JSC BGEO Investments and Subsidiaries
Consolidated Financial Statements

31 December 2017

CONTENTS

INDEPENDENT AUDITORS' REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the Shareholder and the Supervisory Board of JSC BGEO Investments

Opinion

We have audited the consolidated financial statements of JSC BGEO Investments and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, 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 consolidated financial position of the Group as at 31 December 2017 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 Company 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 Supervisory Board 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 Supervisory Board 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 Group’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 Group’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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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.

Oleg Youshenkov

On behalf of EY Georgia LLC

Tbilisi, Georgia

14 August 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017
(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Assets				
Cash and cash equivalents	9	346,241	158,868	203,579
Amounts due from credit institutions	10	38,141	70,983	34,069
Investment securities		33,060	3,078	1,784
Accounts receivable	11	35,337	122,292	73,313
Insurance premiums receivable		30,855	48,390	40,881
Inventories	12	80,110	179,534	117,713
Investment properties	13	159,989	134,990	110,945
Prepayments		87,760	54,933	37,840
Property and equipment	14	657,635	972,725	464,778
Goodwill	15	21,935	73,643	39,641
Intangible assets		5,457	18,965	6,540
Income tax assets	17	1,374	4,557	6,792
Other assets	16	69,870	89,500	60,219
Assets of disposal group held for sale	7	1,148,584	-	-
Total assets		2,716,348	1,932,458	1,198,094
Liabilities				
Accounts payable		42,987	109,146	44,071
Insurance contracts liabilities	18	46,403	67,871	55,846
Borrowings	19	650,734	507,885	133,126
Debt securities issued	20	77,835	169,538	82,522
Income tax liabilities	17	860	3,895	34,334
Deferred income	21	73,066	84,770	102,846
Other liabilities	16	63,206	113,486	85,290
Liabilities of disposal group held for sale	7	619,029	-	-
Total liabilities		1,574,120	1,056,591	538,035
Equity	23			
Share capital		10,000	8,482	7,416
Additional paid-in capital		466,187	368,166	292,258
Other reserves		171,254	118,869	94,174
Retained earnings		197,222	151,536	63,281
Total equity attributable to shareholders of BGEO Investments	23	844,663	647,053	457,129
Non-controlling interests		297,565	228,814	202,930
Total equity		1,142,228	875,867	660,059
Total liabilities and equity		2,716,348	1,932,458	1,198,094

** Certain amounts do not correspond to the 2016 consolidated financial statements as they reflect the adjustments made for common control business combinations Note 6*

Signed and authorised for release on behalf of the Board of Directors by:

Irakli Gilauri — Chief Executive Officer

Giorgi Alpaidze — Chief Financial Officer

14 August 2018

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Utility and energy revenue		127,569	56,486	-
Cost of utility and energy		(39,198)	(17,806)	-
Gross utility and energy profit	24	**88,371**	**38,680**	**-**
Real estate revenue		121,133	102,974	61,150
Cost of real estate		(85,765)	(81,098)	(39,721)
Gross real estate profit	24	**35,368**	**21,876**	**21,429**
Net insurance premiums earned		52,147	43,115	40,856
Net insurance claims incurred		(25,098)	(17,858)	(20,114)
Gross insurance profit	24	**27,049**	**25,257**	**20,742**
Beverage revenue		55,441	29,793	29,527
Cost of beverage		(32,313)	(15,373)	(14,624)
Gross beverage profit	24	**23,128**	**14,420**	**14,903**
Other income		7,622	8,432	1,379
Gross profit		**181,538**	**108,665**	**58,453**
Salaries and other employee benefits	25	(31,783)	(16,279)	(11,800)
Administrative expenses	25	(35,578)	(21,057)	(15,798)
Other operating expenses		(1,892)	(1,863)	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	26	(3,417)	(1,004)	(1,121)
		(72,670)	**(40,203)**	**(29,086)**
EBITDA		**108,868**	**68,462**	**29,367**
Depreciation and amortisation		(28,237)	(10,061)	(2,393)
Net foreign currency loss		(830)	(2,820)	(8,837)
Interest income		6,847	3,695	2,303
Interest expense		(33,397)	(15,074)	(3,172)
Net operating income before non-recurring items		**53,251**	**44,202**	**17,268**
Net non-recurring items	27	(551)	28,020	(1,125)
Profit before income tax expense from continuing operations		**52,700**	**72,222**	**16,143**
Income tax expense	17	(5,749)	(7,812)	(4,500)
Profit for the year from continuing operations		**46,951**	**64,410**	**11,643**

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2017
(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Profit from discontinued operations	7	47,318	60,099	14,680
Profit for the year		**94,269**	**124,509**	**26,323**
Total profit attributable to:				
– shareholders of BGEO Investments		70,125	95,358	22,863
– non-controlling interests		24,144	29,151	3,460
		94,269	**124,509**	**26,323**
Profit from continuing operations attributable to:				
– shareholders of BGEO Investments		50,762	62,635	13,391
– non-controlling interests		(3,811)	1,775	(1,748)
		46,951	**64,410**	**11,643**
Profit from discontinued operations attributable to:				
– shareholders of BGEO Investments		19,363	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,318	**60,099**	**14,680**
Basic and diluted earnings per share:	23	**2.3378**	**3.5679**	**0.9040**
– earnings per share from continuing operations		1.6923	2.3436	0.5295
– earnings per share from discontinued operations		0.6455	1.2244	0.3745

** Certain amounts do not correspond to the 2016 consolidated financial statements as they reflect the adjustments made for common control business combinations Note* 6

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Profit for the year		**94,269**	**124,509**	**26,323**
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		47	-	-
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		(2)	-	-
– (Loss) gain from currency translation differences		(1,984)	9,677	(28)
Income tax impact	17	165	1,119	(455)
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		**(1,774)**	**10,796**	**(483)**
Other comprehensive (loss) income for the year, net of tax		**(1,774)**	**10,796**	**(483)**
Total comprehensive income for the year from continuing operations		45,177	75,206	11,160
Total comprehensive income for the year from discontinued operations		47,318	60,099	14,680
Total comprehensive income for the year		**92,495**	**135,305**	**25,840**
Total comprehensive income attributable to:				
– shareholders of BGEO Investments		68,618	107,926	22,388
– non-controlling interests		23,877	27,379	3,452
		92,495	**135,305**	**25,840**
Total comprehensive income from continuing operations attributable to:				
– shareholders of BGEO Investments		49,255	75,203	12,916
– non-controlling interests		(4,078)	3	(1,756)
		45,177	**75,206**	**11,160**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of BGEO Investments		19,363	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,318	**60,099**	**14,680**

** Certain amounts do not correspond to the 2016 consolidated financial statements as they reflect the adjustments made for common control business combinations* Note 6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Attributable to shareholders of BGEO Investment						
	Share capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total Equity*
31 December 2014	**6,670**	**215,083**	**(13,240)**	**19,377**	**227,890**	**40,767**	**268,657**
Pooling of interest acquisition (Note 6)	-	5,943	(359)	21,223	26,807	483	27,290
1 January 2015	**6,670**	**221,026**	**(13,599)**	**40,600**	**254,697**	**41,250**	**295,947**
Profit for the year	-	-	-	22,863	22,863	3,460	26,323
Other comprehensive loss for the year	-	-	(293)	(182)	(475)	(8)	(483)
Total comprehensive income for the year	**-**	**-**	**(293)**	**22,681**	**22,388**	**3,452**	**25,840**
Increase in equity arising from share-based payments (Note 28)	-	2,445	-	-	2,445	896	3,341
Issue of share capital (Note 23)	746	29,343	-	-	30,089	-	30,089
Contribution of assets by entities under common control	-	39,444	-	-	39,444	-	39,444
Dilution of interests in subsidiaries (Note 2)	-	-	109,430	-	109,430	125,160	234,590
Transactions costs recognised directly in equity (Note 2)	-	-	(13,379)	-	(13,379)	-	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 2)	-	-	12,015	-	12,015	2,386	14,401
Non-controlling interests arising on acquisition of subsidiaries	-	-	-	-	-	29,786	29,786
31 December 2015*	**7,416**	**292,258**	**94,174**	**63,281**	**457,129**	**202,930**	**660,059**
Profit for the year	-	-	-	95,358	95,358	29,151	124,509
Other comprehensive income (loss) for the year	-	-	12,551	17	12,568	(1,772)	10,796
Total comprehensive income for the year	**-**	**-**	**12,551**	**95,375**	**107,926**	**27,379**	**135,305**
Increase in equity arising from share-based payments (Note 28)	-	3,780	-	-	3,780	3,815	7,595
Issue of share capital (Note 23)	1,066	63,908	-	-	64,974	-	64,974
Contribution of assets by entities under common control	-	10,903	-	-	10,903	-	10,903
Distributions to shareholders of BGEO investments (Note 23)	-	-	-	(7,121)	(7,121)	-	(7,121)
Dilution of interests in subsidiaries	-	-	(2,788)	-	(2,788)	2,409	(379)
Acquisition of non-controlling interests in existing subsidiaries	-	-	14,933	-	14,933	(7,719)	7,214
Contributions under share-based payment plan (Note 28)	-	(2,683)	-	-	(2,683)	-	(2,683)
31 December 2016*	**8,482**	**368,166**	**118,869**	**151,536**	**647,053**	**228,814**	**875,867**

