger taking place, the Group Executive Managers will receive a one-off award of nil-cost options over BGEO Group Shares, equal to their respective deferred share salary entitlement for the lower of (a) the number of months remaining after the Demerger under their existing service contracts or (b) the period from the Demerger until 1 May 2019. This award is to buy out Group Executive Managers from their respective existing service contracts. This award will then be converted to nil-cost options over Shares and Bank of Georgia Group PLC Shares on Demerger as described above.

(b) Discretionary deferred shares

Under the current operation of the BGEO Employee Share Plans and for awards granted in respect of FY18, discretionary deferred shares in respect of a work year vest 33% in each of the second, third and fourth years following the work year. At vesting (upon exercise of the nil-cost options), the Executive Managers receive (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date.

KPIs for the Executive Managers are set at the start of each work year and reflect the Executive Managers' targeted contribution to the overall key strategic and financial objectives for the work year. KPIs may also include non-tangible factors, such as self-development, mentoring and social responsibility.

Early in the year following the work year, the Remuneration Committee will determine whether an award is merited based on each Executive Manager's achievement of their KPIs set for the work year and the performance of BGEO Group during the work year. In appropriate cases where a strategic change or change in business circumstances has made one or more KPIs an inaccurate gauge of performance, the Remuneration Committee may base its assessment on alternative measures.

There is no contractual right to discretionary remuneration and the remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory.

There is no proposed change to the discretionary deferred shares after the Demerger, except that:

a) They will be granted in awards over Shares, rather than BGEO Group Shares, and

b) The number of discretionary deferred shares will be capped at the number of shares granted under the deferred share salary instead of being capped by reference to the value of total salary.

For the full year 2018, discretionary deferred shares will be granted in the first few months of 2019 in line with the current grant cycle. These discretionary deferred shares will be paid in awards (in the form of nil-cost options) over Shares and be granted in respect of the full year 2018 (i.e. for the period pre- and post-Demerger). As set out above, the discretionary deferred shares after the Demerger will be capped at the number of shares granted under the deferred share salary. For FY18, whilst the deferred share salary paid in awards over Shares will be pro rated (as set out above), the cap for the discretionary deferred shares will not be pro rated

Subject to the ratification of BGEO Group Shareholders, JSC Georgia has established the Share Plan. The principal features of the Share Plan are summarised below. The Share Plan is similar to the BGEO Group Share Plans operated by BGEO Group PLC, but will be over Shares, be for the benefit of Group employees and will have different vesting periods from the BGEO Group Share Plans. JSC Georgia Capital will establish a new trust for the operation of the new share plan.

Awards

The Share Plan is used to grant awards as part of both the deferred share salary and the discretionary deferred shares for executives and senior managers.

Grant

Awards may be granted by the trustee to selected employees or directors of the Group on the recommendation of JSC Georgia Capital (upon the recommendation of the Remuneration Committee). Awards are usually in the form of nil-cost options, unless the award holder notifies the trustee within 30 days of the date on the award certificate, in which case the award will be in the form of a conditional right to acquire shares. The award holder may renounce the grant within 90 days by notifying the trustee. The Share Plan is administered by the trustee.

Limits

The Share Plan is limited to using 10% of the Company's issued share capital over any 10 year period when it uses newly issued or treasury shares. The Share Plan shall terminate upon the tenth anniversary of its adoption.

Vest

Awards vest on the vesting dates set at the time of grant. The trustee, upon the recommendation of JSC Georgia Capital (upon the recommendation of the Remuneration Committee), may specify a vesting condition that must be satisfied before an award may vest. The trustee may, upon the recommendation of JSC Georgia Capital (upon the recommendation of the Remuneration Committee), alter the vesting condition if the original condition is not longer appropriate and the trustee justly and reasonably considers that the amended condition reflects a fairer measure and reasonably considers that it will subsequently be no more difficult to satisfy.

For awards to be granted in respect of FY18:

- Deferred share salary awards are granted at the beginning of the calendar year following the work year and will vest 20% in each of the second, third, fourth, fifth and sixth years following the work year.
- Discretionary deferred shares vest 25% in each of the second, third, fourth and fifth years following the work year.

Leavers

Unvested awards normally lapse where the award holder ceases employment with the group before vesting. Awards do not lapse and vest immediately if the award holder ceases employment due to death. If the award holder ceases employment for any other good reason, awards do not lapse and the trustee, on the recommendation of JSC Georgia Capital (upon the recommendation of the Remuneration Committee), may determine whether the awards continue to vest or vest immediately. Good reason covers injury, disability, redundancy, retirement, the expiry of the award holder's service contract where the award holder is not offered a new service contract upon substantially similar terms or any other reason at the discretion of the trustee.

For vested awards, award holders have 12 months from termination to exercise their options, otherwise the awards lapse.

JSC Georgia Capital (upon the recommendation of the Remuneration Committee) has the discretion to set different vesting rules in an award holder's service contract or separate resolution, provided that these do not worsen the terms of the service contract or affect awards already granted.

Malus and Clawback

Natural clawback and malus are built into the Share Plan as the awards vest over a period of time and are subject to a vesting conditions which, if breached, would result in the awards fully lapsing unless determined otherwise. Unless the award holder ceases employment for a good reason (see above), awards lapse upon cessation of employment. The awards are subject to the terms set out in the respective award holder's service contract.

Exercise

Options are not be exercisable if the exercise of the option would cause either the award holder, the trustee or any other person to contravene any statute, order, regulation or guidelines.

Corporate Transactions

In the event of a change of control or asset sale, any unvested awards vest. If the trustee holds any unallocated shares, these shares will be granted to award holders in proportion to the total cumulative number of shares to which the award holder has received or is entitled to receive. The award holders may agree to exchange their awards for awards over the acquiring company within six months of the change of control.

In the event that a new holding company acquires control of the Company, but the shareholders are the same or substantially the same and hold their shareholders in the same or substantially the same proportion as immediately before the change of control, unvested awards will not vest and all outstanding awards will be converted into awards over the shares of the new holding company.

If there is a variation of share capital, the number of shares subject to the award shall be adjusted in accordance with the agreement of the parties or, in default, as the auditors confirm to be fair and reasonable.

Not pensionable

Benefits under the Share Plan are not pensionable.

Amendments

The trustee may amend the rules of the Share Plan, provided that no amendment is made that shall adversely affect an award holder unless the majority of award holders have agreed to the change. Certain rules cannot be amended within the prior consent of the shareholders, unless the amendment is minor and to benefit the administration of the Share Plan, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for award holders. This applies to the definition of award holder, the vesting and lapse provisions, the change of control provisions, the variation of share capital provisions and the amendment provisions.

16. Pensions

The Company operates a defined contribution pension scheme which is available to full time employees of the Group. The Company will match additional contributions in a proportion of 0.2 to one.

17. Subsidiaries

Currently, the Company is the principal holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Group as of 31 December 2017 were as follows:

Name	Registered office	Activity	Percentage of capital held
Consolidated Subsidiaries			
Georgian Global Utilities Ltd......	Skelton Bay Lot, Building No. 10, 1st Floor, P.O. Box 3169, PMB 103 Fish Bay, Tortola VG1110, British Virgin Islands.	Utilities and energy	100%
JSC m^2	29 I. Chavchavadze Avenue, 3rd Floor, 0179, Tbilisi, Georgia.	Real estate and hotels	100%
JSC Aldagi	3 Pushkini Street, 0105, Tbilisi, Georgia.	Property and casualty insurance	100%
JSC Teliani Valley........................	3 Tbilisi Highway, 0172 Telavi, Georgia.	Beverage production and distribution	76%

18. Statutory Auditors

Ernst & Young LLP has been the statutory auditor of the Company since its incorporation. Ernst & Young LLP is registered to perform audit work by the Institute of Chartered Accountants in England and Wales and its registered office is 1 More London Place, London, SE1 2AF.

19. Dividends and dividend policy

The Company expects to be a cash generative business with the opportunity for attractive capital investment to enhance its growth prospects, both through organic investments and acquisitions.The Board intends to pursue a capital return policy that reflects this strategy whilst also delivering shareholders high quality, long-term dividend growth, through share buybacks or other potential exits. However, the Board may periodically reassess the Company's dividend policy and the payment of dividends (or quantum of the same) will depend on the Group's existing and future financial condition, results of operations, capital requirements, investment and divestment cycles, liquidity needs and other matters the Board considers relevant from time to time.

20. Related Party Transactions

For a description of related party transactions, see *Part XIV: "Related Party Transactions"*.

21. Material Contracts

For a description of the material contracts entered into by the Group, see *Part XV: "Material Contracts"*.

22. Working capital statement

In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this Prospectus.

23. Significant Change

Save as disclosed below, there has been no significant change in the financial or trading position of the Group since 31 December 2017, being the date to which the Historical Financial Information of the Group was prepared.

On 21 March 2018, JSC BGEO Group entered into a 24 month US$50,000,000 loan agreement with JSC Georgia Capital on arm's length terms.

On 9 March 2018, JSC Georgia Capital issued US$ 300 million 6.125% notes due 2024, which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market.

There has been no significant change in the financial or trading position of the Company since 31 December 2017, being the date to which the financial statements of the Company have been prepared.

24. Litigation

Save as disclosed in *Part X: Information on Georgia Capital* and below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering at least the previous 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

Imedi L claims

On 16 April 2015, some of the former shareholders of Insurance Company Imedi L filed a claim in the Tbilisi City Court against Insurance Company Aldagi and the GHG's subsidiaries, Insurance Company Imedi L and Evex Medical Corporation, all of which are legal successors of Insurance Company Aldagi BCI. Pursuant to a demerger agreement entered into in 2014, the business and assets and liabilities of Insurance Company Aldagi BCI were spun off into three entities: Insurance Company Imedi L acquired the medical and travel insurance (limited to cover for emergency medical treatment) business, Evex Medical Corporation acquired the healthcare services business and Insurance Company Aldagi continues to operate the property and casualty and pension business. The claim alleges that 66.0% shares owned by the claimants in the share capital of Insurance Company Imedi L were sold to Insurance Company Aldagi BCI in 2012 under duress at a price below market value, and the claim seeks damages in the amount of US$17.1 million. The action is in a preparatory stage and as of 31 December 2017 several preliminary hearings took place. A further preliminary hearing is pending to be scheduled. The Group has not created any reserves in respect of the Imedi L litigation.

Management believes that the claim is without merit and the shares in Insurance Company Imedi L were acquired by Insurance Company Aldagi BCI at a fair price on the basis of *bona fide* agreements. However, if the claim is decided in favour of the claimants, we would be required to pay to the claimants' damages in the amount as determined by the court.

Rustavi Azoti claims

In 2016, following the default by Rustavi Azoti LLC ("**Rustavi Azoti**") and its parent company Agrochim S.A. (the "**Borrowers**") on loans made by the Bank, the Bank initiated the sale of collateral pledged by Rustavi Azoti. The collateral assets were sold to a third party, with which the Bank has a lending relationship but is otherwise unrelated, at a public auction in Tbilisi. On 15 November 2016, East-West United Bank S.A., and Sistema Holding Limited (which were creditors of Agrochim's holding company) and Agrochim initiated proceedings against the Bank, JSC BGEO Group, the purchaser of the assets, Rustavi Azoti and one individual director of Rustavi Azoti, in the Tbilisi City Court, requesting damages of approximately US$93.6 million and alleging that the Bank used fraudulent agreements to misappropriate the borrower's (Rustavi Azoti) assets, thereby depriving other creditors of the opportunity to be repaid. The related claims also sought the annulment of the Borrowers' acknowledgment of their debt to the Bank, and the annulment of the results of the auction that resulted in the sale of the collateral. As of the date of this Prospectus, the Tbilisi City Court has not considered the claims on the merits as the first main hearing was held on 12 March 2018, with a further hearing scheduled for 26 March 2018. The Group considers the claims against the Bank to be without merit and intends to vigorously contest them. The BGEO Group has not created any reserves for Rustavi Azoti litigation.

Although the Bank has not been provided with details of the underlying allegations, the Investigation Service of the Ministry of Finance of Georgia financial police are also carrying out investigations, which appear to be related to certain allegations made in relation to the sale of the assets pledged by Rustavi Azoti to secure its obligations in respect of the loans made to it by the Bank. The Bank is fully cooperating with the investigation and has provided all requested and other relevant information and materials. The Bank does not believe that there are any grounds under which it or any of its employees or affiliates would be subject to any charges. To the Company's knowledge, as at the date of this Prospectus, no charges have been made against any party.

On 20 March 2018, BGEO Group PLC was served with a notice of claim by Roman Pipia, the previous beneficial owner of Rustavi Azoti. The claim was filed in the High Court of Justice Business and Property Courts of England and Wales Queen's Bench Division Commercial Court. The claim names BGEO Group PLC, JSC BGEO Group, JSC Bank of Georgia, certain of their officers, and JSC EU Investments and its director as defendants. The claim is made under the laws of Georgia and asserts that the defendants are liable to the claimant under the Georgian Civil Code for harm to the claimant in relation to the loss of the Rustavi Azot plant, which he formerly owned as described above. The claimant claims losses and damages of up to US$995 million, or as may be determined by the Court. The claim also refers to the proposed Demerger and states that, to the extent required, the claimant will seek relief against Bank of Georgia Group PLC and Georgia Capital PLC. BGEO Group PLC considers that the claim is without merit and intends to oppose it vigorously. Neither BGEO Group PLC nor its affiliates intend to create any reserves in respect of the claim. Further to the above, the Bank is currently in the process of claiming repayment of approximately US$20 million in respect of outstanding loans owed by Roman Pipia and his affiliated parties in separate proceedings in Georgia.

25. Mandatory takeover bids, squeeze-out and sell-out rules

Following Admission, the Company will be subject to the provisions of the Code, including the rules regarding mandatory takeover offers set out in the Code. Under Rule 9 of the Code, when (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the Code), carry 30 per cent. or more of the voting rights of a company subject to the Code or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash, at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months, for all of the remaining equity share capital of the company.

The Shares will also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Companies Act. Under section 979 of the Companies Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not accepted the offer on the terms of the offer.

Other than as provided by the Companies Act and the Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Shares.

Since incorporation, there has been no takeover offer (within the meaning of Part 28 of the Companies Act) for any Shares.

26. General information on the Company's holdings in Bank of Georgia Group PLC

Bank of Georgia Group PLC Shares held by the Company and its Concert Parties will rank *pari passu* in all respects with all other Bank of Georgia Group PLC Shares and will not constitute a separate class of shares. The Proportional Voting Mechanism shall not affect the rights attaching to the Proportional Voting Shares for the purposes of the Companies Act 2006.

Other than the obligation to vote the Proportional Voting Shares in accordance with Proportional Voting Mechanism in general meetings of Bank of Georgia Group PLC, the Company and its Concert Parties will be entitled to exercise the rights attaching to the Proportional Voting Shares at their discretion. For example, the Company and its Concert Parties:

a) will retain complete control of whether to dispose of any or all of the Bank of Georgia Group PLC Shares, or increase their holding in Bank of Georgia Group PLC;

b) will have the same entitlements to dividends as other Bank of Georgia Group PLC Shareholders;

c) will be able to participate in any further offer (such as a rights issue), or buy backs, of Bank of Georgia Group PLC Shares made by Bank of Georgia Group PLC; and

d) will have complete discretion as to whether to accept or participate in any takeover bid or merger transaction of or for Bank of Georgia Group PLC, however effected, including any partial offer or tender offer. Should Bank of Georgia Group PLC be subject to a takeover offer at any time, the Company and its Concert Parties would have complete discretion whether to accept that offer. Similarly, on any vote at a Court Meeting for an offer implemented by way of a Scheme of Arrangement, the Company and its Concert Parties could vote at their discretion at the Court Meeting.

27. General

The Company's accounting reference date is 31 December.

The estimated fees and expenses relating to the Admission, the Proposals and the preparation of this document, including the FCA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately US$2.7 million and are payable by the Company.

On Admission, the Shares will be listed on the premium listing segment of the Official List and admitted to trading on the main market under GEOC. Other than the current application for admission of the Shares to trading on the main market, the Shares have not been admitted to trading on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be, any other arrangements for there to be dealings in Shares.

Shares will be in registered form and, from Admission, will be capable of being held in uncertified form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where Shares are held in certified form, share certificates will be sent to the registered members by first class post. Where Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

As of the date of this document, in so far as is known to the Directors, none of share capital is in public hands. Immediately following Admission, assuming full acceptance of the Proposals, it is currently anticipated that 100% of the Company's fully diluted share capital will be in public hands.

The Directors are not aware of any environmental issues that may affect the Group's utilisation of its tangible fixed assets.

Save as set out in this document, the Group has not agreed to make any new principal investments as of the date of this document.

The Company is not dependent on patents or licences or industrial, commercial or financial contracts or new manufacturing processes which are material to our business or profitability.

For the purposes of DTR 5 the Company is a UK issuer, as it is a UK incorporated public company with shares that will be trading on a regulated investment exchange.

28. Consents

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Prospectus of its reports in Section A of Part XXII: "*Historical Financial Information*" and Section A in Part XVI: "*Unaudited Pro Forma Financial Information*" in the form and context in which they are included and has authorised the contents of such reports for the purposes of rule 5.5.3R(2)(f) of the Prospectus Rules.

29. Documents on display

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), up until Admission, at the offices of 84 Brook Street, London, W1K 5EH, United Kingdom and 3-5 Kazbegi Street, Tbilisi, 0179, Georgia:

- the Articles;
- the historical financial information of the Group for the three financial years ended 31 December 2017, 31 December 2016 and 31 December 2015.
- the accountant's report of Ernst & Young LLP on the historical financial information set out in Section A of Part XXII of this Prospectus;
- the report by Ernst & Young LLP on the unaudited *pro forma* financial information set out in Section A of Part XVI of this Prospectus;
- the written consent of Ernst & Young LLP referred to in paragraph 28 above;
- the BGEO Group Circular;
- the Bank of Georgia Group PLC Prospectus;
- the Separation Agreements;
- the Share Plan;
- the BGEO Group Share Plans;
- the engagement letters and service contracts, as applicable, entered into between the Company and the Directors; and
- this Prospectus.

Dated: 26 March 2018

PART XX

INFORMATION INCORPORATED BY REFERENCE

Where the documentation described below itself incorporates information by reference to another document ("**Further Information**"), the Further Information is not intended to form part of this document for any purpose. Where only part of a document is incorporated by reference, the other parts of that document are either not relevant for Shareholders or are covered elsewhere within this Prospectus:

Information incorporated by reference

- Part II: "*Explanatory Statement*" on pages 27 to 57 of the BGEO Group Circular
- Part XIII: "*Definitions*" on pages 127 to 133 of the BGEO Group PLC Circular
- the audited consolidated financial statements of GHG for the year ending 31 December 2015 on pages 98 to 147 of the Georgia Healthcare Group PLC's Annual Report 2015
- the audited consolidated financial statements of GHG for the year ending 31 December 2016 on pages 120 to 183 of the Georgia Healthcare Group PLC's Annual Report 2016
- the audited consolidated financial statements of GHG for the year ending 31 December 2017 on pages 108 to 177 of the Georgia Healthcare Group PLC's Annual Report 2017
- the historical financial information of the Banking Business for the years ending 31 December 2017, 31 December 2016, 31 December 2015 on pages F-4 to F-78 of the Bank of Georgia Group PLC Prospectus

PART XXI

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

Admission	the admission of up to 39,384,712 Shares to the premium listing segment of the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's main market for listed securities in accordance with the Admission and Disclosure Standards
Admission and Disclosure Standards	the requirements contained in the publication "Admission and Disclosure Standards" (as amended from time to time) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
Aldagi	JSC Aldagi a company incorporated under the laws of Georgia with registered number 404476189 and whose registered office is at 3 Pushkini Street, Tbilisi 0105, Georgia and the operating entity of the Company's P&C Insurance Business
Annual General Meeting	the annual general meeting of BGEO Group Shareholders to be held at Baker & McKenzie LLP, 100 New Bridge Street, London, EC4V 6JA at 11.15 a.m. on 30 April 2018 (or as soon thereafter as the Court Meeting shall have concluded or been adjourned) for the purpose of the Scheme, notice of which is set out in Part XVI of the BGEO Group Circular, and any adjournment of such meeting
Articles	the articles of association of the Company
Audit Committee	the Audit Committee of the board of the Company
Awardholders	means holders of outstanding awards, granted under the Employee Share Plans, in the form of nil cost options over Shares.
Bank	JSC Bank of Georgia a company incorporated under the laws of Georgia with registered number 204378869 and whose registered office is 29a Gagarini Street, Tbilisi 0160, Georgia and the principal operating entity of the Banking Business
Banking Business	the banking business undertaken by JSC BGEO Group and its subsidiaries
Bank of Georgia Group Capital Reduction	the proposed reduction of the nominal value of the Bank of Georgia Group PLC Shares to be undertaken after the Scheme Effective Time
Bank of Georgia Group PLC Court Hearing	the hearing by the Court of the claim form to confirm the Bank of Georgia Group Capital Reduction
Bank of Georgia Group PLC	Bank of Georgia Group PLC a company incorporated under the laws of England and Wales with registered number 10917019 and whose registered office is 84 Brook Street, London, United Kingdom, W1K 5EH and the operating entity of the Company's Banking Business
Bank of Georgia Group PLC Admission	the admission of up to 49,169,428 Bank of Georgia Group PLC Shares to the premium listing segment of the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's main market for listed securities in accordance with the Admission and Disclosure Standards
Bank of Georgia Group PLC Prospectus	the prospectus prepared by Bank of Georgia Group PLC in accordance with the Prospectus Rules and published in relation to Bank of Georgia Group PLC and the Bank of Georgia Group PLC Shares

Bank of Georgia Group PLC Shareholders	holders of Bank of Georgia Group PLC Shares
Bank of Georgia Group PLC Shares	ordinary shares in the capital of Bank of Georgia Group PLC with a nominal value: (i) prior to the Bank of Georgia Group PLC Capital Reduction becoming effective, equal to the final middle market quotation (as derived from the daily official list of the London Stock Exchange) of a BGEO Group Share on the date of the Scheme Effective Time (or such other nominal value as the BGEO Group Board may determine); and (ii) subsequent to the Bank of Georgia Group PLC Capital Reduction becoming effective 10 pence
BGEO Group	if used to refer to a time before the Scheme becomes effective, BGEO Group PLC and its subsidiaries and subsidiary undertakings from time to time
BGEO Group Articles	means the articles of association of BGEO Group PLC
BGEO Group Circular	the circular to holders of BGEO Group Shares dated 26 March 2018 containing, among other things, details of the Proposals (including a description of the Scheme) and notice of the Court Meeting and the annual general meeting of BGEO Group PLC
BGEO Group PLC	means BGEO Group PLC a company incorporated under the laws of England and Wales with registered number 07811410 and whose registered office is 84 Brook Street, London, United Kingdom, W1K 5EH
BGEO Group Shareholders	holders of BGEO Group PLC Shares and "BGEO Group Shareholder" means any one of them
BGEO Group Shares	the ordinary shares of 1 pence each in the capital of BGEO Group PLC
Georgia Capital or the Company	Georgia Capital PLC, a company incorporated in England and Wales with registered number 10852406 and whose registered office is at 84 Brook Street, London, United Kingdom
Board or Directors	the board of directors of the Company and "Director" means any member of the Board, as the context so provides
Georgia Capital Capital Reduction	the proposed reduction of the nominal value of the Shares to be undertaken after the Demerger Effective Time
Georgia Capital Capital Reduction Effective Date	the date on which the Georgia Capital Capital Reduction becomes effective, expected to be on or before 26 June 2018
Georgia Capital Court Hearing	the hearing by the Court to confirm the Georgia Capital Capital Reduction
CAGR	compound annual growth rate
certificated or in certificated form	where a share or other security is not in uncertificated form (that is, not in CREST)
Citi	Citigroup Global Markets Limited, a company incorporated in England and Wales with registered number 01763297 and whose registered address is at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB
Code	the City Code on Takeovers and Mergers, issued by the Panel on Takeovers and Mergers
Companies Act	the Companies Act 2006
Connected person	as defined in section 252 of the Companies Act, and "persons connected" should be interpreted in the same way

Corporate Governance Code	the UK Corporate Governance Code published by the Financial Reporting Council and dated April 2016, as amended from time to time
Court	the High Court of Justice in England and Wales
Court Meeting	the meeting of the BGEO Group Shareholders to be convened pursuant to an order of the Court and to be held at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA at 11.00 a.m. on 30 April 2018 for the purposes of considering and, if thought fit, approving the Scheme and any adjournment of such meeting
CREST	the relevant system (as defined in the Uncertified Regulations) of which Euroclear is the Operator (as defined in the CREST Regulations)
Daily Official List	the daily official list of the London Stock Exchange
Deferred Share	the deferred share of £1.00 in the capital of the Company, formerly the Subscriber Share
Demerger	the proposed demerger of the Investment Business from the BGEO Group on the terms and subject to the conditions set out in the Demerger Agreement
Demerger Agreement	the agreement relating to the Demerger between BGEO Group PLC, the Company and Bank of Georgia Group PLC, a summary of the principal terms of which is set out in Part XV of this document
Demerger and Reductions Resolution	the special resolution numbered (2) to be proposed at the General Meeting, as set out in the notice of General Meeting in Part XIV of the BGEO Group Circular
Demerger Effective Time	the time at which the Demerger becomes effective, expected to be before 8.00 a.m. (London time) on 29 May 2018
Demerger Record Time	6.00 p.m. (London time) on the business day immediately following the date of the Bank of Georgia Group PLC Court Hearing
Directors	the Executive and Non-Executive Directors of the Company
Disclosure Guidance and Transparency Rules	the disclosure guidance and transparency rules made by the FCA pursuant to section 73A of the FSMA
EBITDA	earnings before interest, taxation, depreciation and amortisation
EBRD	the European Bank for Reconstruction and Development
EBT	means The Rubicon Executive Equity Compensation Trust, established by deed dated 6 November 2006.
EEA	the European Economic Area
EU	the European Union
EU Association Agreement	the association agreement between the EU and the Georgian government signed on 27 June 2014
EPS	earnings per share
Euroclear	Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales
Executive Directors	the executive directors of the Company
Exit Stage Portfolio Investments	as of the date of this prospectus refers to the Company's interest in the shares of GHG and Bank of Georgia Group PLC
FCA	the UK Financial Conduct Authority
Floor	means the Company's percentage holding in Bank of Georgia Group PLC being 9.9% or less of the voting rights exercisable at Bank of Georgia Group PLC general meetings.

Forms of Proxy	as the context may require, either or both of (i) the blue form of proxy for use at the Court Meeting, and (ii) the white form of proxy for use at the General Meeting, each of which accompanies the BEGO PLC Circular
FSMA	the Financial Services and Markets Act 2000 (as amended)
FTSE Index	Financial Times share index
GGU	Georgian Global Utilities Ltd a company incorporated under the laws of the British Virgin Islands with registered number 1425971 and whose registered office is Skelton Bay Lot, Building No.10, 1st Floor, P.O. Box 3169, PMB 103 Fish Bay, Tortola VG1110, British Virgin Islands, being the parent of Georgia Capital's Utility and Energy Business whose operating entity is GWP, a wholly owned subsidiary of GGU
GHG	Georgia Healthcare Group PLC a incorporated under the laws of England and Wales with registered number 09752452 and whose registered office is 84 Brook Street, London W1K 5EH.
GNERC	the Georgian National Energy and Water Supply Regulatory Commission.
Group	(i) if used in Part IV (*Presentation of Financial and Other Information*), in Part XI (*Selected Historical Financial Information*), in Part XII (*Operating and Financial Review*), and in Part XXII (*Historical Financial Information*) in the context of Historical Financial Information for the three years ended 31 December 2017, it is a reference to the Investments Business as it will be following the Scheme and the Demerger, whereby Georgia Capital PLC will become the holding company; and (ii) in all other cases, including if used in Part I (*Summary*) Section B (*Company*) Element B.11 (*Working Capital*), in Part XX (*Additional Information*) Paragraph 21 (*Working Capital*), Paragraph 22 (*Significant Change*) and Paragraph 23 (Litigation), it is (A) until such time as when the Scheme becomes effective, a reference to the Investments Business; and (B) from such time as when the Scheme becomes effective until such time as the Demerger becomes effective, a reference to JSC Georgia Capital Group and the Investments Business; and (C) from such time as when the Demerger becomes effective, a reference to Georgia Capital PLC and its subsidiaries and subsidiary undertakings from time to time holding or operating the Investments Business.
GWP	Georgian Water and Power LLC, being the principal operating subsidiary of GGU.
Historical Financial Information	The combined Historical Financial Information of the Group as of and for the years ended 31 December 2015, 2016 and 2017
HMRC	HM Revenue and Customs
Holder	a registered holder of Shares, including any person entitled by transmission
HPP	Hydro power plant
IAS	International Accounting Standards
IFI	international financial institutions
IFRS	the International Financial Reporting Standards, as adopted by the European Union
IRS Code	the US Internal Revenue Code of 1986, as amended from time to time

IT	information technology
Initial Shareholder	the holder of (i) the Subscriber Share or Deferred Share, as applicable, and (ii) the Redeemable Preference Shares
Investments Business	the investment business undertaken by JSC Georgia Capital and its subsidiaries
LIBOR	London inter-bank offered rate
Listing Rules	the listing rules made by the FCA pursuant to section 73A of the FSMA
London Stock Exchange	London Stock Exchange
LTIP	The BGEO Group Long-Term Incentive Plan
m^2	JSC m^2 Real Estate a company incorporated under the laws of Georgia with registered number 204517399 and whose registered office is 29 I. Chavchavadze Avenue, 3rd Floor, 0179 Tbilisi. Georgia and the operating entity of the Real Estate Business
member	unless the context otherwise requires, a member of BGEO Group PLC, the Company or Banks of Georgia Group PLC, as the case may be, at any relevant date
Nominations Committee	the Nominations Committee of the board of the Company
Non-Executive Directors	the non-executive directors of the Company
Official List	the official list of the UK Listing Authority
Overseas Shareholders	shareholders who are citizens, residents or nationals of jurisdictions outside the United Kingdom or whom the Company reasonably believe to be citizens, residents or nationals of jurisdictions outside the United Kingdom.
	P&C Insurance Business
	The Group's property and casualty insurance business, as operated by Aldagi, a provider of property and casualty insurance products in Georgia
Portfolio Companies	as of the date of this Prospectus refers to GGU, m^2, Aldagi and Teliani
Premium listing	a listing by the FCA by virtue of which a company is subject to the full requirements of the Listing Rules
Proposals	the Reorganisation, the Resolutions, the Scheme, the Demerger and the Reductions, details of which are set out in Part VIII of this document
Prospectus Rules	the prospectus rules made by the FCA pursuant to section 73A of the FSMA
Real Estate Business	the division of the Group, operated by m^2, which develops residential and commercial property in Georgia as well as managing a yielding real estate asset portfolio.
Redeemable Preference Shares	the 50,000 redeemable preference shares of £1.00 each in the capital of the Company
Registrars	Computershare Investor Services PLC
Regulatory Information Service	any channel recognised as a channel for the dissemination of regulatory information by listed companies as defined in the Listing Rules
Remuneration Committee	the remuneration committee of the board of the Company or the board of BGEO Group PLC, as the context may require
Reorganisation	the proposed reorganisation of the BGEO Group to be effected prior to the Demerger Effective Time

Reporting Accountants or Ernst & Young LLP	Ernst & Young LLP of 1 More London Place, London, SE1 2AF
Resolutions	the resolutions to be proposed at the General Meeting, as set out in the notice of General Meeting in Part XIV of the BGEO Group Circular, including the Scheme Resolution, the Demerger and Reductions Resolution and the Share Plans Resolutions
RSP	the BGEO Group PLCRetirement Security Plan
Scheme	the scheme of arrangement proposed to be made under Part 26 of the Companies Act between BGEO Group PLC and BGEO Group Shareholders as set out in Part XI of the BGEO Group Circular, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by BGEO Group PLC and Bank of Georgia Group PLC
Scheme Court Hearing	the hearing by the Court to sanction the Scheme and to confirm the BGEO Group Capital Reduction
Scheme Effective Time	the date and time at which the Scheme becomes effective in accordance with its terms, expected to be at around 9.00 p.m. on 18 May 2018
Scheme Record Time	6.00 p.m. (London time) on the date the Scheme becomes effective in accordance with its terms
Scheme Resolution	the special resolution numbered (1) to be proposed at the General Meeting, as set out in the notice of General Meeting in Part XIV of the BGEO Group Circular
SDRT	stamp duty reserve tax
Securities Act	the United States Securities Act of 1933
Senior Managers	means the senior managers listed in *Part XVIII: Directors, Senior Management and Corporate Governance*
Separation Agreements	together, the Demerger Agreement, the Tax Sharing and Indemnification Agreement
Share Plans Resolutions	the ordinary resolutions numbered 4 and 5 (inclusive) to be proposed at the General Meeting, as set out in the notice of General Meeting in Part XIV of the BGEO Group Circular
Shareholders	holders of Shares
Share Plan	The Georgia Capital Executive Equity Compensation Plan
Shares	(i) prior to the Georgia Capital Capital Reduction becoming effective, the ordinary shares of a nominal value determined by the Board prior to issue in the capital of the Company; and (ii) subsequent to the Georgia Capital Capital Reduction becoming effective, the ordinary shares of 10 pence in the capital of the Company
Sponsor	Citi
Subscriber Share	the initial ordinary share of £1.00 in the capital of the Company
Teliani	JSC Teliani Valley a company incorporated under the laws of Georgia with registered number 203855444 and whose registered office is 3 Tbilisi Highway, 0172 Telavi Georgia, being the principal operating entity of the Group's Beverage Business
TSR	total shareholder return
UK Listing Authority or UKLA	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
uncertificated or in uncertificated form	in respect of a share or other security, where that share or other security is recorded on the relevant register of the share or security

	concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
Uncertificated Regulations	means the Uncertificated Securities Regulations 2001, as amended and for the time being in force
US or United States	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
Utility and Energy Business	the division of Georgia Capital which supplies potable water, generates electricity and provides wastewater services under the GGU brand, principally via GGU's operating subsidiary, GWP.
VAT	Value-added tax as provided under the Value Added Tax Act 1994
Voting Record Time	6.00 p.m. (London time) on 26 April 2018 or, if the Court Meeting or General Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting
WSS	the water supply and sanitation

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

For the purpose of this document, "subsidiary", "subsidiary undertaking", "undertaking" and "associated undertaking" have the meanings given by the Companies Act.

