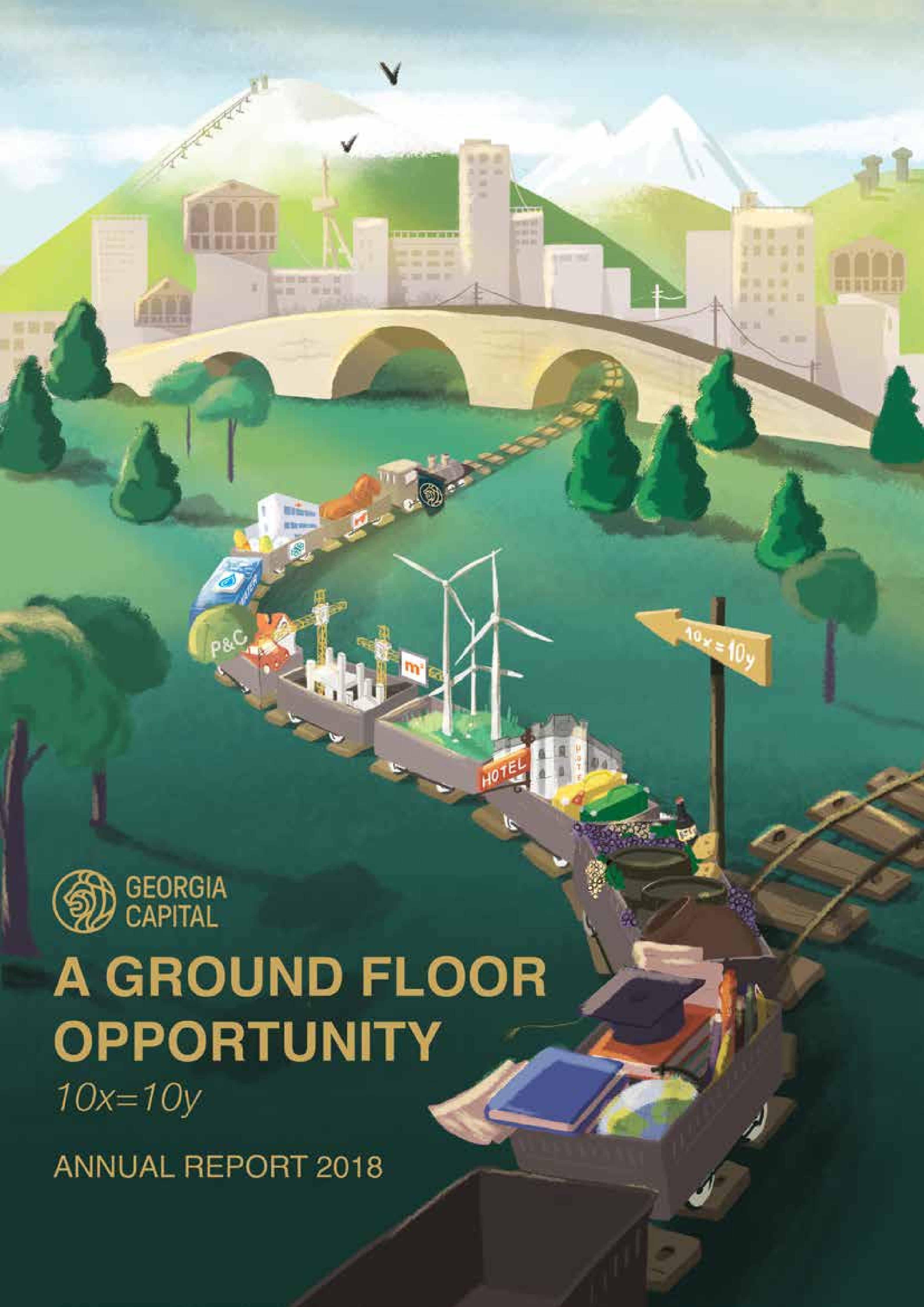

GEORGIA CAPITAL

A GROUND FLOOR OPPORTUNITY

10x=10y

ANNUAL REPORT 2018

GEORGIA CAPITAL

About Georgia Capital PLC – Your Ground Floor Investment Opportunity in Georgia

Georgia Capital PLC ("Georgia Capital" or "the Group" – LSE: CGEO LN) is a UK listed holding company of a diversified group of companies following completion of its demerger from BGEO Group PLC on 29 May 2018.

Georgia Capital is focused on investing and developing in businesses in Georgia with holdings in industries that are expected to benefit from the continued strong growth and diversification of the Georgian economy. The Group seeks to create value by driving the development of high-growth potential and structurally attractive businesses in Georgia, aiming to consolidate fragmented or underdeveloped markets. We either acquire our businesses during their early development stage or establish them on a greenfield basis.

Strategy

Read about **Georgia Capital Strategy** on page 14

Chairman and CEO Statement

Read our **Chairman and CEO Statement** on page 10

Portfolio

Read about our **Portfolio Companies** on page 32

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Vineyards in Kakheti – Georgia's wine region

For more information on Georgia Capital visit:
georgiacapital.ge

PERFORMANCE HIGHLIGHTS

Double-digit revenue growth coupled with strong operating cash flow generation

Overview (management accounts)

