JSC BGEO Investments and Subsidiaries
Consolidated Financial Statements

31 December 2016

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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 2016, 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 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the 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

9 August 2018

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Thousands of Georgian Lari)

	Notes	*31 December 2016*	*31 December 2015*	*1 January 2015*
Assets				
Cash and cash equivalents	7	152,137	201,200	60,633
Amounts due from credit institutions	8	28,970	15,730	25,812
Investment securities		2,481	1,153	1,153
Accounts receivable	9	115,285	72,031	54,201
Insurance premiums receivable	16	24,284	20,930	18,020
Inventories	10	170,638	117,593	94,585
Investment properties	11	134,145	110,945	74,238
Property and equipment	12	893,517	456,614	273,449
Goodwill	13	54,745	24,187	11,419
Intangible assets		17,147	5,354	2,664
Income tax assets	15	3,244	5,548	9,499
Prepayments		51,652	37,172	18,094
Other assets	14	58,700	36,176	18,873
Total assets		1,706,945	1,104,633	662,640
Liabilities				
Accounts payable		90,995	43,762	14,515
Insurance contracts liabilities	16	26,329	21,298	18,607
Borrowings	17	461,228	135,200	201,934
Debt securities issued	18	172,330	84,474	29,374
Income tax liabilities	15	1,985	33,945	17,608
Deferred income	19	84,770	102,846	75,053
Other liabilities	14	66,335	57,876	36,892
Total liabilities		903,972	479,401	393,983
Equity	21			
Share capital		8,481	7,416	6,670
Additional paid-in capital		343,282	278,239	215,083
Other reserves		116,224	92,295	(13,240)
Retained earnings		114,170	38,359	19,377
Total equity attributable to shareholders of BGEO Investments		582,157	416,309	227,890
Non-controlling interests		220,816	208,923	40,767
Total equity		802,973	625,232	268,657
Total liabilities and equity		1,706,945	1,104,633	662,640

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

Irakli Gilauri — Chief Executive Officer

Giorgi Alpaidze — Chief Financial Officer

9 August 2018

The accompanying notes on pages 7 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015
Net insurance premiums earned		57,012	54,996
Net insurance claims incurred		(45,543)	(42,881)
Gross insurance profit		**11,469**	**12,115**
Healthcare and pharma revenue		362,587	183,993
Cost of healthcare and pharma services		(227,725)	(103,054)
Gross healthcare and pharma profit	22	**134,862**	**80,939**
Real estate revenue		104,371	61,676
Cost of real estate		(81,098)	(39,721)
Gross real estate profit	22	**23,273**	**21,955**
Utility and energy revenue		56,486	-
Cost of utility and energy		(17,806)	-
Gross utility and energy profit	22	**38,680**	**-**
Beverage revenue		9,073	29,527
Cost of beverage		(6,421)	(14,624)
Gross beverage profit	22	**2,652**	**14,903**
Other income		7,934	3,340
Gross profit		**218,870**	**133,252**
Salaries and other employee benefits	23	(45,903)	(31,620)
Administrative expenses	23	(40,573)	(23,315)
Other operating expenses		(2,383)	(751)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	24	(2,477)	(3,859)
		(91,336)	**(59,545)**
EBITDA		**127,534**	**73,707**
Loss from associates		(83)	-
Depreciation and amortisation		(27,940)	(14,226)
Net foreign currency loss		(7,129)	(7,732)
Interest income		2,599	3,129
Interest expense		(30,503)	(26,551)
Net operating income before non-recurring items		**64,478**	**28,327**
Net non-recurring items	25	21,044	(2,100)
Profit before income tax expense		**85,522**	**26,227**
Income tax benefit (expense)	15	17,218	(3,759)
Profit for the year		**102,740**	**22,468**
Total profit attributable to:			
– shareholders of BGEO Investments		75,508	19,114
– non-controlling interests		27,232	3,354
Earnings per share:	21		
– basic and diluted earnings per share		9.6539	2.5857

The accompanying notes on pages 7 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	*2016*	*2015*
Profit for the year		**102,740**	**22,468**
Other comprehensive income (loss)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
– Gain (loss) from currency translation differences		9,244	(365)
Income tax impact	15	729	6
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		**9,973**	**(359)**
Other comprehensive income (loss) for the year, net of tax		**9,973**	**(359)**
Total comprehensive income for the year		**112,713**	**22,109**
Attributable to:			
– shareholders of BGEO Investments		87,711	18,887
– non-controlling interests		25,002	3,222
		112,713	**22,109**

The accompanying notes on pages 7 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(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*
1 January 2015	**6,670**	**215,083**	**(13,240)**	**19,377**	**227,890**	**40,767**	**268,657**
Profit for the year	-	-	-	19,114	19,114	3,354	22,468
Other comprehensive income for the year	-	-	(95)	(132)	(227)	(132)	(359)
Total comprehensive income for the year	**-**	**-**	**(95)**	**18,982**	**18,887**	**3,222**	**22,109**
Increase in equity arising from share-based payments	-	2,408	-	-	2,408	896	3,304
Issue of share capital (Note 21)	746	29,343	-	-	30,089	-	30,089
Contribution of assets by entities under common control (Note 21)	-	31,405	-	-	31,405	-	31,405
Dilution of interests in subsidiaries (Note 2)	-	-	109,569	-	109,569	125,021	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)	-	-	9,440	-	9,440	9,231	18,671
Non-controlling interests arising on acquisition of subsidiaries (Note 5)	-	-	-	-	-	29,786	29,786
31 December 2015	**7,416**	**278,239**	**92,295**	**38,359**	**416,309**	**208,923**	**625,232**
Profit for the year	-	-	-	75,508	75,508	27,232	102,740
Other comprehensive income for the year	-	-	12,186	17	12,203	(2,230)	9,973
Total comprehensive income for the year	**-**	**-**	**12,186**	**75,525**	**87,711**	**25,002**	**112,713**
Increase in equity arising from share-based payments	-	3,818	-	-	3,818	3,815	7,633
Issue of share capital (Note 21)	1,065	63,908	-	-	64,973	-	64,973
Loss of control in subsidiary (Note 2)	-	-	982	286	1,268	(9,125)	(7,857)
Dilution of interests in subsidiaries	-	-	(2,789)	-	(2,789)	2,409	(380)
Acquisition of non-controlling interests in existing subsidiaries (Note 5)	-	-	13,550	-	13,550	(10,208)	3,342
Contributions under share-based payment plan (Note 26)	-	(2,683)	-	-	(2,683)	-	(2,683)
31 December 2016	**8,481**	**343,282**	**116,224**	**114,170**	**582,157**	**220,816**	**802,973**

The accompanying notes on pages 7 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	2016	2015
Cash flows from operating activities			
Insurance premiums received		58,863	54,340
Insurance claims paid		(45,544)	(42,881)
Healthcare and pharma revenue received		347,616	171,927
Cost of healthcare and pharma revenue paid		(242,890)	(91,274)
Utility and energy revenue received		58,714	-
Cost of utility and energy revenue paid		(19,156)	-
Beverage revenue received		10,771	31,676
Cost of beverage revenue paid		(4,758)	(14,004)
Real estate revenue received		92,104	68,447
Cost of real estate revenue paid		(101,504)	(74,757)
Net realised loss from foreign currencies		(781)	(443)
Other income received (expenses paid)		(2,154)	(1,780)
Salaries and other employee benefits paid		(38,308)	(26,969)
General, administrative and operating expenses paid		(37,710)	(25,914)
Interest received		2,599	3,129
Interest paid		(27,842)	(30,278)
Other changes		(3,312)	(6,391)
Net cash flows from operating activities before income tax		**46,708**	**14,828**
Income tax paid		(10,443)	(768)
Net cash flows from operating activities		**36,265**	**14,060**
Cash flows used in investing activities			
Withdrawals and redemptions of amounts due from credit institutions		3,221	28,638
Placement of amounts due from credit institutions		(13,539)	(18,556)
Loans repaid		(300)	(2,675)
Acquisition of subsidiaries, net of cash acquired	5	(188,010)	(47,087)
Repayment of remaining holdback amounts from previous year acquisitions		(20,476)	(9,091)
Purchase of investment securities available-for-sale		(1,328)	-
Cash disposed as a result of deconsolidation		(3,399)	-
Acquisition of addition shares in existing investments	2	(13,065)	-
Proceeds from sale of investment properties	11	4,144	-
Purchase of investment properties	11	(8,279)	(15,294)
Proceeds from sale of property and equipment and intangible assets	12	8,763	20,054
Purchase of property and equipment and intangible assets		(165,620)	(96,794)
Net cash flows used in investing activities		**(397,888)**	**(140,805)**

The accompanying notes on pages 7 to 67 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Notes	*2016*	*2015*
Cash flows from financing activities			
Proceeds from borrowings		322,862	44,093
Repayment of borrowings		(97,112)	(106,676)
Proceeds from debt securities issued		86,978	78,954
Repurchase of debt securities issued		(10,009)	(37,195)
Proceeds from issue of share capital		11,689	30,137
Contributions under share-based payment plan (Note 26)		(2,683)	-
Net proceeds from dilution of interest in existing subsidiary		(2,527)	221,211
(Purchase of) proceeds from sale of interests in existing subsidiaries		(4,449)	18,671
Net cash from financing activities		**304,749**	**249,195**
Effect of exchange rates changes on cash and cash equivalents		7,811	18,117
Net (decrease) increase in cash and cash equivalents		**(49,063)**	**140,567**
Cash and cash equivalents, beginning of the year	7	**201,200**	**60,633**
Cash and cash equivalents, ending of the year	7	**152,137**	**201,200**

The accompanying notes on pages 7 to 67 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 healthcare, pharmaceutical and health insurance, water utility and renewable energy, residential and commercial property construction and development 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 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.