PART XXII

HISTORICAL FINANCIAL INFORMATION

I. Historical Financial Information of the Group as of and for the years ended 31 December 2017, 2016 and 2015.

Section A

Section B

II. Audited financial statements of the Company as of and for the period between 5 July 2017 and 31 December 2017.

III. Audited consolidated financial statements of GGU as of and for the years ended 31 December 2015.

IV. Audited consolidated financial statements of GGU as of and for the years ended 31 December 2016

SECTION A – ACCOUNTANTS REPORT

The Board of Directors
Georgia Capital PLC
84 Brook Street
London
W1K 5EH

26 March 2018

Dear Sirs

Investment business of BGEO Group PLC

We report on the financial information set out on page F-4 to F-74 (the "**Combined Historical Financial Information**") as at and for the years ended 31 December 2015, 2016 and 2017. This financial information has been prepared for inclusion in the prospectus dated 26 March 2018 of the Georgia Capital PLC on the basis of the accounting policies set out in note 3. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 (the "***PD Regulation***") and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I of the PD Regulation, consenting to its inclusion in the prospectus.

Responsibilities

The Directors of the Georgia Capital PLC are responsible for preparing the financial information in accordance with the basis of preparation set out in note 2.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Combined Historical Financial information gives, for the purposes of the prospectus dated 26 March 2018, a true and fair view of the state of affairs of the Investment Business of BGEO Group PLC as at the dates stated and of its profits, other comprehensive income, cash flows and changes in invested capital for the periods then ended in accordance with the basis of preparation set out in note 2.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully

Ernst & Young LLP

COMBINED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Assets				
Cash and cash equivalents	8	374,299	401,970	292,955
Amounts due from credit institutions	9	38,141	178,425	34,069
Investment securities		33,060	3,672	1,784
Accounts receivable	10	35,341	122,300	73,321
Insurance premiums receivable		30,855	48,390	40,881
Inventories	11	80,132	179,534	117,713
Investment properties	12	159,989	140,254	110,945
Property and equipment	13	657,635	967,461	464,778
Goodwill	14	21,935	73,643	39,641
Intangible assets		5,457	18,965	6,540
Income tax assets	16	1,374	4,557	6,792
Prepayments		88,027	58,120	37,998
Other assets	15	73,537	90,010	113,824
Assets of disposal group held for sale	6	1,148,584	-	-
Total assets		**2,748,366**	**2,287,301**	**1,341,241**
Liabilities				
Accounts payable		46,479	109,146	44,071
Insurance contracts liabilities	17	46,403	67,871	55,846
Borrowings	18	657,109	717,876	142,460
Debt securities issued	19	77,835	122,263	82,522
Income tax liabilities	16	860	3,895	34,334
Deferred income	20	73,066	84,770	102,846
Other liabilities	15	63,469	164,303	85,699
Liabilities of disposal group held for sale	6	619,029	-	-
Total liabilities		**1,584,250**	**1,270,124**	**547,778**
Invested capital attributable to shareholders of the parent	22	**866,551**	**788,363**	**590,533**
Non-controlling interests		297,565	228,814	202,930
Invested capital		**1,164,116**	**1,017,177**	**793,463**
Total liabilities and invested capital		**2,748,366**	**2,287,301**	**1,341,241**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED INCOME STATEMENTS

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Net insurance premiums earned		52,147	43,115	40,856
Net insurance claims incurred		(25,098)	(17,858)	(20,114)
Gross insurance profit	23	**27,049**	**25,257**	**20,742**
Real estate revenue		121,153	102,974	61,150
Cost of real estate		(85,765)	(81,098)	(39,721)
Gross real estate profit	23	**35,388**	**21,876**	**21,429**
Utility and energy revenue		127,569	56,486	-
Cost of utility and energy		(39,198)	(17,806)	-
Gross utility and energy profit	23	**88,371**	**38,680**	**-**
Beverage revenue		55,441	29,793	29,527
Cost of beverage		(32,313)	(15,373)	(14,624)
Gross beverage profit	23	**23,128**	**14,420**	**14,903**
Other income		7,435	8,371	1,331
Gross profit		**181,371**	**108,604**	**58,405**
Salaries and other employee benefits	24	(34,548)	(16,279)	(11,800)
Administrative expenses	24	(38,351)	(21,057)	(15,798)
Other operating expenses		(1,892)	(1,863)	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	25	(3,417)	(1,004)	(1,121)
		(78,208)	**(40,203)**	**(29,086)**
EBITDA		**103,163**	**68,401**	**29,319**
Profit from associates		-	4,074	4,050
Depreciation and amortisation		(28,237)	(10,061)	(2,393)
Net foreign currency (loss) gain		(4,938)	(3,132)	8,158
Interest income		12,971	4,260	2,563
Interest expense		(30,014)	(13,526)	(2,167)
Net operating income before non-recurring items		**52,945**	**50,016**	**39,530**
Net non-recurring items	26	(624)	32,104	(1,125)
Profit before income tax expense from continuing operations		**52,321**	**82,120**	**38,405**
Income tax expense	16	(5,749)	(7,812)	(4,500)
Profit for the year from continuing operations		**46,572**	**74,308**	**33,905**
Profit from discontinued operations	6	47,351	60,099	14,680
Profit for the year		**93,923**	**134,407**	**48,585**
Total profit attributable to:				
– shareholders of the parent		69,778	106,893	45,125
– non-controlling interests		24,145	27,514	3,460
		93,923	**134,407**	**48,585**
Profit from continuing operations attributable to:				
– shareholders of the parent		50,382	74,170	35,653
– non-controlling interests		(3,810)	138	(1,748)
		46,572	**74,308**	**33,905**
Profit from discontinued operations attributable to:				
– shareholders of the parent		19,396	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,351	**60,099**	**14,680**
Basic and diluted earnings per share:	22	**1.7717**	**2.7141**	**1.1457**
– earnings per share from continuing operations		1.2792	1.8832	0.9052
– earnings per share from discontinued operations		0.4925	0.8309	0.2405

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Profit for the year		93,923	134,407	48,585
Other comprehensive (loss) income from continuing operations				
Other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		267	-	-
– Realised gain on available-for-sale securities reclassified to the combined income statement		(2)	-	-
– (Loss) gain from currency translation differences		(7,162)	14,248	(28)
Income tax impact	16	165	1,119	(455)
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		**(6,732)**	**15,367**	**(483)**
Other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
Impact of income tax changes on associates		-	5,580	-
Net other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods		**-**	**5,580**	**-**
Other comprehensive (loss) income for the year, net of tax		**(6,732)**	**20,947**	**(483)**
Total comprehensive income for the year from continuing operations		39,840	95,255	33,422
Total comprehensive income for the year from discontinued operations		47,351	60,099	14,680
Total comprehensive income for the year		**87,191**	**155,354**	**48,102**
Total comprehensive income attributable to:				
– shareholders of the parent		63,915	129,611	44,650
– non-controlling interests		23,276	25,743	3,452
		87,191	**155,354**	**48,102**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the parent		44,519	96,888	35,178
– non-controlling interests		(4,679)	(1,633)	(1,756)
		39,840	**95,255**	**33,422**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the parent		19,396	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,351	**60,099**	**14,680**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CHANGES IN INVESTED CAPITAL

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Invested capital		
	Attributable to the equity holders of the parent	*Non-controlling interests*	*Total Invested capital*
1 January 2015	**379,247**	**41,250**	**420,497**
Profit for the year	45,125	3,460	48,585
Other comprehensive loss for the year	(475)	(8)	(483)
Total comprehensive income for the year	**44,650**	**3,452**	**48,102**
Increase in invested capital arising from share-based payments	2,445	896	3,341
Net capital contribution	59,292	-	59,292
Dilution of interests in subsidiaries (Note 2)	109,430	125,160	234,590
Transactions costs recognised directly in invested capital (Note 2)	(13,379)	-	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 2)	12,015	2,386	14,401
Non-controlling interests arising on acquisition of subsidiaries (Note 5)	-	29,786	29,786
Contributions under share-based payment plan (Note 27)	(3,167)	-	(3,167)
31 December 2015	**590,533**	**202,930**	**793,463**
Profit for the year	106,893	27,514	134,407
Other comprehensive income (loss) for the year	22,718	(1,771)	20,947
Total comprehensive income for the year	**129,611**	**25,743**	**155,354**
Increase in invested capital arising from share-based payments	5,155	3,815	8,970
Net capital contribution	65,682	-	65,682
Dilution of interests in subsidiaries	(2,788)	2,409	(379)
Acquisition of non-controlling interests in existing subsidiaries	2,616	(6,083)	(3,467)
Contributions under share-based payment plan (Note 27)	(2,446)	-	(2,446)
31 December 2016	**788,363**	**228,814**	**1,017,177**
Effect of early adoption of IFRS 15 (Note 3)	(18,223)	-	(18,223)
1 January 2017	**770,140**	**228,814**	**998,954**
Profit for the year	69,778	24,145	93,923
Other comprehensive loss for the year	(5,863)	(869)	(6,732)
Total comprehensive income for the year	**63,915**	**23,276**	**87,191**
Net capital contribution	430	-	430
Increase in invested capital arising from share-based payments	11,202	1,495	12,697
Buyback and cancelation of parent's shares (Note 22)	(12,186)	-	(12,186)
Sale of interests in existing subsidiaries*	71,980	36,623	108,603
Dilution of interests in subsidiaries	506	1,547	2,053
Increase in share capital of subsidiaries	-	14,493	14,493
Acquisition of non-controlling interests in existing subsidiaries	(18,409)	(43,919)	(62,328)
Non-controlling interests arising on acquisition of subsidiary (Note 5)	-	35,236	35,236
Contributions under share-based payment plan	(21,027)	-	(21,027)
31 December 2017	**866,551**	**297,565**	**1,164,116**

** The Group sold approximately 7% equity interests in Georgia Healthcare Group PLC. Following the sale, the Group held 57% equity interests in GHG as of 31 December 2017.*

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Cash flows from operating activities				
Insurance premiums received		45,108	41,245	40,945
Insurance claims paid		(22,325)	(19,195)	(17,937)
Utility and energy revenue received		133,728	58,714	-
Cost of utility and energy revenue paid		(36,616)	(19,156)	-
Beverage revenue received		49,868	29,312	31,676
Cost of beverage revenue paid		(43,728)	(13,150)	(14,004)
Real estate revenue received		97,262	90,534	67,808
Cost of real estate revenue paid		(78,954)	(101,504)	(74,757)
Net realised loss from foreign currencies		(776)	(733)	341
Net other income received		6,928	651	2,195
Salaries and other employee benefits paid		(17,040)	(13,666)	(11,153)
General, administrative and operating expenses paid		(36,959)	(27,727)	(15,899)
Interest received		12,922	4,259	4,903
Interest paid		(40,077)	(15,903)	(6,899)
Other changes		(9,588)	4,973	3,717
Net cash flows from operating activities from continuing operations before income tax		**59,753**	**18,654**	**10,936**
Income tax paid		(6,339)	(6,422)	(1,869)
Net cash flows from operating activities from continuing operations		**53,414**	**12,232**	**9,067**
Net cash flows from operating activities from discontinued operations		27,832	19,409	22,016
Net Cash flow from operating activities		**81,246**	**31,641**	**31,083**
Cash flows used in investing activities				
Net withdrawals (placement) of amounts due from credit institutions		116,408	(129,804)	49,058
Loans (issued) repaid		(101)	3,244	(985)
Acquisition of subsidiaries, net of cash acquired	5	(17,844)	(160,453)	-
Repayment of remaining holdback amounts from previous year acquisitions		116	-	(3,092)
(Purchase of) proceeds from sale of investment securities		(31,112)	111	(631)
Proceeds from sale of investment properties	12	402	4,144	-
Purchase of investment properties	12	(17,199)	(8,776)	(15,220)
Proceeds from sale of property and equipment and intangible assets		6,348	4,989	1,101
Purchase of property and equipment and intangible assets		(269,913)	(79,870)	(4,058)
Dividends received		-	3,242	-
Net cash flows used in (from) investing activities from continuing operations		**(212,895)**	**(363,173)**	**26,173**
Net cash flows used in investing activities from discontinued operations		(133,142)	(179,791)	(131,936)
Net cash flows used in investing activities		**(346,037)**	**(542,964)**	**(105,763)**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Cash flows from financing activities				
Proceeds from borrowings		329,043	421,207	5,481
Repayment of borrowings		(160,691)	(13,748)	(2,226)
Proceeds from debt securities issued		40,000	38,863	42,755
Redemption of debt securities issued		(45,322)	(7,015)	(34,651)
Buyback and cancelation of parent's shares	22	(12,186)	-	-
Contributions under share-based payment plan	27	(21,027)	(3,521)	(3,167)
Increase in share capital of subsidiaries		14,493	7,948	4,150
Net capital (reduction) contribution		(87,301)	142,619	23,790
Proceeds from sale of interests in existing subsidiaries		108,603	-	17,111
Net cash from financing activities from continuing operations		**165,612**	**586,353**	**53,243**
Net cash from financing activities from discontinued operations		136,819	39,069	181,902
Net cash from financing activities		**302,431**	**625,422**	**235,145**
Effect of exchange rates changes on cash and cash equivalents		(16,471)	(5,084)	36,985
Net increase in cash and cash equivalents		**21,169**	**109,015**	**197,450**
Cash and cash equivalents, beginning of the year	8	**401,970**	**292,955**	**95,505**
Cash and cash equivalents of disposal group held for sale	6	**48,840**	**-**	**-**
Cash and cash equivalents, end of the year	8	**374,299**	**401,970**	**292,955**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

(Thousands of Georgian Lari)

1. Principal Activities

This combined historical financial information is prepared for the investment business activities of BGEO Group PLC (the "Group"). The Group principally operates in a) water utility and renewable energy, b) property and casualty insurance, c) residential and commercial property construction and development and d) wine and beer production businesses. The Group is also currently consolidating healthcare and pharmacy businesses, has been classified as disposal group held for sale and discontinued operations of the Group as at 31 December 2017.

On 3 July 2017 BGEO Group PLC ("BGEO") announced its intention to demerge the business activities of BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC ("Georgia Capital"), by the end of the first half of 2018.

2. Basis of Preparation

General

The Group did not comprise a separate legal entity or group of legal entities during the three years ended 31 December 2017 and therefore the historical financial information of the Group (the "Historical Financial Information") combines the results, assets and liabilities of the entities set out within note 2 along with certain assets, liabilities and transactions of the holding companies BGEO Group PLC and JSC BGEO. During the year ended 31 December 2017, the Group's investment in Georgia Healthcare Group PLC ("GHG") was classified as a disposal group held for sale, and the results of GHG's operations have been classified as discontinued operations for all periods presented.

The combined historical financial information of the Group for the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 has been prepared specifically for the purposes of this Prospectus and in accordance with the Prospectus Directive Regulation (No 2004/809/EC) and in accordance with this basis of preparation. The combined Historical Financial Information of the Group may not be indicative of its future performance and does not necessarily reflect what the results of operations, financial position and cash flows would have been had the Group operated as a stand-alone group during the periods presented.

This basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs') except as described below

IFRSs do not provide for the preparation of combined historical financial information and accordingly, in preparing the combined Historical Financial Information certain accounting conventions commonly applied for the purposes of preparing historical financial information for inclusion in investment circulars, as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board, have been applied. The application of these conventions results in the following material departures from IFRS. In all other respects, IFRSs have been consistently applied.

- The Group's Historical Financial Information is not prepared on a consolidated basis and therefore does not comply with the requirements of IFRS 10 *Consolidated Financial Statements*. The combined Historical Financial Information has been prepared on a basis that combines the results and assets and liabilities of each of the entities that constitutes the Group, derived from the accounting records of those entities, by applying the principles underlying the consolidation procedures of IFRS 10 for each of the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 and as at these dates.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

General (continued)

The following summarises the key accounting and other principles applied in preparing the combined Historical Financial Information:

- The Group has not previously formed a separate legal group and therefore, it is not meaningful to present share capital or an analysis of reserves. The excess of assets over liabilities of all combining entities in the Group as of 31 December 2017, 31 December 2016 and 31 December 2015 are representative of the cumulative investment of BGEO in the Group, shown as "Invested Capital".
- Certain assets, liabilities and transactions of the holding companies BGEO Group PLC and JSC BGEO are included in the Historical Financial Information where they specifically relate to the investment business activities undertaken by the Group. These include all cash balances, investment in associates of the Investment business, US$100 million of the US$350 million 6.00 per cent. Notes due 2023 issued by JSC BGEO and borrowings from local financial institutions to fund investments in the subsidiaries of the Investment Business.
- Transactions and balances between entities within the Group have been eliminated. All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on combination
- Transactions and balances between the Group and the rest of the BGEO group represent third-party transactions and balances from the perspective of the Group. They have been presented alongside all other third-party transactions and balances in the appropriate financial statement line items of the combined Historical Financial Information to which such transactions and balances relate and disclosed as related party transactions
- Goodwill recognised within BGEO's consolidated financial statements that is directly attributable to the entities within the Group has been reflected in the combined balance sheets in the Historical Financial Information and included in the financial information at the beginning of the comparative period (with a corresponding credit taken to Invested Capital). As permitted by IFRS 1, the deemed cost of this goodwill has been derived from that previously reported in the consolidated financial statements of BGEO under IFRS.
- Dividends paid by the Banking Business are treated as capital contributions in the Historical Financial Information. External dividend payments by BGEO are recorded as capital reductions. Net capital contributions and capital reductions of these nature are reported as "net capital contribution (reduction)" in the combined statement of cash flows and the combined statement of changes in invested capital.

The accounting policies applied and disclosed in note 3 are consistent with those to be used by Georgia Capital PLC in its next annual financial statements and these policies have been applied consistently to all periods presented, unless stated otherwise. The Historical Financial Information is presented in Georgian Lari (GEL), the Group's presentation currency and all values are in thousands, unless otherwise noted.

The combined Historical Financial Information has been prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, infrastructure assets, and investment properties;
- the measurement of inventories at lower of cost and net realisable value.

The preparation of the combined Historical Financial Information requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses, as set out in note 4. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Going concern

The Board of Directors of Georgia Capital has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the Historical Financial Information has been prepared on a going concern basis.

Subsidiaries and associates

The combined Historical Financial Information as at 31 December 2017, 31 December 2016 and 31 December 2015 include the following subsidiaries and associates:

Subsidiaries	*Proportion of voting rights and ordinary share capital held* 31 December 2017	31 December 2016	31 December 2015	*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*
⇒ JSC m2 Real Estate	100.00%	100.00%	100.00%	Georgia	4 Freedom Square, Tbilisi, 0105	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	100.00%	100.00%	100.00%	Georgia	16 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	100.00%	100.00%	100.00%	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	100.00%	100.00%	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
⇒ M Square Park, LLC	100.00%	100.00%	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	100.00%	100.00%	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
⇒ m2 at Vake, LLC	100.00%	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
⇒ m2 Hospitality, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	100.00%	100.00%	100.00%	Georgia	#3-5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
⇒ m2 Kutaisi, LLC	100.00%	-	-	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ m2 at Melikishvili, LLC	100.00%	-	-	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ Kass 1, LLC	60.00%	-	-	Georgia	20 Merab Kostava st., Tbilisi	Real estate	16/10/2014	27/12/2017
⇒ m2 at Chavchavadze LLC	100.00%	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	5/9/2016	–
⇒ m2 Commercial Properties LLC	100.00%	100.00%	-	Georgia	77 Zh. SHartavai st, Tbilisi	Real estate	1/3/2016	–
⇒ Caucasus Autohouse, LLC	100.00%	100.00%	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	29/3/2011	–
⇒ Land, LLC	100.00%	100.00%	100.00%	Georgia	Between university and Kavtaradze st.,Tbilisi	Real estate	3/10/2014	–
⇒ BK Construction, LLC	100.00%	-	-	Georgia	80 Agmashenebeli ave., Tbilisi	Real estate	18/5/2017	2/6/2017
⇒ JSC Georgian Renewable Power Company	65.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	85.00%	85.00%	85.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	100.00%	65.00%	65.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	100.00%	65.00%	100.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	20/8/2015	–
⇒ JSC Caucasian Wind Company	100.00%	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
⇒ JSC Caucasian Solar Company	100.00%	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
⇒ JSC Insurance Company Aldagi	100.00%	100.00%	100.00%	Georgia	#9 Ana Politkovskaya str., Tbilisi	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	100.00%	100.00%	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	100.00%	100.00%	100.00%	Georgia	1 Sanapiro street, Tbilisi	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	100.00%	100.00%	100.00%	Georgia	Village Ratevani, Bolnisi District	Various	9/8/2008	5/1/2012
⇒ Premium Residence, LLC	100.00%	100.00%	100.00%	Georgia	King Parmavaz Str. # 48, Batumi	Hotel	9/7/2010	1/5/2012
⇒ JSC AMF	100.00%	-	-	Georgia	20 I. Chavchavadze ave., Tbilisi	Insurance	17/11/2017	–
⇒ Georgia Healthcare Group PLC (a)	57.05%	65.03%	67.70%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI)	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi street, Tbilisi	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	-	-	100.00%	Georgia	44 Al. Kazbegi ave, Tbilisi, 0177	Various	22/6/2010	10/1/2011
⇒ JSC GEPHA (Formerly known as JSC GPC)	67.00%	100.00%	-	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
⇒ JSC ABC Pharamcia (Armenia)	100.00%	-	-	Armenia	Kievnaia sts. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
⇒ ABC Pharmalogistics, LLC	100.00%	-	-	Georgia	Sanapiro Str.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
⇒ JSC Medical Corporation EVEX	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	66.70%	66.70%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	66.70%	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	96.87%	96.87%	96.87%	Georgia	9 Paolo Iashvili street, Kutaisi	Medical services	3/11/2000	20/5/2008

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	*Proportion of voting rights and ordinary share capital held* 31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
⇒ Patgeo, LLC	100.00%	100.00%	0.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
⇒ GN KO, LLC	50.00%	50.00%	50.00%	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	100.00%	100.00%	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	50.00%	50.00%	50.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	80.00%	80.00%	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	100.00%	100.00%	100.00%	Georgia	U. Chkeidze str. N 10	Medical services	18/6/2013	5/8/2015
⇒ JSC Pediatria	76.00%	76.00%	-	Georgia	U. Chkeidze str. N 10, Tbilisi	Medical services	5/9/2003	5/7/2016
⇒ Emergency Service, LLC	100.00%	100.00%	-	Georgia	#2, D. Uznadze st., Tbilisi	Medical services	28/7/2009	6/1/2016
⇒ JSC Poti Central Hospital	100.00%	100.00%	-	Georgia	Guria str. 171, Poti	Medical services	29/10/2014	1/1/2016
⇒ Deka, LLC	97.20%	95.00%	95.00%	Georgia	Bakhtrioni Str. 8B, Tbilisi	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	2/2/2015	–
⇒ EVEX Collection, LLC	100.00%	100.00%	0.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	25/3/2016	–
⇒ Unimed Achara, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	100.00%	100.00%	100.00%	Georgia	20 Chavchvadze ave Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ M. Iashvili Children's Central Hospital, LLC	100.00%	100.00%	66.70%	Georgia	2/6 Lubliana Street, Tbilisi	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	100.00%	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical Service	6/3/2000	19/2/2014
⇒ Iv Bokeria Tbilisi Referral Hospital	100.00%	-	-	Georgia	Kindzmarauli I turn, N1 , Isan-Samgori, Tbilisi	Medical Service	16/3/2017	–
⇒ Referral Centre of Pathology, LLC	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
⇒ EVEX Learning Center	100.00%	100.00%	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
⇒ JSC Mega-Lab	100.00%	-	-	Georgia	23 Kavtaradze str., Tbilisi	Medical services	6/6/2017	–
⇒ New Clinic, LLC	100.00%	-	-	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
⇒ Alliance Medi, LLC	100.00%	-	-	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
⇒ Medical Center Alimedi, LLC	100.00%	-	-	Georgia	17 R. Tabukashvili str., Tbilisi	Medical services	27/9/2003	8/11/2017
⇒ JSC Polyclinic Vere	97.80%	-	-	Georgia	18-20 Kiacheli str.,Tbilisi	Medical services	22/11/2017	25/12/2017
⇒ Georgian Global Utilities, LLC	100.00%	100.00%	25.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
⇒ Georgian Water and Power, LLC	100.00%	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
⇒ Rustavi Water, LLC	100.00%	100.00%	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
⇒ Gardabani Sewage Treatment, LLC	100.00%	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
⇒ JSC Teliani Valley	75.75%	71.66%	71.44%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	100.00%	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	100.00%	100.00%	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.00%	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	70.00%	70.00%	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Vazisubani IV M/R, I KV, Building N21, App. N12, Tbilisi	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Liberty Consumer	98.28%	98.25%	87.64%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
⇒ JSC Intertour	99.94%	99.94%	99.94%	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	100.00%	100.00%	100.00%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–
⇒ Global Coffee Georgia, LLC	100.00%	-	-	Georgia	29a Gagarini street, Tbilisi	Coffee Distribution	26/12/2016	15/2/2017
⇒ New Coffee Company, LLC	100.00%	-	-	Georgia	Tskneti Highway, №16/18, app. 36	Coffee Distribution	23/9/2009	15/2/2017

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Associates	Proportion of voting rights and ordinary share capital held 31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	35.00%	35.00%	-	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016

(a) Georgia Healthcare Group PLC and its subsidiaries are classified as disposal group held for sale

In 2015, as a result of issuing GHG's new shares, the Group raised GEL 220,529 net proceeds (GEL 233,908 gross proceeds less GEL 13,379 transaction costs) and recognized GEL 124,503 non-controlling interests and GEL 96,026 unrealized gain on dilution of interests in subsidiaries. As a result of selling the existing shares in GHG through an over-allotment option, the Group received GEL 20,670 and recognized GEL 12,450 non-controlling interests and GEL 8,220 unrealized gain on sale of non-controlling interests in existing subsidiaries.

In May 2017, the Group sold 7.21%% equity interests in Georgia Healthcare Group PLC, received net proceeds of GEL 96,998 and recognized GEL 63,382 unrealized gain on sale of interests in existing subsidiaries.

3. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Group in preparing its combined historical financial information:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the combined income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

Fair value measurement

The Group measures financial instruments, such as investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the combined historical financial information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the combined historical financial information on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the statement of cash flows.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method less impairment.

Derivative financial instruments

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the combined income statement as net foreign currency gain (loss).

3. Summary of Selected Significant Accounting Policies (continued)

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the combined profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the combined profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the combined profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the combined income statement.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the combined income statement when borrowings are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the combined statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the combined statement of income.

Reinsurance receivables, included in other asset, primarily comprise of balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the combined income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the combined income statement by establishing an unexpired risk provision.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Deferred acquisition costs

Deferred acquisition costs ("DAC"), included in insurance premiums receivable, are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

Investment properties

Investment property is a land or building or a part of a building held to earn rental income or for capital appreciation purposes and which is not used by the Group or held for sale in the ordinary course of business. Property that is under construction, is being developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualifications and who have recent experience in valuation of property of similar location and category. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in the period in which they arise.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment properties are derecognized either when they have been disposed of or they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the combined income statement in the period of derecognition.