Leveraged ROI (%)
37.9%

GCAP net operating income (GEL millions)
48.7m

Total attributable income of portfolio companies (GEL millions)
187.9m +100.1%

Net income (GEL millions)
164.4m

of which, income from listed investments
112.6m

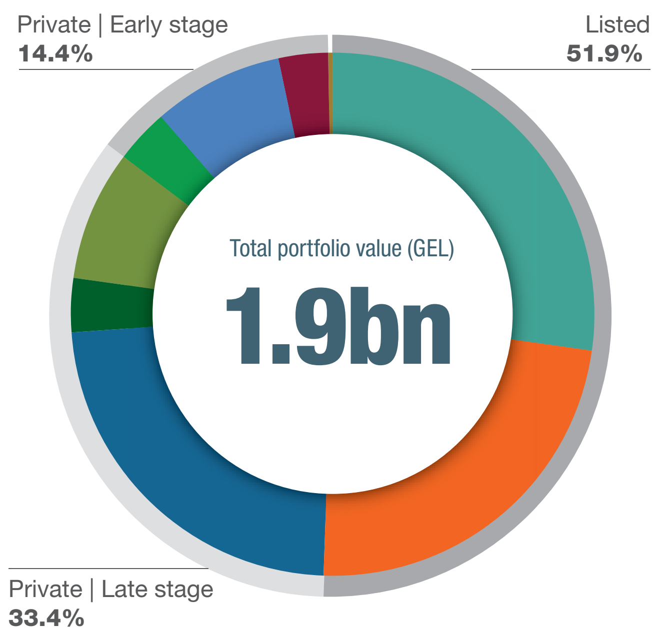
of which, income from private investments
75.3m

Group Consolidated (IFRS)

Revenue
1.3bn +13.8%

Gross profit
486.7m +12.8%

Portfolio value (GEL millions)



Listed	**977.8**
Georgia Healthcare Group	520.3
Bank of Georgia Group	457.5
Private Late Stage	**628.3**
Water Utility	431.0
Housing Development	66.8
P&C Insurance	130.5
Private Early Stage	**271.3**
Renewable Energy	61.2
Hospitality and Commercial Real Estate	149.1
Beverages	61.0
Pipeline	**5.9**
Education	7.1
Other	(1.2)

Georgia Capital NAV Overview (management accounts)

Total portfolio value (GEL billions)
1.9bn +1.8%

Listed equity investments (GEL millions)
977.8m +4.8%

Private investments (GEL millions)
905.5m -1.3%

Net Asset Value per share (GEL)
47.13 +0.9%

Investment Portfolio Performance Highlights (IFRS)

LSE Listed

Adjusted net income, BOG[2]
458.3m +22.6%

EBITDA[1], GHG
132.3m +22.3%

Private Late Stage

EBITDA[1], Water Utility
83.4m +14.9%

Gross real estate profit, Housing Development
14.9m +79.7%

Adjusted net income, P&C[2]
17.7m +8.8%

Read more on **Our Portfolio Results** on **pages 102 to 116**

1 EBITDA is an alternative performance measure (APM) and is defined on page 243 in the Glossary.
2 IFRS net incomes for P&C Insurance and BoG are adjusted to exclude the impact of non-recurring items and non-recurring deferred tax remeasurement charges.

Certain financial measures presented in the Overview and Strategic Review are taken from Georgia Capital's unaudited management accounts. The management accounts is an alternative performance measure (APM) and is described on page 82 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 85 to 88.

Strategic Review Overview

OPERATING HIGHLIGHTS

Listed

Bank of Georgia

Retail clients (millions)

2.4 +5.4%

Digital transactions (millions)

48.4 +32.2%

Volume of internet bank/mobile bank transactions (GEL millions)

3,991 +91.1%

A leading universal bank in Georgia

Bank of Georgia is well positioned to benefit from the underpenetrated banking sector in Georgia through providing best in class services.

For more information see page 36

Georgia Healthcare Group

Number of hospitals

37 NMF

Number of beds

3,320 +306

Number of polyclinics

16 NMF

Number of pharmacies

270 +15

Bed occupancy rate, referral hospitals[1]

63.3% -1.2ppt

GHG

The largest and the only fully integrated healthcare provider in the fast-growing, predominantly privately-owned Georgian healthcare ecosystem with an aggregate annual value of GEL 3.8 billion.

For more information see page 32

1 Excluding newly-launched facilities, Regional Hospital and Tbilisi Referral Hospital.

Private Late Stage

Water Utility

Water sales (m^3 millions)

180 +3.5%

Electricity generation (kwh millions)

324 -5.2%

Electricity consumption (kwh millions)

237 -18.4%

New connections

5,015 NMF

For more information see page 40

Housing Development

Total number of projects completed

9 +2

Ongoing projects

2 -2

Apartments sold

146 -76.8%

Net sellable area (Square metres)[1]

220,876 -1.1%

For more information see page 44

P&C Insurance

New retail insurance policies written

150,246 +50.4%

Active retail clients

96,247 NMF

Active corporate clients

3,101 +45.9%

For more information see page 48

Private Early Stage

Renewable Energy

MW operating capacity pipeline

500MW

target in the medium term including 152MW existing assets of water utility business and 410MW in the pipeline

For more information see page 52

Hospitality and Commercial Real Estate

Hotel rooms pipeline

1,000

hotel rooms over the next three years. Currently approximately 1,121 rooms of which 152 are operational and c.969 are in the pipeline

Yield (commercial real estate portfolio)

9.9%

+0.8ppt

Leased area

22,331

+1,854 square metres

Occupancy rate (commercial real estate portfolio)

90.1%

+1.8ppt

For more information see page 56

Beverages

Vineyard portfolio target

1,000

hectares of vineyards over the next three years, currently 436 hectares[2]

Wine sales ('000 bottles)

4,346 +22.2%

Beer sales ('000 litres)

15,983 +60.6%

For more information see page 60

1 Net sellable area, representing total square metres including both sold and available for sale areas.
2 Wine business purchased seven hectares of vineyards in January 2019.

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GEORGIA CAPITAL AT A GLANCE

UK listed holding company focused on investing in and developing businesses in Georgia.

Georgia Capital capitalises with its robust corporate governance on the fast-growing Georgian economy across the last decade, having access to capital and management.