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Attributable to shareholders of BGEO Investments						
	Share capital	***Additional paid-in capital***	***Other reserves***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total Equity***
31 December 2016*	**8,482**	**368,166**	**118,869**	**151,536**	**647,053**	**228,814**	**875,867**
Effect of early adoption of IFRS 15 (Note 3)	**-**	**-**	**-**	(17,622)	(17,622)	(601)	(18,223)
1 January 2017	**8,482**	**368,166**	**118,869**	**133,914**	**629,431**	**228,213**	**857,644**
Profit for the year	-	-	-	70,125	70,125	24,144	94,269
Other comprehensive loss for the year	-	-	(1,152)	(357)	(1,507)	(267)	(1,774)
Total comprehensive income for the year	**-**	**-**	**(1,152)**	**69,768**	**68,618**	**23,877**	**92,495**
Depreciation of revaluation reserve	-	-	(540)	540	-	-	-
Issue of share capital	1,518	101,279	-	-	102,795	-	102,795
Increase in equity arising from share-based payments (Note 28)	-	11,202	-	-	11,202	1,495	12,697
Dividends paid by subsidiaries	-	-	-	(7,000)	(7,000)	-	(7,000)
Sale of interests in existing subsidiaries*	-	-	71,980	-	71,980	36,623	108,603
Dilution of interests in subsidiaries	-	-	506	-	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)	-	(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	-	(14,460)	-	-	(14,460)	-	(14,460)
31 December 2017	**10,000**	**466,187**	**171,254**	**197,222**	**844,663**	**297,565**	**1,142,228**

** The Group sold approximately 7% equity interest in Georgia Healthcare Group PLC. Following the sale, the Group held 57% equity interests in GHG as of 31 December 2017.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(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		97,242	90,534	67,808
Cost of real estate revenue paid		(84,218)	(101,504)	(74,757)
Net realised (loss) gain from foreign currencies		(483)	(733)	341
Net other income received		7,929	1,275	2,539
Salaries and other employee benefits paid		(14,154)	(11,438)	(9,295)
General, administrative and operating expenses paid		(34,872)	(24,453)	(13,452)
Interest received		6,798	3,695	2,303
Interest paid		(43,493)	(12,414)	(6,899)
Other changes		1,711	4,708	2,003
Net cash flows from operating activities from continuing operations before income tax		**62,495**	**27,440**	**11,271**
Income tax paid		(6,339)	(6,422)	(1,869)
Net cash flows from operating activities from continuing operations		**56,156**	**21,018**	**9,402**
Net cash flows from operating activities from discontinued operations		27,832	19,409	22,016
Net Cash flow from operating activities		**83,988**	**40,427**	**31,418**
Cash flows used in investing activities				
Net withdrawals (placement) of amounts due from credit institutions		8,966	(22,362)	2,690
Loans repaid (issued)		(100)	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	-	-
Proceeds from sale of (Purchase of) investment securities available-for-sale		(3,199)	705	(631)
Proceeds from sale of investment properties	13	402	4,144	-
Purchase of investment properties	13	(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		(272,842)	(79,870)	(4,058)
Net cash flows used in investing activities from continuing operations		**(295,352)**	**(258,379)**	**(17,103)**
Net cash flows used in investing activities from discontinued operations		(133,142)	(179,791)	(131,936)
Net cash flows used in investing activities		**(428,494)**	**(438,170)**	**(149,039)**

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017
(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Cash flows from financing activities				
Proceeds from borrowings		454,374	220,551	5,481
Repayment of borrowings		(87,853)	(13,748)	(2,226)
Proceeds from debt securities issued		40,000	86,138	42,755
Redemption of debt securities issued		(76,002)	(7,015)	(34,651)
Proceeds from issue of share capital		24,244	22,591	-
Dividends paid		(7,000)	(7,121)	-
Contributions under share-based payment plan	28	(14,460)	(2,683)	-
Increase in share capital of subsidiaries		14,651	7,948	38,174
Proceeds from sale of interests in existing subsidiaries		108,603	-	17,111
Net cash from financing activities from continuing operations		**456,557**	**306,661**	**66,644**
Net cash from financing activities from discontinued operations		136,819	39,069	181,902
Net cash from financing activities		**593,376**	**345,730**	**248,546**
Effect of exchange rates changes on cash and cash equivalents		(12,657)	7,302	9,246
Net increase in cash and cash equivalents		**236,213**	**(44,711)**	**140,171**
Cash and cash equivalents, beginning of the year	9	**158,868**	**203,579**	**63,408**
Cash and cash equivalents of disposal group held for sale	7	**48,840**	**-**	**-**
Cash and cash equivalents, end of the year	9	**346,241**	**158,868**	**203,579**

The accompanying notes on pages 9 to 76 are an integral part of these consolidated financial statements.

1. Principal Activities

JSC BGEO Investments ("BGEO Investments") makes up a group of companies (the "Group"), focused on investing in and developing businesses in Georgia. Group principally operates in water utility and renewable energy, property and casualty insurance, residential and commercial property construction and development, wine and beer production businesses. In addition to its operating subsidiaries, the Group has significant investments in London Stock Exchange premium-listed Georgia Healthcare Group PLC. The list of the companies included in the Group is provided in note 2.

BGEO Investments' registered legal address is Kazbegi street 3-5, Tbilisi Georgia.

As at 31 December 2017, 31 December 2016 and 31 December 2015, the Group's 100% owner was JSC BGEO Group, a 100% subsidiary of BGEO Group PLC, a company incorporated in England and listed on the London Stock Exchange.

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"), BGEO Investments, by the end of the first half of 2018.

On May 29, 2018 Demerger of Investment business and Banking business of BGEO Group PLC became effective. As a result, Georgia Capital PLC became ultimate parent of Investment business i.e. the Group. Following the demerger, on 29 May 2018, ordinary shares of Georgia Capital PLC admitted to the premium listing segment of the Official List on the London Stock Exchange's main market for listed securities, under the ticker CGEO.

2. Basis of Preparation

General

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 consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements as at year ended 31 December 2017 have 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 financial statements are presented in thousands of Georgian Lari (GEL) unless otherwise indicated.

2. Basis of Preparation (continued)

Going concern

The Board of Directors of BGEO Investments 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 Consolidated Financial Statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. The Group consolidates a subsidiary when it controls it. 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; and
- the ability to use its power over the investee to affect its returns.

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 with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- 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. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income 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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates

The consolidated Financial Statements 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			Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
	31 December 2017	31 December 2016	31 December 2015					
⇒ 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 consolidated financial statements:

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.

3. Summary of Selected Significant Accounting Policies (continued)

Business combination under common control

The business combinations under common control are accounted for using pooling of interest method with restatement of periods prior to the combination under common control.