2. Basis of Preparation

General

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 2016 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.

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 financial statements continue to be prepared on the going concern basis.

2. Basis of Preparation (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. 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 2016 and 31 December 2015 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	*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%	Georgia	4 Freedom Square, Tbilisi, 0105	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	100.00%	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	100.00%	100.00%	Georgia	16 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	100.00%	100.00%	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	100.00%	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
⇒ M Square Park, LLC	100.00%	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	100.00%	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
⇒ m2 at Vake, LLC	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
⇒ m2 Hospitality, LLC	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%	Georgia	#3-5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
⇒ m2 at Chavchavadze LLC	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	5/9/2016	–
⇒ m2 Commercial Properties LLC	100.00%	-	Georgia	77 Zh. SHartavai st, Tbilisi	Real estate	1/3/2016	–
⇒ Caucasus Autohouse, LLC	100.00%	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	29/3/2011	–
⇒ Land, LLC	100.00%	100.00%	Georgia	Between university and Kavtaradze st.,Tbilisi	Real estate	3/10/2014	–
⇒ JSC Georgian Renewable Power Company	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	85.00%	85.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	65.00%	65.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	65.00%	100.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	20/8/2015	–
⇒ JSC Caucasian Wind Company	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
⇒ JSC Caucasian Solar Company	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
⇒ Georgia Healthcare Group PLC	65.03%	67.70%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	–
⇒ JSC Georgia Healthcare Group	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%	Georgia	3-5 Kazbegi street, Tbilisi	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	(a)	100.00%	Georgia	44 Al. Kazbegi ave, Tbilisi, 0177	Various	22/6/2010	10/1/2011
⇒ JSC GPC	100.00%	-	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Pharma	19/10/1995	4/5/2016
⇒ JSC Medical Corporation EVEX	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%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Healthcare	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Healthcare	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Healthcare	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	96.87%	96.87%	Georgia	9 Paolo Iashvili street, Kutaisi	Healthcare	3/11/2000	20/5/2008

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	*Proportion of voting rights and ordinary share capital held* 31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
⇒ Patgeo, LLC	100.00%	0.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Healthcare	13/10/2010	27/9/2016
⇒ GN KO, LLC	50.00%	50.00%	Georgia	Chavchavadze ave. N 16, Tbilisi	Healthcare	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	100.00%	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare	16/4/1999	5/8/2015
⇒ Geolab, LLC	50.00%	50.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	80.00%	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	100.00%	100.00%	Georgia	U. Chkeidze str. N 10	Healthcare	18/6/2013	5/8/2015
⇒ JSC Pediatria	76.00%	-	Georgia	U. Chkeidze str. N 10, Tbilisi	Healthcare		
⇒ Emergency Service, LLC	100.00%	-	Georgia	#2, D. Uznadze st., Tbilisi	Healthcare	28/7/2009	6/1/2016
⇒ 'JSC Poti Central Hospital	100.00%	-	Georgia	Guria str. 171, Poti	Healthcare	29/10/2014	1/1/2016
⇒ Deka, LLC	95.00%	95.00%	Georgia	Bakhtrioni Str. 8B, Tbilisi	Healthcare	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Healthcare	2/2/2015	–
⇒ EVEX Collection, LLC	100.00%	0.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Healthcare	25/3/2016	–
⇒ Unimed Achara, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Healthcare	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Healthcare	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	100.00%	100.00%	Georgia	20 Chavchvadze ave Tbilisi	Healthcare	29/6/2010	1/5/2012
⇒ M. Iashvili Children's Central Hospital, LLC	100.00%	66.70%	Georgia	2/6 Lubliana Street, Tbilisi	Healthcare	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Healthcare	6/3/2000	19/2/2014
⇒ Referral Centre of Pathology, LLC	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/12/2014	–
⇒ EVEX Learning Center	100.00%	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
⇒ Georgian Global Utilities, LLC	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%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
⇒ Rustavi Water, LLC	100.00%	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
⇒ Gardabani Sewage Treatment, LLC	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
⇒ Mtskheta Water, LLC	100.00%	100.00%	Georgia	1, Gvinjilia St., Mtskheta	Utilities	1/9/1999	31/12/2014
⇒ Georgian Engineering and Management Company (GEMC), LLC	100.00%	100.00%	Georgia	3, Tkekultura St., Tbilisi	Utilities	20/03/2011	31/12/2014
⇒ JSC Saguramo Energy	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
⇒ JSC Liberty Consumer	72.19%	70.20%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
⇒ JSC Intertour	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%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–
⇒ JSC Teliani Valley	(b)	50.23%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	(b)	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	(b)	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	(b)	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	(b)	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	(b)	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	–

(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 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	35.00%	-	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	20/8/2013
JSC Teliani Valley (b)	47.75%	-	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007

(a) Merged with JSC Insurance Company Imedi L in 2016

(b) In May 2016, JSC Teliani Valley issued new shares for existing shareholders. The Group paid GEL 13,065 to acquire 93,599,348 additionally issued shares which was not proportional with other shareholders and therefore its stake in JSC Teliani Valley reduced from 50.23% to 47.75%. This led to the loss of control and deconsolidation ("Deconsolidation") of JSC Teliani Valley and its subsidiaries in May 2016. The deconsolidation resulted in net loss of GEL 8,137 .

In November 2015, GHG issued 38,681,820 new ordinary shares for the price of 170 pence per share, diluting the Group's stake in GHG by 29.4%. Further 2.9% or 3,868,180 shares of GHG were sold as a result of an exercised over-allotment option granted by the Group to the stabilizing manager.

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), recognizing 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, recognizing GEL 12,450 non-controlling interests and GEL 8,220 unrealized gain on sale of non-controlling 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.

3. Summary of Selected Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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.

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. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

Fair value measurement

The Group measures financial instruments, such as investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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.

3. Summary of Selected Significant Accounting Policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the 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 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.

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 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 receivables

Accounts receivables 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 that 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 receivables

Insurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance 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.

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.

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.

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.

3. Summary of Selected Significant Accounting Policies (continued)

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
Hospitals and clinics	Up to 100
Infrastructure assets	10-40
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 and first in first out basis ("FIFO") in the pharma segment. 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 employees render services as consideration for equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value of shares at the grant date.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the 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.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

Equity-settled transactions (continued)

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.
Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

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

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.

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

Revenue is recognised when the Group's right to receive the payment is established.

Insurance premium income

Insurance 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.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition healthcare and pharma revenue

The Group recognizes healthcare revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Healthcare revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state).

Healthcare revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes the following components:

- Healthcare revenue from insurance companies – The Group recognises revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare revenue from state – The Group recognises the revenue from the individuals who are insured under the state programmes based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare revenue from out-of-pocket and other – The Group recognises the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognised in the accounting period in which the services are rendered calculated according to contractual tariffs.

Revenue from pharma comprises the fair value of the consideration received or receivable both from wholesale and retail sales and drug exchange transactions. The pharma business sometimes receives drugs in exchange for sale of drugs from other wholesalers. The consideration received is assessed with reference to its actual wholesale price which is deemed fair value of consideration received.

Utility and energy revenue

The Group recognises revenue from utility services 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 be met before revenue is recognised:

- 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 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 recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

Beverage revenue

Revenue from sale of beverages is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on the delivery of the goods.

3. Summary of Significant Accounting Policies (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 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 losses from foreign currencies and net non-recurring (expense)/income.

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 extraordinary 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 can not 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.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. BGEO Investments' functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in net foreign currency gain (loss). The official NBG exchange rates at 31 December 2016 and 31 December 2015 were as follows:

	Lari to GBP	*Lari to USD*	*Lari to EUR*
31 December 2016	3.2579	2.6468	2.794
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.

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 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also 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. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.
The Group plans to early adopt the new revenue recognition standard from 1 January 2017 using a modified retrospective approach. Anticipated impact of early adoption is expected to be approximately GEL 18,223thousand decrease to shareholders' equity. Main revenue streams impacted by early adoption include the following: a) real estate revenue and b) connection fees from utility services.