Georgia Capital seeks to capture growth opportunities in the sectors in which it currently operates and drive the development of new structurally attractive, high-growth businesses in Georgia, which it intends to add either by acquiring businesses in their early development stage or by establishing greenfield businesses, often consolidating fragmented or underdeveloped markets. Georgia Capital actively manages its portfolio companies to maturity, setting the strategy and business plan of each business and driving its execution. In order to unlock the value of the companies in which it invests and which it manages, Georgia Capital sets exit options prior to making an investment.

Georgia Capital currently manages six private businesses: (i) a water utility business; (ii) a renewable energy business; (iii) a housing development business; (iv) a hospitality and commercial real estate business; (v) a property and casualty insurance business; and (vi) a beverages business and two public investments (London Stock Exchange premium-listed Georgian companies): (i) Georgia Healthcare Group PLC (GHG), (57% equity stake), a UK incorporated holding company of the largest healthcare services provider, the largest pharmaceuticals retailer and wholesaler and the largest medical insurance provider in Georgia; and (ii) Bank of Georgia Group PLC (BoG), (19.9% equity stake), a leading universal bank in Georgia.

Georgia Capital Portfolio

First day of trading on LSE premium segment – 29 May 2018

LSE Listed

საქართველოს ბანკი BANK OF GEORGIA

Bank of Georgia

19.9%*

* As long as Georgia Capital's stake in BoG is greater than 9.9%, it will exercise its voting rights in Bank of Georgia in accordance with the votes cast by all other shareholders on all shareholder votes.

GEORGIA HEALTHCARE GROUP

Georgia Healthcare Group

57%

Private

Late Stage

Water Utility (managed by GGU)
100%

Housing Development (managed by m²)
100%

P&C Insurance (managed by Aldagi)
100%

Early Stage

Renewable Energy (managed by GGU)
65%

Hospitality and Commercial Real Estate (managed by m²)
100%

Beverages (managed by Georgia Beverages)
80%

Pipeline

Education

Strategic Review Overview

GEORGIA CAPITAL AT A GLANCE CONTINUED

Listed Portfolio

GHG

GHG (LSE: GHG LN) is the largest and the only fully integrated healthcare service provider in the fast-growing predominantly privately-owned healthcare ecosystem in Georgia, which has an annual aggregated value of GEL 3.8 billion. GHG is comprised of four different business lines: healthcare services business (consisting of referral hospitals, community clinics and polyclinics), pharmacy and distribution business, medical insurance business and recently added diagnostics business. GHG's shares are listed on the London Stock Exchange. GHG's Annual Report 2018 is available at: **http://ghg.com.ge/**

Bank of Georgia

Bank of Georgia Group PLC (Bank of Georgia Group or BoG or BoGG – LSE: BGEO LN) is a UK incorporated holding company, comprising: a) retail banking and payment services; b) corporate investment banking and wealth management operations; and c) banking operations in Belarus (BNB). The Group targets to benefit from superior growth of the Georgian economy through both its retail banking and corporate investment banking services and aims to deliver on its strategy, which is based on at least 20% ROAE, 25-40% dividend payout ratio and 15-20% growth of its loan book. BoG's Annual Report 2018 is available at: **https://bankofgeorgiagroup.com/**

Private Late Stage Portfolio

Water Utility

Our Water Utility is a natural monopoly in Tbilisi and the surrounding area, where it provides water and wastewater services to c.1.4 million residents representing more than one-third of Georgia's population and c.33,000 legal entities. Water Utility also operates hydro power plants with total installed capacity of 152MW. Generated power is primarily used by the business, with the excess amount sold to third parties.

Housing Development

Our Housing Development is a leading real estate developer on US$1.1 billion Georgian real estate market with three business lines: (a) a residential development arm targeting mass market-customers by offering affordable, high-quality and comfortable housing; (b) a construction arm, engaging in construction contracts for other businesses as well as third-parties; and (c) franchise platform for development of third-party land plots with fee sharing arrangements.

P&C Insurance

Our Property and Casualty Insurance (P&C Insurance) is a leading player in the local P&C insurance market with a 32% market share based on gross premiums. P&C Insurance offers a wide range of insurance products to Georgian corporates and retail through five business lines: motor, property, credit life, liability and other insurance services.

Private Early Stage Portfolio

Renewable Energy

Our Renewable Energy is a platform for development of hydro power plants, wind power plants and solar power plants across Georgia. The business is currently investing in construction and development of an extensive pipeline of renewable energy projects with 500MW target operating capacity over the medium term (500MW target includes existing energy assets of Water Utility).

Hospitality and Commercial Real Estate

Our Hospitality and Commercial Real Estate is comprised of: (a) rent-earning commercial assets with targeted 10% yield; and (b) hotel development business across Georgia with targeted 1,000 rooms. The hotel development business has confirmed 1,121 rooms, of which 152 are operational and c.969 are in the pipeline.

Beverages

Our Beverages combines three business lines: a wine business, a beer business and a distribution business. Our wine business produces and sells wine locally and export to 17 countries, while our beer business has a ten-year exclusive license to produce Heineken brands in Georgia and sell them in the South Caucasus.

Pipeline

Education

We see attractive opportunities in what is currently a very fragmented, private high school education market and expect to build a portfolio of affordable high schools to capitalise on our scale advantage.

CHAIRMAN AND CEO STATEMENT

2018 was a historic year for our Group. As a result of the demerger of BGEO Group PLC, Georgia Capital PLC ("GCAP") emerged as the only group of its size and scale focused on investing in and developing businesses in Georgia.

"We have developed the key principles for the acquisition and new business development side of our business model, which I would like to share in order to provide an insight into our way of thinking."

Dear Fellow Shareholders,
2018 was a historic year for our Group. As a result of the demerger of BGEO Group PLC, Georgia Capital PLC ("GCAP") emerged as the only group of its size and scale focused on investing in and developing businesses in Georgia. GCAP intends to capitalise on its strong corporate governance to continue its superior access to capital and management. We have managed to attract a top class Board of global independent Directors, who are contributing substantially to the further development of GCAP as an institution. These pillars provide GCAP's portfolio companies with clear and significant advantages in the local corporate market. Since Georgia, as we know it, is only 25 years old, many corporate sectors are in their early stage of development. GCAP therefore has a unique opportunity to participate in and shape the formation of a number of different corporate sectors, some of which are highly fragmented and/or with low penetration, providing strong opportunity for consolidation.