The assets and liabilities acquired are recognized at carrying amounts to reflect the combination as if it had occurred from the beginning of the earliest period presented and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognized as a result of business combination under common control.

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 consolidated 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. The Group is considered an organization similar to a venture fund. When the Group acquires an associate, at initial recognition, the Group makes an irrevocable choice to measure investment in associate under the equity method or at fair value through profit or loss under IAS 39.

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 30.

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 recognised 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.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated income statement.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated income statement by establishing an unexpired risk provision.

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 consolidated 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 consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated 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.

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.

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 consolidated 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 consolidated 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 consolidated 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.

3. Summary of Significant Accounting Policies (continued)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Group purchases BGEO Investments' shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

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.

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.

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.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

- 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.

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).

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

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.

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 consolidated 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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are 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 consolidated 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. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net foreign currency gain (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign currency gain (loss). The official NBG exchange rates at 31 December 2017, 31 December 2016 and 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 consolidated 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

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.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

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	122,292	(2,041)	120,251
Inventories	179,534	(30,578)	148,956
Other	1,630,632	-	1,630,632
Total assets	**1,932,458**	**(32,619)**	**1,899,839**
Liabilities			
Income tax liabilities	3,895	-	3,895
Deferred income	84,770	(14,396)	70,374
Other	967,926	-	967,926
Total liabilities	**1,056,591**	**(14,396)**	**1,042,195**
Total Equity	**875,867**	**(18,223)**	**857,644**

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	121,133	44,677	76,456
Cost of real estate	(85,765)	(16,274)	(69,491)
Gross real estate profit	**35,368**	**28,403**	**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	7,622	8,848	(1,226)
Other	115,420	115,420	-
Gross profit	**181,538**	**182,049**	**(511)**
Administrative expenses	(35,578)	(41,509)	5,931
Other	(37,092)	(37,092)	-
EBITDA	**108,868**	**103,448**	**5,420**
Profit for the year from continuing operations	**46,951**	**41,531**	**5,420**
Profit from discontinued operations	**47,318**	**47,033**	**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	**94,269**	**88,564**	**5,705**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

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	35,337	37,130	(1,793)
Inventories	80,110	179,706	(99,596)
Assets of disposal group held for sale:			
Accounts receivable	123,388	124,143	(755)
Other	2,477,513	2,477,513	-
Total assets	**2,716,348**	**2,818,492**	**(102,144)**
Liabilities			
Income tax liabilities	860	860	-
Deferred income	73,066	162,692	(89,626)
Other	1,500,194	1,500,194	-
Total liabilities	**1,574,120**	**1,663,746**	**(89,626)**
Total Equity	**1,142,228**	**1,154,746**	**(12,518)**

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 19.

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. 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.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

(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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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 consolidated financial statements. 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 13 and 14, while valuation inputs and techniques are presented in note 30. 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 26.

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 26.

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 18.

4. Significant Accounting Judgements and Estimates (continued)

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 consolidated financial statements. 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.

Assets and liabilities held for sale and discontinued operations

On July 3 2017, the Board of Directors announced its decision to sell controlling stake in its healthcare segment consisting of Georgian Healthcare Group ("GHG"), subsidiary with ownership interest of 57%. GHG qualifies as discontinued operation as its operations are classified as a disposal group held for sale. The Board considered the subsidiary to meet the criteria to be classified as held for sale at that date for 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

For more details on the discontinued operation, refer to Note 7.

(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 were:

	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 consolidated 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 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 were:

	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 364,323and GEL 94,332of 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 m² Real Estate ("m²"), 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 (note 14)	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.

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
Property and equipment (note 14)	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**

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC Kass 1 (continued)

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.

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**

5. Business Combination (continued)

Acquisition of Healthcare Subsidiaries by GHG, classified as disposal group held for sale (continued)

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.

[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)

6. Business Combination under common control

Transfer of JSC Insurance Company Aldagi and JSC Teliani Valley to JSC BGEO Investments

In 2017, JSC BGEO Group (the parent company of the Group) transferred controlling stakes in JSC Insurance Company Aldagi ("Aldagi") and JSC Teliani Valley ("TV") to JSC BGEO Investments through capital contribution.

The Group considered these acquisitions as business combinations under common control and applied the pooling of interest method with retrospective restatement of comparative financial information. Under the pooling of interest method the assets and liabilities of Aldagi and TV are recognized in the Group's consolidated financial statements as if the business combination occurred at the beginning of the earliest period presented at their carrying values, with corresponding adjustment to Group's equity. The impact of change due to pooling of interest was GEL 27,290 on net assets as of 31 December 2014.

The reconciliation of previously reported amounts for the effect of common control business combinations as of 31 December 2016 and 31 December 2015 is disclosed below:

Consolidated Statement of Financial Position as at 31 December 2016	*The Group before common control transactions*	*Effect of common control transactions*			*The Group after common control transactions*
		Financial position of TV	*Financial position of Aldagi*	*Consolidation/Eliminations*	
Cash and cash equivalents	152,137	2,382	4,349	-	158,868
Amounts due from credit institutions	28,970	17,085	24,928	-	70,983
Investment securities	2,481	-	3,389	(2,792)	3,078
Accounts receivable	115,285	7,010	1,119	(1,122)	122,292
Insurance premiums receivable	24,284	-	24,713	(607)	48,390
Prepayments	51,652	2,429	985	(133)	54,933
Inventories	170,638	8,695	201	-	179,534
Investment properties	134,145	-	845	-	134,990
Property and equipment	893,517	70,452	8,756	-	972,725
Goodwill	54,745	143	13,113	5,642	73,643
Intangible assets	17,147	409	1,409	-	18,965
Income tax assets	3,244	-	1,313	-	4,557
Other assets	58,700	18,906	30,012	(18,118)	89,500
Total assets	**1,706,945**	**127,511**	**115,132**	**(17,130)**	**1,932,458**
Borrowings	461,228	46,657	-	-	507,885
Debt securities issued	172,330	-	-	(2,792)	169,538
Deferred income	84,770	-	-	-	84,770
Accounts payable	90,995	18,222	377	(448)	109,146
Insurance contracts liabilities	26,329	-	41,542	-	67,871
Income tax liabilities	1,985	575	1,335	-	3,895
Other liabilities	66,335	16,170	32,286	(1,305)	113,486
Total liabilities	**903,972**	**81,624**	**75,540**	**(4,545)**	**1,056,591**
Share capital	8,481	2,770	1,889	(4,658)	8,482
Additional paid-in capital	343,282	38,874	5,405	(19,395)	368,166
Other reserves	116,224	151	-	2,494	118,869
Retained earnings	114,170	4,092	32,298	976	151,536
Total equity attributable to shareholders of BGEO Investments	**582,157**	**45,887**	**39,592**	**(20,583)**	**647,053**
Non-controlling interests	220,816	-	-	7,998	228,814
Total equity	**802,973**	**45,887**	**39,592**	**(12,585)**	**875,867**

(Thousands of Georgian Lari)