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 for annual periods on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard from the effective date. Anticipated impact is expected to be approximately GEL 13,630 pre-tax decrease in shareholders' equity as at 31 December 2017.
Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

The accounting treatment for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement unless an accounting mismatch in profit or loss would arise.

Impairment of financial assets

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to 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 is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statement.

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 evaluated the impact and concluded that the amendment has no effect on the Group's statement of cash flow.

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.

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

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

Annual Improvements 2014-2016 Cycle

The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018 and the improvements to IFRS 12 for annual periods beginning on or after 1 January 2017.

IFRS 12 Disclosure of Interests in Other Entities

The amendment clarifies the scope of the standard by specifying that when an entity's interest in a subsidiary, a joint arrangement (or a portion of its interest in a joint venture or an associate) is classified as asset held for sale or as held for distribution to owners in accordance with IFRS 5, the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate in accordance with IFRS 12. This improvement is not expected to have any impact on the Group.

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure an investment in as 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.

First Time Adoption of IFRS

These consolidated financial statements for the year ended 31 December 2016 are the first the Group has prepared in accordance with IFRS. For the periods up to and including the year ending 31 December 2015 the Group prepared a reporting package in accordance with IFRS for consolidation purposes without preparing a complete set of consolidated financial statements as defined by IAS 1 Presentation of Financial Statements.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2015, the Group's date of transition to IFRS.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has not applied any exemptions available.

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 11 and 12, while valuation inputs and techniques are presented in note 28. 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.

4. Significant Accounting Judgements and Estimates (continued)

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 2016 was GEL 1,300 (31 December 2015: 6,935). Refer to Note 24.

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2016 was GEL 1,976 (31 December 2015: GEL 2,150). Refer to Note 24.

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 16.

Recoverability of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment loss was identified as at 31 December 2016 and 31 December 2015. The key assumptions used to determine carrying amount of goodwill are provided in Note 13.

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.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions during the year ended 31 December 2016

Acquisition of Georgian Global Utilities LLC

On 21 July 2016, the Group acquired 75% equity stake in Georgian Global Utilities LLC ("GGU"), its utilities and energy business.

The fair values of identifiable assets and liabilities of the GGU as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	3,760
Amounts due from credit institutions	2,922
Accounts receivables[1]	27,304
Inventories	4,429
Investment properties (note 11)	19,417
Property and equipment (note 12)	304,932
Intangible assets	1,060
Income tax assets	2,033
	365,857
Borrowings	84,632
Income tax liabilities	390
Other liabilities	24,969
	109,992
Total identifiable net assets	**255,865**
Non-controlling interest	(63,966)
Gain on bargain purchase (note 25)	(27,686)
Consideration given [2]	**164,213**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(164,213)
Cash acquired with the subsidiary	3,760
Net cash outflow	**(160,453)**

The Group decided to enter the utilities and energy business, by acquiring GGU, as it sees opportunities and value creation in utility and energy sector. The Group believes that there is a potential to increase GGU's operational cash flows and EBITDA. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GGU has recorded GEL 62,742 and GEL 22,430 of revenue and profit, respectively. Had the acquisition occurred as of the beginning of the reporting period, the Group would have recorded GEL 662,147 and 115,984 of revenue and profit, respectively. Fair value of any identifiable intangible assets was assessed as immaterial and thus, no such assets were recognized by the Group. The Group has recorded GEL 27,686 gain from bargain purchase.

The acquisition resulted in gain on bargain purchase due to large scale and specific nature of the business for which the Group was the only willing buyer at the time of sale

In September 2016, the Group acquired from the parent the remaining 25% stake in GGU with the fair value of GEL 53,263 in exchange for its own shares, and thus became GGU's sole shareholder. The Group recognised GEL 12,317 unrealised gain from acquisition of non-controlling interests in existing subsidiary.

[1] Gross amount of receivables from utility business was GEL 63,929, of which GEL 36,625 is not expected to be collected

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of a Pharmaceutical Subsidiary

On 4 May 2016 JSC Georgia Healthcare Group ("GHG"), acquired 100% of shares in JSC GPC ("GPC") a pharmaceuticals company operating in Georgia from individual investors.

The fair values of identifiable assets and liabilities of the acquiree as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	1,455
Accounts receivables[1]	7,885
Inventory	31,282
Property and equipment (note 12)	8,105
Intangible assets	861
Income tax assets	552
Prepayments	1,723
Other assets	4,272
	56,135
Borrowings	15,198
Accruals and deferred income	1,331
Other liabilities	37,750
	54,279
Total identifiable net assets	**1,856**
Goodwill arising on acquisition	29,025
Consideration given [2]	**30,881**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(26,686)
Cash acquired with the subsidiary	1,455
Net cash outflow	**(25,231)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by entering the pharmaceuticals segment through the acquisition of GPC. Management considers that the deal will have a positive impact on the value of the Group.

Since acquisition, GPC has recorded GEL 133,002 and GEL 1,924 of revenue and profit respectively. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 664,377 and GEL 102,521 of revenue and profit respectively.

[1] Gross amount of receivables from pharmaceutical business was GEL 10,884, of which, GEL 2,999 is not expected to be collected;
[2] Consideration comprised of GEL 30,881, which consists of GEL 26,686 cash payment and a holdback amount with a fair value of GEL 4,195.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2016 JSC Medical Corporation EVEX ("EVEX"), made following acquisitions:

- On 1 June 2016, obtained de-facto control on LLC Emergency Service, a healthcare company operating in Georgia;
- On 1 January 2016, obtained de-facto control on JSC Poti Central Clinical Hospital, a healthcare company operating in Georgia;
- On 6 July 2016, 76% share in JSC Pediatry, a healthcare company operating in Georgia was acquired from individual shareholders.
- On 1 August 2016, 100% share in Patgeo LLC, a healthcare company operating in Georgia was acquired from individual shareholders.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	74
Receivables from healthcare services [1]	1,435
Property and equipment (note 12)	15,605
Intangible assets	19
Other assets	208
	17,341
Borrowings	159
Accruals and deferred income	518
Income tax liabilities	1,475
Other liabilities	4,118
	6,270
Total identifiable net assets	**11,071**
Gain on bargain purchase (note 25)	(3,206)
Goodwill arising on business combination	4,124
Consideration given [2]	**11,989**

The net cash inflow on acquisition was as follows:

	2016
Cash paid	(2,400)
Cash acquired with the subsidiaries	74
Net cash outflow	**(2,326)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC Emergency Service, JSC Poti Central Clinical Hospital, JSC Pediatry and Patgeo LLC. Management considers that the deal will have a positive impact on the value of the Group.

GEL 6,774 and GEL 3,851 of revenue and profit, respectively come from the acquirees after their respective acquisition dates. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 600,828 and GEL 103,177 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 4,124 was added to the Healthcare cash generating unit.

Prior to acquisition, owners of JSC Poti Central Clinical Hospital encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase.

[1] Gross amount of receivables from healthcare services was GEL 2,006, of which, GEL 571 is not expected to be collected;
[2] Consideration comprised GEL 11,989 which consists of cash payment of GEL 2,400, a holdback amount with a fair value of GEL 2,697 and of pre-existing loans to Poti with a fair value of GEL 6,892.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2015

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2015 JSC Medical Corporation EVEX ("EVEX"), made following acquisitions:

- On 5 August 2015, 50% of the shares of LLC GNCo, a healthcare company operating in Georgia, was acquired from individual shareholders with effective management and operational control over the company;
- On 30 June 2015, 95% of the shares of LLC Deka, a healthcare company operating in Georgia, was acquired from individual shareholders;
- On 1 March 2015, 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia, was acquired from individual shareholders.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	541
Accounts receivables[1]	8,320
Property and equipment (note 12)	125,313
Other assets	4,419
	138,593
Borrowings	15,142
Accounts payable	11,123
Income tax liabilities	12,944
Accruals and deferred income	5,558
Other liabilities	2,148
	46,915
Total identifiable net assets	**91,678**
Non-controlling interest	(29,786)
Goodwill arising on acquisition	12,296
Gain on bargain purchase (note 25)	(5,361)
Consideration given [2]	**68,827**

The net cash inflow on acquisition was as follows:

	2015
Cash paid	(47,628)
Cash acquired with the subsidiary	541
Net cash outflow	**(47,087)**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring LLC GNCo, LLC Deka, LLC Tbilisi Emergency Center and. Management considers that the deal will have a positive impact on the value of the Group.

GEL 19,010 and GEL 2,634 of revenue and profit, respectively come from the acquirees after their respective acquisition dates. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 360,387 and GEL 25,952 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. The goodwill of GEL 12,296 was added to the Healthcare cash generating unit. The whole amount of goodwill recognized is expected to be tax deductible. The Group has elected to measure the non-controlling interests in LLC GNCo and LLC Deka at the non-controlling interests' proportionate share of their respective identifiable net assets.