In addition to the demerger of the Group, 2018 will be remembered for the Group's issuance of a US$ 300 million six-year Eurobond with a yield of 6.375%. This transaction once again demonstrated our strong capabilities to access international capital markets. In 2018, we also kick started our US$45 million buyback programme. At GCAP, we think of this buyback programme as an investment. We consider GCAP shares to be attractively priced and we are buying an asset we very well know and expect to be accretive. To date, we have invested more than US$21 million in GCAP shares.

After turning into dedicated developers and managers of assets, we have been enhancing our understanding of our new business and have started to institutionalise it by further developing our:

- capital allocation framework – I will be describing this in greater detail below.
- risk management procedures to better manage liquidity, capital and overall risk.
- analytical framework of appraising investment cases.
- reporting and monitoring framework for driving portfolio company value creation.
- valuation framework to mark our portfolio companies at fair value. We identify listed peer groups for each private business that we own in order to value our portfolio companies at similar multiples. Peers are selected from frontier and emerging market economies. In a way, we are doing deep research of listed peer companies to make sure that they are comparable to our portfolio companies in aspects such as industry, business model, company size, economic and regulatory factors, growth prospects and risk profiles. This research helps us to learn and understand the key successful strategies of our peers, potentially to be adopted by our portfolio companies.
- motivation system for GCAP and our portfolio company management that aligns the long-term interests of management and shareholders.
- exit strategy framework. We are identifying complementary strategies of peer companies in the region with the desire and potential to buy our portfolio companies.

2018 was a year for us to get our house in order to prepare ourselves to execute our acquisition strategy, all the while monitoring and developing our current portfolio companies. We have developed the key principles for the acquisition and new business development side of our business model, which I would like to share in order to provide an insight into our way of thinking.

Who before What
Our key asset is the team of people working for GCAP and its portfolio companies. No matter how big the opportunity is, if we do not have the right people managing the company following the acquisition then it is impossible to capitalise on the opportunity. Therefore, before we invest in new opportunities, we make sure that we have the right management team in place. Clearly, developing management talent in GCAP and its portfolio companies is the number one priority for me. This is a key part of my KPIs – you should expect to see personal development as well as people development as part of that. Apart from allocating capital, my primary role has become to help the management of our portfolio companies to articulate their strategy and deliver on it. In a way, helping others to be successful has become very much my full-time job.

Personal development without a cultural shift within GCAP and its portfolio companies is difficult if not impossible. We are initiating a cultural shift throughout the business. We want to keep the good side of our culture intact, such as excellence in execution, having a clear vision, being entrepreneurial, opportunistic learners, and fostering loyalty to the organisation. In addition, we want to develop other qualities in order to shift our culture toward a constantly collaborative, creative context. A culture where multiple brains can work in tandem as one. The following cultural shift will happen in next couple of years:

- giving and receiving feedback is considered an act of help, not criticism.
- active listening to be encouraged in order to be open for different ideas and points of view.
- mistakes are seen as an opportunity to learn, rather than a source of punishment.
- developing successors will make managers stronger, not weaker, and this will allow further career development.

To summarise, because we refuse to invest in any new opportunity without having the right talent in place, we need to be proactive in developing talent internally. Otherwise, we will not be able to further grow and diversify our portfolio. Personal development combined with a cultural shift in the context of growing new leaders is becoming a critical success factor for growing and diversifying GCAP.

Think Twice Before Buying
Our main goal is to buy companies at affordable prices. Although I know we are not unique in this approach, I would stress that we have developed a framework to estimate the optimal price for any target. Before investing we absolutely need to understand at what level of discount we are buying an asset/company in relation to listed peers. At the same time, we want to understand at what level of discount/premium GCAP is trading to its fair value. We would want to buy assets/companies at a higher discount to their listed peers than GCAP's fair value discount. We also need to understand where our listed portfolio companies are trading. We call this 360-degree analysis.

We are always very mindful about the size of any deal. We may not shy away from a large investment if we are doing a bolt-on acquisition with a strong existing management team with a proven track record. However, if we are entering a new industry we would rather start with a small ticket size and test and develop a management track record before stepping up the investment size. We obviously want to make small investments in the sectors where we see the largest future opportunities. We also want to use GCAP shares as an acquisition currency when buying assets/companies at a higher discount to their listed peers than GCAP's fair value discount. Utilising GCAP shares will preserve cash and at the same time align the interests of participants in corporate Georgia. In general we like the service industry as we believe that in the long-run Georgia will become the service hub of the region.

When investing, the following metrics are critically important for us:

- MOIC[1] combined with IRR[2]: we want to know the money multiples we will achieve with all acquisitions; however we want to understand it in combination with the expected IRR. We prefer to have high MOIC with high IRR from our businesses. Realised and unrealised MOICs are equally important for us. We will start reporting MOICs for our businesses from 1H19.
- ROIC[3]: we want to measure our expected return on the total invested capital at each portfolio company level. Different yields will be appropriate for different industries.

To summarise, buying assets at affordable prices is part of our key investment philosophy and we want to be very disciplined in this regard. We are also comparing the discount level to the fair value multiple to listed peers with the NAV discount in GCAP. The ROIC, MOIC and IRR combination is the key decision making matrix used in our investment decision making process.

Cash is, was and will Always be King
We understand very well that our success will be measured by exits we will make from our portfolio companies/investments. An exit strategy review is becoming one of the key focuses of our investment decisions. However, we also realise that exits in a small frontier economy are not an easy exercise. Therefore, as outlined above, our investment entry point becomes very important, e.g. an acquisition with a low multiple ensures that we will be able to take money off the table by growing and leveraging our portfolio company. In a way, for each of our assets/investments we want to have two potential liquidity events. One with leverage to ensure the special dividend flow to GCAP, and another through a trade sale or IPO.