6. Business Combination under common control (continued)

Consolidated Income Statement for the year ended 31 December 2016	*The Group before common control transactions*	*Effect of common control transactions*			*The Group after common control transactions*
		Income statement of TV	*Income statement of Aldagi*	*Consolidation/Eliminations*	
Net insurance premiums earned	-	-	43,647	(532)	43,115
Net insurance claims incurred	-	-	(17,858)	-	(17,858)
Gross insurance profit	**-**	**-**	**25,789**	**(532)**	**25,257**
Real estate revenue	103,055	-	33	(114)	102,974
Cost of real estate	(81,098)	-	-	-	(81,098)
Gross real estate profit	**21,957**	**-**	**33**	**(114)**	**21,876**
Utility and energy revenue	56,486	-	-	-	56,486
Cost of utility and energy	(17,806)	-	-	-	(17,806)
Gross utility and energy profit	**38,680**	**-**	**-**	**-**	**38,680**
Beverage revenue	9,073	29,793	-	(9,073)	29,793
Cost of beverage	(6,421)	(15,373)	-	6,421	(15,373)
Gross beverage profit	**2,652**	**14,420**	**-**	**(2,652)**	**14,420**
Other income	6,988	(50)	1,508	(14)	8,432
Gross profit	**70,277**	**14,370**	**27,330**	**(3,312)**	**108,665**
Salaries and other employee benefits	(6,154)	(3,832)	(7,907)	1,614	(16,279)
Administrative expenses	(12,679)	(7,050)	(3,286)	1,958	(21,057)
Other operating expenses	(1,420)	(251)	(319)	127	(1,863)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(145)	(201)	(809)	151	(1,004)
	(20,398)	**(11,334)**	**(12,321)**	**3,850**	**(40,203)**
EBITDA	**49,879**	**3,036**	**15,009**	**538**	**68,462**
Profit from associates	(337)	-	-	337	-
Depreciation and amortisation	(8,363)	(1,552)	(773)	627	(10,061)
Net foreign currency (loss) gain	(319)	(1,154)	(293)	(1,054)	(2,820)
Interest income	758	97	3,118	(278)	3,695
Interest expense	(14,926)	(862)	-	714	(15,074)
Net operating income before non-recurring items	**26,692**	**(435)**	**17,061**	**884**	**44,202**
Net non-recurring items	19,887	864	3	7,266	28,020
Profit before income tax expense from continuing operations	**46,579**	**429**	**17,064**	**8,150**	**72,222**
Income tax expense	(3,938)	247	(3,318)	(803)	(7,812)
Profit for the year from continuing operations	**42,641**	**676**	**13,746**	**7,347**	**64,410**

Consolidated Statement of Financial Position as at 31 December 2015	*The Group before common control transactions*	*Effect of common control transactions*		*The Group after common control transactions*
		Financial position of Aldagi	*Consolidation/Eliminations*	
Cash and cash equivalents	201,200	2,379	-	203,579
Amounts due from credit institutions	15,730	18,339	-	34,069
Investment securities	1,153	2,583	(1,952)	1,784
Accounts receivable	72,031	1,469	(187)	73,313
Insurance premiums receivable	20,930	20,318	(367)	40,881
Prepayments	37,172	760	(92)	37,840
Inventories	117,593	120	-	117,713
Investment properties	110,945	-	-	110,945
Property and equipment	456,614	8,164	-	464,778
Goodwill	24,187	13,113	2,341	39,641
Intangible assets	5,354	1,186	-	6,540
Income tax assets	5,548	1,244	-	6,792
Other assets	36,176	29,859	(5,816)	60,219
Total assets	**1,104,633**	**99,534**	**(6,073)**	**1,198,094**
Borrowings	135,200	-	(2,074)	133,126
Debt securities issued	84,474	-	(1,952)	82,522
Deferred income	102,846	2	(2)	102,846
Accounts payable	43,762	347	(38)	44,071
Insurance contracts liabilities	21,298	34,548	-	55,846
Income tax liabilities	33,945	-	389	34,334
Other liabilities	57,876	31,671	(4,257)	85,290
Total liabilities	**479,401**	**66,568**	**(7,934)**	**538,035**
Total equity attributable to shareholders of BGEO Investments	**416,309**	**32,966**	**7,854**	**457,129**
Non-controlling interests	208,923	-	(5,993)	202,930
Total equity	**625,232**	**32,966**	**1,861**	**660,059**

(Thousands of Georgian Lari)

6. Business Combination under common control (continued)

Consolidated Income Statement for the year ended 31 December 2015	*The Group before common control transactions*	*Effect of common control transactions* Financial position of Aldagi	*Effect of common control transactions* Consolidation/Eliminations	*The Group after common control transactions*
Net insurance premiums earned	(33)	41,294	(405)	40,856
Net insurance claims incurred	-	(20,114)	-	(20,114)
Gross insurance profit	**(33)**	**21,180**	**(405)**	**20,742**
Real estate revenue	61,120	30	-	61,150
Cost of real estate	(39,721)	-	-	(39,721)
Gross real estate profit	**21,399**	**30**	**-**	**21,429**
Beverage revenue	29,527	-	-	29,527
Cost of beverage	(14,624)	-	-	(14,624)
Gross beverage profit	**14,903**	**-**	**-**	**14,903**
Other income	153	1,273	(47)	1,379
Gross profit	**36,422**	**22,483**	**(452)**	**58,453**
Salaries and other employee benefits	(5,047)	(6,821)	68	(11,800)
Administrative expenses	(12,963)	(3,219)	384	(15,798)
Other operating expenses	(42)	(325)	-	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(411)	(710)	-	(1,121)
	(18,463)	**(11,075)**	**452**	**(29,086)**
EBITDA	**17,959**	**11,408**	**-**	**29,367**
Depreciation and amortisation	(1,560)	(833)	-	(2,393)
Net foreign currency (loss) gain	(1,219)	(7,618)	-	(8,837)
Interest income	452	2,401	(550)	2,303
Interest expense	(3,651)	(71)	550	(3,172)
Net operating income before non-recurring items	**11,981**	**5,287**	**-**	**17,268**
Net non-recurring items	(424)	(701)	-	(1,125)
Profit before income tax expense from continuing operations	**11,557**	**4,586**	**-**	**16,143**
Income tax expense	(3,769)	(731)	-	(4,500)
Profit for the year from continuing operations	**7,788**	**3,855**	**-**	**11,643**

(Thousands of Georgian Lari)

7. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale

Given the expectation, in line with BGEO Investments' 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 consolidated 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 consolidated income statements is attributable to intra-group eliminations in the net gain amount of GEL 1,468 for the year ended 31 December 2017 (2016: Nil , 2015: 8,611 net loss)*

(Thousands of Georgian Lari)

7. 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 consolidated statement of financial position are attributable to intra-group eliminations in amount of GEL 1,176 and GEL 372, respectively.*

8. 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 BGEO Invstments.

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 consolidated financial statements.

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)

8. 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*	*Corporate Center*	*Inter-Business Eliminations*	*Group Total*
Gross insurance profit	-	-	-	28,572	-	-	(1,523)	27,049
Gross real estate profit	-	35,452	-	125	-	-	(209)	35,368
Gross utility and energy profit	-	-	89,461	-	-	-	(1,090)	88,371
Gross beverage profit	-	-	-	-	23,128	-	-	23,128
Other income	-	92	6,413	1,021	249	(153)	-	7,622
Gross profit	**-**	**35,544**	**95,874**	**29,718**	**23,377**	**(153)**	**(2,823)**	**181,538**
Operating expenses and impairment	-	(8,521)	(24,178)	(12,760)	(22,189)	(6,363)	1,341	(72,670)
EBITDA	**-**	**27,023**	**71,696**	**16,958**	**1,188**	**(6,516)**	**(1,481)**	**108,868**
Dividend income	-	-	-	-	-	28,000	(28,000)	-
Net gains from disposal of investment businesses	-	-	-	-	-	90,275	(90,275)	-
Depreciation and amortisation	-	(508)	(20,332)	(855)	(6,543)	-	-	(28,237)
Net foreign currency gain (loss)	-	41	(1,448)	208	(7,144)	7,513	-	(830)
Interest income	-	816	1,730	2,965	189	1,379	(232)	6,847
Interest expense	-	(548)	(13,483)	-	(3,345)	(16,266)	245	(33,397)
Net operating income (loss) before non-recurring items	**-**	**26,824**	**38,163**	**19,276**	**(15,655)**	**104,386**	**(119,744)**	**53,251**
Net non-recurring (expense/loss) income/gain	-	(128)	(1,122)	-	699	-	-	(551)
Profit (loss) before income tax from continuing operations	**-**	**26,696**	**37,041**	**19,276**	**(14,956)**	**104,386**	**(119,744)**	**52,700**
Income tax expense	-	(1,554)	(934)	(2,976)	(285)	-	-	(5,749)
Profit (loss) for the year from continuing operations	**-**	**25,142**	**36,108**	**16,300**	**(15,241)**	**104,386**	**(119,744)**	**46,951**
Profit from discontinued operations	45,849	-	-	-	-	-	1,469	47,318
Profit (loss) for the year	**45,849**	**25,142**	**36,108**	**16,300**	**(15,241)**	**104,386**	**(118,275)**	**94,269**
Revenue from continued operations	**-**	**121,309**	**135,072**	**54,815**	**55,687**	**(149)**	**(2,822)**	**363,912**
Revenue from discontinued operations	**763,443**	**-**	**-**	**-**	**-**	**-**	**-**	**763,443**
Assets and liabilities								
Cash and cash equivalents	**-**	34,943	70,261	4,186	17,454	219,397	-	346,241
Amounts due from credit institutions	**-**	114	7,657	25,968	4,401	-	-	38,141
Debt investment securities	**-**	1,145	-	4,180	-	45,147	(17,412)	33,060
Total assets	**1,149,760**	**347,900**	**665,750**	**137,373**	**174,102**	**299,349**	**(57,887)**	**2,716,348**
Borrowings	**-**	58,993	282,253	-	71,430	272,279	(34,221)	650,734
Debt securities issued	-	65,925	30,009	-	-	-	(18,099)	77,835
Total liabilities	**619,401**	**188,343**	**371,471**	**86,473**	**92,813**	**273,506**	**(57,887)**	**1,574,120**
Other segment information								
Property and equipment	82,271	16,437	175,815	2,440	39,316	-	-	316,279
Intangible assets	15,327	10	1,582	273	355	-	-	17,547
Capital expenditure	**97,598**	**16,447**	**177,397**	**2,713**	**39,671**	**-**	**-**	**333,826**
Depreciation & amortisation	-	(508)	(20,332)	(855)	(6,543)	-	-	(28,237)