Property and equipment

Property and equipment, except for infrastructure assets, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Infrastructure assets are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increase in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost infrastructure assets are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough (market value changes are monitored at least once in a year) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the combined income statement, in which case the increase is recognised in the combined income statement. A revaluation deficit is recognised in the combined income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	Up to 100
Infrastructure assets	10-40
Factory and equipment	7-30
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition including borrowing costs. The cost of inventory is determined on a weighted average basis for beverages and inventory in healthcare segment (discontinued) and first in first out basis ("FIFO") in the pharma segment (discontinued). The cost of inventory in real estate segment is determined with reference to the specific costs incurred on the property sold and allocated non-specific costs based on the relative size of the property sold.

Intangible assets

The Group's intangible assets include computer software and licenses and exclusive rights.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Goodwill Impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

Contingent liabilities are not recognised in the combined statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the combined statement of financial position but disclosed when an inflow of economic benefits is probable.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of the Group and BGEO ('equity settled transactions') as consideration for the services provided.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value of shares at the grant date.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The combined income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGEO Group PLC's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.
Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Dividend income

Dividend revenue is recognised when the Group's right to receive the payment is established.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Insurance premium income

For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Income and expense recognition healthcare and pharma revenue (discontinued)

The Group recognizes healthcare revenue when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. Healthcare revenue is recognized net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state), to recognize revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the corrections and rebates is subsequently resolved. Healthcare revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes the following components:

- Healthcare revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare revenue from state – The Group recognises the revenue from the individuals who are insured under the state programmes based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare revenue from out-of-pocket and other – The Group recognises the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and drug exchange transactions. The pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Utility and energy revenue

The Group recognizes revenue from utility when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must be met before revenue is recognized:

- Revenue from water supply – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognizes revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.
- Revenue from connection and water meter installation – includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Revenue from connection and water meter installation is recognized over the time in line with the satisfaction of performance obligation over the life of water meters.

Revenue from electric power sales is recognised on the basis of metered electric power transferred.

Real estate revenue

Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on such developed properties.

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognize revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such payments are recognized as deferred income. Significant financing component is usually immaterial.

Beverage revenue

Revenue from the sale of beverages is recognised when the group satisfies the performance obligation, i.e. when the control of the goods has passed to the buyer, usually on delivery of the goods. For the finished goods sold on consignment basis, revenue is recognized when the goods are transferred to the end-customer or on expiration of specified period. Revenue recognized in connection to the sale of finished goods reflects an adjustment for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer)

Revenue from customer loyalty program

Customer loyalty program points accumulated in the business are treated as deferred revenue and recognized in revenues gradually as they are earned. The Group recognizes gross revenue earned from customer loyalty program when the performance obligation is satisfied i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Whereas, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilized by customers based on statistical data. These points are treated as liability in the statement of financial position and are only recognized in revenues when points are earned or expired.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

EBITDA

The Group separately presents EBITDA on the face of the combined income statement. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net foreign currency (loss) gain, profits from associates and net non-recurring items.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Group and its subsidiaries operate.

The annual profit earned by entities is not taxed in Georgia. Corporate income tax is paid on dividends, donations, abnormal losses, non-business related disbursements, etc. The corporate income tax arising from the payment of dividends is accounted for as a liability and expensed in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Functional, reporting currencies and foreign currency translation

The combined historical financial information is presented in Georgian Lari, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the combined historical financial information of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the combined income statement as net foreign currency gain (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign currency gain (loss). The official NBG exchange rates at , 31 December 2017, 31 December 2016, 31 December 2015 were as follows:

	Lari to GBP	*Lari to USD*	*Lari to EUR*
31 December 2017	3.5005	2.5922	3.1044
31 December 2016	3.2579	2.6468	2.7940
31 December 2015	3.5492	2.3949	2.6169

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the combined income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies

The nature and the effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.

The Group early adopted new revenue recognition standard effective from 1 January 2017 using modified retrospective approach. The impact of early adoption was GEL 18,223 decrease to retained earnings, with corresponding increase of other liabilities, inventories and accounts receivables.

The Group's revenue streams affected by transition to IFRS 15 included real estate revenue and connection fees from utility services. For revenue streams, part of the revenue was deferred under IFRS 15 requirements until satisfaction of respective performance obligations, which is expected over the settlement or expiration of bonus points under loyalty programs, completion progress and estimated connection service period.

The details of adjustments to opening retained earnings and other account:

	31-Dec-16	Effect of IFRS 15 adoption	1-Jan-17
Assets			
Accounts receivable	122,300	(2,041)	120,259
Inventories	179,534	(30,578)	148,956
Other	1,985,467	-	1,985,467
Total assets	**2,287,301**	**(32,619)**	**2,254,682**
Liabilities			
Income tax liabilities	3,895	-	3,895
Deferred income	84,770	(14,396)	70,374
Other	1,181,459	-	1,181,459
Total liabilities	**1,270,124**	**(14,396)**	**1,255,728**
Invested capital	**1,017,177**	**(18,223)**	**998,954**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Group's consolidated income statement and financial position for the year ended 31 December 2017 were as follows:

Extract from Consolidated Income Statement for the year end 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Real estate revenue	121,153	44,697	76,456
Cost of real estate	(85,765)	(16,274)	(69,491)
Gross real estate profit	**35,388**	**28,423**	**6,965**
Beverage revenue	55,441	60,328	(4,887)
Cost of beverage	(32,313)	(30,950)	(1,363)
Gross beverage profit	**23,128**	**29,378**	**(6,250)**
Other income	7,435	8,661	(1,226)
Other	115,420	115,420	-
Gross profit	**181,371**	**181,882**	**(511)**
Administrative expenses	(38,351)	(44,282)	5,931
Other	(39,857)	(39,857)	-
EBITDA	**103,163**	**97,743**	**5,420**
Profit for the year from continuing operations	**46,572**	**41,152**	**5,420**
Profit from discontinued operations	**47,351**	**47,066**	**285**
Healthcare and pharma revenue	691,971	691,686	285
Cost of healthcare and pharma services	(491,732)	(491,732)	-
Gross healthcare and pharma profit	**200,239**	**199,954**	**285**
Profit for the year	**93,923**	**88,218**	**5,705**

Extract from Consolidated Statement of Financial Position as at 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Assets			
Accounts receivable and contract assets	35,341	37,134	(1,793)
Inventories	80,132	179,728	(99,596)
Assets of disposal group held for sale:			
Accounts receivable	123,388	124,143	(755)
Other	2,509,505	2,509,505	-
Total assets	**2,748,366**	**2,850,510**	**(102,144)**
Liabilities			
Income tax liabilities	860	860	-
Deferred income	73,066	162,692	(89,626)
Other	1,510,324	1,510,324	-
Total liabilities	**1,584,250**	**1,673,876**	**(89,626)**
Invested capital	**1,164,116**	**1,176,634**	**(12,518)**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

IAS 12 Income Taxes

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. The Group evaluated the impact and concluded that the amendment has no effect on the Group's financial position and performance as the Group has no deductible temporary differences on assets that are in the scope of the amendments.

IAS 7 Statement of Cash Flows

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information for current period in Note 18.

Standards issued but not yet effective

Up to the date of approval of the combined historical financial information, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

Introduction
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group will adopt the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all aspects of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. Based on the data as at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity at 1 January 2018 of approximately 13,630.

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required. The equity shares in listed and non-listed companies are intended to be held for the foreseeable future. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact. Debt securities currently classified as available for sale instruments, are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

(b) Impairment
IFRS 9 is expected to fundamentally change the current loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans, receivables and other debt financial assets not held at FVPL, together with financial guarantee contracts. IFRS 9 requires the Group to record expected credit losses either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade and other receivables. The Group has determined that, due to the unsecured nature of its trade and other receivables, the loss allowance for accounts receivables will increase by 13,630 of which GEL 6,962 relates to assets of disposal group held for sale.

(c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, it will replace IFRS 4 Insurance Contracts that was issued in 2005. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. IFRS 17 is effective for reporting periods starting on or after 1 January 20121, with comparative figures required. Early application is permitted using either a full retrospective or a modified retrospective approach, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently evaluating the impact.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. IFRS 16 can be adopted using either a full retrospective or a modified retrospective approach. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a "right of use" asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Leases must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Lessor accounting remains substantially the same as in IAS 17. The Group does not anticipate early adoption of IFRS 16 and is currently assessing the impact of IFRS 16 on its financial statements.

IFRS 2 Share-based Payments

On 20 June 2016, the IASB issued amendments to IFRS 2 Share Based Payment that clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

Annual Improvements 2015-2017 Cycle

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, at fair value through profit or loss, is available for each investment in as associate or joint venture on an investment by investment basis, upon initial recognition. The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018. The Group is currently evaluating the impact.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the management board use their judgment and make estimates in determining the amounts recognised in the combined historical financial information. The most significant judgments and estimates are as follows:

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and infrastructure assets included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties and infrastructure assets included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in notes 12 and 13, while valuation inputs and techniques are presented in note 29. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Impairment of insurance premiums receivable, accounts receivable and other assets

The impairment provision for insurance premiums receivable, accounts receivable and other assets is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If the Group determines that objective evidence of impairment exists, the proper provision rate is applied. If the Group determines that no objective evidence of impairment exists, whether significant or not, it includes the trade and other receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. Actual results may differ from the estimates.

The amount of allowance for impairment of the trade and other receivables as at 31 December 2017 was GEL 4,003 (31 December 2016: GEL 2,292 31 December 2015: 6,935). Refer to Note 25.

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2017 was GEL 4,243 (31 December 2016: GEL 8,762 31 December 2015: GEL 7,031). Refer to Note 25.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. Refer to Note 17.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatization transaction. Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these combined historical financial information. However, based on the provisions of privatization agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognized infrastructure assets as the Group's property, plant and equipment.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions during the year ended 31 December 2017

JSC ABC Pharmacy

On 6 January 2017 JSC GEPHA ("GEPHA"), a wholly owned subsidiary of GHG, classified as disposal group held for sale, acquired 67% of LTD ABC Pharmacy ("ABC"), a pharmaceutical company operating in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of ABC as at the date of acquisition was:

	Fair value recognised on acquisition
Cash and cash equivalents	4,184
Accounts receivable [1]	8,050
Prepayments	1,413
Inventories	44,572
Property and equipment	10,986
Intangible assets	322
Other assets	1,315
	70,842
Accounts payable	27,525
Accruals and deferred income	1,861
Other liabilities	1,122
	30,508
Total identifiable net assets	**40,335**
Non-controlling interests [3]	(13,312)
Goodwill arising on business combination	46,796
Consideration given [2]	**73,819**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(32,501)
Cash acquired with the subsidiary	4,184
Net cash outflow	**(28,317)**

The Group decided to increase its presence and investment in the pharmaceuticals segment through the acquisition of ABC. Management considers that the acquisition will have a positive impact on the value of the Group.

Since the acquisition, ABC has recorded GEL 139,812 and GEL 15,354 of revenue and profit, respectively. As the acquisition took place on 6 January 2017, it would not have material effect on Group's profit if the combination had taken place at the beginning of the period. Since GHG is classified as disposal group held for sale the acquisition did not have impact on the Group's revenues from continued operations.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

[1] The fair value of the receivables from sales of pharmaceuticals amounted to GEL 8,050. The gross amount of receivables is GEL 9,452. GEL 1,402 of the receivables has been impaired.

[2] Consideration for the acquisition was GEL 73,819, of which, a) GEL 10,347 was fair value of 33% equity shares of JSC GPC transferred to former shareholders of ABC, b) GEL 32,501 was cash payment and c) a holdback amount was GEL 30,971 at fair value.

[3] As part of the acquisition, the selling shareholders have a put option to sell their 33% share in the combined pharma business to GHG. The Group recognised a GEL 55 million liability to purchase the remaining 33% share and the non-controlling interest arising from the consolidated pharma business of GHG was fully de-recognised. The difference between the redemption liability and non-controlling interest was recognised in equity through other reserves. The redemption liability is carried at amortized cost and interest is unwound on each reporting date.

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC New Coffee Georgia

On 15 February 2017 JSC BGEO Investments ("BGEO Investment"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC New Coffee Georgia ("New Coffee Georgia"), a coffee distribution company, which has exclusive rights to import and distribute Lavazza coffee in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of New Coffee Georgia as of the acquisition date was:

	Fair value recognised on acquisition
Cash and cash equivalents	208
Accounts receivable [1]	600
Property and equipment	895
Intangible assets arising on acquisition	1,120
Other assets	776
	3,599
Accounts payable	67
Amounts due to credit institutions	651
	718
Total identifiable net assets	**2,881**
Goodwill arising on business combination	2,836
Consideration given [2]	**5,717**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(5,304)
Cash acquired with the subsidiary	208
Net cash outflow	**(5,096)**

The Group decided to increase its presence in the beverage market by acquiring New Coffee Georgia. Management considers that the purchase will have a positive impact on the value of the Group's beverage business.

Since the acquisition, New Coffee Georgia recorded GEL 2,405 and GEL 20 of revenue and loss, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 364,156 and GEL 93,986 of revenue and profit, respectively.

[1] The fair value of the receivables amounted to GEL 600. The gross amount of receivables is GEL 764. GEL 164 of the receivables was impaired as at the acquisition date.
[2] Consideration comprised GEL 5,717, which consists of cash payment of GEL 5,304 and a holdback amount with a fair value of GEL 413.

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC BK construction

On 2 June 2017 JSC m^2 Real Estate ("m^2"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC BK Construction ("BK Construction"), a construction company operating in Georgia from individual investors.

The fair values of aggregate identifiable assets and liabilities of BK Construction as at the date of acquisition were:

	Fair value recognised on acquisition
Property and equipment	2,446
Total identifiable net assets	**2,446**
Gain on bargain purchase	(260)
Consideration given [1]	**2,186**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(2,186)
Cash acquired with the subsidiary	-
Net cash outflow	**(2,186)**

The Group decided to vertically integrate real estate operations by acquiring LLC BK Construction. Management considers that the deal will have a positive impact on the value of the Group.

Acquisition of BK did not have material impact on revenue and profit of the Group.

[1] Consideration was paid fully in cash.

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC Kass 1

On 26 December 2017, m² Hospitality LLC ("m²"), a 100% owned subsidiary of the Group, signed a share purchase agreement with JSC Kass Group, to acquire 50% of the shares of LLC Kass 1 ("Kass"). Kass is currently developing a boutique hotel in Tbilisi with target to complete the construction in 2019. Further m² made additional investment in Kass in amount of GEL 4,921 resulting in increase in equity interests in Kass to 60%.

The provisional fair values of aggregate identifiable assets and liabilities of Kass as at the date of the acquisition were:

	Provisional fair value recognised on acquisition
Accounts receivable	14
Investment property	-
Property and equipment	20,409
Prepayments	803
	21,226
Accounts payable	103
	103
Total identifiable net assets	**21,124**
Non-controlling interests	(10,562)
Consideration given [1]	**10,562**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(10,562)
Cash acquired with the subsidiary	-
Net cash outflow	**(10,562)**

The acquisition is in line with m²'s strategy to pursue hotel development and capitalise on growing tourist activities in Georgia. Management considers that the deal will have a positive impact on the value of the Group.

The net assets presented above are estimated provisionally as at the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

As the acquisition took place on 26 December 2017, it did not have material effect on Group's revenue and profit.

If the combination had taken place at the beginning of the period, it would not have material effect on the Group's revenue and profit.

[1] Consideration given comprises of cash payment.

(Thousands of Georgian Lari)

5. Business Combination (continued)

Acquisition of Healthcare Subsidiaries by GHG, classified as disposal group held for sale

During year ended 31 December 2017 JSC Medical Corporation EVEX ("Acquirer"), made following acquisitions:

- On 8 November 2017, acquired 100% of LLC Medical Center Almedi ("MCA"), a healthcare company operating in Georgia, shares from individual investors;
- On 25 December 2017, acquired 98% of JSC Policlinic Vere ("Vere"), a healthcare company operating in Georgia, shares from individual investors.
- On 20 July 2017, acquired 100% of the shares of LLC New Clinic ("NC"), a healthcare company operating in Georgia, from individual investors.
- On 20 July 2017, acquired 100% of the shares of LLC Aliance Med ("AM"), a healthcare company operating in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	4
Accounts receivable [1]	460
Property and equipment	3,034
Other assets	4
	3,502
Amounts due to credit institutions	103
Accounts payable	301
Accruals and deferred income	500
Income tax liabilities	18
Other liabilities	167
	1,089
Total identifiable net assets	**2,413**
Goodwill arising on business combination	10,506
Consideration given [2]	**12,919**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(12,919)
Cash acquired with the subsidiary	4
Net cash outflow	**(12,915)**

Since the acquisition, acqurees have recorded GEL 3,159 and GEL 1,260 of revenue and profit, respectively. As GHG is classified as disposal group held for sale, the acquisitions did not have impact on the Group's revenues from continued operations.

The net assets presented above are estimated provisionally as of the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

[1] The fair value of the receivables amounted to GEL 460. The gross amount of receivables is GEL 460.
[2] Consideration given comprises of cash payment.

(Thousands of Georgian Lari)

5. Business Combination (continued)

Acquisitions during the year ended 31 December 2016

Acquisition of Georgian Global Utilities LLC

On 21 July 2016, the Group acquired remaining 75% equity stake in Georgian Global Utilities LLC ("GGU"), its utilities and energy business. As a result of this buy-out, Group owns 100% of GGU.

The fair values of identifiable assets and liabilities of the GGU as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	3,760
Amounts due from credit institutions	2,922
Accounts receivable [1]	27,304
Inventories	4,429
Investment properties (note 12)	19,417
Property and equipment (note 13)	304,932
Intangible assets	1,060
Income tax assets	2,033
	365,857
Borrowings	84,632
Income tax liabilities	390
Other liabilities	24,969
	109,991
Total identifiable net assets	**255,866**
Gain on bargain purchase (note 26)	(36,915)
Consideration given[2]	**218,951**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(164,213)
Cash acquired with the subsidiary	3,760
Net cash outflow	**(160,453)**

The Group decided to enter the utilities and energy business, by acquiring GGU, as it sees opportunities and value creation in utility and energy sector. The Group believes that there is a potential to increase GGU's operational cash flows and EBITDA. Management considers that the deal will have a positive impact on the value of the Group.

The acquisition resulted in gain on bargain purchase due to large scale and specific nature of the business for which the Group was the only willing buyer at the time of sale

[1] Gross amount of receivables from utility business was GEL 63,929, of which GEL 36,625 is not expected to be collected

[2] Consideration comprised of GEL 218,951 , which consists of GEL 164,213 cash payment and fair value of a previously owned 25% of GGU. At the acquisition date the Group performed fair valuation of 25% share of GGU and recognised GEL 5,145 loss in Non-recurring expenses (Note 26), the carrying value of 25% share as at the acquisition date was GEL 59,883

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of a Pharmaceutical Subsidiary

On 4 May 2016 JSC Georgia Healthcare Group ("GHG"), acquired 100% of shares in JSC GPC ("GPC") a pharmaceuticals company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	1,455
Accounts receivable[1]	7,885
Inventory	31,282
Property and equipment (note 13)	8,105
Intangible assets	861
Income tax assets	552
Prepayments	1,723
Other assets	4,272
	56,135
Borrowings	15,198
Accruals	1,331
Other liabilities	37,750
	54,279
Total identifiable net assets	**1,856**
Goodwill arising on acquisition	29,025
Consideration given [2]	**30,881**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(26,686)
Cash acquired with the subsidiary	1,455
Net cash outflow	**(25,231)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

[1] Gross amount of receivables from pharmaceutical business was GEL 10,884, of which, GEL 2,999 is not expected to be collected;
[2] Consideration comprised of GEL 30,881, which consists of GEL 26,686 cash payment and a holdback amount with a fair value of GEL 4,195.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2016 JSC Medical Corporation EVEX ("EVEX"), made following acquisitions:

- On 1 June 2016, obtained de-facto control on LLC Emergency Service, a healthcare company operating in Georgia;
- On 1 January 2016, obtained de-facto control on JSC Poti Central Clinical Hospital, a healthcare company operating in Georgia;
- On 6 July 2016, 76% share in JSC Pediatry, a healthcare company operating in Georgia was acquired from individual shareholders.
- On 1 August 2016, 100% share in Patgeo LLC, a healthcare company operating in Georgia was acquired from individual shareholders.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	74
Receivables from healthcare services [1]	1,435
Property and equipment (note 13)	15,605
Intangible assets	19
Other assets	208
	17,341
Borrowings	159
Accruals	518
Income tax liabilities	1,475
Other liabilities	4,118
	6,270
Total identifiable net assets	**11,071**
Gain on bargain purchase	(3,206)
Goodwill arising on business combination	4,124
Consideration given [2]	**11,989**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(2,400)
Cash acquired with the subsidiaries	74
Net cash outflow	**(2,326)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC Emergency Service, JSC Poti Central Clinical Hospital, JSC Pediatry and Patgeo LLC. Management considers that the deal will have a positive impact on the value of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 4,124 was added to the Healthcare cash generating unit.

Prior to acquisition, owners of JSC Poti Central Clinical Hospital encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase.

[1] Gross amount of receivables from healthcare services was GEL 2,006, of which, GEL 571 is not expected to be collected;

[2] Consideration comprised GEL 11,989 which consists of cash payment of GEL 2,400, a holdback amount with a fair value of GEL 2,697 and of pre-existing loans to Poti with a fair value of GEL 6,892.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2015

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2015 JSC Medical Corporation EVEX ("Evex"), made following acquisitions:

- On 5 August 2015, 50% of the shares of LLC GNCo, a healthcare company operating in Georgia, was acquired from individual shareholders with effective management and operational control over the company;
- On 30 June 2015, 95% of the shares of LLC Deka, a healthcare company operating in Georgia, was acquired from individual shareholders;
- On 1 March 2015, 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia, was acquired from individual shareholders.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	541
Accounts receivable and other loans[1]	8,320
Property and equipment (note 12)	125,313
Other assets	4,419
	138,593
Borrowings	15,142
Accounts payable	11,123
Income tax liabilities	12,944
Accruals and deferred income	5,558
Other liabilities	2,148
	46,915
Total identifiable net assets	**91,678**
Non-controlling interest	(29,786)
Goodwill arising on acquisition	12,296
Gain on bargain purchase	(5,361)
Consideration given [2]	**68,827**

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(47,628)
Cash acquired with the subsidiary	541
Net cash outflow	**(47,087)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC GNCo, LLC Deka, LLC Tbilisi Emergency Center and. Management considers that the deal will have a positive impact on the value of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 12,296 was added to the Healthcare cash generating unit. The whole amount of goodwill recognized is expected to be tax deductible. The Group has elected to measure the non-controlling interests in LLC GNCo and LLC Deka at the non-controlling interests' proportionate share of their respective identifiable net assets.

[1] Gross amount of receivables from healthcare services was GEL 18,271 of which GEL 9,951 is not expected to be collected;

[2] Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL (5,361), recorded in net non-recurring items;

3 Consideration comprised GEL 68,827 which consists of cash payment of GEL 47,628 and a holdback amount with a fair vaue of GEL 21,199.

(Thousands of Georgian Lari)

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale

Given the expectation, in line with Georgia Capital's strategy, that it is highly probable the Group will own less than a 50% stake in its healthcare business, consisting of Georgia Healthcare Group ("GHG"), at the end 2018,the Group classified GHG as "disposal group held for sale" and its results of operations are reported under "discontinued operations" line as a single amount in the combined income statement.. The Group determined that GHG met the criteria to be classified as held for sale as at 31 December 2017 due to the following reasons:

- GHG is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- Management is committed to the plan to sell

Below are presented income statement line items of the Group attributable to discontinued operations for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017	*2016*	*2015*
Healthcare and pharma revenue	691,971	362,587	183,993
Cost of healthcare and pharma services	(479,184)	(227,725)	(103,054)
Gross healthcare and pharma profit	**212,787**	**134,862**	**80,939**
Net insurance premiums earned	50,367	57,052	55,029
Net insurance claims incurred	(35,153)	(45,564)	(42,881)
Gross insurance profit	**15,214**	**11,488**	**12,148**
Real estate revenue	729	1,316	556
Gross real estate profit	**729**	**1,316**	**556**
Other income	20,376	927	3,187
Gross profit	**249,106**	**148,593**	**96,830**
Salaries and other employee benefits	(75,429)	(39,749)	(26,573)
Administrative expenses	(50,783)	(27,894)	(10,352)
Other operating expenses	(10,945)	(963)	(709)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(4,175)	(2,332)	(3,448)
	(141,332)	**(70,938)**	**(41,082)**
EBITDA	**107,774**	**77,655**	**55,748**
Profit from associates	376	254	-
Depreciation and amortisation	(25,795)	(19,577)	(12,666)
Net foreign currency (loss) gain	(5,907)	(6,810)	2,098
Interest income	2,111	1,841	2,677
Interest expense	(27,543)	(15,577)	(22,900)
Net operating income before non-recurring items	**51,016**	**37,786**	**24,957**
Net non-recurring items	(4,779)	1,157	(1,676)
Profit before income tax expense	**46,237**	**38,943**	**23,281**
Income tax (expense) benefit	(387)	21,156	10
Profit for the year*	**45,850**	**60,099**	**23,291**

** The difference with profit from discontinued operations in combined income statements is attributable to intra-group eliminations in the net gain amount of GEL 1,501 for the year ended 31 December 2017 (2016: Nil , 2015: 8,611 net loss)*

(Thousands of Georgian Lari)

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale (continued)

Assets and liabilities of disposal group held for sale as at 31 December 2017 are presented below:

	2017
Cash and cash equivalents	48,840
Amounts due from credit institutions	14,768
Investment securities	1,263
Accounts receivable	123,388
Insurance premiums receivable	21,257
Inventories	118,811
Prepayments	30,354
Property and equipment	626,476
Goodwill	114,798
Intangible assets	28,466
Income tax assets	2,026
Other assets	19,313
Total assets**	**1,149,760**
Accounts payable	97,321
Borrowings	267,010
Debt securities issued	93,493
Accruals	21,944
Insurance contracts liabilities	20,953
Income tax liabilities	72
Other liabilities	118,608
Total liabilities**	**619,401**

*** The differences with assets and liabilities of disposal group held for sale presented in combined statement of financial position are attributable to intra-group eliminations in amount of GEL 1,176 and GEL 372 , respectively.*

(Thousands of Georgian Lari)

7. Segment Information

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

GHG (Discontinued)	- Georgia Healthcare Group - principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals;
m2	- Comprising the Group's real estate subsidiaries, principally developing, constructing and selling residential apartments and also renting out commercial properties;
GGU	- Comprising the Group's utility and energy subsidiaries – principally supplying water, electricity and providing a wastewater service;
Aldagi	- Property and Casualty Insurance business – principally providing wide-scale property and casualty insurance services to corporate and individual clients.
TV	- Beverage business - principally producing and distributing wine, beer and soft beverages.
Corporate Center	-Comprising of JSC Georgia Capital.

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the combined historical financial information.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017, 2016 or 2015.