[1] Gross amount of receivables from healthcare services was GEL 18,271 of which GEL 9,951 is not expected to be collected;
[2] Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL (5,361), recorded in net non-recurring items;
[3] Consideration comprised GEL 68,827 which consists of cash payment of GEL 47,628 and a holdback amount with a fair value of GEL 21,199.

6. Segment Information

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

GHG	- 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;
TV	- Beverage business - principally producing and distributing wine, beer and soft beverages.
Corporate Centre	-Comprising of holding companies – providing compliance and governance services for the Group's operating businesses.

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 2016 or 2015.

(Thousands of Georgian Lari)

6. 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	*M2*	*GGU*	*TV*	*Corporate Centre*	*Inter-Business Eliminations*	*Group Total*
Gross insurance profit	11,489	-	-	-	-	(20)	11,469
Gross healthcare profit	134,467	-	-	-	-	395	134,862
Gross real estate profit	1,316	21,957	-	-	-	-	23,273
Gross utility and energy profit	-	-	39,075	-	-	(395)	38,680
Gross beverage profit	-	-	-	2,652	-	-	2,652
Other income (expense)	1,321	72	6,365	(17)	193	-	7,934
Revenue	**148,593**	**22,029**	**45,440**	**2,635**	**193**	**(20)**	**218,870**
Operating expenses and impairment	(70,939)	(5,824)	(9,311)	(3,171)	(2,111)	20	(91,336)
EBITDA	**77,654**	**16,205**	**36,129**	**(536)**	**(1,918)**	**-**	**127,534**
Profit (loss) from associates	254	-	-	(337)	-	-	(83)
Depreciation and amortisation	(19,577)	(243)	(7,353)	(628)	(139)	-	(27,940)
Net foreign currency (loss) gain	(6,810)	792	696	1,053	(2,860)	-	(7,129)
Interest income	1,841	698	45	29	20	(34)	2,599
Interest expense	(15,576)	(1,633)	(5,053)	(465)	(7,810)	34	(30,503)
Net operating income (loss) before non-recurring items	**37,786**	**15,819**	**24,464**	**(884)**	**(12,707)**	**-**	**64,478**
Net non-recurring income/gain (expense/loss)	1,158	(533)	27,686	(7,267)	-	-	21,044
Profit (loss) before income tax	**38,944**	**15,286**	**52,150**	**(8,151)**	**(12,707)**	**-**	**85,522**
Income tax benefit (expense)	21,155	(1,880)	(2,791)	803	(69)	-	17,218
Profit (loss) for the year	**60,099**	**13,406**	**49,359**	**(7,348)**	**(12,776)**	**-**	**102,740**
Assets and liabilities							
Total assets	889,637	369,484	426,719	18,083	3,693	(671)	1,706,945
Total liabilities	370,222	237,256	139,254	-	157,911	(671)	903,972
Other segment information							
Property and equipment	110,550	643	35,624	234	-	-	147,051
Intangible assets	10,707	87	769	20	-	-	11,583
Capital expenditure	**121,257**	**730**	**36,393**	**254**	**-**	**-**	**158,634**
Depreciation & amortisation	(19,577)	(243)	(7,353)	(628)	(139)	-	(27,940)

(Thousands of Georgian Lari)

6. 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:

Segment Information, 2015

	GHG	*M2*	*GGU*	*TV*	*Corporate Centre*	*Inter-Business Eliminations*	*Group Total*
Gross insurance profit	12,149	-	-	-	-	(34)	12,115
Gross healthcare profit	80,939	-	-	-	-	-	80,939
Gross real estate profit	557	21,398	-	-	-	-	21,955
Gross beverage profit	-	-	-	14,903	-	-	14,903
Other income (expense)	3,184	235	(22)	(59)	(14,031)	14,033	3,340
Gross Profit	**96,829**	**21,633**	**(22)**	**14,844**	**(14,031)**	**13,999**	**133,252**
Operating expenses and impairment	(41,080)	(5,860)	(505)	(11,389)	(745)	34	(59,545)
EBITDA	**55,749**	**15,773**	**(527)**	**3,455**	**(14,776)**	**14,033**	**73,707**
Net gains from disposal of investment businesses	-	-	-	-	14,033	(14,033)	-
Depreciation and amortisation	(12,666)	(191)	(44)	(1,288)	(37)	-	(14,226)
Net foreign currency gain (loss)	2,098	(7,144)	136	(2,511)	(311)	-	(7,732)
Interest income	2,677	386	-	55	23	(12)	3,129
Interest expense	(22,900)	(2,572)	-	(1,091)	-	12	(26,551)
Net operating income (loss) before non-recurring items	**24,958**	**6,252**	**(435)**	**(1,380)**	**(1,068)**	**-**	**28,327**
Net non-recurring (expense/loss) income/gain	(1,676)	(137)	8	(297)	2	-	(2,100)
Profit (loss) before income tax	**23,282**	**6,115**	**(427)**	**(1,677)**	**(1,066)**	**-**	**26,227**
Income tax benefit (expense)	8	(1,974)	64	(451)	(1,406)	-	(3,759)
Profit (loss) for the year	**23,290**	**4,141**	**(363)**	**(2,128)**	**(2,472)**	**-**	**22,468**
Assets and liabilities							
Total assets	759,097	275,676	2,757	40,571	26,852	(320)	1,104,633
Total liabilities	286,941	167,889	81	20,522	4,288	(320)	479,401
Other segment information							
Property and equipment	89,653	701	241	1,532	-	-	92,127
Intangible assets	4,002	21	60	12	-	-	4,095
Capital expenditure	**93,655**	**722**	**301**	**1,544**	**-**	**-**	**96,222**
Depreciation & amortisation	(12,666)	(191)	(44)	(1,288)	(37)	-	(14,226)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	31 December 2016	*31 December 2015*	*1 January 2015*
Cash on hand	640	369	390
Current accounts with financial institutions	148,841	200,831	36,007
Time deposits with financial institutions with maturities of up to 90 days	2,656	-	24,236
Cash and cash equivalents	**152,137**	**201,200**	**60,633**

8. Amounts Due from Credit Institutions

	31 December 2016	*31 December 2015*	*1 January 2015*
Time deposits with maturities of more than 90 days	28,970	15,730	25,812
Amounts due from credit institutions	**28,970**	**15,730**	**25,812**

9. Accounts Receivable

	31 December 2016	*31 December 2015*	*1 January 2015*
Receivables from healthcare services	95,246	81,969	47,563
Receivables from water supply services	16,108	-	-
Receivables from sales of pharmaceuticals	5,105	-	-
Receivables from connection services	4,811	-	-
Receivables from installation of water meters	1,434	-	-
Receivables from electric power sales	1,168	-	-
Receivables from sale of Beverages	-	7,415	9,090
Other receivables	3,575	461	869
Accounts receivable, Gross	**127,447**	**89,845**	**57,522**
Allowance	(12,162)	(17,814)	(3,321)
Accounts receivable, Net	**115,285**	**72,031**	**54,201**

10. Inventory

	31 December 2016	*31 December 2015*	*1 January 2015*
Real estate inventory	112,669	95,314	76,138
Other inventory	57,969	22,279	18,447
Inventory	**170,638**	**117,593**	**94,585**

(Thousands of Georgian Lari)

11. Investment Properties

	2016	2015
At 1 January	**110,945**	**74,238**
Additions	13,430	19,021
Disposals	(4,144)	-
Net gains from revaluation of investment property	3,770	14,350
Business combinations (Note 5)	19,417	-
Transfers (to) from property and equipment and other assets*	(23,330)	3,336
Currency translation differences	14,057	-
At 31 December	**134,145**	**110,945**

**** Comprised of GEL 18,066 transfer to other assets - inventories (2015: transfer from other assets – inventories GEL 2,356 and transfers from property and equipment GEL 980 respectively).***

Investment properties are stated at fair value. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Refer to Note 28 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 2016 was GEL 83,519 (31 December 2015: Nil).