**Dividend income of corporate center is eliminated in consolidated income statements.*
***Net gains from disposal of investment business of corporate center comprises of gain from sale of GHG as accounted in JSC BGEO Investments separate income statement, related increase in consolidated equity is presented as sale of interests in existing subsidiaries in consolidated statement of changes in equity.*

(Thousands of Georgian Lari)

8. 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*	*Corporate Center*	*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	6,364	1,506	(49)	192	347	8,432
Gross profit	**-**	**22,029**	**45,439**	**27,328**	**14,371**	**192**	**(694)**	**108,665**
Operating expenses and impairment	-	(5,824)	(9,311)	(12,318)	(11,334)	(2,110)	694	(40,203)
EBITDA	**-**	**16,205**	**36,128**	**15,010**	**3,037**	**(1,918)**	**-**	**68,462**
Depreciation and amortisation	-	(243)	(7,353)	(774)	(1,552)	(139)	-	(10,061)
Net foreign currency gain (loss)	-	792	696	(294)	(1,154)	(2,860)	-	(2,820)
Interest income	-	698	45	3,118	97	20	(283)	3,695
Interest expense	-	(1,633)	(5,052)	-	(862)	(7,810)	283	(15,074)
Net operating income (loss) before non-recurring items	**-**	**15,819**	**24,464**	**17,060**	**(434)**	**(12,707)**	**-**	**44,202**
Net non-recurring (expense/loss) income/gain	-	(533)	27,686	4	863	-	-	28,020
Profit (loss) before income tax from continuing operations	**-**	**15,286**	**52,150**	**17,064**	**429**	**(12,707)**	**-**	**72,222**
Income tax (expense) benefit	-	(1,880)	(2,791)	(3,319)	247	(69)	-	(7,812)
Profit (loss) for the year from continuing operations	**-**	**13,406**	**49,359**	**13,745**	**676**	**(12,776)**	**-**	**64,410**
Profit from discontinued operations	60,099	-	-	-	-	-	-	60,099
Profit (loss) for the year	**60,099**	**13,406**	**49,359**	**13,745**	**676**	**(12,776)**	**-**	**124,509**
Revenue from continued operations	**-**	**102,042**	**63,246**	**45,187**	**29,743**	**1,671**	**(1,089)**	**240,800**
Revenue from discontinued operations	**421,882**	**-**	**-**	**-**	**-**	**-**	**-**	**421,882**
Assets and liabilities								
Total assets	889,637	372,255	426,719	117,344	130,801	915	(5,213)	1,932,458
Total liabilities	370,222	237,256	139,254	75,541	81,624	157,907	(5,213)	1,056,591
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)

8. 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*	*Corporate Center*	*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	-	234	(22)	1,271	(59)	(14,031)	13,986	1,379
Gross profit	**-**	**21,633**	**(22)**	**22,481**	**14,844**	**(14,031)**	**13,548**	**58,453**
Operating expenses and impairment	-	(5,860)	(505)	(11,073)	(11,389)	(744)	485	(29,086)
EBITDA	**-**	**15,773**	**(527)**	**11,408**	**3,455**	**(14,775)**	**14,033**	**29,367**
Net gains from disposal of investment businesses	-	-	-	-	-	14,033	(14,033)	-
Depreciation and amortisation	-	(191)	(44)	(834)	(1,288)	(36)	-	(2,393)
Net foreign currency gain (loss)	-	(7,144)	136	(7,618)	(2,511)	(311)	8,611	(8,837)
Interest income	-	386	-	2,402	55	22	(562)	2,303
Interest expense	-	(2,572)	-	(71)	(1,091)	-	562	(3,172)
Net operating income (loss) before non-recurring items	**-**	**6,252**	**(435)**	**5,287**	**(1,380)**	**(1,067)**	**8,611**	**17,268**
Net non-recurring (expense/loss) income/gain	-	(137)	8	(701)	(297)	2	-	(1,125)
Profit (loss) before income tax from continuing operations	**-**	**6,115**	**(427)**	**4,586**	**(1,677)**	**(1,065)**	**8,611**	**16,143**
Income tax benefit (expense)	-	(1,974)	64	(733)	(451)	(1,406)	-	(4,500)
Profit (loss) for the year from continuing operations	**-**	**4,141**	**(363)**	**3,853**	**(2,128)**	**(2,471)**	**8,611**	**11,643**
Profit from discontinued operations	23,291	-	-	-	-	-	(8,611)	14,680
Profit (loss) for the year	**23,291**	**4,141**	**(363)**	**3,853**	**(2,128)**	**(2,471)**	**-**	**26,323**
Revenue	**-**	**61,354**	**(22)**	**42,596**	**29,468**	**1**	**(485)**	**132,912**
Revenue from discontinued operations	**242,765**	**-**	**-**	**-**	**-**	**-**	**-**	**242,765**
Assets and liabilities								
Total assets	759,097	275,676	2,757	101,819	40,571	26,815	(8,641)	1,198,094
Total liabilities	286,941	167,889	81	66,567	20,522	4,676	(8,641)	538,035
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)

9. Cash and Cash Equivalents

	2017	2016	2015
Cash on hand	627	892	389
Current accounts with financial institutions	345,614	155,320	203,190
Time deposits with financial institutions with maturities of up to 90 days	-	2,656	-
Cash and cash equivalents	**346,241**	**158,868**	**203,579**

10. Amounts Due from Credit Institutions

	2017	2016	2015
Time deposits with maturities of more than 90 days	30,485	55,745	34,069
Deposits pledged as security for open commitments	7,656	15,238	-
Amounts due from credit institutions	**38,141**	**70,983**	**34,069**

11. 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	1,355	3,527	1,743
Accounts receivable, Gross	**39,340**	**124,584**	**80,248**
Allowance	(4,003)	(2,292)	(6,935)
Accounts receivable, Net	**35,337**	**122,292**	**73,313**

12. Inventories

	2017	2016	2015
Real estate inventory	58,830	112,669	95,314
Other inventory	21,280	66,865	22,399
Inventory	**80,110**	**179,534**	**117,713**

(Thousands of Georgian Lari)

13. Investment Properties

	2017	2016	2015
At 1 January	**134,990**	**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	-	19,417	-
Transfers (to) from property and equipment and other assets**	(19,590)	(23,330)	3,336
Currency translation differences	3,107	14,058	-
At 31 December	**159,989**	**134,990**	**110,945**

Non-cash additions comprised nil as at 31 December 2017 (2016: GEL 5,151, 2015: GEL 3,727)

**** Comprised of GEL 18,432 transfer to property and equipment (2016: transfers to property and equipment GEL (5,264) 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 30 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).