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	GHG (Discontinued)	M2	GGU	Aldagi	TV	Other IB	Corporate Center	Inter-Business Eliminations	Group Total
Gross insurance profit	-	-	-	28,572	-	-	-	(1,523)	27,049
Gross real estate profit	-	35,452	-	144	-	-	-	(208)	35,388
Gross utility and energy profit	-	-	89,462	-	-	-	-	(1,091)	88,371
Gross beverage profit	-	-	-	-	23,128	-	-	-	23,128
Other income	-	92	6,414	1,001	247	-	1,305	(1,624)	7,435
Gross profit	**-**	**35,544**	**95,876**	**29,717**	**23,375**	**-**	**1,305**	**(4,446)**	**181,371**
Operating expenses and impairment	-	(8,521)	(24,178)	(12,760)	(22,189)	(302)	(11,600)	1,342	(78,208)
EBITDA	**-**	**27,023**	**71,698**	**16,957**	**1,186**	**(302)**	**(10,295)**	**(3,104)**	**103,163**
Dividend income	-	-	-	-	-	-	41,800	(41,800)	-
Net gains from disposal of investment	-	-	-	-	-	-	90,275	(90,275)	-
Depreciation and amortisation	-	(508)	(20,332)	(855)	(6,542)	-	-	-	(28,237)
Net foreign currency gain (loss)	-	41	(1,448)	208	(7,144)	14	3,391	-	(4,938)
Interest income	-	816	1,730	2,965	189	-	12,914	(5,643)	12,971
Interest expense	-	122	(13,483)	-	(3,345)	-	(19,884)	6,576	(30,014)
Net operating income (loss) before non-recurring items	**-**	**27,494**	**38,165**	**19,275**	**(15,656)**	**(288)**	**118,201**	**(134,246)**	**52,945**
Net non-recurring (expense/loss) income/gain	-	(128)	(1,122)	-	700	-	(74)	-	(624)
Profit (loss) before income tax from continuing operations	**-**	**27,366**	**37,043**	**19,275**	**(14,956)**	**(288)**	**118,127**	**(134,246)**	**52,321**
Income tax expense	-	(1,554)	(935)	(2,975)	(285)	-	-	-	(5,749)
Profit (loss) for the year from continuing operations	**-**	**25,812**	**36,108**	**16,300**	**(15,241)**	**(288)**	**118,127**	**(134,246)**	**46,572**
Profit from discontinued operations	45,850	-	-	-	-	-	-	1,501	47,351
Profit (loss) for the year	**45,850**	**25,812**	**36,108**	**16,300**	**(15,241)**	**(288)**	**118,127**	**(132,745)**	**93,923**
Revenue from continued operations	**-**	**121,309**	**135,072**	**54,815**	**55,687**	**-**	**1,305**	**(4,443)**	**363,745**
Revenue from discontinued operations	**763,443**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**763,443**
Assets and liabilities									
Cash and cash equivalents	-	34,943	70,261	4,186	17,454	28,453	219,002	-	374,299
Amounts due from credit institutions	-	114	7,657	25,968	4,401	1	-	-	38,141
Debt investment securities	-	1,145	-	4,180	-	8	45,147	(17,420)	33,060
Total assets	**1,149,760**	**348,012**	**665,750**	**137,407**	**174,102**	**33,701**	**298,476**	**(58,842)**	**2,748,366**
Borrowings	-	58,993	282,253	-	71,430	7,329	272,279	(35,175)	657,109
Debt securities issued	-	65,925	30,009	-	-	-	-	(18,099)	77,835
Total liabilities	**619,401**	**188,343**	**371,471**	**86,473**	**92,813**	**11,364**	**273,227**	**(58,842)**	**1,584,250**
Other segment information									
Property and equipment	82,271	16,437	175,813	2,440	39,316	2	-	-	316,279
Intangible assets	15,327	10	1,580	273	355	2	-	-	17,547
Capital expenditure	**97,598**	**16,447**	**177,393**	**2,713**	**39,671**	**4**	**-**	**-**	**333,826**
Depreciation & amortisation	-	(508)	(20,332)	(855)	(6,541)	(1)	-	-	(28,237)

**Dividend income of corporate center is eliminated in combined income statements.*

***Net gains from disposal of investment business of corporate center comprises of gain from sale of GHG as accounted in JSC Georgia Capitals separate income statement, related increase in combined invested capital is presented as sale of interests in existing subsidiaries in combined statement of changes in invested capital.*

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2016:

	GHG (Discontinued)	M2	GGU	Aldagi	TV	Other IB	Inter-Business Eliminations	Group Total
Gross insurance profit	-	-	-	25,789	-	-	(532)	25,257
Gross real estate profit	-	21,957	-	33	-	-	(114)	21,876
Gross utility and energy profit	-	-	39,075	-	-	-	(395)	38,680
Gross beverage profit	-	-	-	-	14,420	-	-	14,420
Other income	-	72	6,365	1,506	(49)	130	347	8,371
Gross profit	**-**	**22,029**	**45,440**	**27,328**	**14,371**	**130**	**(694)**	**108,604**
Operating expenses and impairment	-	(5,824)	(9,311)	(12,318)	(11,334)	(2,110)	694	(40,203)
EBITDA	**-**	**16,205**	**36,129**	**15,010**	**3,037**	**(1,980)**	**-**	**68,401**
Profit from associates	-	-	4,074	-	-	-	-	4,074
Depreciation and amortisation	-	(243)	(7,353)	(774)	(1,552)	(139)	-	(10,061)
Net foreign currency gain (loss)	-	792	696	(294)	(1,154)	(3,172)	-	(3,132)
Interest income	-	698	45	3,118	97	585	(283)	4,260
Interest expense	-	(1,633)	(11,435)	-	(862)	121	283	(13,526)
Net operating income (loss) before non-recurring items	**-**	**15,819**	**22,156**	**17,060**	**(434)**	**(4,585)**	**-**	**50,016**
Net non-recurring (expense/loss) income/gain	-	(533)	31,770	4	863	-	-	32,104
Profit (loss) before income tax from continuing operations	**-**	**15,286**	**53,926**	**17,064**	**429**	**(4,585)**	**-**	**82,120**
Income tax (expense) benefit	-	(1,880)	(2,791)	(3,319)	247	(69)	-	(7,812)
Profit (loss) for the year from continuing operations	**-**	**13,406**	**51,135**	**13,745**	**676**	**(4,654)**	**-**	**74,308**
Profit from discontinued operations	60,099	-	-	-	-	-	-	60,099
Profit (loss) for the year	**60,099**	**13,406**	**51,135**	**13,745**	**676**	**(4,654)**	**-**	**134,407**
Revenue from continued operations	**-**	**102,042**	**63,246**	**45,187**	**29,743**	**1,610**	**(1,089)**	**240,739**
Revenue from discontinued operations	**421,882**	**-**	**-**	**-**	**-**	**-**	**-**	**421,882**
Assets and liabilities								
Total assets	889,637	372,255	426,719	117,344	130,801	403,033	(52,488)	2,287,301
Total liabilities	370,222	234,382	139,254	75,541	81,624	421,589	(52,488)	1,270,124
Other segment information								
Property and equipment	110,550	643	35,624	1,241	60,264	-	-	208,322
Intangible assets	10,707	87	769	598	336	-	-	12,497
Capital expenditure	**121,257**	**730**	**36,393**	**1,839**	**60,600**	**-**	**-**	**220,819**
Depreciation & amortisation	-	(243)	(7,353)	(774)	(1,552)	(139)	-	(10,061)

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2015:

	GHG (Discontinued)	M2	GGU	Aldagi	TV	Other IB	Inter-Business Eliminations	Group Total
Gross insurance profit	-	-	-	21,180	-	-	(438)	20,742
Gross real estate profit	-	21,399	-	30	-	-	-	21,429
Gross beverage profit	-	-	-	-	14,903	-	-	14,903
Other income	-	235	(22)	1,272	(59)	(48)	(47)	1,331
Gross profit	**-**	**21,634**	**(22)**	**22,482**	**14,844**	**(48)**	**(485)**	**58,405**
Operating expenses and impairment	-	(5,860)	(505)	(11,073)	(11,389)	(744)	485	(29,086)
EBITDA	**-**	**15,774**	**(527)**	**11,409**	**3,455**	**(792)**	**-**	**29,319**
Profit from associates	-	-	4,050	-	-	-	-	4,050
Depreciation and amortisation	-	(191)	(44)	(834)	(1,288)	(36)	-	(2,393)
Net foreign currency gain (loss)	-	(1,534)	136	993	(2,511)	2,463	8,611	8,158
Interest income	-	386	-	2,402	55	282	(562)	2,563
Interest expense	-	(1,567)	-	(71)	(1,091)	-	562	(2,167)
Net operating income (loss) before non-recurring items	**-**	**12,868**	**3,615**	**13,899**	**(1,380)**	**1,917**	**8,611**	**39,530**
Net non-recurring (expense/loss) income/gain	-	(137)	8	(701)	(297)	2	-	(1,125)
Profit (loss) before income tax from continuing operations	**-**	**12,731**	**3,623**	**13,198**	**(1,677)**	**1,919**	**8,611**	**38,405**
Income tax benefit (expense)	-	(1,974)	64	(733)	(451)	(1,406)	-	(4,500)
Profit (loss) for the year from continuing operations	**-**	**10,757**	**3,687**	**12,465**	**(2,128)**	**513**	**8,611**	**33,905**
Profit from discontinued operations	23,291	-	-	-	-	-	(8,611)	14,680
Profit (loss) for the year	**23,291**	**10,757**	**3,687**	**12,465**	**(2,128)**	**513**	**-**	**48,585**
Revenue	**-**	**61,354**	**(22)**	**42,596**	**29,468**	**(47)**	**(485)**	**132,864**
Revenue from discontinued operations	**242,765**	**-**	**-**	**-**	**-**	**-**	**-**	**242,765**
Assets and liabilities								
Total assets	759,097	275,676	56,215	101,819	40,571	116,504	(8,641)	1,341,241
Total liabilities	286,941	167,889	81	66,567	20,522	14,419	(8,641)	547,778
Other segment information								
Property and equipment	89,653	701	241	442	1,532	-	-	92,569
Intangible assets	3,531	21	60	958	12	-	-	4,582
Capital expenditure	**93,184**	**722**	**301**	**1,400**	**1,544**	**-**	**-**	**97,151**
Depreciation & amortisation	-	(191)	(44)	(834)	(1,288)	(36)	-	(2,393)

(Thousands of Georgian Lari)

8. Cash and Cash Equivalents

	2017	2016	2015
Cash on hand	627	892	389
Current accounts with financial institutions	373,672	371,954	292,566
Time deposits with financial institutions with maturities of up to 90 days	-	29,124	-
Cash and cash equivalents	**374,299**	**401,970**	**292,955**

9. Amounts Due from Credit Institutions

	2017	2016	2015
Time deposits with maturities of more than 90 days	30,485	163,187	34,069
Deposits pledged as security for open commitments	7,656	15,238	-
Amounts due from credit institutions	**38,141**	**178,425**	**34,069**

10. Accounts Receivable

	2017	2016	2015
Receivables from water supply services	20,396	16,108	-
Receivables from Beverage sales	14,497	8,064	7,415
Receivables from connection services	1,605	4,811	-
Receivables from electric power sales	1,267	1,168	-
Receivables from installation of water meters	220	1,434	-
Receivables from healthcare services	-	84,367	71,090
Receivables from sales of pharmaceuticals	-	5,105	-
Other receivables	1,359	3,535	1,751
Accounts receivable, Gross	**39,344**	**124,592**	**80,256**
Allowance	(4,003)	(2,292)	(6,935)
Accounts receivable, Net	**35,341**	**122,300**	**73,321**

11. Inventories

	2017	2016	2015
Real estate inventory	58,830	112,669	95,314
Other inventory	21,302	66,865	22,399
Inventory	**80,132**	**179,534**	**117,713**

(Thousands of Georgian Lari)

12. Investment Properties

	2017	*2016*	*2015*
At 1 January	**140,254**	**110,945**	**74,238**
Additions	17,199	13,927	19,021
Disposals	(402)	(4,144)	-
Net gains from revaluation of investment property	24,685	4,117	14,350
Business combinations (Note 5)	-	19,417	-
Transfers (to) from property and equipment and other assets*	(19,590)	(18,066)	3,336
Currency translation differences	(2,157)	14,058	-
At 31 December	**159,989**	**140,254**	**110,945**

**** Comprised of GEL 18,432 transfer to property and equipment (2016: Nil and 2015: transfers from property and equipment GEL 980 respectively), GEL 1,158 transfer to other assets - inventories (2016: transfer to other assets – inventories GEL 18,066 and 2015: transfer from other assets – inventories GEL 2,356).***

Investment properties are stated at fair value. Fair value represents the price that would be received in exchange for an asset in an arm's length transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 29 for details on fair value measurements of investment properties.

The Group pledges some of its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2017 was GEL 113,598 (2016: 83,519, 2015: Nil).

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings	*Hospitals & clinics*	*Computers & equipment*	*Assets under construction*	*Infrastructure Assets*	*Factory and equipment*	*Other*	*Total*
Cost or revalued amount								
31 December 2016	**137,313**	**388,803**	**160,086**	**81,641**	**199,304**	**-**	**43,670**	**1,010,817**
Additions	1,876	27,708	51,782	176,567	12,621	31,986	13,739	316,279
Business combinations, Note 5	359	7,909	3,714	20,364	-	-	5,424	37,770
Disposals	(542)	(440)	(173)	(4,038)	(1,976)	(18)	(657)	(7,844)
Transfers	2,498	(456)	(1,515)	(141,903)	65,720	59,055	16,601	-
Transfers from investment properties	10,164	-	-	8,268	-	-	-	18,432
Transfers (to) from other assets	-	-	-	(9)	-	-	-	(9)
Transfer to assets of disposal group held for sale	(14,939)	(423,524)	(198,774)	(325)	-	-	(37,298)	(674,860)
Write off	-	-	(1,321)	-	-	-	-	(1,321)
Currency translation differences	55	-	150	2,236	-	-	135	2,576
31 December 2017	**136,784**	**-**	**13,949**	**142,801**	**275,669**	**91,023**	**41,614**	**701,840**
Accumulated impairment								
31 December 2016	**418**	**-**	**-**	**-**	**-**	**-**	**-**	**418**
Currency translation differences	(27)	-	23	-	-	-	-	(4)
31 December 2017	**391**	**-**	**23**	**-**	**-**	**-**	**-**	**414**
Accumulated depreciation								
31 December 2016	**3,857**	**8,554**	**19,157**	**-**	**5,738**	**-**	**5,632**	**42,938**
Depreciation charge	1,340	3,700	18,178	-	16,507	4,171	6,099	49,995
Currency translation differences	391	-	(1,071)	-	999	(284)	83	118
Transfer to assets of disposal group held for sale	(327)	(11,970)	(29,771)	-	-	-	(6,316)	(48,384)
Write off	-	-	-	-	-	-	-	-
Disposals	(13)	(284)	(179)	-	(160)	-	(240)	(876)
31 December 2017	**5,248**	**-**	**6,314**	**-**	**23,084**	**3,887**	**5,258**	**43,791**
Net book value:								
31 December 2016	**133,038**	**380,249**	**140,929**	**81,641**	**193,566**	**-**	**38,038**	**967,461**
31 December 2017	**131,145**	**-**	**7,612**	**142,801**	**252,585**	**87,136**	**36,356**	**657,635**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2016 were as follows:

	Office buildings	*Hospitals & Clinics*	*Computers & equipment*	*Assets under construction*	*Infrastructure Assets*	*Other*	*Total*
Cost or revalued amount							
31 December 2015	**24,482**	**332,775**	**118,392**	**2,119**	**-**	**24,094**	**501,862**
Additions	1,750	47,950	57,700	91,969	1,098	7,855	208,322
Business combinations, Note 5	109,864	13,296	2,604	21,659	169,939	11,280	328,642
Disposals	(335)	(5,412)	(608)	(917)	(670)	(2,127)	(10,069)
Transfers	1,022	194	(397)	(33,189)	28,937	3,433	-
Transfers from other assets	-	-	-	-	-	2,170	2,170
Write off	-	-	(17,720)	-	-	(3,283)	(21,003)
Currency translation differences	530	-	115	-	-	248	893
31 December 2016	**137,313**	**388,803**	**160,086**	**81,641**	**199,304**	**43,670**	**1,010,817**
Accumulated impairment							
31 December 2015	**442**	**-**	**-**	**-**	**-**	**-**	**442**
Currency translation differences	(24)	-	-	-	-	-	(24)
31 December 2016	**418**	**-**	**-**	**-**	**-**	**-**	**418**
Accumulated depreciation							
31 December 2015	**1,905**	**6,844**	**22,589**	**-**	**-**	**5,304**	**36,642**
Depreciation charge	645	1,965	14,776	-	5,738	4,542	27,666
Currency translation differences	582	-	57	-	-	117	756
Transfers	764	-	(319)	-	-	(445)	-
Write off	-	-	(17,720)	-	-	**(3,283)**	(21,003)
Disposals	(39)	(255)	(226)	-	-	(603)	(1,123)
31 December 2016	**3,857**	**8,554**	**19,157**	**-**	**5,738**	**5,632**	**42,938**
Net book value:							
31 December 2015	**22,135**	**325,931**	**95,803**	**2,119**	**-**	**18,790**	**464,778**
31 December 2016	**133,038**	**380,249**	**140,929**	**81,641**	**193,566**	**38,038**	**967,461**

The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Office buildings	*Hospitals & Clinics*	*Computers & equipment*	*Assets under construction*	*Other*	*Total*
Cost or revalued amount						
31 December 2014	**19,104**	**207,038**	**66,917**	**1,230**	**12,647**	**306,936**
Additions	1,347	24,528	56,054	563	10,077	92,569
Business combinations, Note 5	6,838	94,096	15,482	7,347	1,550	125,313
Disposals	(721)	(1,425)	(18,462)	239	(501)	(20,870)
Transfers	(11)	8,538	(1,596)	(7,260)	329	-
Transfers to investment properties	(2,074)	-	-	-	-	(2,074)
Currency translation differences	(1)	-	(3)	-	(8)	(12)
31 December 2015	**24,482**	**332,775**	**118,392**	**2,119**	**24,094**	**501,862**
Accumulated impairment						
31 December 2014	**1,107**	**-**	**-**	**-**	**-**	**1,107**
Impairment	375	**-**	-	-	-	375
Transfers to investment properties	(1,040)	**-**	-	-	-	(1,040)
31 December 2015	**442**	**-**	**-**	**-**	**-**	**442**
Accumulated depreciation						
31 December 2014	**1,558**	**2,646**	**16,586**	**-**	**2,946**	**23,736**
Depreciation charge	407	4,264	7,276	-	2,292	14,239
Currency translation differences	2	-	(3)	-	(1)	(2)
Transfers	(7)	58	(337)	-	286	-
Transfers to investment properties	(54)	-	-	-	-	(54)
Disposals	(1)	(124)	(933)	-	(219)	(1,277)
31 December 2015	**1,905**	**6,844**	**22,589**	**-**	**5,304**	**36,642**
Net book value:						
31 December 2014	**16,439**	**204,392**	**50,331**	**1,230**	**9,701**	**282,093**
31 December 2015	**22,135**	**325,931**	**95,803**	**2,119**	**18,790**	**464,778**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

Refer to Note 29 for details on fair value measurements of the Group's infrastructure assets.

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property, excluding that of disposal group held for sale, as at 31 December 2017 was GEL 93,818 (31 December 2016: GEL 487,083, including that of disposal group held for sale, 31 December 2015: 330,224, including that of disposal group held for sale).

14. Goodwill

Movements in goodwill during the years ended 31 December 2017, 31 December 2016 and 31 December 2015, were as follows:

	2017	*2016*	*2015*
Cost			
1 January	**78,335**	**44,333**	**32,037**
Business combinations	60,138	34,002	12,296
Transfer to assets of disposal group held for sale	(111,846)	-	-
At 31 December	**26,627**	**78,335**	**44,333**
Accumulated impairment			
1 January	**4,692**	**4,692**	**4,692**
At 31 December	**4,692**	**4,692**	**4,692**
Net book value:			
1 January	**73,643**	**39,641**	**27,345**
At 31 December	**21,935**	**73,643**	**39,641**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Property & Casualty Insurance and Teliani.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2017	*2016*	*2015*
P&C Insurance	15,454	15,454	15,454
Teliani	6,481	3,644	3,644
Pharmacy	-	29,025	-
Healthcare	-	22,058	17,081
Health Insurance	-	3,462	3,462
Total	**21,935**	**73,643**	**39,641**

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following rates were used by the Group for P&C Insurance and Teliani:

	P&C Insurance			*Teliani*		
	2017, %	*2016, %*	*2015, %*	*2017, %*	*2016, %*	*2015, %*
Discount rate	9.0%	14.5%	10.4%	12.8%	14.9%	9.4%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

For the Healthcare CGU, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2017. Possible change was taken as +/-1% in discount rate and growth rate.

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities

Other assets comprise:

	2017	*2016*	*2015*
Operating tax assets	29,898	45,517	15,480
Reinsurance assets	20,671	13,161	10,381
Defined contribution pension assets	18,536	16,441	13,706
Investments in associates	-	2,370	53,458
Derivative financial assets	-	6,277	-
Loans issued	102	3,723	13,560
Other	4,330	2,521	7,239
Other assets	**73,537**	**90,010**	**113,824**

Other liabilities comprise:

	2017	*2016*	*2015*
Defined contribution pension obligations	18,536	16,441	13,706
Accruals	17,395	76,987	26,262
Other taxes payable	11,058	30,672	3,599
Other insurance liabilities	11,008	8,235	9,572
Provisions	3,103	706	-
Amounts payable for share acquisitions*	413	8,491	22,075
Derivative financial liabilities	-	1,144	-
Other	1,956	21,627	10,485
Other liabilities	**63,469**	**164,303**	**85,699**

2016 and 2015 amounts payable for share acquisitions fully comprise payables for healthcare business acquisitions.

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax (expense) credit comprises:

	2017	*2016*	*2015*
Current income expense	(5,624)	(6,715)	(4,448)
Deferred income tax (expense) credit	(512)	20,059	(42)
Income tax (expense) credit	**(6,136)**	**13,344**	**(4,490)**
Income tax expense attributable to continuing operations	(5,749)	(7,812)	(4,500)
Income tax (expense) benefit attributable to a discontinued operation (Note 6)	(387)	21,156	10

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2017, 2016 and 2015 was as follows:

	2017	*2016*	*2015*
Currency translation differences	165	1,119	(455)
Income tax credit (expense) in other comprehensive income	**165**	**1,119**	**(455)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which is 15% for 2017 (2016: 15%, 2015: 15%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Group considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 31 December 2016. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities. During the transitional period, between 1 January 2017 and 1 January 2019, no tax is payable on distributed profits from financial to non-financial businesses.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2017, 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2017	*2016*	*2015*
Profit before income tax expense from continuing operations	52,321	82,120	38,405
Net gain before income tax benefit from discontinued operations	47,738	38,943	14,670
Profit before income tax expense	**100,059**	**121,063**	**53,075**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(15,009)**	**(18,159)**	**(7,961)**
Non-taxable income	8,809	5,305	2,712
Correction of prior year declarations	-	(170)	1,489
Non-deductible expenses	(84)	(27)	(2,207)
Tax at the domestic rates applicable to profits in each country	148	(85)	(197)
Effects from changes in tax legislation	-	24,995	-
Other	-	1,485	1,674
Income tax (expense) benefit	**(6,136)**	**13,344**	**(4,490)**

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

16. Taxation (continued)

As at 31 December 2017, 31 December 2016 and 31 December 2015 income tax assets and liabilities consist of the following:

	2017	***2016***	***2015***
Current income tax assets	365	3,201	1,841
Deferred income tax assets	1,009	1,356	4,951
Income tax assets	**1,374**	**4,557**	**6,792**
Current income tax liabilities	860	3,895	10,119
Deferred income tax liabilities	-	-	24,215
Income tax liabilities	**860**	**3,895**	**34,334**

Deferred tax assets and liabilities as at 31 December 2017, 31 December 2016 and 31 December 2015 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				***Origination and reversal of temporary differences***				***Origination and reversal of temporary differences***		
	2014	***In the income statement***	***Business combi-nations***	***In other compre-hensive income***	***2015***	***In the income statement***	***Business combi-nations***	***In other compre-hensive income***	***2016***	***In the income statement***	***In other compre-hensive income***	***2017***
Tax effect of deductible temporary differences:												
Borrowings	11	(11)	-	-	-	-	-	-	-	-	-	-
Investment properties	980	-	-	-	980	(980)	-	3	3	-	-	3
Insurance premiums receivables	1,510	650	-	-	2,160	(952)	-	-	1,208	(721)	-	487
Allowances for impairment and provisions for other losses	198	(198)	-	-	-	-	-	-	-	-	-	-
Tax losses carried forward	1,701	2,921	-	(445)	4,177	(5,326)	-	1,149	-	-	-	-
Property and equipment	880	56	-	(49)	887	(887)	-	-	-	-	-	-
Other assets and liabilities	185	1,748	982	-	2,915	(3,539)	1,531	-	907	(351)	-	556
Deferred tax assets	**5,465**	**5,166**	**982**	**(494)**	**11,119**	**(11,684)**	**1,531**	**1,152**	**2,118**	**(1,072)**	**-**	**1,046**
Tax effect of taxable temporary differences:												
Borrowings	-	44	-	-	44	(44)	-	-	-	-	-	-
Other insurance liabilities & pension fund obligations	1,382	(1,160)	-	-	222	(222)	-	-	-	-	-	-
Property and equipment	7,458	7,372	13,443	(49)	28,224	(30,014)	1,915	37	162	(162)	-	-
Investment properties	-	-	-	-	-	163	-	-	163	2	(165)	-
Intangible assets	2,007	(459)	-	-	1,548	(1,115)	-	-	433	(433)	-	-
Other assets and liabilities	941	(589)	(17)	10	345	(511)	174	(4)	4	33	-	37
Deferred tax liabilities	**11,788**	**5,208**	**13,426**	**(39)**	**30,383**	**(31,743)**	**2,089**	**33**	**762**	**(560)**	**(165)**	**37**
Net deferred tax liabilities	**(6,323)**	**(42)**	**(12,444)**	**(455)**	**(19,264)**	**20,059**	**(558)**	**1,119**	**1,356**	**(512)**	**165**	**1,009**

17. Insurance Contract Liabilities and Reinsurance Assets

	2017			***2016***			***2015***		
	Insurance contract liabilities 2017	***Reinsurance assets 2017***	***Net 2017***	***Insurance contract liabilities 2016***	***Reinsurance assets 2016***	***Net 2016***	***Insurance contract liabilities 2015***	***Reinsurance assets 2015***	***Net 2015***
At 1 January	**67,871**	**(13,161)**	**54,710**	**55,846**	**(10,381)**	**45,465**	**46,587**	**(11,289)**	**35,298**
Premiums written during the period	126,336	(23,995)	102,341	130,506	(20,407)	110,099	124,214	(20,932)	103,282
Premiums earned during the year	(126,975)	22,938	(104,037)	(121,229)	20,530	(100,699)	(117,491)	21,168	(96,323)
Claims incurred during the period	75,806	(15,555)	60,251	74,035	(10,613)	63,422	66,562	(3,567)	62,995
Claims paid during the period	(75,682)	9,102	(66,580)	(71,287)	7,710	(63,577)	(65,677)	4,239	(61,438)
Assumed through business combination	-	-	-	-	-	-	1,651	-	1,651
Transfer to assets and liabilities of disposal group held for sale	(20,953)	-	(20,953)	-	-	-	-	-	-
At 31 December	**46,403**	**(20,671)**	**25,732**	**67,871**	**(13,161)**	**54,710**	**55,846**	**(10,381)**	**45,465**

(Thousands of Georgian Lari)

18. Borrowings

Borrowings comprise:

	2017	*2016*	*2015*
Borrowings from local financial institutions	41,559	277,424	106,770
Borrowings from international financial institutions	335,942	149,037	26,356
Other borrowings*	279,608	291,415	9,334
Borrowings	**657,109**	**717,876**	**142,460**

** Other borrowings comprise a portion of BGEO PLC's borrowings allocated to the Group.*

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants"). At 31 December 2017, 31 December 2016 and 31 December 2015 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

Material non-cash transactions

In 2017 year the Group incurred borrowings costs with total amount GEL 16,531 (2016: GEL 8,888 , 2015: GEL 5,389) of which GEL 2,206 (2016: GEL 3,990, 2015: GEL 3,639) has been capitalized as a part of investment property, GEL 6,723 (2016: GEL 4,898, 2015: GEL 1,750) was capitalized as a part of inventory property, GEL 7,602 was capitalized as part of property and equipment (2016: Nil, 2015: Nil).

Changes in liabilities arising from financing activities

	Borrowings	**Debt securities**
Carrying amount at 31 December 2016	**717,876**	**122,263**
Foreign currency translation	(3,314)	(3,082)
Cash proceeds	329,043	40,000
Cash repayments	(160,691)	(45,322)
Transfer to liabilities of disposal group held for sale	(187,557)	(36,024)
Other*	(38,248)	-
Carrying amount at 31 December 2017	**657,109**	**77,835**

**Reduction in borrowings as a result of capital contribution from Banking Business.*

19. Debt Securities Issued

Debt securities issued comprise:

	2017	*2016*	*2015*
USD denominated local bonds issued by m2	64,445	72,847	47,954
USD denominated local bonds issued by GHG	-	34,020	34,568
GEL denominated local bonds issued by GGU*	13,390	15,396	-
Debt securities issued	**77,835**	**122,263**	**82,522**

**JSC Georgia Capital subscribed to a portion of the GGU bond*

In December 2016, the Group's utility subsidiary Georgian Water and Power LLC completed the issuance of 5-year local bonds of GEL 30 million. The bonds were issued at par with an annual coupon rate of NBG refinancing rate plus 3.5% payable quarterly with 5% withholding tax applying to individuals.

In October 2016, the Group's real estate subsidiary JSC m2 Real Estate completed the issuance of 3-year local bonds of USD 25 million (GEL 66.8 million). The bonds were issued at par with an annual coupon rate of 7.5% payable semi-annually with a 5% withholding tax applying to individuals.

In May 2015, the Group's healthcare subsidiary JSC Medical Corporation EVEX completed the issuance of 2-year local bonds of USD 15 million (GEL 34 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with 5% withholding tax applying to individuals.

In May 2015, the Group's real estate subsidiary JSC m2 Real Estate completed the issuance of 2-year local bonds of USD 20 million (GEL 45 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with a 5% withholding tax applying to individuals.

(Thousands of Georgian Lari)

20. Deferred Income

	2017	*2016*	*2015*
Advances received for sale of apartments	46,195	79,593	102,846
Advances received for connection services	21,202	3,983	-
Other	5,669	1,194	-
Deferred income	**73,066**	**84,770**	**102,846**

21. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and its subsidiaries are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Commitments and contingencies

As at 31 December 2017, 31 December 2016 and 31 December 2015 the Group's commitments and contingencies comprised the following:

	2017	*2016*	*2015*
Provisions	(3,103)	(706)	-
Operating lease commitments			
Not later than 1 year	4,075	14,477	2,432
Later than 1 year but not later than 5 years	10,448	65,211	2,289
Later than 5 years	9,302	1,910	-
	23,825	**81,598**	**4,721**
Capital expenditure commitments	**-**	**10,780**	**25,200**
Commitments and contingencies, net	**20,722**	**91,672**	**29,921**

Capital expenditure commitment was for purchase of property and capital repairs.

(Thousands of Georgian Lari)

22. Invested Capital

Non-controlling interest

Georgia Healthcare Group PLC ("GHG") is the only significant subsidiary of the Group that has a material non-controlling interest of 43% as of 31 December 2017 (31 December 2016: 35%, 31 December 2015:32%). The following table summarises key information before intragroup eliminations relevant to Georgia Healthcare Group PLC.