12. Property and Equipment

The movements in property and equipment during the year ended 31 December 2016 were as follows:

	Office buildings	*Hospitals & Clinics*	*Computers & equipment*	*Assets under construction*	*Infrastructure Assets*	*Other*	*Total*
Cost							
31 December 2015	**16,450**	**332,775**	**117,256**	**2,119**	**-**	**22,922**	**491,522**
Additions	1,554	47,950	56,820	32,882	1,098	6,747	147,051
Business combination, Note 5	109,864	13,296	2,604	21,659	169,939	11,280	328,642
Disposals	(163)	(5,412)	(500)	(917)	(670)	(1,788)	(9,450)
Transfers	862	194	(237)	(33,189)	28,937	3,433	-
Transfers from investment properties	-	-	-	5,264	-	-	5,264
Transfers from other assets	-	-	-	-	-	2,170	2,170
Deconsolidation	(5,596)	-	(8,068)	(18)	-	(3,136)	(16,818)
Write off	-	-	(17,720)	-	-	(3,283)	(21,003)
Currency translation differences	(57)	-	104	-	-	260	307
31 December 2016	**122,914**	**388,803**	**150,259**	**27,800**	**199,304**	**38,605**	**927,685**
Accumulated impairment							
31 December 2015	**66**	**-**	**-**	**-**	**-**	**1**	**67**
Currency translation differences	(65)	-	-	-	-	-	(65)
31 December 2016	**1**	**-**	**-**	**-**	**-**	**1**	**2**
Accumulated depreciation							
31 December 2015	**1,384**	**6,844**	**21,874**	**-**	**-**	**4,739**	**34,841**
Depreciation charge	450	1,965	14,087	-	5,738	4,174	26,414
Currency translation differences	109	-	(30)	-	-	89	168
Transfers	604	-	(236)	-	-	(368)	-
Deconsolidation	(745)	-	(4,164)	-	-	(543)	(5,452)
Write off	-	-	(17,720)	-	-	**(3,283)**	(21,003)
Disposals	-	(255)	(173)	-	-	(374)	(802)
31 December 2016	**1,802**	**8,554**	**13,638**	**-**	**5,738**	**4,434**	**34,166**
Net book value:							
31 December 2015	**15,000**	**325,931**	**95,382**	**2,119**	**-**	**18,182**	**456,614**
31 December 2016	**121,111**	**380,249**	**136,621**	**27,800**	**193,566**	**34,170**	**893,517**

(Thousands of Georgian Lari)

12. 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						
1 January 2015	**11,091**	**207,038**	**66,042**	**1,230**	**11,523**	**296,924**
Additions	1,325	24,528	55,781	563	9,930	92,127
Business combination, Note 5	6,838	94,096	15,482	7,347	1,550	125,313
Disposals	(718)	(1,425)	(18,450)	239	(402)	(20,756)
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	**16,450**	**332,775**	**117,256**	**2,119**	**22,922**	**491,522**
Accumulated impairment						
1 January 2015	**1,106**	**-**	**-**	**-**	**1**	**1,107**
Transfers to investment properties	(1,040)	-	-	-	-	(1,040)
31 December 2015	**66**	**-**	**-**	**-**	**1**	**67**
Accumulated depreciation						
1 January 2015	1,184	2,646	16,025	-	2,516	22,371
Depreciation charge	259	4,264	7,117	-	2,151	13,791
Currency translation differences	2	-	(3)	-	(1)	(2)
Transfers	(7)	58	(337)	-	286	-
Transfers to investment properties	(54)	-	-	-	-	(54)
Disposals	-	(124)	(928)	-	(213)	(1,265)
31 December 2015	**1,384**	**6,844**	**21,874**	**-**	**4,739**	**34,841**
Net book value:						
1 January 2015	**8,801**	**204,392**	**50,017**	**1,230**	**9,006**	**273,446**
31 December 2015	**15,000**	**325,931**	**95,382**	**2,119**	**18,182**	**456,614**

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property as at 31 December 2016 was GEL 417,285 (31 December 2015: 330,224).

13. Goodwill

Movements in goodwill during the years ended 31 December 2016 and 31 December 2015, were as follows:

	2016	*2015*
Cost		
1 January	**28,869**	**16,101**
Business combinations	34,002	12,768
Deconsolidation effect	(3,444)	-
At 31 December	**59,427**	**28,869**
Accumulated impairment		
1 January	**4,682**	**4,682**
At 31 December	**4,682**	**4,682**
Net book value:		
1 January	**24,187**	**11,419**
At 31 December	**54,745**	**24,187**

(Thousands of Georgian Lari)

13. Goodwill (continued)

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units, for impairment testing: Health Insurance, Healthcare, Pharmacy and Liberty Consumer.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2016	*2015*
Pharmacy *	29,025	-
Healthcare **	22,058	17,081
Health Insurance	3,462	3,462
Liberty Consumer***	200	3,644
Total	**54,745**	**24,187**

**** GEL 29,025 increase in goodwill for 2016 is from acquisition of Pharmaceutical subsidiary (note 5). Impairment test revealed no need for impairment as at 31 December 2016.***
***** GEL 4,977 increase in goodwill for 2016 is from acquisition of healthcare subsidiaries, which was added to Healthcare CGU. Impairment test revealed no need for impairment as at 31 December 2016.***
****** GEL 3,444 decrease in goodwill for 2016 is due to loss of control and deconsolidation of JSC Teliani Valley (note 2), which was deducted from LC CGU.***

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 Health Insurance:

	Pharma		*Health Insurance*	
	2016, %	*2015, %*	*2016, %*	*2015, %*
Discount rate	13.0%	-	13.0%	11.2%

The following rates were used by the Group for Healthcare, Pharma and Liberty Consumer:

	Healthcare		*Liberty Consumer*	
	2016, %	*2015, %*	*2016, %*	*2015, %*
Discount rate	13.0%	11.6%	N/A	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 weighted average cost of capital ("WACC").

For the Healthcare CGU, the following additional assumptions were made over the first three-year period of the business plan:

- Further synergies from healthcare businesses will increase cost efficiency and further improve operating leverage;
- Growth of other healthcare business lines through an increased market demand and economic growth.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2016. Possible change was taken as +/-1% in discount rate and growth rate.

(Thousands of Georgian Lari)

14. Other Assets and Other Liabilities

Other assets comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Operating tax assets	26,231	15,458	7,448
Investments in associates	20,453	-	-
Derivative financial assets	6,277	-	-
Loans issued	3,723	10,315	7,640
Receivables from derivatives	-	3,742	1,768
Other	2,016	6,661	2,017
Other assets	**58,700**	**36,176**	**18,873**

Other liabilities comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Accruals	20,387	23,447	13,558
Other taxes payable	17,659	3,363	2,020
Amounts payable for share acquisitions *	8,491	22,075	13,694
Provisions	706	-	-
Other	19,092	8,991	7,620
Other liabilities	**66,335**	**57,876**	**36,892**

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

The Group's investment in associate comprises of JSC Teliani Valley ("TV"). The following table illustrates the summarised financial information as at and for the year ended 31 December 2016 of the Group's investment in TV:

	2016
Current assets	48,661
Non-current assets	70,834
Current liabilities	73,385
Non-current liabilities	8,239
Equity	**37,871**
Group's share in equity	**18,083**
Group's carrying amount of the investment	**18,083**
Beverage revenue	20,720
Cost of beverage	(12,222)
Gross beverage profit	8,498
Depreciation and amortisation expenses	(5,847)
Net interest expense	(329)
Currency translation loss	(2,208)
Other non-operating expenses	(7)
Profit before income tax expense	**107**
Income tax expense	(812)
Profit for the year	**(705)**
Other comprehensive income for the period	998
Total comprehensive income for the year	**293**
Group's share in profit for the year	**140**

(Thousands of Georgian Lari)

15. Taxation

The corporate income tax credit (expense) comprises:

	2016	*2015*
Current income expense	(2,529)	(3,636)
Deferred income tax credit (expense)	19,747	(123)
Income tax credit (expense)	**17,218**	**(3,759)**
Deferred income tax credit (expense) in other comprehensive income (loss)	**729**	**6**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2016 and 2015 was as follows:

	2016	*2015*
Currency translation differences	729	6
Income tax credit (expense) in other comprehensive income	**729**	**6**

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 2016 (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 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2016	*2015*
Profit before income tax expense	**85,522**	**26,227**
Average tax rate	15%	15%
Theoretical income tax expense at average tax rate	**(12,828)**	**(3,934)**
Non-taxable income	5,259	2,712
Correction of prior year declarations	(65)	1,489
Non-deductible expenses	540	(2,164)
Tax at the domestic rates applicable to profits in each country	(30)	(197)
Effect of changes in tax rate	25,564	-
Other	(1,222)	(1,665)
Income tax benefit (expense)	**17,218**	**(3,759)**

Applicable taxes in Georgia include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

15. Taxation (continued)

As at 31 December 2016 and 31 December 2015 income tax assets and liabilities consist of the following:

	31 December 2016	*31 December 2015*	*1 January 2015*
Current income tax assets	3,098	1,437	3,320
Deferred income tax assets	146	4,111	6,179
Income tax assets	**3,244**	**5,548**	**9,499**
Current income tax liabilities	1,985	10,056	4,614
Deferred income tax liabilities	-	23,889	12,994
Income tax liabilities	**1,985**	**33,945**	**17,608**