(Thousands of Georgian Lari)

14. 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**	**86,905**	**199,304**	**-**	**43,670**	**1,016,081**
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	(3,028)	-	-	135	(2,688)
31 December 2017	**136,784**	**-**	**13,949**	**142,801**	**275,669**	**91,023**	**41,614**	**701,840**
Accumulated impairment								
31 December 2016	**417**	**-**	**-**	**-**	**-**	**-**	**1**	**418**
Currency translation differences	(27)	-	23	-	-	-	-	(4)
31 December 2017	**390**	**-**	**23**	**-**	**-**	**-**	**1**	**414**
Accumulated depreciation								
31 December 2016	**3,858**	**8,554**	**19,157**	**-**	**5,738**	**-**	**5,631**	**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)
Disposals	(13)	(284)	(179)	-	(160)	-	(240)	(876)
31 December 2017	**5,249**	**-**	**6,314**	**-**	**23,084**	**3,887**	**5,257**	**43,791**
Net book value:								
31 December 2016	**133,038**	**380,249**	**140,929**	**86,905**	**193,566**	**-**	**38,038**	**972,725**
31 December 2017	**131,145**	**-**	**7,612**	**142,801**	**252,585**	**87,136**	**36,356**	**657,635**

	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 investment properties	-	-	-	5,264	-	-	5,264
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**	**86,905**	**199,304**	**43,670**	**1,016,081**
Accumulated impairment							
31 December 2015	**441**	**-**	**-**	**-**	**-**	**1**	**442**
Currency translation differences	(24)	-	-	-	-	-	(24)
31 December 2016	**417**	**-**	**-**	**-**	**-**	**1**	**418**
Accumulated depreciation							
31 December 2015	**1,906**	**6,844**	**22,589**	**-**	**-**	**5,303**	**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	**3,858**	**8,554**	**19,157**	**-**	**5,738**	**5,631**	**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**	**86,905**	**193,566**	**38,038**	**972,725**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

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	**1,106**	**-**	**-**	**-**	**1**	**1,107**
Impairment	375	-	-	-	-	375
Transfers to investment properties	(1,040)	-	-	-	-	(1,040)
31 December 2015	**441**	**-**	**-**	**-**	**1**	**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	-	(124)	(933)	-	(220)	(1,277)
31 December 2015	**1,906**	**6,844**	**22,589**	**-**	**5,303**	**36,642**
Net book value:						
31 December 2014	**16,440**	**204,392**	**50,331**	**1,230**	**9,700**	**282,093**
31 December 2015	**22,135**	**325,931**	**95,803**	**2,119**	**18,790**	**464,778**

The Group assessed that carrying value of infrastructure assets approximates their fair value as at 31 December 2017 and 2016.

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).

(Thousands of Georgian Lari)

15. 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**

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.

(Thousands of Georgian Lari)

15. Goodwill (continued)

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.

16. Other Assets and Other Liabilities

Other assets comprise:

	2017	*2016*	*2015*
Operating tax assets	29,769	45,049	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	-
Derivative financial assets	-	6,277	-
Loans issued	101	3,723	13,560
Other	793	2,479	7,092
Other assets	**69,870**	**89,500**	**60,219**

Other liabilities comprise:

	2017	*2016*	*2015*
Defined contribution pension obligations	18,536	16,441	13,706
Accruals	17,133	24,277	26,262
Other taxes payable	11,058	33,546	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	1,955	20,646	10,076
Other liabilities	**63,206**	**113,486**	**85,290**

2016 and 2015 amounts payable for share acquisitions fully comprise payables for healthcare business acquisitions.

(Thousands of Georgian Lari)

17. 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 7)	(387)	21,156	10
Deferred income tax credit (expense) in other comprehensive income (loss)	**165**	**1,119**	**(455)**

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	52,700	72,222	16,143
Net profit before income tax benefit from discontinued operations	47,705	38,943	14,670
Profit before income tax expense	**100,405**	**111,165**	**30,813**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(15,061)**	**(16,675)**	**(4,622)**
Non-taxable income	9,817	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	(808)	(85)	(197)
Effects from changes in tax legislation	-	24,995	-
Other	-	1	(1,665)
Income tax (expense) benefit	**(6,136)**	**13,344**	**(4,490)**

(Thousands of Georgian Lari)

17. Taxation (continued)

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.

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*		
	2015	*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**

(Thousands of Georgian Lari)

18. Insurance Contract Liabilities and Reinsurance Assets

	2017			2016			2015		
	Insurancec ontract liabilities	*Reinsurance asset*	*Net*	*Insurance contract liabilities*	*Reinsurance assets*	*Net*	*Insurance contract liabilities*	*Reinsurance asset*	*Net*
	2017	*2017*	*2017*	*2016*	*2016*	*2016*	*2015*	*2015*	*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	(3,657	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**

19. Borrowings

Borrowings comprise:

	2017	*2016*	*2015*
Borrowings from local financial institutions	42,512	187,040	106,770
Borrowings from international financial institutions	335,943	149,037	26,356
Other borrowings*	272,279	171,808	-
Borrowings	**650,734**	**507,885**	**133,126**

** Other borrowings comprise of borrowing from JSC BGEO 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	**507,885**	**169,538**
Foreign currency translation	(3,314)	(3,082)
Cash proceeds	454,374	40,000
Cash repayments	(87,853)	(76,002)
Transfer to liabilities of disposal group held for sale	(187,557)	(36,024)
Increase in share capital*	(33,449)	(16,595)
Other	648	-
Carrying amount at 31 December 2017	**650,734**	**77,835**

****On 26 December 2017 JSC BGEO Group increased the share capital of JSC BGEO Investments through a non-cash contribution of GEL 33,449 loan of JSC Svaneti Hydro and GEL 16,595 debt securities attributable to JSC Georgian Water and Power LLC.***

(Thousands of Georgian Lari)

20. Debt Securities Issued

Debt securities issued comprise:

	2017	*2016*	*2015*
USD denominated local bonds issued by m2	64,445	102,649	47,954
USD denominated local bonds issued by GHG	-	34,954	34,568
GEL denominated local bonds issued by GGU*	13,390	31,935	-
Debt securities issued	**77,835**	**169,538**	**82,522**

**JSC BGEO Investments 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.

21. 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**

(Thousands of Georgian Lari)

22. 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	3,836	14,477	2,432
Later than 1 year but not later than 5 years	5,882	65,211	2,289
Later than 5 years	1,691	1,910	-
	11,409	**81,598**	**4,721**
Capital expenditure commitments	**-**	**10,780**	**25,200**
Commitments and contingencies, net	**8,306**	**91,672**	**29,921**

As at 31 December 2017, capital expenditure commitment was for purchase of property and capital repairs of Nil (2016: GEL 10,780, 2015: GEL 25,200).

(Thousands of Georgian Lari)

23. Equity

Share capital

As at 31 December 2017 issued share capital comprised 10,000,000 common shares (31 December 2016: 8,481,719, 31 December 2015: 7,415,561), of which were 10,000,000 fully paid (2016: 8,481,719, 2015: 7,415,561). Each share has a nominal value of one Georgian Lari. Shares issued and outstanding as at 31 December 2017 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
1 January 2015	**6,669,526**	**6,670**
Issue of share capital	746,035	746
31 December 2015	**7,415,561**	**7,416**
Issue of share capital	1,066,158	1,066
31 December 2016	**8,481,719**	**8,482**
Issue of share capital*	1,518,281	1,518
31 December 2017	**10,000,000**	**10,000**

* ***During 2017 100% shareholder JSC BGEO Group contributed investment business related assets to equity of JSC BGEO Investments in the exchange of 1,518,281 shares issued (GEL 1,518).***

Dividends

Shareholders are entitled to dividends in Georgian Lari.