	2017	*2016*	*2015*
Total assets	1,149,644	889,637	759,097
Total Liabilities	619,398	370,222	286,941
Profit for the year	45,850	60,099	23,291
Net (decrease) increase in cash and cash equivalents	25,602	(121,914)	112,369
Profit attributable to non-controlling interest	27,955	27,376	5,208

Earnings per share

	2017	*2016*	*2015*
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the parent	69,778	106,893	45,125
Profit for the year from continuing operations attributable to ordinary shareholders of the parent	50,382	74,170	35,653
Profit for the year from discontinued operations attributable to ordinary shareholders of the parent	19,396	32,723	9,472
Weighted average number of ordinary shares outstanding during the year*	39,384,712	39,384,712	39,384,712
Earnings per share	1.7717	2.7141	1.1457
Earnings per share from continuing operations	1.2792	1.8832	0.9052
Earnings per share from discontinued operations	0.4925	0.8309	0.2405

** Weighted average number of ordinary shares of the Group represents expected outstanding number of shares of Georgia Capital PLC.*

In 2016 the Board of Directors of BGEO Group PLC has approved a USD 50 million BGEO Group PLC's share buyback and cancellation programme over a two year period. During the year ended 31 December 2017 Group repurchased and cancelled 115,608 BGEO Group PLC's shares in exchange for GEL 12,186. Respective buyback transactions were recognized in Group's combined financial statements as reduction of invested capital

(Thousands of Georgian Lari)

23. Gross Profit

Gross Insurance Profit

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	*2016*	*2015*
Total gross premiums earned on insurance contracts	75,085	63,645	62,024
Reinsurers' share of gross earned premiums on insurance contracts	(22,938)	(20,530)	(21,168)
Net insurance premiums earned	**52,147**	**43,115**	**40,856**
Gross insurance claims incurred	(40,653)	(28,471)	(23,681)
Reinsurers' share of gross insurance claims incurred	15,555	10,613	3,567
Net insurance claims incurred	**(25,098)**	**(17,858)**	**(20,114)**
Gross insurance profit	**27,049**	**25,257**	**20,742**

Gross Real Estate Profit

	2017	*2016*	*2015*
Revenue from sale of apartments	93,470	96,372	44,917
Revaluation of m^2 investment property	24,033	3,770	14,350
Income from operating leases	3,650	2,832	1,883
Real estate revenue	**121,153**	**102,974**	**61,150**
Cost of real estate	(85,765)	(81,098)	(39,721)
Gross real estate profit	**35,388**	**21,876**	**21,429**

Gross Utility and Energy Profit

	2017	*2016*	*2015*
Revenue from water supply	117,814	51,369	-
Revenue from electric power sales	9,755	5,117	-
Utility and energy revenue	**127,569**	**56,486**	**-**
Cost of water supply	(36,886)	(17,341)	-
Cost of electric power sales	(2,312)	(465)	-
Cost of utility and energy	**(39,198)**	**(17,806)**	**-**
Gross utility and energy profit	**88,371**	**38,680**	**-**

Gross Beverage Profit

	2017	*2016*	*2015*
Revenue from wine sales	22,156	17,675	17,825
Revenue from beer sales	16,406	-	-
Revenue from distribution of imported goods	12,910	12,118	11,702
Other beverage revenue	3,969	-	-
Beverage revenue	**55,441**	**29,793**	**29,527**
Cost of wine	(10,557)	(7,712)	(7,951)
Cost of beer	(8,676)	-	-
Cost of distribution	(10,814)	(7,661)	(6,673)
Cost of other beverage revenue	(2,266)	-	-
Cost of beverage	**(32,313)**	**(15,373)**	**(14,624)**
Gross beverage profit	**23,128**	**14,420**	**14,903**

(Thousands of Georgian Lari)

23. Gross Profit (continued)

Revenue from customers

The group has recognised the following amounts relating to revenue from contracts with customers in the income statement:

	2017
Total revenue from contracts with customers from continuing operations	283,469
Total revenue from contracts with customers from discontinued operations	691,971
Total revenue from contracts with customers	**975,440**

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	31-Dec-17	1-Jan-17
Deferred income	71,322	72,770
Accounts receivable* (i)	116,669	103,326
Contract assets**	1,008	-

** includes GEL 82,169 as at 31 December 2017 and GEL 71,343 as at 1 January 2017 presented in disposal group held for sale.*
(i) Accounts receivable have increased as the Group's beverage business launched its first mainstream beer production in June 2017 and accelerated its expansion into all of its three main segments.
*** Contract assets relate to our conditional right to consideration for our completed performance under the contract.*

Accounts receivable are recognized when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 51,273 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers from continuing operations	49,096	12,153	3,015	6,741	2,990	**73,995**
Revenue expected to be recognized on active contracts with customers from discontinued operations	906	1,042	1,046	3,100	5,000	**11,094**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

(Thousands of Georgian Lari)

24. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2017	*2016*	*2015*
Salaries and bonuses	(26,723)	(14,289)	(11,343)
Equity compensation plan costs	(7,825)	(1,990)	(457)
Salaries and other employee benefits	**(34,548)**	**(16,279)**	**(11,800)**

The average number of staff employed by the Group for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	*2016*	*2015*
GGU	2,379	2,326	-
Teliani	481	203	199
Aldagi	303	666	623
m^2	98	62	58
Corporate Centre	19	19	11
Average total number of staff employed	**3,280**	**3,276**	**891**

	2017	*2016*	*2015*
Marketing and advertising	(11,436)	(7,452)	(8,030)
Legal and other professional services	(6,970)	(3,114)	(1,980)
Operating taxes	(5,439)	(2,327)	(422)
Occupancy and rent	(3,171)	(1,981)	(1,961)
Repairs and maintenance	(1,958)	(1,205)	(855)
Office supplies	(1,885)	(836)	(559)
Corporate hospitality and entertainment	(1,052)	(810)	(479)
Communication	(742)	(442)	(289)
Travel expenses	(604)	(296)	(222)
Security	(367)	(250)	(253)
Personnel training and recruitment	(206)	(1,007)	(119)
Insurance	(243)	(113)	(43)
Other	(4,278)	(1,224)	(586)
General and administrative expenses	**(38,351)**	**(21,057)**	**(15,798)**

(Thousands of Georgian Lari)

25. Impairment of insurance premiums receivable, accounts receivable, other assets and provisions

The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance premiums receivable 2017	*Accounts receivable 2017*	*Other assets 2017*	*Provisions 2017*	*Total 2017*
At 1 January	**8,762**	**2,292**	**-**	**706**	**11,760**
Charge	1,110	6,171	311	2,686	10,278
Transfer to Assets of disposal group held for sale	(1,787)	(3,415)	-	-	(5,202)
Utilised	-	-	-	(289)	(289)
Write-offs	(3,227)	(1,211)	-	-	(4,438)
Currency translation differences	(615)	166	(289)	-	(738)
At 31 December	**4,243**	**4,003**	**22**	**3,103**	**11,371**

	Insurance premiums receivable 2016	*Accounts receivable 2016*	*Other assets 2016*	*Provisions 2016*	*Total 2016*
At 1 January	**7,031**	**6,935**	**-**	**-**	**13,966**
Charge	1,158	2,095	83	-	3,336
Business combinations	-	-	-	2,133	2,133
Recoveries	352	-	-	-	352
Utilised	-	-	-	(1,427)	(1,427)
Write-offs	(599)	(6,788)	(83)	-	(7,470)
Currency translation differences	820	50	-	-	870
At 31 December	**8,762**	**2,292**	**-**	**706**	**11,760**

	Insurance premiums receivable 2015	*Accounts receivable 2015*	*Other assets 2015*	*Total 2015*
At 1 January	**4,187**	**3,321**	**70**	**7,578**
Charge (reversal)	1,018	3,621	(70)	4,569
Recoveries	116	-	-	116
Write-offs	(87)	(7)	-	(94)
Currency translation differences	1,797	-	-	1,797
At 31 December	**7,031**	**6,935**	**-**	**13,966**

26. Net Non-recurring Items

	2017	*2016*	*2015*
Gain on bargain purchase (note 5)	260	36,915	-
Loss from remeasurement of investment in associate	-	(5,145)	-
Impairment of prepayments	-	-	(298)
Impairment of property and equipment, and intangible assets	-	-	(375)
Other	(884)	334	(452)
Net non-recurring items	**(624)**	**32,104**	**(1,125)**

(Thousands of Georgian Lari)

27. Share-based Payments

Executives' Equity Compensation Plan

BGEO PLC Plans

In 2015 the BGEO Group PLC set up Executive Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

The Members of the Georgia Capitals' management board receive ordinary shares of BGEO Group PLC as a share-based compensation for their services as the management of both BGEO Group PLC and the Group. The respective Equity Compensation Plan costs are recorded in Group's combined historical financial information based on proportionate share of respective executive's involvement in managing the Group.

Share-based compensation represents fixed and discretionary awards. Discretionary shares of BGEO PLC are subject to two and three year vesting. Under fixed share-based compensation agreements, shares are awarded in three equal instalments during the 3 consecutive years, of which each instalment is subject to a four-year vesting period. Continuous employment is the only vesting condition for both discretionary and fixed awards. Fair value of the shares granted at the measurement date is determined based on available market quotations.

Below is the summary of the BGEO PLC share-based payments for Management Board members:

	2017	*2016*	*2015*
Discretionary shares to management board			
Weighted average value at grant date, per share (GEL in full amount)	90.01	66.03	57.40
Total number of equity instruments awarded	79,450	123,500	80,500
Value at grant date, total (GEL)	**7,151**	**8,155**	**4,621**
Fixed contingent share-based compensation to management board			
Weighted average value at grant date, per share (GEL in full amount)	-	68.30	59.17
Total number of equity instruments awarded	-	60,000	574,167
Value at grant date, total (GEL)	**-**	**4,098**	**33,972**
Total share-based compensation recognised during the year (GEL)	**(11,202)**	**(5,155)**	**(2,445)**

During 2017, Georgia Capital director obtained 126,000 shares (2016:115,000, 2015:147,500) with fair value of GEL 12,049 (2016: GEL 10,760, 2015: GEL 8,251). Weighted average share price comprised GEL 95.63 per share (2016:GEL 93.57, 2015:GEL 55.94).

(Thousands of Georgian Lari)

28. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to operational risks and insurance risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Due to significance of Georgia Capital and its subsidiaries to BGEO Group PLC, governing bodies of BGEO Group PLC contribute significantly to the risk management of the Group

Risk management structure

Audit Committee

The Audit Committee of BGEO Group PLC assists the Management Board of Georgia Capital in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and assessed the effectiveness of the risk management and internal control framework.

Management Board

The Management Board of Georgia Capital has overall responsibility for the Group's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Board of Directors delegate individual risk management functions to each of the various decision-making and execution bodies within the Group.

Internal Audit

The Internal Audit Department of BGEO Group PLC is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. The Group's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits. Also the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established by the use of a credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on the number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

31 December 2017	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	27,505	11,839	39,344
Insurance premiums receivable		28,947	6,151	35,098
Total		**56,452**	**17,990**	**74,442**

31 December 2016	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	102,305	22,287	124,592
Insurance premiums receivable		46,826	1,564	48,390
Total		**149,131**	**23,851**	**172,982**

31 December 2015	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	65,943	14,313	80,256
Insurance premiums receivable		39,305	1,576	40,881
Other financial assets	15	21,908	2,033	23,941
Total		**127,156**	**17,922**	**145,078**

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue for more than 30 days are considered as impaired.

The Group does not have a grading system to evaluate credit quality of neither past due nor impaired assets. Maximum exposure to credit risk is limited to carrying value of respective financial assets.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

Financial liabilities* **As at 31 December 2017**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Borrowings	12,011	55,633	291,775	535,704	895,123
Debt securities issued	400	6,034	87,898	-	94,332
Accounts payable	30,917	-	15,562	-	46,479
Other financial liabilities	1,770	13,533	21,041	-	36,344
Total undiscounted financial liabilities	**45,098**	**75,200**	**416,276**	**535,704**	**1,072,278**

* *Excluding discontinued operations*

Financial liabilities **As at 31 December 2016**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Borrowings	90,282	58,211	280,115	353,729	782,337
Debt securities issued	28,296	40,352	56,220	29,438	154,306
Accounts payable	43,740	65,406	-	-	109,146
Other financial liabilities	66,404	15,665	20,994	-	103,063
Total undiscounted financial liabilities	**228,722**	**179,634**	**357,329**	**383,167**	**1,148,852**

Financial liabilities **As at 31 December 2015**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Borrowings	48,894	22,692	83,388	9,225	164,199
Debt securities issued	2,255	5,693	85,629	-	93,577
Accounts payable	42,766	903	402	-	44,071
Other financial liabilities	36,244	8,800	16,999	-	62,043
Total undiscounted financial liabilities	**130,159**	**38,088**	**186,418**	**9,225**	**363,890**

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to Dollar.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2017		*2016*		*2015*	
EUR	12.0%	(15,569)	11.6%	(3,069)	2.9%	13
GBP	12.6%	244	15.8%	95	2.5%	1,427
USD	8.9%	(7,859)	9.3%	(6,788)	1.1%	(332)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios were as follows:

	P&C Insurance		
	2017, %	*2016, %*	*2015, %*
Loss ratio	40%	36%	43%
Combined ratio	75%	72%	79%

Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, revaluation and other reserves and non-controlling interests. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.
The capital management objectives are as follows:

- to maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm;
- to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders; and
- to maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants if any. To maintain or adjust the capital structure, the Group may adjust the amount of outstanding equity.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimize the risk of default and insolvency and to meet unforeseen liabilities as they arise. During the year ended 31 December 2017 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

(Thousands of Georgian Lari)

29. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	159,989	159,989
Land	-	-	*84,016*	*84,016*
Residential properties	-	-	2,168	*2,168*
Non-residential properties	-	-	*73,805*	*73,805*
Investment securities	-	31,915	1,145	33,060
Total revalued property	-	-	252,585	252,585
Infrastructure assets	-	-	*252,585*	*252,585*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	374,299	-	374,299
Amounts due from credit institutions	-	38,141	-	38,141
Liabilities for which fair values are disclosed				
Borrowings	-	77,972	579,137	657,109
Debt securities issued	-	-	81,312	81,312

31 December 2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value				
Total investment properties	-	-	140,254	140,254
Land	-	-	*87,155*	*87,155*
Non-residential properties	-	-	*53,099*	*53,099*
Investment securities	-	1,933	1,739	3,672
Other assets – derivative financial assets	-	6,277	-	6,277
Total revalued property	-	-	193,566	193,566
Infrastructure assets	-	-	*193,566*	*193,566*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	401,970	-	401,970
Amounts due from credit institutions	-	178,425	-	178,425
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,144	-	1,144
Liabilities for which fair values are disclosed				
Borrowings	-	511,788	206,088	717,876
Debt securities issued	-	-	121,672	121,672

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	110,945	110,945
Land	-	-	*71,154*	*71,154*
Residential properties	-	-	202	*202*
Non-residential properties	-	-	*39,589*	*39,589*
Investment securities	-	639	1,145	1,784
Other assets – derivative financial assets	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	292,955	-	292,955
Amounts due from credit institutions	-	34,069	-	34,069
Liabilities for which fair values are disclosed				
Borrowings	-	125,861	16,599	142,460
Debt securities issued	-	-	84,566	84,566

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities

Certain part of investment securities are quoted debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	31 December 2014	*Purchase of AFS securities*	*At 31 December 2015*	*Purchase of AFS securities*	*At 31 December 2016*	*Sale of AFS securities*	*At 31 December 2017*
Level 3 financial assets							
Equity investment securities available-for-sale	1,145	-	1,145	594	1,739	(594)	1,145

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
	2017		*2016*		*2015*	
Level 3 financial assets						
Equity investment securities available-for-sale	1,145	+/- 212	1,739	+/- 322	1,145	+/- 212

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**159,989**						
Land	84,016						
	70,513	Market approach	Price per square metre	12 - 2,705 (465)	Square metres, land	61 - 129,536 (109,175)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	13,503	Cost approach	Price per square metre	56 - 83 (56)	Square metres, land	2,316 - 232,777 (229,432)	Increase (decrease) in the rent rate per square meter or decrease (increase) in the capitalization rate would result in increase (decrease) in fair value
Residential properties	2,168	Market approach	Price per square metre	1,892 - 3,194 (2,623)	Square metres, building	123 - 186 (144)	increase (decrease) in price per square metre would result in increase (decrease) in fair value
Non-residential properties	73,805						
	52,260	Market approach	Price per square metre	12 - 8,756 (4,618)	Square metres	10 - 25,985 (3,489)	Increase (decrease) in the price would result in increase (decrease) in fair value
	21,545	Income approach	Capitalization rate	8% - 10% (9%)	Square metres, building	154 - 11,162 (4,948)	Increase (decrease) in the capitalisation rate would result in decrease (increase) in fair value
Property and equipment	**252,585**						
Infrastructure assets	252,585						
		Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.4%	Pipes and wells, equipment	N/A	Increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; Increase (decrease) in WACC would result in decrease (increase) in fair value;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	9.1			Increase (decrease) in the price of comparable would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Description of significant unobservable inputs to valuations of non-financial assets (continued)

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**140,254**						
Land	87,155	Market approach	Price per square metre	51 - 1,332 (477)	Square metres, land	8,288 - 230,398 (126,536)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	-	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	53,099						
	6,947	Market approach	Price	2.8mln	Square metres, land	18,635	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6,702	
	36,453	Income approach	Rent per square metere	29.2 - 37.1 (32.7)	Square metres, building	880 - 3,755 (2,517)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	80% - 90% (85%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
	9,699	Cost approach	Land price per square metre	67	Square metres, land	8,783	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	1,054	Square metres, building	2,293	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
Property and equipment	**193,566**						
Infrastructure assets	193,566						
		Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.6%	Pipes and wells, equipment	N/A	Increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; Increase (decrease) in WACC would result in decrease (increase) in fair value;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	84			Increase (decrease) in the price of comparable would result in increase (decrease) in fair value

**** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.***

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Description of significant unobservable inputs to valuations of non-financial assets (continued)

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**110,945**						
Land	71,154	Market approach	Price per square metre	51 - 1,332 (477)	Square metres, land	8,288 - 230,398 (126,536)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	202	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	39,589						
	5,381	Market approach	Price	2.8mln	Square metres, land	18,635	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6,702	
	28,238	Income approach	Rent per square metere	29.2 - 37.1 (32.7)	Square metres, building	880 - 3,755 (2,517)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	80% - 90% (85%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
	5,970	Cost approach	Land price per square metre	67	Square metres, land	8,783	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	1,054	Square metres, building	2,293	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.*

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the combined historical financial information. The table does not include the fair values of non-financial assets and non-financial liabilities, or fair values of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2017	Fair value 2017	Unrecognised gain (loss) 2017
Financial assets			
Cash and cash equivalents	374,299	374,299	-
Amounts due from credit institutions	38,141	38,141	-
Financial liabilities			
Borrowings	657,109	657,109	-
Debt securities issued	77,835	81,312	(3,477)
Total unrecognised change in unrealised fair value			**(3,477)**

	Carrying value 2016	Fair value 2016	Unrecognised gain 2016	Carrying value 2015	Fair value 2015	Unrecognised loss 2015
Financial assets						
Cash and cash equivalents	401,970	401,970	-	292,955	292,955	-
Amounts due from credit institutions	178,425	178,425	-	34,069	34,069	-
Financial liabilities						
Borrowings	717,876	717,876	-	142,460	142,460	-
Debt securities issued	122,263	121,672	591	82,522	84,566	(2,044)
Total unrecognised change in unrealised fair value			**591**			**(2,044)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the combined historical financial information.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

30. Maturity Analysis

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2017		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	374,299	-	374,299
Amounts due from credit institutions	36,382	1,759	38,141
Investment securities	1,619	31,441	33,060
Accounts receivable	35,207	134	35,341
Insurance premiums receivable	30,818	37	30,855
Prepayments	79,513	8,514	88,027
Inventories	72,096	8,036	80,132
Investment properties	-	159,989	159,989
Property and equipment	-	657,635	657,635
Goodwill	-	21,935	21,935
Intangible assets	-	5,457	5,457
Income tax assets	186	1,188	1,374
Other assets	48,383	25,154	73,537
Assets of disposal group held for sale	1,148,584	-	1,148,584
Total assets	**1,827,087**	**921,279**	**2,748,366**
Borrowings	72,473	584,636	657,109
Debt securities issued	1,350	76,485	77,835
Deffered income	49,863	23,203	73,066
Accounts Payable	35,723	10,756	46,479
Insurance contracts liabilities	39,443	6,960	46,403
Income tax liabilities	860	-	860
Other liabilities	44,328	19,141	63,469
Liabilities of disposal group held for sale	619,029	-	619,029
Total liabilities	**863,069**	**721,181**	**1,584,250**
Net	**964,018**	**200,098**	**1,164,116**

	31 December 2016			31 December 2015		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	401,970	-	401,970	292,955	-	292,955
Amounts due from credit institutions	173,331	5,094	178,425	32,148	1,921	34,069
Investment securities	3,672	-	3,672	1,184	600	1,784
Accounts receivable	113,505	8,795	122,300	73,321	-	73,321
Insurance premiums receivable	48,346	44	48,390	40,832	49	40,881
Prepayments	39,435	18,685	58,120	8,825	29,173	37,998
Inventories	71,792	107,742	179,534	89,117	28,596	117,713
Investment properties	-	140,254	140,254	-	110,945	110,945
Property and equipment	-	967,461	967,461	-	464,778	464,778
Goodwill	-	73,643	73,643	-	39,641	39,641
Intangible assets	-	18,965	18,965	-	6,540	6,540
Income tax assets	3,201	1,356	4,557	1,911	4,881	6,792
Other assets	48,719	41,291	90,010	25,548	88,276	113,824
Total assets	**903,971**	**1,383,330**	**2,287,301**	**565,841**	**775,400**	**1,341,241**
Borrowings	291,488	426,388	717,876	63,842	78,618	142,460
Debt securities issued	73,174	49,089	122,263	4,534	77,988	82,522
Deffered income	13,177	71,593	84,770	69,910	32,936	102,846
Accounts Payable	109,146	-	109,146	43,669	402	44,071
Insurance contracts liabilities	62,116	5,755	67,871	51,050	4,796	55,846
Income tax liabilities	3,895	-	3,895	10,118	24,216	34,334
Other liabilities	146,379	17,924	164,303	70,165	15,534	85,699
Total liabilities	**699,375**	**570,749**	**1,270,124**	**313,288**	**234,490**	**547,778**
Net	**204,596**	**812,581**	**1,017,177**	**252,553**	**540,910**	**793,463**

(Thousands of Georgian Lari)

31. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	*2017**		*2016**	*2015**
	*Entities under common control***	*Management*	*Entities under common control***	*Entities under common control***
Assets				
Cash and cash equivalents	334,659	-	309,210	238,336
Amounts due from credit institutions	18,450	-	55,207	15,498
Accounts receivable	-	-	-	181
Derivative financial assets	-	-	6,277	-
Insurance premiums receivable	281	-	1,967	1,654
Investment securities	31,721	-	1,572	-
Prepayments	32	-	600	-
Other assets	12,435	-	9,006	99
	397,578	**-**	**383,839**	**255,768**
Liabilities				
Borrowings	50,970	-	33,190	36,621
Debt securities issued	53,209	-	5,271	4,662
Deferred income	-	1,740	52,752	-
Accounts Payable	-	-	40	67
Derivative financial liabilities	1,091	-	1,144	-
Other liabilities	74	-	82	1,129
	105,344	**1,740**	**92,479**	**42,479**
Income and expenses				
Net insurance premiums earned	2,745	-	3,061	2,984
Gross real estate profit	977	1,924	629	-
Gross other profit	360	-	139	423
Fee and commission expense	(100)	-	(219)	(645)
Salaries and other employee benefits	(943)	-	(787)	(672)
Administrative expenses	(545)	-	(1,484)	(1,689)
Interest income from amounts due from credit institutions	6,309	-	2,211	1,550
Interest income from loans	48	-	-	-
Interest income from nvestment securities	2,458	-	-	-
Interest expense from borrowings	(6,579)	-	(5,494)	(13,317)
Interest expense from debt securities issued	(2,636)	-	(1,584)	(1,784)
Net foreign currency (loss) gain	(6,954)	-	6,277	-
	(4,860)	**1,924**	**2,749**	**(13,150)**

* *Including Discontinued operations. i.e. GHG*

** *Entities under common control comprise of BGEO Group PLC's Banking Business subsidiaries.*

(Thousands of Georgian Lari)

31. Related Party Disclosures (continued)

	2017	2016	2015
Salaries and other benefits	4,508	2,294	1,576
Share-based payments compensation	12,450	2,750	206
Long-term benefits	2,243	-	-
Total key management compensation*	**19,201**	**5,044**	**1,782**

**Including compensations included in discontinued operations and capitalised compensations of key management personnel.*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 27). The number of key management personnel at 31 December 2017 was 16 (31 December 2016: 14, 31 December 2015: 16).

32. Events after the Reporting Period

Acquisition of Black Lion LLC

In February 2018, JSC Georgia Capital acquired 100% of Black Lion LLC, a craft beer producer company operating in Georgia. The total consideration for the acquisition was US$ 3.2 million. The Group has not yet completed respective business combination accounting in respect of this acquisition

Contribution of 19.9% stakes in the JSC Bank of Georgia and JSC BG Financial

On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC BG Financial were transferred to JSC Georgia Capital as an equity contribution from JSC BGEO Group, which will be exchanged for a 19.9% stake in Bank of Georgia Group PLC following the demerger.

Issue of USD 300 million Notes due in 2024 by JSC Georgia Capital

On 9 March 2018 JSC Georgia Capital successfully issued a US$ 300 million 6.125% notes due March 2024 denominated in US Dollars. which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market (the "Notes"). Notes were sold at the price of 98.770% of par value in the initial offering. Members of the BGEO Group purchased an aggregate amount of US$ 27.0 million of the Notes, as of the date of this report the Bank holds US$ 10.7 million and JSC Georgia Capital holds US$ 14.8 million of this amount. Certain of the directors and their affiliates and senior managers of the Group and the BGEO Group purchased an aggregate amount of US$ 16.1 million of the Notes.

Repayment of borrowings

In March 2018, as part of the demerger process, the loans from JSC BGEO to JSC Georgia Capital were repaid, together with accrued interest, in the amount of US$ 108 million (GEL 280 million).

USD 50 million loan issued to the Banking Business

In March 2018, the Group issued a US$ 50 million 9% loan to the Banking Business.

Georgia Capital Limited

Strategic Report, Directors' Report and Financial Statements

For the period ended 31 December 2017

Registered No: 10852406

Directors
Avto Namicheishvili
Giorgi Alpaidze

Company Secretary
Rebecca Wooldridge

Independent Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered Office
84 Brook Street
London
W1K 5EH
Registration No: 10852406

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Strategic Report
For the period ended 31 December 2017

The Directors present their strategic report for the period ended 31 December 2017.

Review of the business

The Company was incorporated on 5 July 2017 as a private limited company organized under the laws of England and Wales initially under the name "BGEO Investments Limited". On 13 of December 2017, "BGEO Investments Limited" changed its name to "Georgia Capital Limited". The Company is domiciled in the United Kingdom.

The principal activity of the Company is that of a holding company. The Company has not conducted any business operations other than those incidental to its formation.

The Company issued 49,999 Deferred Shares on 15 December 2017. The Deferred Shares are redeemable by the Company at any time. Each Deferred Share has a par value of £1. The Deferred Shares carry no right to profits or dividends. On a return of capital on a winding up or otherwise, the holders of the Deferred Shares are entitled to receive the sum of £1 per Deferred Share, but shall not be entitled to any further participation in the asset of the Company.

Principal risks and uncertainties

Foreign currency risk is the risk that the fair value of financial assets and liabilities and future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Management has not implemented any mitigative actions due to immateriality of transactions and respective foreign currency translation effect on the Financial Statements of the Company for the period between incorporation and 31 December 2017.

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company policies are aimed at minimising such losses. Details of the Company's debtors are shown in Note 5 to the financial statements.

By order of the Board,

გ. ალფაიძე

Giorgi Alpaidze
Director

29 January 2018

Directors' Report
For the period ended 31 December 2017

The Directors (as defined below) present their report together with the audited financial statements of Georgia Capital Limited (the "Company") for the period ended 31 December 2017.

BGEO Group PLC, incorporated under laws of England and Wales, announced its intention to separate the investment business from the banking business on July 3, 2017. The Company's intention is to become a Public Limited Company and a parent company of the demerged investment business of BGEO Group PLC.

Issue of shares

The issued share capital of the Company consists of 2 ordinary shares and 49,999 redeemable deferred shares, with nominal value of £1 (the "Deferred Shares").

Directors

The directors who served from the period between incorporation 5 July 2017 and 31 December 2017 are:

Abogado Nominees Limited	(Appointed 5 July 2017, resigned 12 December 2017)
Abogado Custodians Limited	(Appointed 5 July 2017, resigned 12 December 2017)
Frederick Paul Curtis	(Appointed 5 July 2017, resigned 12 December 2017)
Avto Namicheishvili	(Appointed 12 December 2017)
Giorgi Alpaidze	(Appointed 12 December 2017)

Avto Namicheishvili and Giorgi Alpaidze are referred to as the "Directors" or the "Board", and each a "Director".

Dividends

No dividends were declared and paid for the period between formation and 31 December 2017.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report
For the period ended 31 December 2017

Going concern

The Company's business activities, together with the factors likely to affect its future development, its performance, position, risk management objectives are described in the Strategic Report on page 3.

The Company has net assets at the year end. The Directors have considered the future cash flows of the Company, and have concluded that the Company has sufficient financial resources to meet its liabilities as they fall due for the foreseeable future. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis of accounting in preparing the financial statements.

Disclosure of information to the auditor

Each current Director has made enquiries of their fellow directors and the Company's auditor and taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing its report. So far as each director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Auditor

In accordance with Section 485(3) of the Companies Act 2006, Ernst & Young LLP was appointed in the office of auditor and deemed to be re-appointed for the next financial year.

By order of the Board,

Giorgi Alpaidze
Director
29 January 2018

Independent auditor's report to the members of Georgia Capital Limited

Opinion

We have audited the financial statements of Georgia Capital Limited for the period ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 8, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

Independent auditor's report to the members of Georgia Capital Limited (cont'd)

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

John Headley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 January 2018

STATEMENT OF COMPREHENSIVE INCOME
For the period from incorporation on 5 July 2017 to 31 December 2017

	Notes	**2017**
		GEL
Administrative expenses	*4*	-
Operating Profit		-
Translation differences		3,050
Profit on ordinary activities before taxation		**3,050**
Tax on profit on ordinary activities		-
Profit for the financial period		**3,050**

STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	2017
		GEL
Non-current Assets		
Investments		-
		-
Current assets		
Debtors	5	175,021
Cash		7
Total current assets		**175,028**
Total assets		**175,028**
Creditors: amounts falling due within one year		-
Net Current assets		**175,028**
Net assets		**175,028**
Capital and reserves		
Called up share capital	6	171,978
Retained earnings		3,050
Shareholders' funds		**175,028**

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

Giorgi Alpaidze
Director
29 January 2018

Company registration no: 10852406

STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2017

	Share Capital	Share Premium	Retained Earnings	Total
	GEL	*GEL*	*GEL*	*GEL*
At incorporation on 5 July 2017	3	-	-	3
Shares issued in the period	171,975	-	-	171,975
Profit for the period	-	-	3,050	3,050
At 31 December 2017	**171,978**	**-**	**3,050**	**175,028**

STATEMENT OF CASH FLOWS
For the period ended 31 December 2017

	GEL
Cash Flow from Operating Activities	-
Cash Flow from Investing Activities	-
Cash Flow from Financing Activities	-
Proceeds from Issue of share capital	6
Net Cash Flow from Financing Activities	**6**
Net cash Flow	**6**
Effect of exchange rate difference from cash and cash equivalents	1
Cash at the beginning of the period	-
Cash at the end of the period	7

Notes 1 to 8 form an integral part of these financial statements

Notes to the financial statements
For the period ended 31 December 2017

1. **General Information**

Georgia Capital Limited was incorporated on 5 July 2017 as a private company limited by shares in England and Wales, under the laws of the United Kingdom. The principal activity of the Company is to act as a holding company.

2. **Accounting policies**

Basis of preparation

The principal accounting policies applied consistently throughout the period are:

Basis of accounting

The financial statements are prepared under historical cost basis in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2017 reporting and Companies Act 2006 on a going concern basis.

The Financial Statements are presented in Georgian Lari ("GEL") unless otherwise stated.

Functional and presentation currency

The Company's functional currency and presentational currency is Georgian Lari since the underlying transactions that are relevant to the entity will be carried out in Georgian Lari. The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at the rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies – translation differences.

Accounting estimates and judgements

No estimates, assumptions or judgements were required in preparing these financial statements.

Deferred redeemable shares

Deferred redeemable non-voting shares are deemed to be an equity instrument as: (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable and the obligation to deliver cash or other financial assets arises only in the event of liquidation of the issuer and (ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future, being at least one year from the date of signing these financial statements, and confirm that in their opinion the Company is a going concern. For this reason they adopt the going concern basis in preparing these financial statements.

Debtors

Debtors are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of

Notes to the financial statements
For the period ended 31 December 2017

the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on bank account, amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances and readily convertible to a known amount of cash.

Standards issued but not yet effective

The Company has early adopted following standards, which had no material impact on the financial statements:

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

3. Directors' emoluments

The Directors' services to the Company do not occupy a significant amount of their time. As such the Directors do not consider that they and past directors have received any remuneration for their inconsequential services to the Company for the period from incorporation on 5 July 2017 to 31 December 2017.

The company has no employees as at 31 December 2017.