In this context, a key focus at the portfolio company level is the ability to grow operating cash. At the same time management is expected to be efficient in making capex investments by targeting an appropriate level of ROIC. From our perspective, monitoring of cash formation at both GCAP and portfolio company level is becoming

1 Multiple of invested capital.
2 Internal rate of return.
3 Return on invested capital.

Strategic Review Overview

CHAIRMAN AND CEO STATEMENT CONTINUED

the key metric to watch. We are developing cash monitoring tools which should ensure we have a single Group-wide cash view, enabling us to monitor and analyse cash generation across the Group as well as measure ROICs on cash investments for each of the projects within our portfolio companies.

To summarise, our thinking has very much shifted towards cash generation capabilities, not only for GCAP but also for our portfolio companies. Our ability to progressively grow and generate cash will be the critical ingredient for potential double exit routes, which in turn is the key measurement of our success.

As of 31 December 2018, net cash investment in listed and late stage companies was GEL (101) million against the fair value of GEL 1.6 billion, putting us in a strong position on both in-place cost multiples and IRR metrics, and, more importantly, creating optionality for our ultimate exits given the existing cash generation in these businesses. One key example is GHG, where our net cash investment was GEL 7.4 million against the fair value of our GHG holding of GEL 520 million.

Capital Allocation
During 2018 we allocated GEL 85 million of capital across our portfolio companies in order to make progress towards our established business goals. We allocated GEL 5 million to our renewable energy business and GEL 32.9 million to the hospitality business for our hotel pipeline development, while GEL 40.6 million went to our beverages business for bolt-on acquisitions to increase its scale. We also added an education business to our pipeline by investing GEL 6 million in land for high school development, where we expect to build a portfolio of affordable high schools to capitalise on our scale advantage in what is currently a very fragmented, private high school education market. We aim to invest GEL 140 million equity capital into our education business and aim to reach 30,000 pupils by the end of 2025.

We manage our capital needs such that we do not depend on potentially premature liquidation of our listed portfolio companies. Our ability to capitalise on the benefits of better capital allocation constitutes a pathway towards improving returns and therefore we constantly look for favourable investment opportunities in Georgia, preferably within capital light service industries. Based on our capital allocation outlook through the end of 2022, as described on page 23, we currently plan to invest approximately GEL 413 million and expect to receive dividends of approximately GEL 429 million, leading to net expected capital inflows of approximately GEL 16 million. This investment need will be comfortably funded by the existing liquidity of Georgia Capital, which stood at GEL 605 million at 31 December 2018.

Portfolio Valuation and Performance
Following the introduction of fair values for our private portfolio companies on a management account basis, our portfolio value reached GEL 2 billion at 31 December 2018, a 1.8% y-o-y increase. NAV per share increased by 0.9% to GEL 47.1, while NAV stood at GEL 1.7 billion, down 8.3% y-o-y. Given negative stock market conditions during 4Q18, valuations of our listed and unlisted companies were unfavourably affected; however, the underlying business performances were outstanding with double-digit revenue growth and strong operating cash flow generation supporting increased earnings. This leads us to be confident that the intrinsic values of our portfolio companies have increased at a much higher level than their underlying valuations at 31 December 2018. For a detailed performance review of each portfolio company please refer to pages 102 to 116 of this report.

On an IFRS basis, revenue (at GEL 1.3 billion) and gross profit (at GEL 487 million) were up y-o-y largely as a result of the strong performance of GHG, our water utility and beverages businesses. Consolidated EBITDA remained flat at GEL 218 million. The lack of growth reflected, in particular, the cost of GCAP's demerger from BGEO Group and the cost of the launch of our beer business. Net operating income before non-recurring expenses and IFRS net profit were both down for a mixture of reasons you can read about on page 92 of this report.

Finally, I would like to thank you for your continued support for GCAP and for Georgia. I hope to see you all at our investor day in Tbilisi on 27 June. I am confident that the road ahead for GCAP will be interesting and, most importantly, enjoyable.

This Strategic Report as set out on pages 2 to 117 was approved by the Board of Directors on 3 April 2019 and signed on behalf by Irakli Gilauri, Chairman and Chief Executive Officer.

Irakli Gilauri
Chairman and Chief Executive Officer
3 April 2019

Photo Ushguli villages in Svaneti, Georgia – sometimes referred to as the highest village in Europe, famous for beautiful views, clean air and ancient structures, that are part of the UNESCO world heritage.

GEORGIA CAPITAL STRATEGY

Georgia Capital aims to deliver total shareholder returns of 10-times over 10 years

- Investing in and developing business in Georgia for over 15 years.
- Targeting 10-times total shareholder returns in 10 years.
- LSE premium listed, with greater than 90% institutional shareholder base.
- Running efficient cost structure with no management or success fees.

Shaori reservoir – all-season beautiful lake located in the region of Racha with a spectacular view of snowy Caucasus mountains. Surrounded by colourful nature, reflected in the water creates a fairy tale land.

Georgia Capital strategy is based on three pillars

#1

Georgia

Leading economy in the region

- Diversified non-commodity reliant economy with consistently high GDP growth across the last decade.

Top-ranked in economy environment indices

- Sixth in Ease of Doing Business (2019).
- Top eight in Europe region by Economic Freedom Index (Heritage Foundation, 2019) and #16 internationally.
- Low corruption and bribery risk (TI, 2018 and Trace International, 2018).

Investment-led GDP growth close to 5.0% growth expected in 2019

- Double-digit growth of tourism revenues supporting SME development and accelerating GDP growth.
- Development of large public infrastructure programmes backed by multilateral international funding driving potential GDP growth.