Deferred tax assets and liabilities as at 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*			
	1 January 2015	*In the income statement*	*Business combi-nation*	*In other compre-hensive income*	*31 December 2015*	*In the income statement*	*Business combi-nation*	*In other compre-hensive income*	*31 December 2016*
Tax effect of deductible temporary differences:									
Borrowings	11	(11)	-	-	-	-	-	-	-
Investment properties	980	-	-	-	980	(980)	-	-	-
Insurance premiums receivables	470	650	-	-	1,120	(539)	-	-	581
Allowances for impairment and provisions for other losses	198	(198)	-	-	-	-	-	-	-
Tax losses carried forward	1,065	2,921	-	12	3,998	(4,788)	-	759	(31)
Property and equipment	880	-	-	-	880	(880)	-	-	-
Other assets and liabilities	(638)	1,723	982	-	2,067	(3,237)	1,531	(38)	323
Deferred tax assets	**2,966**	**5,085**	**982**	**12**	**9,045**	**(10,424)**	**1,531**	**721**	**873**
Tax effect of taxable temporary differences:									
Borrowings	-	44	-	-	44	(44)	-	-	-
Other insurance liabilities & pension fund obligations	1,160	(1,160)	-	-	-	-	-	-	-
Property and equipment	7,265	7,372	13,443	-	28,080	(29,867)	1,915	-	128
Investment properties	-	-	-	-	-	163	-	-	163
Intangible assets	813	(459)	-	-	354	79	-	-	433
Other assets and liabilities	941	(589)	(13)	6	345	(502)	168	(8)	3
Deferred tax liabilities	**10,179**	**5,208**	**13,430**	**6**	**28,823**	**(30,171)**	**2,083**	**(8)**	**727**
Net deferred tax liabilities	**(7,213)**	**(123)**	**(12,448)**	**6**	**(19,778)**	**19,747**	**(552)**	**729**	**146**

(Thousands of Georgian Lari)

16. Insurance Contract Liabilities

Insurance contract liabilities comprise:

	2016	*2015*
At 1 January	**21,298**	**18,607**
Premiums written during the period	61,950	58,268
Premiums earned during the year	(57,012)	(54,996)
Claims incurred during the period	45,543	42,881
Claims paid during the period	(45,450)	(43,462)
At 31 December	**26,329**	**21,298**

17. Borrowings

Borrowings comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Borrowings from local financial institutions	165,411	108,844	177,204
Borrowings from international financial institutions	138,201	26,356	24,730
Other borrowings*	157,616	-	-
Borrowings	**461,228**	**135,200**	**201,934**

** Other borrowings comprise of borrowing from JSC BGEO.*

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants"). At 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 2016 year the Group incurred borrowings costs with total amount GEL 9,098 (2015: GEL 6,419) of which GEL 3,990 (2015: GEL 3,639) has been capitalized as a part of investment property, GEL 4,898 (2015: GEL 1,750) was capitalized as a part of inventory property and GEL 210 (2015: GEL 1,030) recognized in the consolidated statement of comprehensive income.

18. Debt Securities Issued

Debt securities issued comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
USD denominated local bonds issued by m2	103,740	48,937	29,374
USD denominated local bonds issued by GHG	36,024	35,537	-
GEL denominated local bonds issued by GGU	32,566	-	-
Debt securities issued	**172,330**	**84,474**	**29,374**

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 refinance rate plus 3.5% payable quarterly with 5% withholding tax applying to individuals.

In October 2016, the Group's real estate subsidiary JSC m2 Real Estate completed the issuance of 3-year local bonds of USD 25 million (GEL 66.8 million). The bonds were issued at par with an annual coupon rate of 7.5% payable semi-annually with a 5% withholding tax applying to individuals.

In May 2015, the Group's healthcare subsidiary JSC Medical Corporation EVEX completed the issuance of 2-year local bonds of USD 15 million (GEL 34 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with 5% withholding tax applying to individuals.

In May 2015, the Group's real estate subsidiary JSC m2 Real Estate completed the issuance of 2-year local bonds of USD 20 million (GEL 45 million). The bonds were issued at par with an annual coupon rate of 9.50% payable semi-annually with a 5% withholding tax applying to individuals.

(Thousands of Georgian Lari)

18. Debt Securities Issued (continued)

In April 2014 and June 2014, the Group's real estate subsidiary JSC m2 completed the issuances of 1-year local bonds of USD 5 million (GEL 9 million) and USD 10 million (GEL 18 million) respectively. The bonds were issued at par with 9.5% and 8.42% respectively payable upon maturity with 5% withholding tax applying to individuals.

19. Deferred Income

	31 December 2016	*31 December 2015*	*1 January 2015*
Advances received for sale of apartments	79,593	102,846	75,053
Advances received for connection services	3,983	-	-
Other	1,194	-	-
Deferred income	**84,770**	**102,846**	**75,053**

20. 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 2016 and 31 December 2015 the Group's commitments and contingencies comprised the following:

	2016	*2015*
Provisions	(706)	-
Operating lease commitments		
Not later than 1 year	14,800	1,790
Later than 1 year but not later than 5 years	64,105	1,516
Later than 5 years	1,910	-
	80,815	**3,306**
Capital expenditure commitments	**10,780**	**25,200**
Commitments and contingencies, net	**90,889**	**28,506**

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

As at 31 December 2016 the Group's healthcare subsidiary "GHG" had litigations with the Social Service Agency on aggregate amount of GEL 3,765. The litigations were mainly related to procedural violations in medical documentation as well as billing and invoicing process. The Group's legal department identified related risks as possible but not probable.

(Thousands of Georgian Lari)

21. Equity

Share capital

As at 31 December 2016 issued share capital comprised 8,481,719 common shares, of which 8,481,719 were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2016 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 (Note 5)	1,066,158	1,065
31 December 2016	**8,481,719**	**8,481**

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 2016 and 31 December 2015 are presented in the statements of other comprehensive income.

Contributions of assets by entities under common control

In 2015, JSC Bank of Georgia has contributed GEL 31,358 into Caucasus Autohouse LLC equity. The capital injection in Caucasus Autohouse LLC was treated as capital injection in the Group.

Non-controlling interest

Georgia Healthcare Group PLC ("GHG") is the only significant subsidiary of the Group that has a material non-controlling interest of 34.97% as at 31 December 2016 (31 December 2015: 32.30%). The following table summarises key information relevant to Georgia Healthcare Group PLC.

	2016	*2015*
Total assets	889,637	759,097
Total Liabilities	370,222	286,941
Profit for the year	60,099	23,290
Net (decrease) increase in cash and cash equivalents	(121,914)	112,369
Profit attributable to non-controlling interest	27,376	5,208

Earnings per share

	2016	*2015*
Basic and diluted earnings per share		
Profit for the year attributable to ordinary shareholders of the Group	75,508	19,114
Weighted average number of ordinary shares outstanding during the year	7,821,523	7,392,003
Basic earnings per share	9.6539	2.5857

(Thousands of Georgian Lari)

22. Gross Profit

Gross Healthcare and Pharma Profit

	2016	*2015*
Revenue from government programmes	166,988	144,013
Revenue from free flow (non-insured retail individuals)	46,215	36,102
Revenue from insurance companies	19,735	3,878
Healthcare revenue	**232,938**	**183,993**
Retail	96,092	-
Wholesale	33,557	-
Pharma revenue	**129,649**	**-**
Healthcare and pharma revenue	**362,587**	**183,993**
Direct salary expenses	(75,998)	(65,344)
Healthcare direct materials	(44,569)	(35,474)
Expenses on medical service providers	(1,686)	(2,017)
Other direct expenses	-	(219)
Cost of healthcare	**(122,253)**	**(103,054)**
Retail	(75,140)	-
Wholesale	(30,332)	-
Cost of pharma services	**(105,472)**	**-**
Cost of healthcare and pharma services	**(227,725)**	**(103,054)**
Gross healthcare and pharma profit	**134,862**	**80,939**

Gross Real Estate Profit

	2016	*2015*
Revenue from sale of apartments	96,373	44,917
Revaluation of m2 investment property	3,770	14,350
Income from operating leases	4,228	2,409
Real estate revenue	**104,371**	**61,676**
Cost of real estate	(81,098)	(39,721)
Gross real estate profit	**23,273**	**21,955**

Gross Utility Profit

	2016	*2015*
Revenue from water supply	51,369	-
Revenue from electric power sales	5,117	-
Utility revenue	**56,486**	**-**
Cost of water supply	(17,341)	
Cost of electric power sales	(465)	-
Cost of utility	**(17,806)**	**-**
Gross utility profit	**38,680**	**-**

(Thousands of Georgian Lari)

22. Gross Profit (continued)

Gross Beverage Profit

	2016	*2015*
Revenue from wine	5,192	17,825
Revenue from distribution	3,881	11,702
Beverage revenue	**9,073**	**29,527**
Cost of wine	(3,794)	(10,662)
Cost of distribution	(2,627)	(3,962)
Cost of beverage	**(6,421)**	**(14,624)**
Gross beverage profit	**2,652**	**14,903**

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

	2016	*2015*
Salaries and bonuses	(40,152)	(30,352)
Equity compensation plan costs	(5,751)	(1,268)
Salaries and other employee benefits	**(45,903)**	**(31,620)**

The average number of staff employed by the Group for the years ended 31 December 2016 and 31 December 2015 comprised:

	2016	*2015*
GHG	11,169	8,600
GGU	2,326	-
M2	62	58
TV*	-	199
Corporate Centre	19	11
Average total number of staff employed	**13,576**	**8,868**