In April 2017, JSC Insurance Company Aldagi declared interim dividends. Payment of the total GEL 7,000 interim dividend was received by shareholders of the Group on 4 April 2017. In August 2016, JSC Insurance Company Aldagi declared 2015 dividends. Payment of the total GEL 7,121 final dividend was received by shareholders of the Group on 31 August 2016. Dividend distribution by JSC Insurance Company Aldagi was treated as a distribution of the Group.

Nature and purpose of Other Reserves

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries with functional currency other than GEL.

Movements in other reserves during the years ended 31 December 2017, 31 December 2016 and 31 December 2015 are presented in the statements of other comprehensive income.

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	1,149,760	889,637	759,097
Total Liabilities	619,401	370,222	286,941
Profit for the year	45,817	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

(Thousands of Georgian Lari)

23. Equity (continued)

	2017	2016	2015
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the parent	70,125	95,358	22,863
Profit for the year from continuing operations attributable to ordinary shareholders of the parent	50,762	62,635	13,391
Profit for the year from discontinued operations attributable to ordinary shareholders of the parent	19,363	32,723	9,472
Weighted average number of ordinary shares outstanding during the year*	29,996,344	26,726,369	25,289,698
Earnings per share	2.3378	3.5679	0.9040
Earnings per share from continuing operations	1.6923	2.3436	0.5295
Earnings per share from discontinued operations	0.6455	1.2244	0.3745

** Weighted average number of shares includes subsequent incorporation of GCAP PLC and use of its number of shares with a retrospective approach. Refer to Note 1.*

24. Gross Profit

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 Real Estate Profit

	2017	2016	2015
Revenue from apartment sale	93,450	96,372	44,917
Revaluation of m2 investment property	24,033	3,770	14,350
Income from operating leases	3,650	2,832	1,883
Real estate revenue	**121,133**	**102,974**	**61,150**
Cost of real estate	(85,765)	(81,098)	(39,721)
Gross real estate profit	**35,368**	**21,876**	**21,429**

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**

(Thousands of Georgian Lari)

24. Gross Profit (continued)

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**

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	283,449
Total revenue from contracts with customers from discontinued operations	691,971
Total revenue from contracts with customers	**975,420**

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.

(Thousands of Georgian Lari)

24. Gross Profit (continued)

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.

25. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2017	*2016*	*2015*
Salaries and bonuses	(23,958)	(14,289)	(11,343)
Equity compensation plan costs	(7,825)	(1,990)	(457)
Salaries and other employee benefits	**(31,783)**	**(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:

The average number of staff employed by the Group

	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**

General and administrative expenses

	2017	*2016*	*2015*
Marketing and advertising	(11,314)	(7,452)	(8,030)
Operating taxes	(5,397)	(2,327)	(422)
Legal and other professional services	(4,852)	(3,114)	(1,980)
Occupancy and rent	(3,105)	(1,981)	(1,961)
Repairs and maintenance	(1,958)	(1,205)	(855)
Office supplies	(1,874)	(836)	(559)
Corporate hospitality and entertainment	(1,047)	(810)	(479)
Communication	(740)	(442)	(289)
Travel expenses	(572)	(296)	(222)
Security	(367)	(250)	(253)
Personnel training and recruitment	(199)	(1,007)	(119)
Other	(4,153)	(1,337)	(629)
General and administrative expenses	**(35,578)**	**(21,057)**	**(15,798)**

(Thousands of Georgian Lari)

26. 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	*Accounts receivable*	*Other assets*	*Provisions*	*Total*
	2017	*2017*	*2017*	*2017*	*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	*Accounts receivable*	*Other assets*	*Provisions*	*Total*
	2016	*2016*	*2016*	*2016*	*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	*Accounts receivable*	*Other assets*	*Total*
	2015	*2015*	*2015*	*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**

Charge for the year includes impairment charge on assets of disposal group held for sale. Refer to Note 7.

27. Net Non-recurring Items

	2017	*2016*	*2015*
Gain on bargain purchase (note 5)	260	30,892	-
Impairment of prepayments	-	-	(298)
Impairment of property and equipment, and intangible assets	-	-	(375)
Other	(811)	(2,872)	(452)
Net non-recurring items	**(551)**	**28,020**	**(1,125)**

(Thousands of Georgian Lari)

28. Share-based Payments

Executives' Equity Compensation Plan

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 BGEO Investments' 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 consolidated financial statements 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)**	**(3,780)**	**(2,445)**

During 2017, BGEO Investments' 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).

In 2017, the Group contributed GEL 14,460 (2016: GEL 2,683, 2015: Nil) as intra-group recharge under share-based compensation schemes described above.

(Thousands of Georgian Lari)

29. 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 BGEO Investments 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 the Group 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 BGEO Investments 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)

29. 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	11	27,501	7,836	35,337
Insurance premiums receivable		28,947	1,908	30,855
Debt investment securities available-for-sale		31,907	-	31,907
Total		**88,355**	**9,744**	**98,099**

31 December 2016	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	11	102,305	19,987	122,292
Insurance premiums receivable		46,826	1,564	48,390
Debt investment securities available-for-sale		1,925		1,925
Total		**151,056**	**21,551**	**172,607**

31 December 2015	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	11	65,943	7,370	73,313
Insurance premiums receivable		39,305	1,576	40,881
Debt investment securities available-for-sale		631	-	631
Other financial assets	16	21,908	2,033	23,941
Total		**127,787**	**10,979**	**138,766**

(Thousands of Georgian Lari)

29. Risk Management (continued)

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.

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	276,941	47,331	225,361	242,372	792,005
Debt securities issued	400	6,034	87,898	-	94,332
Accounts payable	27,425	-	15,562	-	42,987
Other financial liabilities	1,577	13,464	21,041	-	36,082
Total undiscounted financial liabilities	**306,343**	**66,829**	**349,862**	**242,372**	**965,406**

** 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	96,535	215,987	198,672	44,430	555,624
Debt securities issued	37,775	43,506	75,301	45,000	201,582
Accounts payable	43,740	65,406	-	-	109,146
Other financial liabilities	13,694	15,665	20,994	-	50,353
Total undiscounted financial liabilities	**191,744**	**340,564**	**294,967**	**89,430**	**916,705**

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	74,054	9,225	154,865
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**	**177,084**	**9,225**	**354,556**

(Thousands of Georgian Lari)

29. Risk Management (continued)

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.

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%	94	15.8%	95	2.5%	1,427
USD	8.9%	4,996	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)

29. 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 consolidated ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Consolidated 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 consolidated ratios were as follows:

	P&C Insurance		
	2017, %	***2016, %***	***2015, %***
Loss ratio	40%	36%	43%
Consolidated 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)

30. 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	-	31,907	1,153	33,060
Assets for which fair values are disclosed				
Cash and cash equivalents	-	346,241	-	346,241
Amounts due from credit institutions	-	38,141	-	38,141
Liabilities for which fair values are disclosed				
Borrowings	-	77,972	572,762	650,734
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	-	-	134,990	134,990
Land	-	-	*87,155*	*87,155*
Residential properties	-	-	-	-
Non-residential properties	-	-	*47,835*	*47,835*
Investment securities	-	1,933	1,145	3,078
Other assets – derivative financial assets	-	6,277	-	6,277
Assets for which fair values are disclosed				
Cash and cash equivalents	-	158,868	-	158,868
Amounts due from credit institutions	-	70,983	-	70,983
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,144	-	1,144
Liabilities for which fair values are disclosed				
Borrowings	-	301,797	206,088	507,885
Debt securities issued	-	-	168,947	168,947

(Thousands of Georgian Lari)

30. 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
Assets for which fair values are disclosed				
Cash and cash equivalents	-	203,579	-	203,579
Amounts due from credit institutions	-	34,069	-	34,069
Liabilities for which fair values are disclosed				
Borrowings	-	116,527	16,599	133,126
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:

	1 January 2015	*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	-	1,145	8	1,153

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 13 and 14 respectively.