Historically low inflation with 3% target set from 2018 by National Bank of Georgia

#2

Capital Allocation and Managing Portfolio Companies

Capital allocation

- Highly disciplined approach to unlock value through buying and developing businesses.
- Clear, Company-specific, exit paths through IPO or trade sale in five to ten years and outstanding divestiture skills demonstrated via successful public listing of healthcare business.
- Disciplined when investing by buying cheaply.
- 360-degree analysis to be performed when evaluating capital returns, new investment opportunities or divestments.
- Buying assets cheaply is the first and most important element of Georgia Capital's investment strategy.

Harvesting investments

- Attracting and developing talent is a top priority.
- Aligned management style with institutionalised/non-institutionalised portfolio companies.
- Share ownership plans (proxy shares) for portfolio companies' management.
- Track record of institutionalising and creating independently managed healthcare business.

#3

Three Fundamental Enablers

Superior access to capital

- Only Group of its size and scale focused on investing in and developing businesses in Georgia.
- Uniquely positioned given the access to capital in a small frontier economy.
- Flexibility to use own shares as acquisition currency.

Access to good management

- Reputation among talented managers as the – "best group to work for".
- Attracted talents have demonstrated track record of successful delivery.

Commitment to the highest level of corporate governance

- Outstanding track record.
- Strong Board and robust corporate governance.
- Aligned shareholders' and management's interests by share compensation.
- High level of transparent reporting.

GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW

Attractive Place for Doing Business

Georgia is an open and resilient emerging market and its ambition to transform itself into a Regional Hub Economy has already produced tangible results: tourism is booming and trade integration has strengthened. These, coupled with a business-friendly environment and policies aimed at further diversifying the economy, support to attract foreign investments and boost growth.

EASE OF DOING BUSINESS RANKED GEORGIA IN 2019

2nd
In protecting minority investors

2nd
In starting a business

4th
In registering property

6th
Overall ranking

Up from 16th to ninth in 2017 based on overall ranking and then up from ninth in 2018, ahead of the US, Norway, Sweden, Ireland and Germany

Source: World Bank Doing Business

Georgia is Favourably Placed Among Peers

Country	Country rating	Fitch rating outlook
Armenia	B+	Positive
Azerbaijan	BB+	Stable
Belarus	B	Stable
Czech Republic	AA-	Stable
Georgia	BB	Stable
Kazakhstan	BBB	Stable
Uzbekistan	BB-	Stable
Turkey	BB	Negative
Ukraine	B-	Stable

Reform-Driven Success

Georgia has carried out genuine economic and structural improvements. As a result, corruption has decreased, starting a business has become second easiest in the world, productivity has been enhanced and the economy has been diversified – enabling the country to withstand global financial crisis and recent external shocks. In February 2019 Fitch upgraded sovereign credit rating of Georgia from "BB-" to "BB" and maintained a stable outlook. Resilience to negative external shocks, robust economic growth, shrinking current account (CA) deficit, increasing reserves and decreasing path of general Government debt were the main factors for the rating upgrade. Georgia is consistently ranked as the top performer in governance and doing business indicators. Georgia, with a ranking of six in Ease of Doing Business, has implemented a total of 47 reforms and it is characterised as a top-performing economy in the region to start a business. Furthermore, Georgia is ranked 16th out of 180 countries by Index of Economic Freedom measured by Heritage Foundation in 2019 and 27th out of 200 countries in the Trace International's 2018 Matrix of Business Bribery Risk. Georgia is on par with the European Union (EU) member states and top in the Eastern Europe and Central Asia Region in Corruption Perception Index by Transparency International 2018.

The Economic Liberty Act, effective since January 2014, ensures the continuation of a credible fiscal and monetary framework for Georgia, by capping consolidated Government expenditures at 30% of Gross Domestic Product (GDP), fiscal deficit at 3% of GDP and public debt at 60% of GDP. The Economic Liberty Act also requires electorates' approval through a nationwide referendum for imposing new taxes and raising existing tax rates, subject to certain exceptions. Furthermore, as of January 2017, corporate income tax for non-banking and non-insurance corporations is now applicable to only distributed profits; undistributed profits, which are reinvested or retained, are exempted. Georgia has one of the friendliest tax regimes according to the Doing Business 2019, having slashed the number of taxes from 21 in 2004 to just six currently.

2nd
Georgia is the second country in the world, after Switzerland, with FTAs with both the EU and China

The EU-Georgia Association Agreement, that came into force in July 2016, and related Deep and Comprehensive Free Trade Agreement (DCFTA), effective since September 2014, lay solid groundwork to improve governance, strengthen the rule of law and provide more economic opportunities by expanding the EU market to Georgian goods and services. A closer economic tie with the EU and a trust in prudent policy-making are also expected to attract foreign investments to Georgia. A visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of the Georgian foreign policy. FTA with China effective from January 2018 and FTA with Hong Kong effective from February 2019 increase opportunities to further accelerate exporting markets and to attract investors by offering a business-friendly environment, high governance and access to a market of 2.8 billion customers. In 2018, China was the third largest consumer of Georgian wine, after Russia and Ukraine and the sixth largest consumer of Georgia's exports overall. Georgia is participating in China's "One Belt One Road Initiative", that will have positive spillovers on the Georgian economy and the region overall. The number of countries now engaged in the Initiative stands at nearly 70 and may reach 100 or more and cumulative investment in the corridors could reach US$1 trillion over the next ten years according to International Monetary Fund (IMF). While remaining committed to EU integration, Georgia has also managed to stabilise its relations with Russia, as the latter lifted its embargo on Georgian products in 2013.

The ongoing US$285 million three-year IMF Extended Fund Facility (EFF) programme for Georgia will reduce economic vulnerabilities and promote more inclusive growth. The IMF EFF fully supports Government's reform programme focusing on: improving education, investing in infrastructure, making public administration more efficient and further developing the business environment to boost the private sector as a growth engine.