**** TV was deconsolidated in May 2016***

	2016	*2015*
Occupancy and rent	(10,458)	(2,856)
Marketing and advertising	(6,770)	(8,481)
Legal and other professional services	(5,211)	(1,838)
Office supplies	(3,560)	(2,729)
Operating taxes	(2,245)	(379)
Repairs and maintenance	(2,009)	(1,398)
Communication	(1,508)	(1,108)
Corporate hospitality and entertainment	(1,206)	(831)
Travel expenses	(893)	(737)
Personnel training and recruitment	(874)	(74)
Security	(476)	(318)
Insurance	(361)	(221)
Other	(5,002)	(2,345)
General and administrative expenses	**(40,573)**	**(23,315)**

(Thousands of Georgian Lari)

24. 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 2016	*Accounts receivable 2016*	*Provisions 2016*	*Total 2016*
At 1 January	**2,150**	**6,935**	**-**	**9,085**
Charge	451	2,026	-	2,477
Business combination	-	-	2,133	2,133
Utilised	-	-	(1,427)	(1,427)
Write-offs	(625)	(6,687)	-	(7,312)
Deconsolidation	-	(966)	-	(966)
Currency translation differences	-	(8)	-	(8)
At 31 December	**1,976**	**1,300**	**706**	**3,982**

	Insurance premiums receivable 2015	*Accounts receivable 2015*	*Other assets 2015*	*Total 2015*
At 1 January	**1,713**	**3,321**	**70**	**5,104**
Charge (reversal)	308	3,621	(70)	3,859
Write-offs	-	(7)	-	(7)
Currency translation differences	129	-	-	129
At 31 December	**2,150**	**6,935**	**-**	**9,085**

25. Net Non-recurring Items

	2016	*2015*
Gain on bargain purchase (note 5)	30,892	5,361
Result from loss of control in a subsidiary	(8,137)	-
Write-off of miscellaneous healthcare related assets	(2,973)	(2,277)
Impairment of prepayments	-	(298)
Impairment of property and equipment, and intangible assets	-	(375)
Foreign exchange loss on revaluation of holdback	-	(1,580)
Tax penalties from inspection of Revenue Services of Georgia	-	(1,340)
Other	1,262	(1,591)
Net non-recurring income/gain (expense/loss)	**21,044**	**(2,100)**

(Thousands of Georgian Lari)

26. Share-based Payments

Executives' Equity Compensation Plan

BGEO PLC Plans

In 2015 the BGEO Group PLC founded 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 combined historical 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.

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:

	2016	*2015*
Discretionary shares to management board		
Weighted average value at grant date, per share (GEL in full amount)	66.03	57.40
Total number of equity instruments awarded	123,500	80,500
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 expense recognised during the year (GEL)	**(1,912)**	**(371)**

During 2016, BGEO Investments directors obtained shares 115,000 (2015:147,500) with fair value of GEL 10,760 (2015: GEL 8,251). Weighted average share price comprised GEL 93.57 per share (2015: GEL 55.94).

GHG's CEO receives ordinary shares of GHG as a share-based compensation. GHG's total share-based payment expenses for the year ended 31 December 2017 comprised GEL 3,839 (31 December 2015: GEL 897) and are included in "salaries and other employee benefits" in operations.

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

(Thousands of Georgian Lari)

27. 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 the Group 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)

27. 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 2016	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	95,298	19,987	115,285
Total	**95,298**	**19,987**	**115,285**

31 December 2015	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	64,661	7,370	72,031
Total	**64,661**	**7,370**	**72,031**

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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk (continued)

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 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	58,760	212,046	189,343	44,430	504,579
Debt securities issued	37,806	45,472	76,095	45,000	204,373
Othe liabilities -Accounts payable	25,757	65,238	-	-	90,995
Othe financial liabilities	13,124	11,201	4,553	-	28,878
Total undiscounted financial liabilities	**135,447**	**333,957**	**269,991**	**89,430**	**828,825**

Financial liabilities As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	50,968	22,692	74,054	9,225	156,939
Debt securities issued	2,280	5,693	87,555	-	95,528
Othe liabilities -Accounts payable	42,665	695	402	-	43,762
Othe financial liabilities	35,639	6,590	3,293	-	45,522
Total undiscounted financial liabilities	**131,552**	**35,670**	**165,304**	**9,225**	**341,751**

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 2016 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*
	2016		*2015*	
EUR	11.6%	(1,417)	2.9%	5
GBP	15.8%	108	2.5%	1,432
USD	9.3%	(4,902)	1.1%	(466)

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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

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.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid that are greater than originally estimated and subsequent development of long term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Group primarily uses its loss ratio and its combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as insurance related operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios were as follows:

	Health Insurance	
	2016, %	*2015, %*
Loss ratio	84.1%	83.4%
Combined ratio	104.7%	96.7%

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 2016 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

(Thousands of Georgian Lari)

28. 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 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	134,145	134,145
Land	-	-	*86,310*	*86,310*
Non-residential properties	-	-	*47,835*	*47,835*
Investment securities	-	1,336	1,145	2,481
Other assets – derivative financial assets	-	6,277	-	6,277
Total revalued property	-	-	193,566	193,566
Infrastructure assets	-	-	*193,566*	*193,566*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	152,137	-	152,137
Amounts due from credit institutions	-	28,970	-	28,970
Liabilities for which fair values are disclosed				
Borrowings	-	281,607	179,621	461,228
Debt securities issued	-	-	171,739	171,739

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	-	8	1,145	1,153
Assets for which fair values are disclosed				
Cash and cash equivalents	-	201,200	-	201,200
Amounts due from credit institutions	-	15,730	-	15,730
Liabilities for which fair values are disclosed				
Borrowings	-	118,601	16,599	135,200
Debt securities issued	-	2,044	84,474	86,518

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.

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

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 equity and 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

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 11 and 12 respectively.

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*
	2016		*2015*	
Level 3 financial assets				
Equity investment securities available-for-sale	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.

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

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:

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**134,145**						
Land	86,310	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
Non-residential properties	47,835						
	6,502	Market approach	Price	2.8mln	Square metres, land	18,635	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6,702	
	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
Property and equipment	**193,566**						
Infrastructure assets	193,566						
		Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.6%	Pipes and wells, equipment	N/A	Increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; Increase (decrease) in WACC would result in decrease (increase) in fair value;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	84			Increase (decrease) in the price of comparable would result in increase (decrease) in fair value

**** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.***

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

	2015	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**110,945**						
Land	71,154	Market approach	Price per square metre	51 - 1,332 (477)	Square metres, land	8,288 - 230,398 (126,536)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	202	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	39,589						
	5,381	Market approach	Price	2.8mln	Square metres, land	18,635	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6,702	
	28,238	Income approach	Rent per square metere	29.2 - 37.1 (32.7)	Square metres, building	880 - 3,755 (2,517)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	80% - 90% (85%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
	5,970	Cost approach	Land price per square metre	67	Square metres, land	8,783	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	1,054	Square metres, building	2,293	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

**** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.***

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the 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 2016	*Fair value 2016*	*Unrecognised gain 2016*	*Carrying value 2015*	*Fair value 2015*	*Unrecognised loss 2015*
Financial assets						
Cash and cash equivalents	152,137	152,137	-	201,200	201,200	-
Amounts due from credit institutions	28,970	28,970	-	15,730	15,730	-
Financial liabilities						
Borrowings	461,228	461,228	-	135,200	135,200	-
Debt securities issued	172,330	171,739	591	84,474	86,518	(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)

29. 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 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	152,137	-	152,137	201,200	-	201,200
Amounts due from credit institutions	23,876	5,094	28,970	15,730	-	15,730
Investment securities	2,481	-	2,481	1,153	-	1,153
Accounts receivable	106,490	8,795	115,285	72,031	-	72,031
Insurance premiums receivable	24,284	-	24,284	20,930	-	20,930
Prepayments	33,176	18,476	51,652	8,382	28,790	37,172
Inventories	70,669	99,969	170,638	88,997	28,596	117,593
Investment properties	-	134,145	134,145	-	110,945	110,945
Property and equipment	-	893,517	893,517	-	456,614	456,614
Goodwill	-	54,745	54,745	-	24,187	24,187
Intangible assets	-	17,147	17,147	-	5,354	5,354
Income tax assets	3,098	146	3,244	1,506	4,042	5,548
Other assets	19,862	38,838	58,700	18,865	17,311	36,176
Total assets	**436,073**	**1,270,872**	**1,706,945**	**428,794**	**675,839**	**1,104,633**
Borrowings	253,062	208,166	461,228	65,916	69,284	135,200
Debt securities issued	75,172	97,158	172,330	4,560	79,914	84,474
Deffered income	13,177	71,593	84,770	69,910	32,936	102,846
Accounts Payable	90,995	-	90,995	43,360	402	43,762
Insurance contracts liabilities	26,178	151	26,329	21,253	45	21,298
Income tax liabilities	1,985	-	1,985	10,056	23,889	33,945
Other liabilities	66,335	-	66,335	56,939	937	57,876
Total liabilities	**526,904**	**377,068**	**903,972**	**271,994**	**207,407**	**479,401**
Net	**(90,831)**	**893,804**	**802,973**	**156,800**	**468,432**	**625,232**