(Thousands of Georgian Lari)

30. 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	1,153	+/- 213	1,145	+/- 212	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

(Thousands of Georgian Lari)

30. 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	**134,990**						
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	47,835						
	6,502	Market approach	Price	2.8mln	Square metres, land Square metres, building	18,635 6,702	Increase (decrease) in the price would result in increase (decrease) in fair value
	34,119	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
	7,214	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)

30. 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 Square metres, building	18,635 6,702	Increase (decrease) in the price would result in increase (decrease) in fair value
	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)

30. 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 at the fair values in the consolidated financial statements. 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	346,241	346,241	-
Amounts due from credit institutions	38,141	38,141	-
Financial liabilities			
Borrowings	650,734	650,734	-
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	158,868	158,868	-	203,579	203,579	-
Amounts due from credit institutions	70,983	70,983	-	34,069	34,069	-
Financial liabilities						
Borrowings	507,885	507,885	-	133,126	133,126	-
Debt securities issued	169,538	168,947	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 consolidated financial statements.

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)

31. 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	346,241	-	346,241
Amounts due from credit institutions	36,382	1,759	38,141
Investment securities	1,619	31,441	33,060
Accounts receivable	35,203	134	35,337
Insurance premiums receivable	30,818	37	30,855
Prepayments	79,246	8,514	87,760
Inventories	72,074	8,036	80,110
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	44,716	25,154	69,870
Assets of disposal group held for sale	1,148,584	-	1,148,584
Total assets	**1,795,069**	**921,279**	**2,716,348**
Borrowings	299,762	350,972	650,734
Debt securities issued	1,350	76,485	77,835
Deffered income	49,863	23,203	73,066
Accounts Payable	32,231	10,756	42,987
Insurance contracts liabilities	39,443	6,960	46,403
Income tax liabilities	860	-	860
Other liabilities	44,065	19,141	63,206
Liabilities of disposal group held for sale	619,029	-	619,029
Total liabilities	**1,086,603**	**487,517**	**1,574,120**
Net	**708,466**	**433,762**	**1,142,228**

	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	158,868	-	158,868	203,579	-	203,579
Amounts due from credit institutions	65,889	5,094	70,983	32,148	1,921	34,069
Investment securities	3,078	-	3,078	1,184	600	1,784
Accounts receivable	113,497	8,795	122,292	73,313	-	73,313
Insurance premiums receivable	48,346	44	48,390	40,832	49	40,881
Prepayments	36,248	18,685	54,933	8,667	29,173	37,840
Inventories	71,792	107,742	179,534	89,117	28,596	117,713
Investment properties	-	134,990	134,990	-	110,945	110,945
Property and equipment	-	972,725	972,725	-	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	48,209	41,291	89,500	25,548	34,671	60,219
Total assets	**549,128**	**1,383,330**	**1,932,458**	**476,299**	**721,795**	**1,198,094**
Borrowings	291,488	216,397	507,885	63,842	69,284	133,126
Debt securities issued	73,174	96,364	169,538	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	9,973	24,361	34,334
Other liabilities	95,562	17,924	113,486	69,901	15,389	85,290
Total liabilities	**648,558**	**408,033**	**1,056,591**	**312,879**	**225,156**	**538,035**
Net	**(99,430)**	**975,297**	**875,867**	**163,420**	**496,639**	**660,059**

(Thousands of Georgian Lari)

32. 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*	*Shareholders*	*Entities under common control***	*Shareholders*	*Entities under common control***
Assets						
Cash and cash equivalents	308,645	-	-	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
	371,564	**-**	**-**	**383,839**	**-**	**255,768**
Liabilities						
Borrowings	50,970	-	171,810	33,190	-	36,621
Debt securities issued	53,209	-	47,275	33,190	-	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**	**219,085**	**120,398**	**-**	**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	(53)	-	-	(219)	-	(645)
Salaries and other employee benefits	(943)	-	-	(787)	-	(672)
Administrative expenses	(545)	-	(35)	(1,484)	-	(1,689)
Interest income from amounts due from credit institutions	4,616	-	-	2,211	-	1,550
Interest income from loans	-	-	116	-	-	-
Interest income from investment securities	389	-	-	-	-	-
Interest expense from borrowings	(6,579)	-	(7,811)	(5,494)	(625)	(13,317)
Interest expense from debt securities issued	(2,636)	-	(1,213)	(1,584)	-	(1,784)
Net foreign currency loss	(6,954)	-		6,277	-	-
	(8,623)	**1,924**	**(8,943)**	**2,749**	**(625)**	**(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)

32. Related Party Disclosures (continued)

	2017	2016	2015
Salaries and other benefits	1,812	2,294	1,576
Share-based payments compensation	12,450	2,750	206
Long-term benefits	2,243	-	-
Total key management compensation*	**16,505**	**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 28). The number of key management personnel at 31 December 2017 was 16 (31 December 2016: 14, 31 December 2015: 16).

33. Events after the Reporting Period

Change of the name

On 9 January 2018, JSC BGEO Investments was renamed to JSC Georgia Capital.

Business combination

Acquisition of Genuine Brewing Company

On 7 February 2018 the Group acquired 100% equity stake in a Georgian craft beer producer, Genuine Brewing Company LLC. Company operates a brewery with a capacity to produce 3 million litres per year.

Provisionally estimated unaudited net assets of Genuine Brewing Company at acquisition date comprised GEL 5,609. Consideration comprised of GEL 7,835.
The fair values of identifiable assets and liabilities of the Genuine Brewing Company as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	129
Accounts receivable	214
Inventories	442
Property and equipment	5,297
Intangible assets	74
Other assets	1
	6,157
Accounts payable	195
Other liabilities	353
	548
Total identifiable net assets	**5,609**
Goodwill arising on business combination	2,226
Consideration given	**7,835**

(Thousands of Georgian Lari)

33. Events after the Reporting Period (continued)

Business combinations (continued)

Acquisition of Kindzmarauli

On 1 May 2018 the Group acquired a 60% indirect controlling interest in Kindzmarauli Marani, LLC ("Kindzmarauli") through a locally established special-purpose vehicle for a total consideration of US$7.25 million (representing a cash payment for an equity stake and the buyout of an existing shareholder loan).

Provisionally estimated unaudited net assets of Kindzmarauli Marani, LLC at acquisition date comprised GEL 14,208. Consideration comprised of GEL 17,813.

The fair values of identifiable assets and liabilities of the Kindzmarauli Marani, LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	1,209
Accounts receivable	1,899
Inventories	2,817
Property and equipment	26,299
Intangible assets	28
Prepayments	19
Total identifiable net assets	**32,272**
Borrowings	14,560
Accounts payable	2,586
Deferred income	836
Other liabilities	82
	18,064
Total identifiable net assets	**14,208**
Non-controlling interests	(472)
Goodwill arising on business combination	3,133
Consideration given	**17,813**

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 was exchanged for a 19.9% stake in Bank of Georgia Group PLC following the demerger.

Bond issuance

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.

Repayment of parent borrowings

In March 2018, as part of the Demerger process, the full amount of JSC BGEO borrowing was repaid.

In March 2018, the Group provided US$ 50 million 9% loan to JSC BGEO Group.

(Thousands of Georgian Lari)

33. Events after the Reporting Period (continued)

Dividend receipt

On 9 July 2018, Bank of Georgia PLC declared an interim dividend of GEL 2.44 per ordinary share, which was paid to its ordinary shareholders on 31 July 2018. The Group received GBP 7,422 (GEL 23,875) dividend payment from Bank of Georgia PLC.

Vehicle inspection services

In July 2018, the Group's property and casualty insurance portfolio company, Aldagi has won the state tender, through its wholly-owned subsidiary, to launch and operate 51 periodic technical inspection lines across Georgia. As part of the Georgia-EU Association Agreement, Georgia will implement a mandatory vehicle inspection program in several phases. Aldagi paid GEL 6,700 for the two year technical inspection license.

Development of Commercial and Hospitality Business

On 8 August 2018, Group's Hospitality and commercial real estate business, owned through m2 Real Estate, acquired remaining 89% share of 4,946 sq.m. land plot in old Tbilisi neighborhood with a total cash consideration of US$ 5.34 million.