A growth-oriented Government programme (2018-2020) focuses on structural reforms, education and large infrastructure projects to promote Georgia as a transit and tourism hub and to enhance long-term growth. A new pension law was adopted in 2018 enhancing long-term fiscal sustainability, supporting capital market development, increasing replacement rate, narrowing CA deficit and rising potential output. The Government focuses on addressing the shortcomings in employment benefit schemes, further cutting non-essential expenditures, consolidating public sector institutions, making social and healthcare spending more targeted and increasing the efficiencies in capital expenditure. Within the responsible lending framework, National Bank of Georgia took macroprudential measures in order to decrease household indebtedness and to enhance financial stability. Continuing de-dollarisation mechanisms and strengthened regulation supporting financial system to increase resilience to currency fluctuations and to reduce cyclical and FX-induced credit risks.

Georgia held presidential elections in 2018. It was the last direct election for a president as the country moves to a parliamentary system of Government. From 2024, a president will be elected by 300 delegates from members of parliament and local Government representatives. Georgia had the first run-off for president between two former foreign ministers: Salome Zurabishvili, backed by ruling Georgian Dream Party and Grigol Vashadze, representing united opposition candidate. Both election programmes supported the integration towards EU demonstrating the country's pro-western politics. Salome Zurabishvili was elected as the first woman president of any former Soviet republic outside of the Baltic countries.

Potential to Become Regional Hub

A business-friendly environment, the best governance in the region, well-developed infrastructure, stable energy supply, flexible labour legislation, stable and profitable banking sector, strategic geography connecting European, landlocked Central Asian and Middle East countries and preferential trading agreements support Georgia to become a regional hub economy.

The Anaklia deep sea project is seen as a major scheme to enhance the regional transit hub potential. The Port of Anaklia sits on the shortest route from China to Europe, the route that has become a major focal point for Chinese investments in infrastructure. Once completed, it will be the first Georgian port capable of accommodating Panamax size cargo vessels. The Government's ongoing infrastructure investments and increased spending on roads, energy, tourism and municipal infrastructure will also reinforce the potential. To enhance Georgia's competitiveness the Government continues to strengthen integration in existing international systems as well as new transit routes (e.g. Lapis Lazuli, Persian Gulf – Black Sea, Baltic Sea – Black Sea). Georgia is a regional energy corridor that accounts for approximately 1.6% of the world's oil and gas supply transit volumes.

Georgia's business-friendly environment, coupled with its sustainable growth prospects, attracted on average 10% of GDP Foreign Direct Investment (FDI) over the past decade. These capital flows boosted productivity and accelerated growth. Public infrastructure projects were also instrumental in driving growth, as well as better realising the country's potential in logistics, transport and tourism.

ECONOMIC FREEDOM INDEX RANKED GEORGIA IN 2019

16th
Up from 23rd in 2016, ahead of the Netherlands, the US and Germany

Source: Heritage Foundation.

Read more on **Our Strategy** on **page 14**

GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

Faced with low domestic savings, FDI is an important source of financing growth in Georgia, as well as a reliable source of current account deficit funding. Foreign Direct Investments reached US$1.2 billion, US$662 million less compared to 2017. Main drivers of the decrease were the completion of the British Petroleum gas pipeline construction project and ownership changes from non-resident to resident companies. Major sectors attracting FDI were financial (25.5% of total), transport (17.0% of total) and energy (12.8% of total). Importantly, share of reinvestment by foreign companies in total FDI increased to 45.3% in 2018, compared to 34.7% in the previous year. Increasing share of reinvestment indicates investors' trust in Georgia's growth model and the success of the profit tax reform introduced in 2017. Planned investment and infrastructure programmes, rising number of free trade agreements and business-supportive environment will support further FDI inflows in the medium term.

8.7 million international travellers

up 9.8% y-o-y in 2018

Georgia is already an established tourism destination. Tourism is an important sector of the Georgian economy and is the fastest-growing industry and a major source of FX inflows. This sector is a major driver of service export and largest contributor to shrink the CA deficit. The number of international travellers to Georgia increased on average 17% over 2012-2018. Despite the tensions and economic slowdown in our major trading countries, international traveller trips increased significantly to 8.7 million and brought nearly US$3.2 billion in 2018. Tourism outlook remains positive as market diversification continues. The Government plans to enhance Georgia's positioning as a four-season tourism location through improved connectivity of different regions with an aim to tap into their potential. Increasing number of direct flights and budget flight opportunities, in line with increased recognition, supports tourism sector to remain as one of the most important sectors to promote SME development and attract FX inflows.