(Thousands of Georgian Lari)

30. 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:

	31 December 2016		*31 December 2015*		*1 January 2015*	
	Share-holders	***Entities under common control***	***Share-holders***	***Entities under common control***	***Share-holders***	***Entities under common control***
Assets						
Cash and cash equivalents	-	130,018	-	151,733	-	57,157
Amounts due from credit institutions	-	996	-	6,167	-	6,740
Accounts receivable	-	1,102	-	19	-	424
Derivative financial assets	-	6,277	-	-	-	-
Receivables from derivatives	-	-	-	3,742	-	1,768
Insurance premiums receivable	-	1,476	-	1,244	-	747
Investment securities	-	1,572	-	-	-	-
Prepayments	-	600	-	-	-	-
Other assets	-	23	-	-	-	286
	-	**142,064**	**-**	**162,905**	**-**	**67,122**
Liabilities						
Borrowings	157,617	31,663	-	38,695	-	117,308
Debt securities issued	47,275	8,063	-	6,614	-	400
Accounts Payable	-	447	-	105	-	-
Other liabilities	-	191	-	1,382	-	845
	204,892	**40,364**	**-**	**46,796**	**-**	**118,553**
Income and expenses						
Net insurance premiums earned	-	2,553	-	1,919		
Real estate revenue	-	743	-	-		
Gross other profit	-	139	-	369		
Fee and commission expense	-	(219)	-	(482)		
Salaries and other employee benefits	-	(787)	-	(672)		
Administrative expenses	(35)	(1,449)	-	(1,578)		
Interest income from borrowings	-	745	-	798		
Net foreign currency loss	-	-	-	8,608		
Interest expense from borrowings	(7,811)	(5,494)	(625)	(13,680)		
Interest expense from debt securities issued	(553)	(1,745)	-	(1,909)		
	(8,399)	**(5,514)**	**(625)**	**(6,627)**		

	2016	**2015**
Salaries and other benefits	1,198	979
Share-based payments compensation	2,750	206
Total key management compensation	**3,948**	**1,185**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2016 was 12 (31 December 2015: 15).

(Thousands of Georgian Lari)

31. Events after the Reporting Period

Business combinations

JSC ABC Pharmacy acquisition

On 6 January 2017 the Group acquired 67% of the shares of JSC ABC Pharmacy ("ABC"), a pharmaceuticals company operating in Georgia from individual investors. As a result of acquisition, the Group increased its presence and investment in the Georgian healthcare market through the acquisition of ABC. Management considers that the deal will have a positive impact on the value of the Group. Subsequent to acquisition, GHG will merge ABC with GPC, the existing pharmaceuticals subsidiary of the Group, and the name of the merged company will be JSC Georgian Pharmacy ("GEPHA").

Consideration comprised cash payment of GEL 32,554, a holdback amount with a fair value of GEL 30,041 (payable in five traches over the five-year period) and non-cash consideration comprising 33% shares in GPC. In accordance with the terms of the deal, the selling shareholders are required to invest 33% of cash proceeds from sale of ABC in GHG shares that will be locked up during the 3 years following the purchase. In addition, the Group and the selling shareholders entered in a call and put options over remaining 33% minority stake in the combined pharma business. Upon exercise of either option, 33% of the cash proceeds received by the selling shareholders will be used to purchase GHG shares, with a lock-up that expires annually in a straight line over two years.

The fair values of identifiable assets and liabilities of ABC as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	4,184
Accounts receivable	8,050
Prepayments	1,413
Inventories	44,572
Property and equipment	10,986
Intangible assets	322
Income tax assets	270
Other assets	1,045
	70,842
Accounts payable	27,525
Accruals and deferred income	1,861
Other liabilities	1,122
	30,508
Total identifiable net assets	**40,334**
Non-controlling interests	13,311
Goodwill arising on business combination	46,796
Consideration given	**73,819**

(Thousands of Georgian Lari)

31. Events after the Reporting Period (continued)

Business combinations (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.

Consideration comprised of GEL 5,717, which consists of cash payment of GEL 5,304 and a holdback amount with a fair value of GEL 413.

Management considers that the purchase will have a positive impact on the value of the Group.

The fair values of identifiable assets and liabilities of the New Coffee Georgia as at the date of acquisition were:

	Fair value recognized on acquisition
Cash and cash equivalents	208
Accounts receivable	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	**5,717**

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.

Consideration comprised of GEL 2,186 cash payment.

The Group decided to vertically integrate operations by acquiring LLC BK Construction. Management considers that the deal will have a positive impact on the value of the Group.

The fair values of identifiable assets and liabilities of the BK Construction as at the date of acquisition were:

	Fair value recognized on acquisition
Property and equipment	2,446
Total identifiable net assets	**2,446**
Gain on bargain purchase	(260)
Consideration given	**2,186**

(Thousands of Georgian Lari)

31. Events after the Reporting Period (continued)

Business combinations (continued)

Acquisition of Healthcare Subsidiaries

During year ended 31 December 2017 JSC Medical Corporation EVEX ("Acquirer"), made following acquisitions:

- On 8 November 2017, acquired 100% of LLC Medical Center Almedi ("MCA"), a healthcare company operating in Georgia, shares from individual investors;
- On 25 December 2017, acquired 98% of JSC Policlinic Vere ("Vere"), a healthcare company operating in Georgia, shares from individual investors.
- On 20 July 2017, acquired 100% of the shares of LLC New Clinic ("NC"), a healthcare company operating in Georgia, from individual investors.
- On 20 July 2017, acquired 100% of the shares of LLC Aliance Med ("AM"), a healthcare company operating in Georgia, from individual investors.

The fair values of aggregate identifiable assets and liabilities of the acquiree's as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	4
Accounts receivable [1]	460
Property and equipment	3,034
Other assets	4
	3,502
Amounts due to credit institutions	103
Accounts payable	301
Accruals and deferred income	500
Income tax liabilities	18
Other liabilities	167
	1,089
Total identifiable net assets	**2,413**
Goodwill arising on business combination	10,506
Consideration given [2]	**12,919**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(12,919)
Cash acquired with the subsidiary	4
Net cash outflow	**(12,915)**

[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)

31. Events after the Reporting Period (continued)

Business combinations (continued)

Acquisition of boutique hotel in Tbilisi

On 26 December 2017, m² Hospitality LLC ("m²"), a 100% owned subsidiary of the Group, signed share purchase agreement with JSC Kass Group, to acquire 60% of the shares of Kass 1 LLC ("Kass"), for cash consideration of US$4.1 million and commitment to invest additional US$1.9 million in acquiree. Kass developes boutique hotel in Tbilisi, which is expected to be completed in 2019.

The provisional fair value of aggregate identifiable assets and liabilities of Kass as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Accounts receivable	14
Investment property (note 13)	-
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**

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'.

[1] Consideration given comprises of cash payment.

(Thousands of Georgian Lari)

31. Events after the Reporting Period (continued)

Business combinations (continued)

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)

31. 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 2,686. Consideration comprised of GEL 6,142.

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
Other assets	39
	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**

(Thousands of Georgian Lari)

31. Events after the Reporting Period (continued)

Business combinations 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)

31. Events after the Reporting Period (continued)

Business combinations under common control (continued)

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

31. Events after the Reporting Period (continued)

Business combinations under common control (continued)

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

Consolidated Income Statement for the year ended 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*	
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**

Assets held for sale and discontinued operations

Healthcare business

On July 3 2017, the Board of Directors announced its decision to sell controlling stake in its healthcare segment consisting of Georgia 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

Bond issuance

Bond issuance by the Healthcare business

In July 2017, EVEX, a wholly owned subsidiary of GHG, issued two-year term local bonds of GEL 90 million. The bonds were issued at par value with an annual coupon rate of 9.5%, 350 basis points premium over the National Bank of Georgia Monetary Policy (refinancing) Rate.). The proceeds will be used to refinance borrowings from local commercial banks and also to fund planned ongoing capital expenditures.

(Thousands of Georgian Lari)

31. Events after the Reporting Period (continued)

Bond issuance (continued)

Bond issuance by the Utility business

In August 2017, Georgian Water and Power, a wholly owned subsidiary of GGU, issued six-month term local bonds of GEL 40 million. The bonds were issued with an annual coupon rate of NBG refinance rate plus 4%. The proceeds will be used to fund capital projects.

Issuance of 300 million Eurobonds

On 5 March 2018, the Group issued 300 million US dollar denominated notes due in March 2024 with an annual coupon rate of 6.125%. Notes settled on 9 March 2018 at an issue price of 98.77%.

De-merger

On 3 July 2017, the BGEO Group PLC announced its intention to de-merge the Group operations to form two separate corporate groups: Bank of Georgia Group PLC and Georgia Capital PLC.

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.