4. Auditor's remuneration

Auditor's remuneration for the period amounted to 17,502 Georgian Lari (GBP 5,000) which was incurred by BGEO Group PLC in connection with the BGEO Group's demerger process, as a result of which the Company is expected to become a parent company of the demerged Investment business.

5. Debtors

	2017
	GEL
Amounts owed by shareholders	175,021

Notes to the financial statements
For the period ended 31 December 2017

6. Called up share capital

	2017
	GEL
Allotted, called up and fully paid	
2 ordinary shares of £1 each	6
Allotted, called up	
49,999 deferred redeemable non-voting shares of £1 each	171,972
	171,978

As at 31 December 2017 Authorised capital of the Company comprised 50,001 shares of which 2 shares are fully paid. The Company issued 49,999 Deferred Shares on 15 December 2017. The Deferred Shares are redeemable by the Company at any time. Each Deferred Share has a par value of £1. The Deferred Shares carry no right to profits or dividends. On a return of capital on a winding up or otherwise, the holders of the Deferred Shares are entitled to receive the sum of £1 per Deferred Share, but shall not be entitled to any further participation in the assets of the Company.

The Company may, at its discretion, at any time after allotment and issue of the Deferred Shares, without prior notice, redeem some or all of the Deferred Share then in issue.

7. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Company had no transactions with related parties during the period between incorporation and 31 December 2017.

8. Ultimate parent undertaking and controlling party

The shareholders of the Company are Georgian resident individuals Giorgi Alpaidze and Avto Namicheishvili. Each owns 1 share from 2 ordinary shares of issued and paid share capital.

Georgian Global Utilities LTD

Consolidated financial statements

For the year ended 31 December 2015
with independent auditors' report

Contents

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Independent Auditor's Report

To the shareholder and the Board of Directors of Georgian Global Utilities LTD -

We have audited the accompanying consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries, referred to as "the Group", which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Georgian Global Utilities LTD and its subsidiaries as at 31 December 2015 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

12 December 2016

Consolidated statement of financial position

As at 31 December 2015

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2015	31 December 2014	1 January 2014
Assets				
Non-current assets				
Property, plant and equipment	7	287,578	277,105	247,094
Investment property	8	19,503	19,503	20,732
Restructured trade receivables	10	307	580	1,769
Loans issued	24	16	–	2,394
Restricted cash	24	2,545	2,460	3,667
Deferred income tax asset	22	279	284	305
Other non-current assets	9	2,541	1,748	804
Total non-current assets		**312,769**	**301,680**	**276,765**
Current assets				
Inventories		3,245	3,665	4,898
Trade and other receivables	10	14,672	9,205	9,698
Loans issued	24	11	–	–
Current income tax prepayments		1,340	3,346	126
Prepaid taxes other than income tax		5,284	2,080	449
Prepayments		2,746	3,802	5,525
Cash at bank	24	11,633	13,238	19,031
Total current assets		**38,931**	**35,336**	**39,727**
Total assets		**351,700**	**337,016**	**316,492**
Equity	11			
Charter capital		2	2	2
Retained earnings		74,774	59,301	96,848
Revaluation reserve for property, plant and equipment		153,955	154,214	155,733
Total equity		**228,731**	**213,517**	**252,583**
Liabilities				
Non-current liabilities				
Borrowings	12	45,733	78,550	11,788
Deferred income tax liability	22	28,437	24,581	20,768
Other non-current liabilities		9	12	–
Total non-current liabilities		**74,179**	**103,143**	**32,556**
Current liabilities				
Borrowings	12	28,330	367	8,546
Advances received		6,618	7,107	11,281
Trade and other payables	13	11,830	9,831	6,580
Provisions for liabilities and charges	14	1,318	1,406	4,525
Current income tax liability		–	25	248
Other taxes payable		694	1,620	173
Total current liabilities		**48,790**	**20,356**	**31,353**
Total liabilities		**122,969**	**123,499**	**63,909**
Total liabilities and equity		**351,700**	**337,016**	**316,492**

Approved for issue and signed on behalf of the Board of Directors on 12 December 2016:

Avtandil Namicheishvili
Director

Irakli Gilauri
Director

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

(Amounts expressed in thousands of Georgian Lari)

	Note	*2015*	*2014*
Revenue from water supply	15	104,757	100,846
Revenue from electric power sales		9,182	6,391
Revenue from network realisation		–	11,728
Other revenue	16	3,803	3,380
Total revenue		**117,742**	**122,345**
Salaries and other employee benefits	17	(20,981)	(20,039)
Electricity and transmission costs		(11,554)	(10,442)
Raw materials, fuel and other consumables		(5,634)	(5,232)
Maintenance expenditure		(4,144)	(4,303)
General and administrative expenses	18	(2,961)	(2,812)
Taxes other than income tax		(3,409)	(4,753)
Professional fees		(2,457)	(1,270)
Allowance for impairment of trade receivables	10	(433)	(5,690)
(Charge for) / reversal of provisions	14	(168)	3,119
Cost of network realisation		–	(9,668)
Other income	19	946	1,057
Other operating expenses	20	(5,356)	(7,029)
		(56,151)	**(67,062)**
EBITDA		**61,591**	**55,283**
Interest income		180	585
Finance costs	21	(21,544)	(3,843)
Net foreign exchange losses		(217)	(298)
Depreciation and amortisation	7, 9	(17,846)	(14,976)
Profit before income tax expense		**22,164**	**36,751**
Income tax expense	22	(6,950)	(9,942)
Profit for the year		**15,214**	**26,809**
Total comprehensive income for the year		**15,214**	**26,809**

Consolidated statement of changes in equity

For the year ended 31 December 2015

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*
As at 1 January 2014	**2**	**96,848**	**155,733**	**252,583**
Profit for the year	–	26,809	–	**26,809**
Total comprehensive income for the year	**–**	**26,809**	**–**	**26,809**
Realised revaluation reserve for property, plant and equipment, net of deferred tax	–	1,519	(1,519)	**–**
Dividends declared (Note 11)	–	(65,875)	–	**(65,875)**
Balance as at 31 December 2014	**2**	**59,301**	**154,214**	**213,517**
Profit for the year	–	15,214	–	**15,214**
Total comprehensive income for the year	**–**	**15,214**	**–**	**15,214**
Realised revaluation reserve for property, plant and equipment, net of deferred tax	–	259	(259)	**–**
Balance as at 31 December 2015	**2**	**74,774**	**153,955**	**228,731**

Consolidated statement of cash flows

For the year ended 31 December 2015

(Amounts expressed in thousands of Georgian Lari)

	Note	*2015*	*2014*
Cash flows from operating activities			
Profit before income tax		**22,164**	**36,751**
Adjustments for:			
Depreciation and amortisation	7, 9	17,846	14,976
(Reversal of allowance) / allowance for impairment of trade receivables	10	433	5,690
(Reversal)/charge of provisions	14	168	(3,119)
Net loss from disposal of property, plant and equipment	20	141	65
Loss from disposal of investment property	20	–	173
Net foreign exchange losses		217	298
Interest income		(180)	(585)
Finance costs	21	21,544	3,843
Operating cash flows before working capital changes			
Change in inventories		420	1,233
Change in trade and other receivables		(5,883)	(4,008)
Change in prepaid taxes other than income tax		(3,204)	(1,631)
Change in prepayments		1,056	1,723
Change in trade and other payables		2,578	2,493
Change in advances received		(489)	(4,174)
Change in other tax payables		(926)	1,447
Change in restricted cash		(85)	1,207
Change in other non-current liabilities		(3)	12
Interest received		180	585
Interest paid		(7,118)	–
Income tax paid		(1,108)	(9,551)
Net cash from operating activities		**47,751**	**47,428**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(30,156)	(45,891)
Purchase of investment property		–	(47)
Proceeds from sale of property, plant and equipment		326	653
Proceeds from sale investment property		–	1,103
Issue of loans		(27)	–
Repayment of loans issued		–	2,394
Net cash used in investing activities		**(29,857)**	**(41,788)**
Cash flows from financing activities			
Proceeds from borrowings		88,005	86,785
Repayment of borrowings		(107,375)	(33,045)
Dividend paid to the Group's owner		–	(66,275)
Net cash used in financing activities		**(19,370)**	**(12,535)**
Effect of exchange rate changes on cash and cash equivalents		(129)	1,102
Net decrease in cash and cash equivalents		**(1,605)**	**(5,793)**
Cash and cash equivalents at the beginning of year	24	13,238	19,031
Cash and cash equivalents at the end of year	24	**11,633**	**13,238**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Global Utilities LTD (formerly named as Multiplex Energy Limited) was incorporated in British Virgin Islands on 16 August 2007 as a private company with limited liability ("the Company" or "GGU"). The Company is a holding parent company of the following entities holding 100% interest in each of them:

	Country of incorporation	*Date of incorporation*	*Date of acquisition*	*31 December 2015*	*31 December 2014*
Georgian Water and Power LLC	Georgia	25 June 1997	14 May 2008	100%	100%
Rustavi Water LLC	Georgia	31 August 1999	14 May 2008	100%	100%
Mtskheta Water LLC	Georgia	1 September 1999	14 May 2008	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20 December 1999	14 May 2008	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29 March 2011	29 March 2011	100%	100%
Saguramo Energy LLC	Georgia	11 December 2008	19 December 2014	100%	100%

A Group is a parent company and all of its subsidiaries.

The Group's principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. The Group also owns hydroelectric power stations generating electricity for own use and for sale to electricity market.

The Company's registered address is at 33 Porter Road, P.O. Box 3169 PMB103, Road Town, Tortola, British Virgin Islands.

As at 31 December 2015 and 2014 25% of shares of GGU are owned by BGEO Group PLC (formerly known as Bank of Georgia Holdings plc). The remaining 75% of shares were ultimately controlled by Mr. Andrey N. Rappoport.

In July 2016 BGEO Group PLC ("BGEO") became the ultimate parent of the Group with 100% ownership. Refer to Note 26. BGEO is a premium listed company on London Stock Exchange; no individual shareholder owns more than 15% of the BGEO's shares.

2. Operating environment

The Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Management, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

3. Basis of preparation

These consolidated financial statements of the Group, for the year ended 31 December 2015, are the first the Group has prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, the consolidated financial statements have been prepared to comply with IFRS applicable at the end of its first reporting period, being 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014. No financial statements were prepared in accordance with previous GAAP.

(Amounts expressed in thousands of Georgian Lari)

3. Basis of preparation (continued)

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

- ► The Group measured its property, plant and equipment at its fair value as at 1 January 2014 and used that fair value as its deemed cost at that date.
- ► The Group did not apply IFRS 3 *Business Combinations* to acquisition of subsidiaries that occurred before 1 January 2014. Under its previous GAAP the Group did not consolidate subsidiaries acquired in business combination that occurred before 1 January 2014. Use of this exemption means that subsidiaries' assets and liabilities are adjusted to the amounts that IFRSs would require in the subsidiary's statement of financial position. Deemed cost of goodwill at the date of transition was determined as the difference between the parent's interest in those adjusted carrying amounts and the cost in the parent's separate financial statements of its investment in the subsidiary. Where the cost of the subsidiary was lower than the parent's share of net asset value at 1 January 2014, the difference was taken to retained earnings.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and property, plant and equipment that have been measured at fair value.

The consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ► Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ► Exposure, or rights, to variable returns from its involvement with the investee;
- ► The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ► The contractual arrangement(s) with the other vote holders of the investee;
- ► Rights arising from other contractual arrangements;
- ► The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

All of the Group's financial assets including trade and other receivables, loans issued, restricted cash and cash at bank fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- Any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as class of receivable, number of overdue days and whether the Group got an ability to cooperate with energy suppliers for the purpose of debt collection or not.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).
The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In addition, a customer may file an application with the regulator – Georgian National Energy and Water Supply Regulatory Commission ("GNERC") – for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law. Refer to Note 10 for further details on assessment and judgement applied in respect with impairment and write-off of trade receivables.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Renegotiated receivables

Renegotiated receivables comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Only Trade receivables for water supply services and for installation of water meters from general population can be restructured. The restructuring is caused by the financial difficulties of the Group's counterparty, and is treated as a derecognition of the original financial asset and the recognition of a new financial asset, and the difference in the respective carrying amounts is recognised in the profit or loss.

Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews renegotiated receivables to ensure that all criteria are met and that future payments are likely to occur. The renegotiated receivables continue to be subject to an impairment assessment as other trade receivables as described above.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

All of the Group's financial liabilities, including borrowings and trade and other payables, are carried at amortised cost.

The Group's borrowings comprise of debt securities issued and loans from Georgian financial institutions.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Property, plant and equipment

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The Group's property, plant and equipment are stated at revalued amount less accumulated depreciation and provision for impairment, where required. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase of the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease of the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. When the asset is derecognised the revaluation surplus is transferred directly to accumulated deficit.

Land, real estate and infrastructure assets are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity and in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful lives in years
Real estate	50 years
Infrastructure assets	10-40 years
Fixtures and fittings	3 years
Vehicles	10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property

Investment property is represented by land and buildings that are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or for future redevelopment before exact details of use are not yet determined.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The last revaluation of investment property was conducted by independent appraiser as at 1 January 2014. Subsequently the Group performed the assessment of investment property at their own.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation. Intangible assets include acquired software licenses and are amortised on a straight-line basis over their estimated useful lives (3-5 years) from the date the asset is available for use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The Cost of inventories comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of inventory is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash at bank

Cash at bank includes deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash at bank are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash at bank for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in restricted cash separately.

All cash at bank balances are classified as current and not impaired.

Charter capital

The amount of Company's authorised charter capital is defined by the Company's Article of Association. The changes in the Company's Article of Association (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur.

The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property development phase.

Provisions for liabilities and charges to provisions

Provisions for liabilities and charges to provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Provisions for liabilities and charges to provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

EBITDA

The Group separately presents EBITDA on the face of consolidated statement of profit or loss and comprehensive income. EBITDA is not defined in IFRS but is defined by the Group as earnings before interest, taxes, depreciation and amortisation, and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, finance costs and net foreign exchange losses.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Functional currencies and foreign currency translation

The Group's consolidated financial statements are presented in Georgian Lari, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Gains and losses resulting from the translation of foreign currency transactions related to borrowings are recognised in the profit or loss within finance costs; gains and losses from the translation of other foreign currency transactions are recognised in the profit or loss within net foreign exchange losses.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2015, 31 December 2014 and 1 January 2014 were 2.3949, 1.8636 and 1.7366 Georgian Lari to 1 US dollar, respectively.

Total amount of foreign exchange losses recognized in profit or loss and other comprehensive income for the year ended 31 December 2015 amounts to GEL 14,084 (2014: GEL 663), which consists of net foreign exchange losses related to borrowings in the amount of GEL 13,867 (2014: GEL 365) included to finance costs and net foreign exchange losses related to other financial instruments in the amount of GEL 217 (2014: GEL 298) presented in the respective item of profit or loss and other comprehensive income.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized:

Revenue from water supply to legal entities

Includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Revenue from water supply to population

Includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for general population.

Revenue from installation of water meters

Includes amounts billed to population according to the acting rules of Georgian National Energy and Water Supply Regulatory Commission. Revenue is recognised upon completion of works in respect of water meter installation services to the individual customers.

Revenue from electric power sales

Is recognised on the basis of metered electric power transferred.

Revenue from connection service

Is recognised based on the completion of works in respect to connection services to the individual customers.
In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Revenue from network realisation

Includes amounts billed to Tbilisi City Hall for construction of water network in regions of Tbilisi. The billed amount includes cost for construction of the network by the contractors and the margin calculated in accordance with the tender agreement. Revenue is recognised upon the realisation of the network to the City Hall after the construction is completed.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Employee benefits

Wages, salaries, annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Cost of network realisation

Includes expenses related to the construction of the water network in regions of Tbilisi. The expenses are recognised based on completion of works and actual amounts invoiced by the constructor.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. New standards relevant to the Group's activities that may have any impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing its impact of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15.

lAS 7 Disclosure Initiative – amendments to lAS 7

The amendments to lAS 7 *Statement of Cash Flows* are part of the IASBs *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces lAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under lAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under lAS 17. Lessors will continue to classify all leases using the same classification principle as in lAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under lAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the consolidated statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

(Amounts expressed in thousands of Georgian Lari)

5. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Determination of the fair value of property, plant and equipment

The Group elected revalued basis for accounting of its property, plant and equipment. IAS 16 *Property, Plant and Equipment* requires a company to make revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The revaluation of property, plant and equipment was conducted as at 1 January 2014. Fair value and the remaining useful lives of the Group's certain property, plant and equipment have been determined by an independent appraiser as at 1 January 2014. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value. Consequently, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Various market data were collected from published information, catalogues, statistical data, etc. and industry experts and suppliers of property, plant and equipment were contacted in Georgia and abroad. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these consolidated financial statements. However, based on the provisions of privatization agreement referred to in Note 1, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognised infrastructure assets as the Group's property, plant and equipment.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Impairment of trade and other receivables

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

(Amounts expressed in thousands of Georgian Lari)

5. Significant accounting judgements and estimates (continued)

Impairment of trade and other receivables (continued)

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Group's historical collection experience for receivables of similar age. Provisions against trade receivables are made based on historical experience of levels of recovery from accounts in a particular ageing category. The value of the impairment provision is sensitive to the specific percentages applied.

The management's estimates can be further revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

6. Segment information

For management purposes, the Group is organised into two operating segments based on products and services as follows:

Electricity generation

The Group owns hydroelectric power stations generating electricity for own consumption and for sale to electricity market.

Water supply and wastewater collection services

The Group provides water supply and wastewater collection to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. It captures production, treatment, transportation, distribution of water and waste water collection. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained below, is measured in the same manner as profit or loss in the consolidated financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, but analyses it on the Group's level.

Transactions between operating segments are on an arm's length basis in a manner as with transactions with third parties.

The Groups's operations are concentrated in Georgia.

All non-current assets of the Group are located in Georgia.

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

Water supply and wastewater collection services (continued)

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2015 or 2014.

	Sub note	*Electricity generation, 2015*	*Water supply and wastewater collection services, 2015*	*Intersegment transactions, 2015*	*Total, 2015*
Revenue from water supply		–	104,757	–	**104,757**
Revenue from electric power sales		18,359	(4,089)	(5,088)	**9,182**
Other revenue		–	3,803	–	**3,803**
Total revenue	1	**18,359**	**104,471**	**(5,088)**	**117,742**
Salaries and benefits		(1,448)	(19,533)	–	**(20,981)**
Electricity and transmission costs	1	(122)	(16,520)	5,088	**(11,554)**
Raw materials, fuel and other consumables		(105)	(5,529)	–	**(5,634)**
Maintenance expenditure		(67)	(4,077)	–	**(4,144)**
General and administrative expenses		(129)	(2,832)	–	**(2,961)**
Taxes other than income tax		(220)	(3,189)	–	**(3,409)**
Professional fees		(42)	(2,415)	–	**(2,457)**
Reversal of allowance for impairment of trade receivables	2	–	(433)	–	**(433)**
Charge for provisions		–	(168)	–	**(168)**
Other income		13	933	–	**946**
Other operating expenses		(284)	(5,072)	–	**(5,356)**
EBITDA		**15,955**	**45,636**	**–**	**61,591**
Interest income	3	19	161	–	**180**
Finance costs		(3,434)	(18,110)	–	**(21,544)**
Net foreign exchange losses	4	(39)	(178)	–	**(217)**
Depreciation and amortisation	3	(2,078)	(15,768)	–	**(17,846)**
Profit before income tax expense		**10,423**	**11,741**	**–**	**22,164**
Income tax expense		(2,864)	(4,086)	–	**(6,950)**
Profit and other comprehensive income for the year		**7,559**	**7,655**	**–**	**15,214**

(Amounts expressed in thousands of Georgian Lari)

6. Segment information (continued)

Water supply and wastewater collection services (continued)

	Sub note	*Electricity generation, 2014*	*Water supply and wastewater collection services, 2014*	*Intersegment transactions, 2014*	*Total, 2014*
Revenue from water supply		–	100,846	–	**100,846**
Revenue from electric power sales		13,676	(2,282)	(5,003)	**6,391**
Revenue from network realisation		–	11,728	–	**11,728**
Other revenue		–	3,380	–	**3,380**
Total revenue	1	**13,676**	**113,672**	**(5,003)**	**122,345**
Salaries and benefits		(1,326)	(18,713)	–	**(20,039)**
Electricity and transmission costs	1	–	(15,445)	5,003	**(10,442)**
Raw materials, fuel and other consumables		(110)	(5,122)	–	**(5,232)**
Maintenance expenditure		(86)	(4,217)	–	**(4,303)**
General and administrative expenses		(127)	(2,685)	–	**(2,812)**
Taxes other than income tax		(177)	(4,576)	–	**(4,753)**
Professional fees		(56)	(1,214)	–	**(1,270)**
Allowance for impairment of trade receivables	2	–	(5,690)	–	**(5,690)**
Reversal of provisions		–	3,119	–	**3,119**
Cost of network realisation		–	(9,668)	–	**(9,668)**
Other income		–	1,057	–	**1,057**
Other operating expenses		(227)	(6,802)	–	**(7,029)**
EBITDA		**11,567**	**43,716**	**–**	**55,283**
Interest income	3	31	554	–	**585**
Finance costs		(379)	(3,464)	–	**(3,843)**
Net foreign exchange losses	4	–	(298)	–	**(298)**
Depreciation and amortisation	3	(1,233)	(13,743)	–	**(14,976)**
Profit before income tax expense		**9,986**	**26,765**	**–**	**36,751**
Income tax expense		(2,077)	(7,865)	–	**(9,942)**
Profit and other comprehensive income for the year		**7,909**	**18,900**	**–**	**26,809**

The majority elements of revenue and costs were attributed to the relevant segments based on the actual results in the IFRS accounts. The allocation principles and methods used by the management for revenue and costs elements, which cannot be directly attributed to the relevant operating segments, were provided below. In particular:

1. **Revenue** – during the year 2015 and 2014 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of the IFRS accounts, the revenue from the internally used electricity was recorded at a regulated tariff stated by Georgian National Energy and Water supply Regulatory Commission (decree No. 33, dated 4 December 2008). The respective cost of electricity for water supply and wastewater collection services segment is increased by the similar amount.
2. **Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
3. **Interest income and finance costs** were allocated to each segment proportionally based on the total revenue of each of the operating segment.
4. **Income tax expense** – income tax expense was apportioned between the segments proportionally based on the profit before income tax of each of the operating segment.

(Amounts expressed in thousands of Georgian Lari)

7. Property, plant and equipment

The movements in property, plant and equipment during the year ended 31 December 2015 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2014	**89,071**	**15,682**	**156,716**	**6,347**	**1,647**	**22,288**	**291,751**
Additions	223	28	8,353	47	126	19,725	**28,502**
Disposals	(62)	–	(219)	(299)	(4)	(120)	**(704)**
Transfers	–	776	27,140	1,482	474	(29,872)	**–**
31 December 2015	**89,232**	**16,486**	**191,990**	**7,577**	**2,243**	**12,021**	**319,549**
Accumulated depreciation							
31 December 2014	**–**	**560**	**12,539**	**1,292**	**255**	**–**	**14,646**
Depreciation charge	–	558	15,315	1,166	523	–	**17,562**
Disposals	–	–	(91)	(145)	(1)	–	**(237)**
31 December 2015	**–**	**1,118**	**27,763**	**2,313**	**777**	**–**	**31,971**
Net book value							
31 December 2014	**89,071**	**15,122**	**144,177**	**5,055**	**1,392**	**22,288**	**277,105**
31 December 2015	**89,232**	**15,368**	**164,227**	**5,264**	**1,466**	**12,021**	**287,578**

The movements in property, plant and equipment during the year ended 31 December 2014 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
1 January 2014	**89,015**	**14,066**	**128,514**	**3,423**	**552**	**11,531**	**247,101**
Additions	341	1,369	15,258	955	849	26,737	**45,509**
Disposals	(92)	(14)	(401)	(117)	(10)	(225)	**(859)**
Transfers	(193)	261	13,345	2,086	256	(15,755)	**–**
31 December 2014	**89,071**	**15,682**	**156,716**	**6,347**	**1,647**	**22,288**	**291,751**
Accumulated depreciation							
1 January 2014	**–**	**–**	**1**	**–**	**6**	**–**	**7**
Depreciation charge	–	560	12,666	1,303	251	–	**14,780**
Disposals	–	–	(128)	(11)	(2)	–	**(141)**
31 December 2014	**–**	**560**	**12,539**	**1,292**	**255**	**–**	**14,646**
Net book value							
1 January 2014	**89,015**	**14,066**	**128,513**	**3,423**	**546**	**11,531**	**247,094**
31 December 2014	**89,071**	**15,122**	**144,177**	**5,055**	**1,392**	**22,288**	**277,105**

The Group pledged its land plots and real estate property included to property, plant and equipment as collateral for its borrowings. The carrying amount of the land plots and real estate property pledged as at 31 December 2015 was GEL 2,694 (2014: GEL 12,187). Refer to Note 12.

If the property, plant and equipment were measured using the cost model, the carrying amounts of the property, plant and equipment as at 31 December 2015 and 2014 would be as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2015	**3,137**	**14,539**	**259,182**	**5,503**	**3,679**	**12,021**	**298,061**
Accumulated depreciation	–	(3,633)	(84,432)	(1,704)	(1,879)	–	**(91,648)**
Net book value as at 31 December 2015	**3,137**	**10,906**	**174,750**	**3,799**	**1,800**	**12,021**	**206,413**

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2014	**2,977**	**13,735**	**224,283**	**5,599**	**3,039**	**22,288**	**271,921**
Accumulated depreciation	–	(2,938)	(66,651)	(1,275)	(1,324)	–	**(72,188)**
Net book value as at 31 December 2014	**2,977**	**10,797**	**157,632**	**4,324**	**1,715**	**22,288**	**199,733**

(Amounts expressed in thousands of Georgian Lari)

7. Property, plant and equipment (continued)

All Group's property, plant and equipment as at 31 December 2015 and 2014 is included in Level 3 fair measurement which techniques use unobservable inputs in valuation.

The valuation technique, inputs used in the fair value measurement for property, plant and equipment attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015 and 2014 respectively:

Class of property, plant and equipment	*Fair value as at 31 December 2015*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	89,232	Market approach	Price per square meter	0.002	Land	31,327,651	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 868
Real estate	15,368	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Building	114,052	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 31; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 250
Infrastructure assets	164,227	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 328; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 2,677;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	3.6				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 5.3
Vehicles	5,264	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 50
Fixtures and fittings	1,466	Discounted cash flows ("DCF")	WACC; terminal period growth rate,	17.6%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 3; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 24;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.2				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.1
Total property, plant and equipment, excluding CIP and other	**275,557**							

(Amounts expressed in thousands of Georgian Lari)

7. Property, plant and equipment (continued)

Class of property, plant and equipment	*Fair value as at 31 December 2014*	*Valuation technique*	*Significant unobservable Inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	89,071	Market approach	Price per square meter	0.002	Land	31,327,651	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 891
Real estate	15,122	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Building	114,052	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 30; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 246
Infrastructure assets	144,177	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 288; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 2,350;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	2.7				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 3.2
Vehicles	5,055	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 51
Fixtures and fittings	1,392	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 3; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 23;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.3				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.1
Total property, plant and equipment, excluding CIP and other	**254,817**							

8. Investment property

Investment property comprises:

	2015		
	Land	***Buildings***	***Total***
As at 1 January and 31 December	16,125	3,378	**19,503**

There were no movements in investment property during 2015.

(Amounts expressed in thousands of Georgian Lari)

8. Investment property (continued)

The table below shows movements in investment property during 2014:

	2014		
	Land	*Buildings*	*Total*
As at 1 January	**17,401**	**3,331**	**20,732**
Additions	–	47	**47**
Disposals	(1,276)	–	**(1,276)**
As at 31 December	**16,125**	**3,378**	**19,503**

The Group pledged its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2015 was GEL 16,526 (2014: GEL 12,305). Refer to Note 12.

Fair value measurement

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser is 1 January 2014. The valuation was performed by an independent valuator. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Subsequently the Group performed the assessment of investment property at their own.

The method used represent the market approach.

Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. This method of evaluation is analogical either in relation to the vehicles or in relation to land plots. Adjustments to value are determined mainly based on the following considerations: 1) physical condition; 2) location; 3) pattern of use; 4) installation costs; 5) transportation coefficients (for vehicles).

The valuation technique, inputs used in the fair value measurement for investment property attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2015 and 2014:

Class of investment property	*Fair value as at 31 December 2015 and 31 December 2014*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	16,125	Market approach	Price per square meter	0.055	Land	295,625	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 161
Buildings	3,378	Market approach	Price per square meter	0.584	Building	5,781	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 33
Total investment property	**19,503**							

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2015 and 2014.

(Amounts expressed in thousands of Georgian Lari)

9. Other non-current assets

	31 December 2015	*31 December 2014*
Intangible assets	1,466	891
Prepayments for non-current assets	1,075	857
Total other non-current assets	**2,541**	**1,748**

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2015 amounted to GEL 2,916 and GEL 1,450, respectively (2014: GEL 2,057 and GEL 1,166). Purchase of intangible assets attributed to the change in gross carrying value during 2015.

Amortisation charge during the year on intangible assets, including software licences, was GEL 284 in 2015 (2014: GEL 196).

10. Trade and other receivables

	31 December 2015	*31 December 2014*
Non-current		
Trade receivables for water supply services from general population	826	692
Trade receivables for installation of water meters from general population	34	169
	860	**861**
Less impairment loss provision	(553)	(281)
Total non-current trade and other receivables, net	**307**	**580**
Current		
Trade receivables for water supply services from general population	31,894	27,272
Trade receivables for water supply services from legal entities	11,110	14,322
Trade receivables for installation of water meters	1,817	3,894
Trade receivables for technical services	3,711	134
Trade receivables for electric power sales	357	69
	48,889	**45,691**
Less impairment loss provision	(35,405)	(36,496)
Total current trade receivables, net	**13,484**	**9,195**
Other receivables	1,188	10
Total current trade and other receivables, net	**14,672**	**9,205**

The carrying amounts of Group's trade and other receivables approximate their fair values and are denominated in Georgian Lari.

Analysis by credit quality of trade and other receivables is as follows:

	Neither past due nor impaired 31 December 2015	*Past due but not individually impaired 31 December 2015*	*Individually impaired 31 December 2015*	*Total 31 December 2015*
Non-current trade receivables	–	860	–	**860**
Current trade receivables	6,197	42,482	210	**48,889**
Other receivables	1,188	–	–	**1,188**
Total	**7,385**	**43,342**	**210**	**50,937**

(Amounts expressed in thousands of Georgian Lari)

10. Trade and other receivables (continued)

	Neither past due nor impaired 31 December 2014	*Past due but not individually impaired 31 December 2014*	*Individually impaired 31 December 2014*	*Total 31 December 2014*
Non-current trade receivables	–	861	–	**861**
Current trade receivables	1,704	42,323	1,664	**45,691**
Other receivables	10	–	–	**10**
Total	**1,714**	**43,184**	**1,664**	**46,562**

Included in past due but not individually impaired category are receivables that are past due at least one day and are not assessed for impairment on individual basis, but assessed for impairment on a collective basis.

Aging analysis of past due but not individually impaired loans per class of receivables is as follows:

31 December 2015	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	860	**860**
Current trade receivables	540	2,879	2,548	4,139	32,376	**42,482**
Total	**540**	**2,879**	**2,548**	**4,139**	**33,236**	**43,342**

31 December 2014	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	861	**861**
Current trade receivables	1,001	2,943	2,064	4,225	32,090	**42,323**
Total	**1,001**	**2,943**	**2,064**	**4,225**	**32,951**	**43,184**

The movements in the impairment provision for the trade and other receivables are as follows:

	Non-current trade receivables	*Current trade receivables*	*Total*
1 January 2014	**829**	**37,212**	**38,041**
Charge/(reversal)	(583)	6,273	**5,690**
Utilised	35	(6,989)	**(6,954)**
31 December 2014	**281**	**36,496**	**36,777**
Charge	201	232	**433**
Utilised	71	(1,323)	**(1,252)**
31 December 2015	**553**	**35,405**	**35,958**

11. Equity

Charter capital

As at 31 December 2015 and 2014 the Group had fully contributed charter capital of GEL 2. As at 31 December 2015, authorized common capital comprised 50,000, issued share capital comprised 1,000 ordinary shares, of which 1,000 were fully paid (31 December 2014: 1,000 issued share capital, of which 1,000 were fully paid). Each share has a nominal value of two (2) Georgian Lari (US dollars 1).

Dividends

During 2014 gross dividend in the amount of GEL 65,875 was declared. Gross dividend paid to the owner amounted to GEL 66,275. Subsequently, in 2016 the Group announced and paid out GEL 13,000 dividend to the owners. Refer to Note 26.

(Amounts expressed in thousands of Georgian Lari)

11. Equity (continued)

Revaluation reserve for property, plant and equipment

The revaluation reserve for property, plant and equipment is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Management of capital

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Group cost-efficient.

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available.

The Group met its internal minimal requirements to the capital structure in 2015 and 2014.

There are no externally imposed capital requirements to which the Group is subject to.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

12. Borrowings

	31 December 2015		*31 December 2014*	
	Current liabilities	***Non-current liabilities***	***Current liabilities***	***Non-current liabilities***
Loans from Georgian financial institutions	28,199	37,176	367	78,550
Debt securities issued	131	8,557	–	–
Total borrowings	**28,330**	**45,733**	**367**	**78,550**

In 2015, the Group completed the issuance of 2-year local bonds of GEL 8,688. The bonds were issued at par carrying fixed and floating coupon rates of 12-14% and NBG + 7.5% per annum, paid at maturity.

As at 31 December 2015 borrowings include GEL denominated loans from Georgian financial institutions with fixed and floating rates of 18%, NBG + 4% and NBG + 7% respectively (2014: GEL and USD denominated loans from Georgian financial institutions with floating rates of NBG + 4% and 7.5% + 6m LIBOR respectively). Loans are maturing on average in 1,104 days (2014: 2,166 days).

At 31 December 2015, the Group has available GEL 4,764 (2014: GEL 0) of undrawn borrowing facilities.

Some loans are received upon certain financial covenants, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. As at 31 December 2015 and 2014 the Group complied with all these lender covenants.

Refer to Note 7 and Note 8 for the carrying amount of property, plant and equipment and investment property pledged as collateral for borrowings.

13. Trade and other payables

	31 December 2015	***31 December 2014***
Trade payables	8,287	6,820
Payables for non-current assets	1,776	2,355
Payables to employees	1,690	656
Other payables	77	–
Total trade and other payables	**11,830**	**9,831**

(Amounts expressed in thousands of Georgian Lari)

14. Provisions for liabilities and charges to provisions

Movements in provisions for liabilities and charges to provisions are as follows:

	Tax provisions	*Legal claims*	*Total*
Carrying amount as at 1 January 2014	**4,271**	**254**	**4,525**
Additions charged to profit or loss	–	1,152	**1,152**
Reversal recognized in profit or loss	(4,271)	–	**(4,271)**
Carrying amount as at 31 December 2014	**–**	**1,406**	**1,406**
Additions charged to profit or loss	–	–	**–**
Reversal recognized in profit or loss	–	(88)	**(88)**
Carrying amount as at 31 December 2015	**–**	**1,318**	**1,318**

Provision for uncertain tax positions and related penalties and interest

As at 1 January 2014 and 31 December 2014 the Group was into negotiations with the Revenue Service of the Ministry of Finance of Georgia ("the Revenue Service") regarding certain additional taxes and related penalties and fines assessed based on results of tax audit. Related tax provisions were recognized by the management as of both dates.

Tax provision as at 31 December 2014 includes reversal for provision for uncertain income tax position in the amount of GEL 907 (Note 22).

The above provision have been classified as current liabilities because the Group does not have an unconditional right to defer settlement beyond one year.

On 14 April 2015 the Revenue Service issued the decision No. 11738 rescinding the above tax assessment in favour of the Group; as a result the additional tax assessment was cancelled and related provision was reversed.

Legal claims

In the normal course of business the Group is a party to legal actions. As at the reporting date, other than as presented above, management is unaware of any actual, pending or threatened claims against the Group that would have a material impact on the Group's financial position.

Management do not consider it feasible to accurately estimate when the provision will be fully utilised, given the varying levels of court hearings and appeal processes that each claim may be subject to. However, it is expected that all cases will be settled within the next five years. In addition, there remains uncertainty as to the merits of each individual claim and the final decision of the court in respect of each claim. After taking appropriate legal advice, management considers that the outcome of these legal claims will not give rise to any significant loss beyond the amounts accrued in these consolidated financial statements.

In 2014 the charge for provisions in the amount of GEL 3,119 includes reimbursement from insurance companies related to the legal claims in the amount of GEL 907. In 2015 the legal claim provisions and respective reimbursements have been written off in the amount of GEL 88 and GEL 256, respectively, recognizing charge in the amount of GEL 168 in consolidated statement of profit and loss and other comprehensive income.

15. Revenue from water supply

	2015	*2014*
Revenue from water supply to legal entities	74,587	70,891
Revenue from water supply to general population	30,170	29,955
Total revenue from water supply	**104,757**	**100,846**

(Amounts expressed in thousands of Georgian Lari)

16. Other revenue

	2015	*2014*
Revenue from connection service	3,173	2,613
Income from rent	477	419
Revenue from installation of water meters	151	342
Revenue from wastewater treatment	2	6
Total other revenue	**3,803**	**3,380**

17. Salaries and other employee benefits

	2015	*2014*
Salaries	19,108	19,259
Bonuses	1,873	760
Other employee benefits	–	20
Total salaries and benefits	**20,981**	**20,039**

18. General and administrative expenses

	2015	*2014*
Security expenses	985	996
Utility expenses	653	487
Office expenses	549	303
Representation expenses	367	610
Communication expenses	262	255
Advertising expenses	107	120
Business trip expenses	38	41
Total general and administrative expenses	**2,961**	**2,812**

19. Other income

	2015	*2014*
Gain on origination of VAT receivable	360	438
Penalties imposed to vendors for breach of contracts	13	115
Reimbursements from insurance companies	4	166
Other income	569	338
Total other income	**946**	**1,057**

20. Other operating expenses

	2015	*2014*
Bill processing expenses	1,539	1,133
Rent expenses	804	998
Regulation fee	534	618
Insurance expenses	313	183
Fines and penalties	246	933
Charity expenses	180	12
Net loss from disposal of property, plant and equipment	141	65
Cost of wastewater treatment costs	136	43
Bad debt collection expenses	–	869
Net loss from sale of inventories	–	319
Net loss from disposal of investment property	–	173
Other expenses	1,463	1,683
Total other operating expenses	**5,356**	**7,029**

(Amounts expressed in thousands of Georgian Lari)

21. Finance costs

	2015	2014
Net foreign exchange losses related to borrowings	13,867	365
Interest expenses	7,572	3,014
Bank fees and charges	105	464
Total finance costs	**21,544**	**3,843**

22. Income taxes

	2015	2014
Current tax	3,089	6,108
Deferred tax charge	3,861	3,834
Income tax expense	**6,950**	**9,942**

Statutory income tax rate applicable to the Company's income in 2015 and 2014 is 15%.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2015 and 31 December 2014 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2015	2014
Profit before income tax	**22,164**	**36,751**
Statutory tax rate	15%	15%
Theoretical income tax charge at statutory rate	**(3,325)**	**(5,513)**
Imputed tax payables for commercial loss	(167)	(1,613)
Reversal for provision for uncertain tax position (Note 14)	–	907
Correction of income tax	–	1,440
Unrecognised deferred tax related to recovery of bad debts	(4,235)	(341)
Tax effect on dividend issued	(1,713)	(3,702)
Tax effect of items which are not deductible	2,490	(1,120)
Income tax expense	**(6,950)**	**(9,942)**

Differences between IFRS and relevant statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15%:

	31 December 2014	Credited/(charged) to profit and loss	31 December 2015
Tax effects of deductible temporary differences			
Provisions for legal cases	211	(13)	198
Borrowings	51	(41)	10
Property, plant and equipment	283	(5)	278
Accounts payable	163	188	351
Gross deferred income tax asset	**708**	**129**	**837**
Tax effect of taxable temporary differences			
Property, plant and equipment	(24,648)	(4,171)	(28,819)
Trade and other receivables	(357)	181	(176)
Gross deferred income tax liability	**(25,005)**	**(3,990)**	**(28,995)**
Net deferred tax liability	**(24,297)**	**(3,861)**	**(28,158)**
Reflected in the statement of financial position as follows:			
Deferred income tax asset	284		279
Deferred income tax liability	(24,581)		(28,437)
Net deferred tax liability	**(24,297)**		**(28,158)**

(Amounts expressed in thousands of Georgian Lari)

22. Income taxes (continued)

	1 January 2014	*Credited/(charged) to profit and loss*	*31 December 2014*
Tax effects of deductible temporary differences			
Provisions for legal cases	38	173	211
Borrowings	–	51	51
Property, plant and equipment	305	(22)	283
Accounts payable	122	41	163
Gross deferred income tax asset	**465**	**243**	**708**
Tax effect of taxable temporary differences			
Property, plant and equipment	(20,788)	(3,860)	(24,648)
Trade and other receivables	(102)	(255)	(357)
Borrowings	(38)	38	–
Gross deferred income tax liability	**(20,928)**	**(4,077)**	**(25,005)**
Net deferred tax liability	**(20,463)**	**(3,834)**	**(24,297)**
Reflected in the statement of financial position as follows:			
Deferred income tax asset	305		284
Deferred income tax liability	(20,768)		(24,581)
Net deferred tax liability	**(20,463)**		**(24,297)**

In 2015 and 2014, the Group did not recognise deferred tax asset in respect with the impairment loss on trade receivables and bad debt write offs in the amounts of GEL 4,235 and GEL 341, respectively. Refer to Note 10. While bad debt is an allowable expenditure according to the current tax legislation it is required that the Group pursue a debtor with legal proceedings first and then based on the court decision, claim the allowance for bad debt for tax purposes, which was regarded as impractical due to large number of customers.

In June 2016, the Georgian Parliament adopted changes to the Tax Code related to the corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the owners or incurs such costs or makes supplies or payments that are subject to corporate profit tax. Refer to Note 26.

23. Commitments and contingencies

Commitments

The Share Purchase Agreement (the "Agreement") was made on 14 May 2008 (and amended on 22 December 2009) by and between the Company, the Government of Georgia, the Ministry of Economic Development of Georgia and the Government of the City of Tbilisi on the purchase of 100% shares of Georgian Water and Power LLC, Rustavi Water LLC, Mtskheta Water LLC and Gardabani Sewage Treatment Plant LLC (collectively the "Subsidiaries").

According to the Agreement, the Company is obliged to perform certain technical obligations and invest not less than US dollar 220 million equivalent in GEL in performance of such technical obligations under the Agreement.

In accordance with the standby agreement dated 14 January 2010 with TBC Bank, the Group is liable towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per the Agreement. The performance guarantee as at 31 December 2015 amounts to GEL 7,185 (equivalent of US dollars 3 million) (2014: GEL 11,182 (US dollars 6 million), its fair value approximates zero as of 31 December 2015 and 2014.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Group was in compliance with covenants as at 31 December 2015 and 2014.

(Amounts expressed in thousands of Georgian Lari)

23. Commitments and contingencies (continued)

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

24. Financial instruments

Financial instruments overview

Restricted cash

Included in restricted cash as at 31 December 2015 and 2014 are funds blocked on the current account in a Georgian bank. The funds are pledged as collateral under the guarantee granted by the same bank.

Loans issued

Included in non-current and current loans issued as at 31 December 2015 and 2014 are loans granted to third parties. Respective loan represent USD denominated loan with interest rate of 12% maturing in 1,064 days.

Cash at bank

Cash at bank as at 31 December 2015 and 2014 includes the funds placed on current accounts in Georgian banks.

As at 31 December 2015 and 2014 the Group did not have any significant financial assets that are past due but not impaired, except for trade and other receivables. Refer to Note 10.

Fair value measurement

All financial instruments other than loans issued, for which fair values are disclosed by the Group as at 31 December 2015 and 31 December 2014, are measured at fair value using a valuation technique with quoted prices in active markets and market observable inputs.

Loans issued by the Group as at 31 December 2015 and 31 December 2014 are attributed to level 3 in the fair value hierarchy.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2015 and 2014.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The management assessed that the fair values of cash at banks, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(Amounts expressed in thousands of Georgian Lari)

24. Financial instruments (continued)

Risk arising from financial instruments

In the course of its ordinary activity the Group is exposed to currency, interest rate, credit and liquidity risks. The Group's management oversees the management of these risks.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at 31 December 2015 the Group does not have any significant financial instruments in the foreign currency.

As at 31 December 2014 currency risk arises from the US dollar denominated borrowings. In 2015 the Group mitigated the currency risk by conversion of US dollar denominating borrowing into Georgian Lari.

The table below calculates the effect of a reasonably possible change of the US dollar rate against the Georgian Lari, with all other variables held constant. Positive change in currency rate represents an expectation of devaluation of national currency against US dollar. Negative effect on profit before income tax expense reflects a potential net decrease in income statement as a result of revaluation of the Group's short position in US dollars.

US dollar	***Change in currency rate in %***	***Effect on profit***
2014	+4.16%	(2,709)
2014	-4.16%	2,709

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. The Group has floating interest rate borrowings linked to LIBOR and NBG refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

Currency	***Increase/decrease in % 2015***	***Effect on profit 2015***
GEL	-1.25%	(631)
GEL	+1.25%	631

Currency	***Increase/decrease in % 2014***	***Effect on profit 2014***
GEL	-4%	(541)
GEL	+4%	541
USD	-0.48%	(311)
USD	+0.48%	311

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk it undertakes by setting limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Such risks are monitored on a continuous basis and subject to an annual or more frequent review.

(Amounts expressed in thousands of Georgian Lari)

24. Financial instruments (continued)

Risk arising from financial instruments (continued)

As at 31 December 2015 and 2014 the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2015 out of total cash at bank and restricted cash of GEL 14,178 (2014: 15,698), GEL 8,817 (2014: 8,031) was kept with banks having ratings of “BB-/bb-” from Standard & Poor’s, “B1/NP” (FC) & “Ba3/NP” (LC) from Moody’s and “BB-/bb-” from Fitch Ratings.
- Non-current and current loans issued.
- Trade and other receivables (refer to Note 10).

The credit quality of all financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

As at 31 December 2015 and 2014 carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated when they fall due under normal or stress circumstances. Management monitors rolling forecasts of the Group’s cash flows on a monthly basis. The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and customer prepayments.

The table below shows financial liabilities as at 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations.

	Less than 1 year	*Over 1 year*	*Total*
As at 31 December 2015			
Long-term and short-term borrowings	29,093	64,019	**93,112**
Trade and other payables	11,830	–	**11,830**
Total future payments	**40,923**	**64,019**	**104,942**
As at 31 December 2014			
Long-term and short-term borrowings	5,957	97,080	**103,037**
Trade and other payables	9,831	–	**9,831**
Total future payments	**15,788**	**97,080**	**112,868**

25. Related parties disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.
All transactions with related parties disclosed below have been conducted on an arm’s-length basis.

BGEO Group entities are represented by the members of BGEO Group.

(Amounts expressed in thousands of Georgian Lari)

25. Related parties disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2015	***31 December 2014***
	BGEO Group entities	***BGEO Group entities***
Cash and cash equivalents	1,059	4,962
Borrowings as at 1 January	**(78,600)**	**(7,699)**
Proceeds from borrowings	(22,031)	(86,798)
Borrowing repayments during the year	87,090	15,897
Borrowings as at 31 December	**(13,541)**	**(78,600)**

Interest expenses paid on borrowings from related parties amounted to GEL 2,521 and GEL 1,751 for the years ended 31 December 2015 and 2014, respectively.

Directors' compensation

Compensation paid to key management (includes the General Director and 5 members of the Management company, Georgian Water and Power LLC's management board) for their services in full time executive management positions is made up of salary, performance bonus depending on financial performance of the Management company and other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation included in the consolidated statement of profit or loss and other comprehensive income amounted to GEL 464 and GEL 466 for the years ended 31 December 2015 and 2014, respectively.

26. Events after the end of reporting period

In March 2016 the Group has refinanced the long term borrowings in the amount of GEL 16,113 having lowered the interest rate from NBG + 7% to NBG + 5%, and prolonged the maturity from March 2018 to March 2020.

In June 2016 amendments were made to the Tax Code of Georgia, under which the existing regulation for levying a profit tax will change to tax on distributed profits model to be enforced starting 1 January 2017. The profit tax rate has not changed. New legislation is expected to have material impact on the Group's taxes assessed starting from 1 January 2017 and will have impact on amounts of deferred taxes and respective income tax charges as at 31 December 2016 and for the year then ending.

In July 2016 BGEO acquired the remaining 75% equity stake in GGU. As the result of this buy-out, BGEO has become the ultimate parent of the Group with 100% ownership. The deal was completed in July 2016. As a part of settlement, the Group announced and paid out GEL 13,000 dividend to the shareholders.

In September 2016 the Group has refinanced the long term borrowings in the amount of GEL 25,880 having lowered the fixed and floating rates of 14%, NBG + 7% and NBG + 8.5% to NBG + 5%, and prolonged the maturity from 2017-2020 to September 2019-2020.

In December 2016 the Group has issued 5-years local bonds of GEL 30,000. The bonds were issued at par carrying floating coupon rates of NBG + 2.5%-4.5% per annum, paid on quarterly basis at maturity.

Georgian Global Utilities LTD

Consolidated financial statements

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with independent auditor's report

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Independent auditor's report

To the Management and Shareholder of Georgian Global Utilities LTD

Opinion

We have audited the consolidated financial statements of Georgian Global Utilities LTD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Shareholder for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Shareholder is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Partner regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Marchello Gelashvili
For and on behalf of EY Georgia LLC

11 April 2017

Tbilisi, Georgia

Consolidated statement of financial position

As at 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	8	329,300	287,578
Investment property	9	18,922	19,503
Restructured trade receivables	11	184	307
Restricted cash	25	5,094	2,545
Deferred income tax asset	23	–	279
Other non-current assets	10	2,359	2,568
Total non-current assets		**355,859**	**312,780**
Current assets			
Inventories		3,058	3,245
Trade and other receivables	11	21,337	17,073
Current income tax prepayments		795	1,340
Prepaid taxes other than income tax		2,809	5,284
Prepayments		289	345
Cash at bank	25	27,512	11,633
Total current assets		**55,800**	**38,920**
Total assets		**411,659**	**351,700**
Equity	12		
Charter capital		2	2
Retained earnings		98,157	74,774
Revaluation reserve for property, plant and equipment		180,923	153,955
Total equity		**279,082**	**228,731**
Liabilities			
Non-current liabilities			
Borrowings	13	83,786	45,733
Deferred income tax liability	23	–	28,437
Other non-current liabilities		22	9
Total non-current liabilities		**83,808**	**74,179**
Current liabilities			
Borrowings	13	22,481	28,330
Advances received		3,818	6,618
Trade and other payables	14	18,613	11,830
Provisions for liabilities and charges	15	706	1,318
Current income tax liability		330	–
Other taxes payable		2,821	694
Total current liabilities		**48,769**	**48,790**
Total liabilities		**132,577**	**122,969**
Total liabilities and equity		**411,659**	**351,700**

Approved for issue and signed on behalf of the Board of Directors on 11 April 2017:

Avtandil Namicheishvili
Director

Irakli Gilauri
Director

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	2016	2015
Revenue from water supply	16	109,402	104,757
Revenue from electric power sales		10,112	9,182
Other revenue	17	5,200	3,803
Total revenue		**124,714**	**117,742**
Salaries and other employee benefits	18	(16,680)	(20,981)
Electricity and transmission costs		(17,747)	(11,554)
Raw materials, fuel and other consumables		(2,856)	(5,634)
Maintenance expenditure		(2,860)	(4,144)
General and administrative expenses	19	(3,101)	(2,961)
Taxes other than income tax		(3,298)	(3,409)
Professional fees		(2,299)	(2,457)
Allowance for impairment of trade receivables	11	(2,198)	(433)
Charge for provisions and legal claims related expenses		(718)	(168)
Other income	20	2,073	946
Other operating expenses	21	(6,515)	(5,356)
		(56,199)	**(56,151)**
EBITDA		**68,515**	**61,591**
Interest income		220	180
Finance costs	22	(10,985)	(21,544)
Net foreign exchange losses		(462)	(217)
Depreciation and amortisation	8, 10	(17,842)	(17,846)
Profit before income tax expense		**39,446**	**22,164**
Income tax expense	23	(3,659)	(6,950)
Profit for the year		**35,787**	**15,214**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Effect of changes in tax legislation	23	27,572	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**27,572**	**–**
Other comprehensive income for the year, net of tax		**27,572**	**–**
Total comprehensive income for the year, net of tax		**63,359**	**15,214**

Consolidated statement of changes in equity

For the year ended 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	*Retained earnings*	*Revaluation reserve for property, plant and equipment*	*Total*
Balance as at 31 December 2014	**2**	**59,301**	**154,214**	**213,517**
Profit for the year	–	15,214	–	**15,214**
Total comprehensive income for the year	**–**	**15,214**	**–**	**15,214**
Realised revaluation reserve for property, plant and equipment, net of deferred tax	–	259	(259)	**–**
Balance as at 31 December 2015	**2**	**74,774**	**153,955**	**228,731**
Profit for the year	–	35,787	–	**35,787**
Other comprehensive income (Note 23)	–	–	27,572	**27,572**
Total comprehensive income for the year	**–**	**35,787**	**27,572**	**63,359**
Realised revaluation reserve for property, plant and equipment	–	604	(604)	**–**
Dividends declared (Note 12)	–	(13,008)	–	**(13,008)**
Balance as at 31 December 2016	**2**	**98,157**	**180,923**	**279,082**

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

(Amounts expressed in thousands of Georgian Lari)

	Note	*2016*	*2015*
Cash flows from operating activities			
Profit before income tax		**39,446**	**22,164**
Adjustments for:			
Depreciation and amortisation	8, 10	17,842	17,846
Allowance for impairment of trade receivables	11	2,198	433
Charge for provisions	15	718	168
Net loss from disposal of property, plant and equipment	21	230	141
Net foreign exchange losses		462	217
Interest income		(220)	(180)
Finance costs	22	10,985	21,544
Operating cash flows before working capital changes			
Change in inventories		187	420
Change in trade and other receivables		(6,339)	(8,284)
Change in prepaid taxes other than income tax		2,475	(3,204)
Change in prepayments		56	3,457
Change in trade and other payables		(225)	2,578
Change in advances received		(2,800)	(489)
Change in other tax payables		2,127	(926)
Change in restricted cash		(2,549)	(85)
Change in other non-current liabilities		13	(3)
Interest received		220	180
Interest paid		(10,803)	(7,118)
Income tax paid		(3,370)	(1,108)
Net cash from operating activities		**50,653**	**47,751**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(54,584)	(30,156)
Purchase of investment property		(31)	–
Proceeds from sale of property, plant and equipment		166	326
Proceeds from sale of investment property		925	–
Issue of loans		–	(27)
Net cash used in investing activities		**(53,524)**	**(29,857)**
Cash flows from financing activities			
Proceeds from borrowings		91,264	88,005
Repayment of borrowings		(59,012)	(107,375)
Dividend paid to the Group's owner	12	(13,008)	–
Net cash from / (used in) financing activities		**19,244**	**(19,370)**
Effect of exchange rate changes on cash and cash equivalents		(494)	(129)
Net decrease in cash and cash equivalents		**15,879**	**(1,605)**
Cash and cash equivalents at the beginning of year	25	11,633	13,238
Cash and cash equivalents at the end of year	25	**27,512**	**11,633**

The accompanying notes on pages 5 to 32 are an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. Corporate information

Georgian Global Utilities LTD (formerly named as Multiplex Energy Limited) was incorporated in British Virgin Islands on 16 August 2007 as a private company with limited liability (the “Company” or “GGU”). The Company is a holding parent company of the following entities holding 100% interest in each of them:

	Country of incorporation	*Date of incorporation*	*Date of acquisition*	*31 December 2016*	*31 December 2015*
Georgian Water and Power LLC (“Management company”)	Georgia	25 June 1997	14 May 2008	100%	100%
Rustavi Water LLC	Georgia	31 August 1999	14 May 2008	100%	100%
Mtskheta Water LLC	Georgia	1 September 1999	14 May 2008	100%	100%
Gardabani Sewage Treatment Plant LLC	Georgia	20 December 1999	14 May 2008	100%	100%
Georgian Engineering and Management Company LLC	Georgia	29 March 2011	29 March 2011	100%	100%
Saguramo Energy LLC	Georgia	11 December 2008	19 December 2014	100%	100%

The Company together with its subsidiaries makes up a group of companies (the “Group”).

The Group’s principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. The Group also owns hydroelectric power stations generating electricity for own use and for sale to electricity open market.

The Company’s registered address is at 33 Porter Road, P.O. Box 3169 PMB103, Road Town, Tortola, British Virgin Islands.

As at 31 December 2016, 100% of the Company’s shares are owned by JSC BGEO Investments, the ultimate parent of which is BGEO Group PLC (“BGEO”). BGEO is a premium listed company on London Stock Exchange; no individual shareholder owns more than 10% of the BGEO’s shares.

As at 31 December 2015, 25% of shares of GGU were owned by BGEO (formerly known as Bank of Georgia Holdings PLC). The remaining 75% of shares were ultimately controlled by Mr. Andrey N. Rappoport.

2. Operating environment

The Group’s business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Management, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries.

3. Basis of preparation

These consolidated financial statements of the Group for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued by the International Accounting Standards Board (“IASB”) effective for 2016 reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and property, plant and equipment that have been measured at fair value.

The consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), unless otherwise indicated.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2016 which had no significant impact on the financial position and performance of the Group or the disclosures in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of assets included in Level 3 of the fair value hierarchy may be subject to change once and if observable relevant transactions are available.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

All of the Group's financial assets including trade and other receivables, loans issued, restricted cash and cash at bank fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include:

- Any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as class of receivable, number of overdue days and whether the Group got an ability to cooperate with energy suppliers for the purpose of debt collection or not.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude).
The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. In addition, a customer may file an application with the regulator – Georgian National Energy and Water Supply Regulatory Commission ("GNERC") – for derecognition of a receivable overdue for more than 3 years. If such an application is approved by GNERC, the Group is required to derecognize respective receivable by law. Refer to Note 11 for further details on assessment and judgement applied in respect with impairment and write-off of trade receivables.

Renegotiated receivables

Renegotiated (restructured) receivables comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. Only Trade receivables for water supply services and for installation of water meters from general population can be restructured. The restructuring is caused by the financial difficulties of the Group's counterparty, and is treated as a derecognition of the original financial asset and the recognition of a new financial asset, and the difference in the respective carrying amounts is recognised in the profit or loss.

Once the terms have been renegotiated, the receivable is no longer considered past due. Management continuously reviews renegotiated receivables to ensure that all criteria are met and that future payments are likely to occur.
The renegotiated receivables continue to be subject to an impairment assessment as other trade receivables as described above.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

All of the Group's financial liabilities, including borrowings and trade and other payables, are carried at amortised cost.

The Group's borrowings comprise of debt securities issued and loans from Georgian financial institutions.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

Property, plant and equipment

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

The Group's property, plant and equipment are stated at revalued amount less accumulated depreciation and provision for impairment, where required. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase of the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease of the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. When the asset is derecognised the revaluation surplus is transferred directly to accumulated deficit.

Land, real estate and infrastructure assets are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. The Group charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity and in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful lives in years
Real estate	50 years
Infrastructure assets	10-40 years
Fixtures and fittings	3 years
Vehicles	10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property

Investment property is represented by land and buildings that are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or for future redevelopment before exact details of use are not yet determined.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The last revaluation of investment property was conducted by independent appraiser as at 1 January 2014. Subsequently the Group performed the assessment of investment property at their own.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation. Intangible assets include acquired software licenses and are amortised on a straight-line basis over their estimated useful lives (3-5 years) from the date the asset is available for use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (applicable to undistributed profits) and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The Cost of inventories comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of inventory is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash at bank

Cash at bank includes deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash at bank are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash at bank for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in restricted cash separately.

All cash at bank balances are classified as current and not impaired.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Charter capital

The amount of Company's authorised charter capital is defined by the Company's Article of Association. The changes in the Company's Article of Association (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Value added tax

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur.

The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property development phase.

Provisions for liabilities and charges to provisions

Provisions for liabilities and charges to provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

EBITDA

The Group separately presents EBITDA on the face of consolidated statement of profit or loss and comprehensive income. EBITDA is not defined in IFRS but is defined by the Group as earnings before interest, taxes, depreciation and amortisation, and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, finance costs and net foreign exchange losses.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Functional currencies and foreign currency translation

The Group's consolidated financial statements are presented in Georgian Lari, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Functional currencies and foreign currency translation (continued)

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Gains and losses resulting from the translation of foreign currency transactions related to borrowings are recognised in the profit or loss within finance costs; gains and losses from the translation of other foreign currency transactions are recognised in the profit or loss within net foreign exchange losses.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia (“NBG”) exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2016 and 2015 were 2.6468 and 2.3949 Georgian Lari to 1 US dollar, respectively.

Total amount of foreign exchange losses recognized in profit or loss and other comprehensive income for the year ended 31 December 2016 amounts to GEL 462 (2015: GEL 14,084), which consists of net foreign exchange losses related to borrowings in the amount of GEL nil (2015: GEL 13,867) included to finance costs and net foreign exchange losses related to other financial instruments in the amount of GEL 462 (2015: GEL 217) presented in the respective item of profit or loss and other comprehensive income.

Income and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized:

Revenue from water supply to legal entities

Includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.

Revenue from water supply to population

Includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for general population.

Revenue from installation of water meters

Includes amounts billed to population according to the acting rules of Georgian National Energy and Water Supply Regulatory Commission. Revenue is recognised upon completion of works in respect of water meter installation services to the individual customers.

Revenue from electric power sales

Is recognised on the basis of metered electric power transferred.

Revenue from connection service

Is recognised based on the completion of works in respect to connection services to the individual customers.
In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Employee benefits

Wages, salaries, annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. New standards relevant to the Group's activities that may have any impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and is currently assessing its impact of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted.

The Group made IFRS 15 impact assessment and elected early adoption of new revenue recognition from 1 January 2017. The management performed the analysis and concluded that non-refundable connection and water meters installation fees are not distinct, shall be bundled with water supply services and respective connection and water supply contract shall be treated as one that includes one performance obligation. As a result, as of 1 January 2017 the Group will start recognizing non-refundable connection and water meters installation fees during the service period which is estimated to be 10 years. Possible effect from the respective change in revenue recognition policy as described above is expected to result in decrease of retained earnings of GEL 17,854 and recognition of deferred revenue of the same amount as at 1 January 2017.

(Amounts expressed in thousands of Georgian Lari)

4. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 7 Disclosure Initiative – amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASBs *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This amendment is effective for annual periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of Amendments to IAS 40 on its consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation is effective for annual periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of IFRIC Interpretation 22 on its consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

5. Reclassification of prior year balances

During 2016 the Group reconsidered the presentation of its consolidated statement of financial position for the purpose of more accurate presentation of certain accounts stated in the table below. The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts:

Consolidated statement of financial position as at 31 December 2015	***As previously reported***	***Reclassification***	***As reclassified***
Prepayments	2,746	(2,401)	345
Trade and other receivables	14,672	2,401	17,073

Consolidated statement of cash flows for the year ended 31 December 2015	***As previously reported***	***Reclassification***	***As reclassified***
Change in trade and other receivables	(5,883)	(2,401)	(8,284)
Change in prepayments	1,056	2,401	3,457

6. Significant accounting judgements and estimates

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Measurement of fair value of investment properties and property, plant and equipment

The fair value of investment properties and property, plant and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties and property, plant and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation, as well as valuation inputs and techniques are presented in Notes 8 and 9. The Group's certain properties are specialized in nature and spread across the different parts of the country. While secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these consolidated financial statements. However, based on the provisions of privatization agreement referred to in Note 1, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognised infrastructure assets as the Group's property, plant and equipment.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

(Amounts expressed in thousands of Georgian Lari)

6. Significant accounting judgements and estimates (continued)

Impairment of trade and other receivables

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Group's historical collection experience for receivables of similar age. Provisions against trade receivables are made based on historical experience of levels of recovery from accounts in a particular ageing category. The value of the impairment provision is sensitive to the specific percentages applied.

The management's estimates can be further revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

7. Segment information

For management purposes, the Group is organised into two operating segments based on products and services as follows:

Electricity generation

The Group owns hydroelectric power stations generating electricity for own consumption and for sale to electricity market.

Water supply and wastewater collection services

The Group provides water supply and wastewater collection to legal entities and general population of Tbilisi, Rustavi, Mtskheta cities and the nearby villages. It captures production, treatment, transportation, distribution of water and waste water collection. The Group owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained below, is measured in the same manner as profit or loss in the consolidated financial statements. Management does not monitor total assets, total liabilities and non-current assets separately for each segment, but analyses it on the Group's level.

Transactions between operating segments are on an arm's length basis in a manner as with transactions with third parties.

The Groups's operations are concentrated in Georgia.

All non-current assets of the Group are located in Georgia.

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2016 or 2015.

	Sub note	*Electricity generation, 2016*	*Water supply and wastewater collection services, 2016*	*Intersegment transactions, 2016*	*Total, 2016*
Revenue from water supply		–	109,402	–	**109,402**
Revenue from electric power sales		15,032	–	(4,920)	**10,112**
Other revenue		–	5,200	–	**5,200**
Total revenue	1	**15,032**	**114,602**	**(4,920)**	**124,714**
Salaries and benefits	2	(612)	(16,068)	–	**(16,680)**
Electricity and transmission costs	1	(112)	(22,555)	4,920	**(17,747)**
Raw materials, fuel and other consumables		(129)	(2,727)	–	**(2,856)**
Maintenance expenditure		(124)	(2,736)	–	**(2,860)**
General and administrative expenses		(95)	(3,006)	–	**(3,101)**
Taxes other than income tax		(97)	(3,201)	–	**(3,298)**
Professional fees		(18)	(2,281)	–	**(2,299)**
Allowance for impairment of trade receivables		–	(2,198)	–	**(2,198)**
Charge for provisions		–	(718)	–	**(718)**
Other income		6	2,067	–	**2,073**
Other operating expenses		(769)	(5,746)	–	**(6,515)**
EBITDA		**13,082**	**55,433**	**–**	**68,515**
Interest income	3	115	105	–	**220**
Finance costs	3	(122)	(10,863)	–	**(10,985)**
Net foreign exchange losses		(270)	(192)	–	**(462)**
Depreciation and amortisation		(2,237)	(15,605)	–	**(17,842)**
Profit before income tax expense		**10,568**	**28,878**	**–**	**39,446**
Income tax expense	4	(497)	(3,162)	–	**(3,659)**
Profit and other comprehensive income for the year		**10,071**	**25,716**	**–**	**35,787**

(Amounts expressed in thousands of Georgian Lari)

7. Segment information (continued)

Water supply and wastewater collection services (continued)

	Sub note	*Electricity generation, 2015*	*Water supply and wastewater collection services, 2015*	*Intersegment transactions, 2015*	*Total, 2015*
Revenue from water supply		–	104,757	–	**104,757**
Revenue from electric power sales		18,359	(4,089)	(5,088)	**9,182**
Other revenue		–	3,803	–	**3,803**
Total revenue	1	**18,359**	**104,471**	**(5,088)**	**117,742**
Salaries and benefits	2	(1,448)	(19,533)	–	**(20,981)**
Electricity and transmission costs	1	(122)	(16,520)	5,088	**(11,554)**
Raw materials, fuel and other consumables		(105)	(5,529)	–	**(5,634)**
Maintenance expenditure		(67)	(4,077)	–	**(4,144)**
General and administrative expenses		(129)	(2,832)	–	**(2,961)**
Taxes other than income tax		(220)	(3,189)	–	**(3,409)**
Professional fees		(42)	(2,415)	–	**(2,457)**
Allowance for impairment of trade receivables		–	(433)	–	**(433)**
Charge for provisions		–	(168)	–	**(168)**
Other income		13	933	–	**946**
Other operating expenses		(284)	(5,072)	–	**(5,356)**
EBITDA		**15,955**	**45,636**	**–**	**61,591**
Interest income	3	19	161	–	**180**
Finance costs	3	(3,434)	(18,110)	–	**(21,544)**
Net foreign exchange losses		(39)	(178)	–	**(217)**
Depreciation and amortisation		(2,078)	(15,768)	–	**(17,846)**
Profit before income tax expense		**10,423**	**11,741**	**–**	**22,164**
Income tax expense	4	(2,864)	(4,086)	–	**(6,950)**
Profit and other comprehensive income for the year		**7,559**	**7,655**	**–**	**15,214**

The majority elements of revenue and costs were attributed to the relevant segments based on the actual results in the IFRS accounts. The allocation principles and methods used by the management for revenue and costs elements, which cannot be directly attributed to the relevant operating segments, were provided below. In particular:

1. **Revenue** – during the year 2016 and 2015 the Group consumed electricity internally generated by Zhinvali HPP and Tetrikhevi HPP. For the purpose of the IFRS accounts, the revenue from the internally used electricity was recorded at a regulated tariff stated by Georgian National Energy and Water supply Regulatory Commission (decree No. 33, dated 4 December 2008). The respective cost of electricity for water supply and wastewater collection services segment is increased by the similar amount.
2. **Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.
3. **Interest income and finance costs** were allocated to each segment proportionally based on the total revenue of each of the operating segment.
4. **Income tax expense** – income tax expense was apportioned between the segments proportionally based on the profit before income tax of each of the operating segment.

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment

The movements in property, plant and equipment during the year ended 31 December 2016 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2015	**89,232**	**16,486**	**191,990**	**7,577**	**2,243**	**12,021**	**319,549**
Additions	68	426	5,475	532	344	53,911	**60,756**
Disposals	–	(117)	(763)	(237)	(1)	(1,041)	**(2,159)**
Transfers	–	2,051	34,396	4,726	732	(41,905)	**–**
31 December 2016	**89,300**	**18,846**	**231,098**	**12,598**	**3,318**	**22,986**	**378,146**
Accumulated depreciation							
31 December 2015	**–**	**1,118**	**27,763**	**2,313**	**777**	**–**	**31,971**
Depreciation charge	–	619	14,700	1,179	692	–	**17,190**
Disposals	–	(9)	(142)	(164)	–	–	**(315)**
31 December 2016	**–**	**1,728**	**42,321**	**3,328**	**1,469**	**–**	**48,846**
Net book value							
31 December 2015	**89,232**	**15,368**	**164,227**	**5,264**	**1,466**	**12,021**	**287,578**
31 December 2016	**89,300**	**17,118**	**188,777**	**9,270**	**1,849**	**22,986**	**329,300**

The movements in property, plant and equipment during the year ended 31 December 2015 were as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Revalued amount							
31 December 2014	**89,071**	**15,682**	**156,716**	**6,347**	**1,647**	**22,288**	**291,751**
Additions	223	28	8,353	47	126	19,725	**28,502**
Disposals	(62)	–	(219)	(299)	(4)	(120)	**(704)**
Transfers	–	776	27,140	1,482	474	(29,872)	**–**
31 December 2015	**89,232**	**16,486**	**191,990**	**7,577**	**2,243**	**12,021**	**319,549**
Accumulated depreciation							
31 December 2014	**–**	**560**	**12,539**	**1,292**	**255**	**–**	**14,646**
Depreciation charge	–	558	15,315	1,166	523	–	**17,562**
Disposals	–	–	(91)	(145)	(1)	–	**(237)**
31 December 2015	**–**	**1,118**	**27,763**	**2,313**	**777**	**–**	**31,971**
Net book value							
31 December 2014	**89,071**	**15,122**	**144,177**	**5,055**	**1,392**	**22,288**	**277,105**
31 December 2015	**89,232**	**15,368**	**164,227**	**5,264**	**1,466**	**12,021**	**287,578**

The Group pledged its land plots and real estate property included to property, plant and equipment as collateral for its borrowings. The carrying amount of the land plots and real estate property pledged as at 31 December 2016 was GEL 7,727 (2015: GEL 3,697). Refer to Note 13.

If the property, plant and equipment were measured using the cost model, the carrying amounts of the property, plant and equipment as at 31 December 2016 and 2015 would be as follows:

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2016	**3,019**	**18,442**	**335,124**	**12,553**	**4,128**	**22,986**	**396,252**
Accumulated depreciation and impairment	(24)	(10,526)	(193,585)	(3,461)	(2,411)	–	**(210,007)**
Net book value as at 31 December 2016	**2,995**	**7,916**	**141,539**	**9,092**	**1,717**	**22,986**	**186,245**

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

	Land plots	*Real estate*	*Infrastruc-ture assets*	*Vehicles*	*Fixtures and fittings*	*CIP*	*Total*
Historical cost as at 31 December 2015	**3,137**	**14,562**	**314,128**	**9,658**	**3,588**	**12,021**	**357,094**
Accumulated depreciation and impairment	(194)	(8,389)	(202,978)	(4,816)	(2,334)	–	**(218,711)**
Net book value as at 31 December 2015	**2,943**	**6,173**	**111,150**	**4,842**	**1,254**	**12,021**	**138,383**

All Group's property, plant and equipment as at 31 December 2016 and 2015 is included in Level 3 fair measurement which techniques use unobservable inputs in valuation.

The valuation technique, inputs used in the fair value measurement for property, plant and equipment attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015 respectively:

Class of property, plant and equipment	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	89,300	Market approach	Price per square meter	0.002	Land	31,327,591	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 893
Real estate	17,118	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Building	115,058	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 181; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 654
Infrastructure assets	188,777	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 1,979; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 7,156;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	9.1				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 10,1
Vehicles	9,270	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 93
Fixtures and fittings	1,849	Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.2%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 20; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 70;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.2				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.03
Total property, plant and equipment, excluding CIP and other	**306,314**							

(Amounts expressed in thousands of Georgian Lari)

8. Property, plant and equipment (continued)

Class of property, plant and equipment	***Fair value as at 31 December 2015***	***Valuation technique***	***Significant unobservable Inputs used***	***Weighted average***	***Type***	***Total area, square meters***	***Reasonable change***	***Sensitivity of the input to the fair value***
Land plots	89,232	Market approach	Price per square meter	0.002	Land	31,327,651	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 892
Real estate	15,368	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Building	114,052	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 31; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 250
Infrastructure assets	164,227	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Pipes and wells, equipment	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 328; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 2,677;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	3.6				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 5.3
Vehicles	5,264	Cost approach, Market approach	Prices of comparables, unit costs, technical parameters	14	Vehicles	N/a	±1%	1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 53
Fixtures and fittings	1,466	Discounted cash flows ("DCF")	WACC; terminal period growth rate	17.6%	Fixtures and fittings	N/a	±1%	1% increase (decrease) in terminal growth rate would result in increase (decrease) in fair value by GEL 3; 1% increase (decrease) in WACC would result in decrease (increase) in fair value by GEL 24;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	0.2				1% increase (decrease) in the price of comparable would result in increase (decrease) in fair value by GEL 0.1
Total property, plant and equipment, excluding CIP and other	**275,557**							

9. Investment property

The table below shows the composition and movements in investment property during 2016:

	2016		
	Land	***Buildings***	***Total***
As at 1 January	**16,125**	**3,378**	**19,503**
Additions	–	31	**31**
Disposals	(612)	–	**(612)**
As at 31 December	**15,513**	**3,409**	**18,922**

The Group pledged its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2016 was GEL 7,413 (2015: GEL 16,526). Refer to Note 13.

(Amounts expressed in thousands of Georgian Lari)

9. Investment property (continued)

Fair value measurement

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser is 1 January 2014. The valuation was performed by an independent valuator. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Subsequently the Group performed the assessment of investment property at their own.

The method used represent the market approach.

Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. This method of evaluation is analogical either in relation to the vehicles or in relation to land plots. Adjustments to value are determined mainly based on the following considerations: 1) physical condition; 2) location; 3) pattern of use; 4) installation costs; 5) transportation coefficients (for vehicles).

The valuation technique, inputs used in the fair value measurement for investment property attributed to level 3 in the fair value hierarchy and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016 and 2015:

Class of investment property	*Fair value as at 31 December 2016*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	15,513	Market approach	Price per square meter	0.057	Land	272,142	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 155
Buildings	3,409	Market approach	Price per square meter	0.27	Building	12,637	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 34
Total investment property	**18,922**							

Class of investment property	*Fair value as at 31 December 2015*	*Valuation technique*	*Significant unobservable inputs used*	*Weighted average*	*Type*	*Total area, square meters*	*Reasonable change*	*Sensitivity of the input to the fair value*
Land plots	16,125	Market approach	Price per square meter	0.055	Land	295,625	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 161
Buildings	3,378	Market approach	Price per square meter	0.584	Building	5,781	±1%	1% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by GEL 34
Total investment property	**19,503**							

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

(Amounts expressed in thousands of Georgian Lari)

10. Other non-current assets

	31 December 2016	*31 December 2015*
Intangible assets	1,296	1,466
Prepayments for non-current assets	1,063	1,075
Loans issued	–	27
Total other non-current assets	**2,359**	**2,568**

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2016 amounted to GEL 3,398 and GEL 2,102, respectively (2015: GEL 2,916 and GEL 1,450).

Amortisation charge during the year on intangible assets, including software licences, was GEL 652 in 2016 (2015: GEL 284).

11. Trade and other receivables

	31 December 2016	*31 December 2015*
Non-current		
Trade receivables for water supply services from general population	477	826
Trade receivables for installation of water meters from general population	–	34
	477	**860**
Less impairment loss provision	(293)	(553)
Total non-current trade and other receivables, net	**184**	**307**
Current		
Trade receivables for water supply services from general population	29,698	31,894
Trade receivables for water supply services from legal entities	17,848	11,110
Trade receivables for installation of water meters	1,434	1,817
Trade receivables for connection service	5,371	3,711
Trade receivables for electric power sales	1,168	357
	55,519	**48,889**
Less impairment loss provision	(35,945)	(35,405)
Total current trade receivables, net	**19,574**	**13,484**
Other receivables	1,763	3,589
Total current trade and other receivables, net	**21,337**	**17,073**

The carrying amounts of Group's trade and other receivables approximate their fair values and are denominated in Georgian Lari.

Analysis by credit quality of trade and other receivables is as follows:

	Neither past due nor impaired 31 December 2016	*Past due but not individually impaired 31 December 2016*	*Individually impaired 31 December 2016*	*Total 31 December 2016*
Non-current trade receivables	–	477	–	**477**
Current trade receivables	11,699	43,820	–	**55,519**
Other receivables	1,763	–	–	**1,763**
Total	**13,462**	**44,297**	**–**	**57,759**

(Amounts expressed in thousands of Georgian Lari)

11. Trade and other receivables (continued)

	Neither past due nor impaired 31 December 2015	*Past due but not individually impaired 31 December 2015*	*Individually impaired 31 December 2015*	*Total 31 December 2015*
Non-current trade receivables	–	860	–	**860**
Current trade receivables	6,197	42,482	210	**48,889**
Other receivables	3,589	–	–	**3,589**
Total	**9,786**	**43,342**	**210**	**53,338**

Included in past due but not individually impaired category are receivables that are past due at least one day and are not assessed for impairment on individual basis, but assessed for impairment on a collective basis.

Aging analysis of past due but not individually impaired loans per class of receivables is as follows:

31 December 2016	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	477	**477**
Current trade receivables	1,954	1,978	1,529	3,347	35,012	**43,820**
Total	**1,954**	**1,978**	**1,529**	**3,347**	**35,489**	**44,297**

31 December 2015	*Less than 30 days*	*30 to 90 days*	*91 to 180 days*	*181 to 360 days*	*Over 360 days*	*Total*
Non-current trade receivables	–	–	–	–	860	**860**
Current trade receivables	540	2,879	2,548	4,139	32,376	**42,482**
Total	**540**	**2,879**	**2,548**	**4,139**	**33,236**	**43,342**

The movements in the impairment provision for the trade and other receivables are as follows:

	Non-current trade receivables	*Current trade receivables*	*Total*
31 December 2014	**281**	**36,496**	**36,777**
Charge	201	232	**433**
Utilised	71	(1,323)	**(1,252)**
31 December 2015	**553**	**35,405**	**35,958**
Charge	(260)	1,569	**1,309**
Utilised	–	(1,029)	**(1,029)**
31 December 2016	**293**	**35,945**	**36,238**

12. Equity

Charter capital

As at 31 December 2016 and 2015 the Group had fully contributed charter capital of GEL 2. As at 31 December 2016 and 2015, authorized common capital comprised 50,000, issued share capital comprised 1,000 ordinary shares, of which 1,000 were fully paid. As at 31 December 2016 each share has a nominal value of US dollar 1 (one).

Dividends

During 2016 dividends in the amount of GEL 13,008 were declared and paid in the proportion to the respective participation of the former shareholders.

(Amounts expressed in thousands of Georgian Lari)

12. Equity (continued)

Revaluation reserve for property, plant and equipment

The revaluation reserve for property, plant and equipment is used to record increases in the fair value of property, plant and equipment and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Management of capital

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Group cost-efficient.

To achieve these goals the Group performs a detailed analysis of capital structure considering the cost of borrowed funds and level of own capital available.

The Group met its internal minimal requirements to the capital structure in 2016 and 2015.

There are no externally imposed capital requirements to which the Group is subject to.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

13. Borrowings

	31 December 2016		*31 December 2015*	
	Current liabilities	*Non-current liabilities*	*Current liabilities*	*Non-current liabilities*
Loans from Georgian financial institutions	19,528	54,172	28,199	37,176
Debt securities issued	2,953	29,614	131	8,557
Total borrowings	**22,481**	**83,786**	**28,330**	**45,733**

In 2016, the Group completed the issuance of 5-year local bonds of GEL 30,000, out of which GEL 6,000 were used to refinance existing debt. The bonds were issued at par carrying floating coupon rates of NBG + 3.5% per annum, paid at maturity.

In 2015, the Group issued a 2-year local bonds of GEL 8,688. The bonds were issued at par carrying fixed and floating coupon rates of 12-14% and NBG + 7.5% per annum, paid at maturity.

As at 31 December 2016 borrowings include GEL denominated loans from Georgian financial institutions with fixed and floating rates of 19%, NBG + 4% and NBG + 8% respectively (2015: GEL denominated loans from Georgian financial institutions with fixed and floating rates of 18%, NBG + 4% and NBG + 7% respectively). Loans are maturing on average in 1,035 days (2015: 1,104 days).

At 31 December 2016, the Group has available GEL nil (2015: GEL 4,764) of undrawn borrowing facilities.

Some loans are received upon certain financial covenants, such as maintaining different limits for debt to EBITDA ratio, capital investments and others. As at 31 December 2016 and 2015 the Group complied with all these lender covenants.

Refer to Note 8 and Note 9 for the carrying amount of property, plant and equipment and investment property pledged as collateral for borrowings.

(Amounts expressed in thousands of Georgian Lari)

14. Trade and other payables

	31 December 2016	*31 December 2015*
Trade payables	9,285	8,287
Payables for non-current assets	7,454	1,776
Payables to employees	1,681	1,690
Other payables	193	77
Total trade and other payables	**18,613**	**11,830**

15. Provisions for liabilities and charges for provisions

Movements in provisions for legal claims and charges for provisions are as follows:

	Legal claims
Carrying amount as at 31 December 2014	**1,406**
Reversal recognized in profit or loss	(88)
Carrying amount as at 31 December 2015	**1,318**
Reversal recognized in profit or loss	(612)
Carrying amount as at 31 December 2016	**706**

In the normal course of business the Group is a party to legal actions. As at the reporting date, other than as presented above, management is unaware of any actual, pending or threatened claims against the Group that would have a material impact on the Group's financial position.

Management do not consider it feasible to accurately estimate when the provision will be fully utilised, given the varying levels of court hearings and appeal processes that each claim may be subject to. However, it is expected that all cases will be settled within the next five years. In addition, there remains uncertainty as to the merits of each individual claim and the final decision of the court in respect of each claim. After taking appropriate legal advice, management considers that the outcome of these legal claims will not give rise to any significant loss beyond the amounts accrued in these consolidated financial statements.

16. Revenue from water supply

	2016	*2015*
Revenue from water supply to legal entities	78,139	74,587
Revenue from water supply to general population	31,263	30,170
Total revenue from water supply	**109,402**	**104,757**

17. Other revenue

	2016	*2015*
Revenue from connection service	4,589	3,173
Income from rent	573	477
Revenue from wastewater treatment	20	2
Revenue from installation of water meters	18	151
Total other revenue	**5,200**	**3,803**

(Amounts expressed in thousands of Georgian Lari)

18. Salaries and other employee benefits

	2016	*2015*
Salaries	15,628	19,108
Bonuses	1,052	1,873
Total salaries and benefits	**16,680**	**20,981**

19. General and administrative expenses

	2016	*2015*
Security expenses	988	985
Utility expenses	640	653
Office expenses	545	549
Communication expenses	314	262
Advertising expenses	248	107
Representation expenses	222	367
Business trip expenses	144	38
Total general and administrative expenses	**3,101**	**2,961**

20. Other income

	2016	*2015*
Derecognition of unclaimed advances received	1,667	–
Other income	406	946
Total other income	**2,073**	**946**

21. Other operating expenses

	2016	*2015*
Expenses related to sale of electricity	1,772	239
Bill processing expenses	1,760	1,539
Insurance expenses	793	313
Rent expenses	607	804
Regulation fee	255	534
Net loss from disposal of property, plant and equipment and investment property	230	141
Fines and penalties	137	246
Charity expenses	120	180
Cost of wastewater treatment costs	101	136
Other expenses	740	1,224
Total other operating expenses	**6,515**	**5,356**

22. Finance costs

	2016	*2015*
Interest expenses	10,526	7,572
Bank fees and charges	459	105
Net foreign exchange losses related to borrowings	–	13,867
Total finance costs	**10,985**	**21,544**

(Amounts expressed in thousands of Georgian Lari)

23. Income taxes

	2016	*2015*
Current tax	4,245	3,089
Deferred tax (reversal)/charge	(586)	3,861
Income tax expense	**3,659**	**6,950**

Statutory income tax rate applicable to the Company's income in 2016 and 2015 is 15%.

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Company considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 30 June 2016. Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

The Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 586 in profit or loss, and benefit of GEL 27,572 resulting from reversal of deferred tax liabilities originated from the revaluation of property, plant and equipment in other comprehensive income (to the extent that it related to items previously recognised in other comprehensive income) for the year ended 31 December 2016.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2016	*2015*
Profit before income tax	**39,446**	**22,164**
Statutory tax rate	15%	15%
Theoretical income tax charge at statutory rate	**(5,917)**	**(3,325)**
Georgian tax code change effect	586	–
Imputed tax payables for commercial loss	–	(167)
Unrecognised deferred tax related to recovery of bad debts	–	(4,235)
Non-taxable income	–	(1,713)
Tax effect of items which are not deductible	1,672	2,490
Income tax expense	**(3,659)**	**(6,950)**

24. Commitments and contingencies

Commitments

The Share Purchase Agreement (the "Agreement") was made on 14 May 2008 (and amended on 22 December 2009) by and between the Company, the Government of Georgia, the Ministry of Economic Development of Georgia and the Government of the City of Tbilisi on the purchase of 100% shares of Georgian Water and Power LLC, Rustavi Water LLC, Mtskheta Water LLC and Gardabani Sewage Treatment Plant LLC (collectively the "Subsidiaries").

According to the Agreement, the Company is obliged to perform certain technical obligations and invest not less than US dollar 220 million equivalent in GEL in performance of such technical obligations under the Agreement.

In accordance with the standby agreement dated 14 January 2010 with TBC Bank, the Group is liable towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per the Agreement. The performance guarantee as at 31 December 2016 amounts to GEL 7,940 (equivalent of US dollars 3 million) (2015: GEL 7,185 (US dollars 3 million), its fair value approximates zero as of 31 December 2016 and 2015.

(Amounts expressed in thousands of Georgian Lari)

24. Commitments and contingencies (continued)

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Group was in compliance with covenants as at 31 December 2016 and 2015.

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

25. Financial instruments

Financial instruments overview

Restricted cash

Included in restricted cash as at 31 December 2016 and 2015 are funds blocked on the current account in a Georgian bank. The funds are pledged as collateral under the guarantee granted by the same bank. Refer to Note 24.

Cash at bank

Cash at bank as at 31 December 2016 and 2015 includes the funds placed on current accounts in Georgian banks.

As at 31 December 2016 and 2015 the Group did not have any significant financial assets that are past due but not impaired, except for trade and other receivables. Refer to Note 11.

Fair value measurement

All financial instruments other than loans issued, for which fair values are disclosed by the Group as at 31 December 2016 and 31 December 2015, are measured at fair value using a valuation technique with quoted prices in active markets and market observable inputs.

Loans issued by the Group as at 31 December 2016 and 31 December 2015 are attributed to level 3 in the fair value hierarchy.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 and 2015.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The management assessed that the fair values of cash at banks, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Risk arising from financial instruments

In the course of its ordinary activity the Group is exposed to interest rate, credit and liquidity risks. The Group’s management oversees the management of these risks. The Group is not subject to currency risk as it does not have any significant foreign currency denominated financial instruments.

(Amounts expressed in thousands of Georgian Lari)

25. Financial instruments (continued)

Risk arising from financial instruments (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. The Group has floating interest rate borrowings linked to LIBOR and NBG refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

Currency	*Increase/ decrease in % 2016*	*Effect on profit 2016*
GEL	-0.25%	(183)
GEL	+0.25%	183

Currency	*Increase/ decrease in % 2015*	*Effect on profit 2015*
GEL	-1.25%	(631)
GEL	+1.25%	631

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk it undertakes by setting limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Such risks are monitored on a continuous basis and subject to an annual or more frequent review.

As at 31 December 2016 and 2015 the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank and restricted cash: as at 31 December 2016 out of total cash at bank and restricted cash of GEL 32,606 (2015: 14,178), GEL 29,722 (2015: 8,817) was kept with banks having ratings of "BB-/bb-" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/bb-" from Fitch Ratings;
- Non-current and current loans issued;
- Trade and other receivables (refer to Note 11).

The credit quality of all financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

As at 31 December 2016 and 2015 carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated when they fall due under normal or stress circumstances. Management monitors rolling forecasts of the Group's cash flows on a monthly basis. The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and customer prepayments.

(Amounts expressed in thousands of Georgian Lari)

25. Financial instruments (continued)

Risk arising from financial instruments (continued)

The table below shows financial liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations.

	Less than 1 year	*Over 1 year*	*Total*
As at 31 December 2016			
Long-term and short-term borrowings	29,398	108,247	**137,645**
Trade and other payables	18,613	–	**18,613**
Total future payments	**48,011**	**108,247**	**156,258**
As at 31 December 2015			
Long-term and short-term borrowings	29,093	64,019	**93,112**
Trade and other payables	11,830	–	**11,830**
Total future payments	**40,923**	**64,019**	**104,942**

26. Related parties disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

BGEO Group entities are represented by the members of BGEO Group.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2016	*31 December 2015*
	BGEO Group entities	*BGEO Group entities*
Cash and cash equivalents	**17,675**	**1,059**
Borrowings as at 1 January	**(22,229)**	**(78,600)**
Debt securities issued	(30,000)	(8,688)
Proceeds from borrowings and interest accrued during the year	(2,706)	(22,031)
Borrowing including interest repayments during the year	22,368	87,090
Borrowings as at 31 December	**(32,567)**	**(22,229)**

Interest expenses paid on borrowings from related parties amounted to GEL 2,702 and GEL 2,521 for the years ended 31 December 2016 and 2015, respectively.

Directors' compensation

Compensation paid to key management (includes the General Director and 4 members of the Management company, Georgian Water and Power LLC's management board) for their services in full time executive management positions is made up of salary, performance bonus depending on financial performance of the Management company and other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation paid to key management amounted to GEL 2,188 and GEL 2,044 for the years ended 31 December 2016 and 2015, respectively.

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