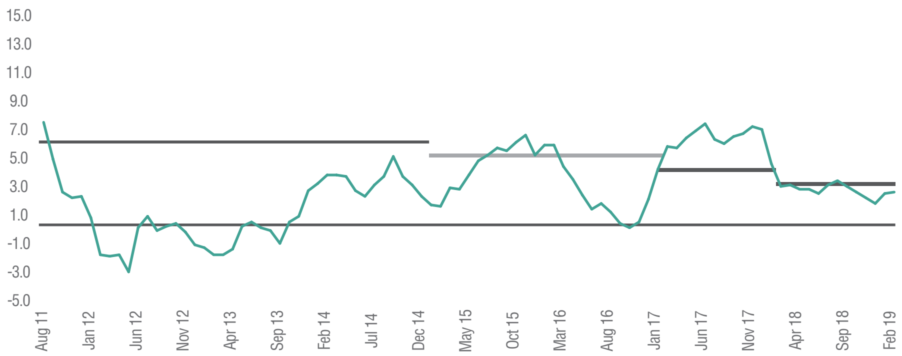
2.8bn

Access to a market with 2.8bn population without customs duties

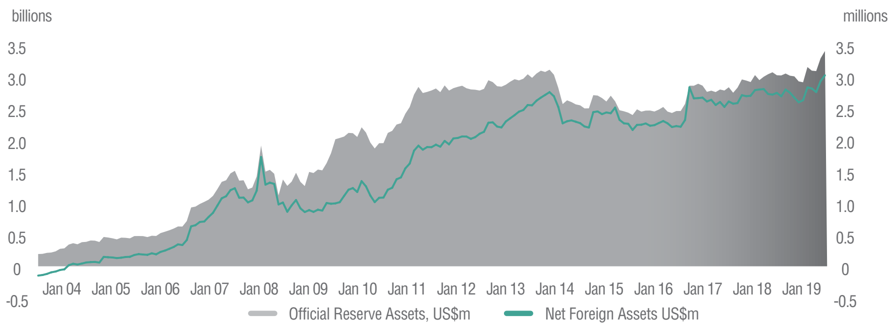
Free Trade Agreements

There have been significant changes in Georgia's export structure and destination markets in recent years; however, Georgia has not yet tapped into international markets. Georgia's exports performance is explained by its commodity structure, dominated by used car re-exports and resource-based metals and minerals, while employment-generating processed product exports remain secondary. One of the biggest changes in destination markets has been a reorientation from the Russian market after the 2005 embargo, as the embargo forced Georgian producers to redirect exports to other Commonwealth of Independent States (CIS) countries, the EU and the Middle East. Exports to Russia picked up again in 2013 as Russia opened its borders to Georgian products. Since 2013, Georgia's developed logistics and transport infrastructure has helped to shore up opportunities for new re-export commodities, including copper and pharmaceuticals. Given these trends, it is likely that re-exports will continue to fuel Georgia's export growth supported by the Government policies which aim at further enhancing the platform for current and potential trade partners. Access to new large markets – the EU, China and Hong Kong – could increase market penetration and there is also scope for diversifying agricultural exports, once the quality and standards improve under EUDCFTA. Georgia's existing free trade deals (with the EU, CIS, EFTA, Turkey, China and Hong Kong) and the prospective free trade agreement with India offers significant upside potential for Georgia's exports.

Inflation vs Inflation Target



Official Reserve Assets



Fastest Growing Economy in the Region

Georgia continued to deliver positive results in 2018. It is the second in starting a business and sixth to do business globally, according to the latest World Bank Doing Business Report. Trust in Georgia's growth model was demonstrated by the increasing share of reinvestment by foreign companies on the back of 4.7% economic growth in 2018. Tourism demonstrated a stellar performance, with revenues in the sector totalling US$3.2 billion. For the first time in the history Georgian quarterly CA turned to positive at 0.3% of GDP in the third quarter of 2018. According to the preliminary numbers, annual CA deficit narrowed to 7.7% in 2018. The Government is expected to reduce fiscal deficit to 2.5% in 2018 under an IMF-supported programme. Despite the financial market turbulences in trading partners' markets, Georgia remained resilient with inflation at 2.6% in 2018 – very close to the National Bank of Georgia's (NBG) target of 3.0%. One-time factors, like increased tariffs on electricity and water, will place upward pressure on inflation, but weak aggregate demand and low imported inflation will decrease consumer price index. Opposite factors will balance each other, and inflation will remain close to target in the medium term. NBG started gradual exit from moderately tightened monetary policy in July 2018. In line with the decreasing external risks and weak domestic demand, NBG reduced the rate by 25 bps to 6.75% in January 2019 and then the rate was again reduced by 25 bps in March 2019. Currently, monetary policy rate stands at 6.5% and according to the baseline scenario, it is expected to return to its neutral level (around 5.5-6% according to NBG estimate) in two years. Despite the geopolitical tensions and emerging market turbulences, real effective exchange rate (REER) appreciated by 3.4% y/y as of December 2018. The NBG intervened in the FX market and purchased US$177.5 million during August-December accumulating official reserve assets to US$3.3 billion at the end of 2018.

In order to make interventions more predictable and to further accumulate international reserves, NBG introduced FX options in January 2019. (New FX options give right to the owner to acquire GEL in exchange for US$ or EUR within the predetermined timeframe. Holder is able to use the option when GEL is stronger than the previous 20 working days' average. FX option makes intervention more predictable and smoothens the intervention impact on the currency.) The growth is expected to remain solid in 2019 as tourism revenues continue to grow, fiscal policy is expected to be expansionary and growing free trade deals will boost growth prospects. New pension system effective from January 2019, ongoing reforms for capital market development and business enhancing measures – are expected to further support investments, reinforcing the country's economic potential. The IMF expects growth to average 5.1% annually in 2019-2023, making Georgia the fastest-growing economy in the region.

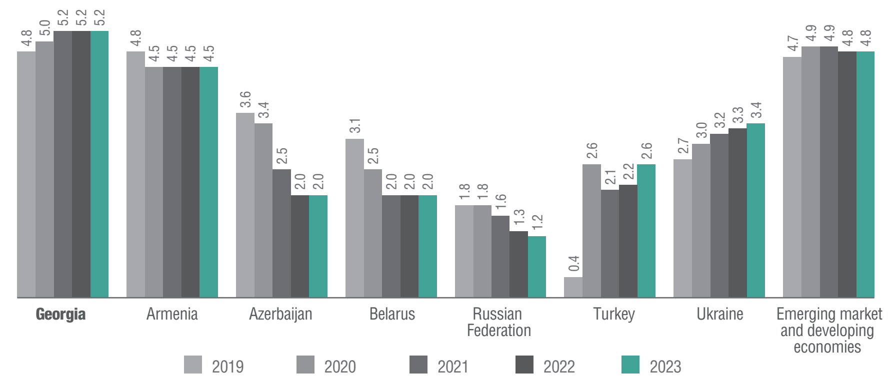
Individual Sector Overview

Banking

The banking sector has been one of the faster growing sectors of the Georgian economy. The banking sector's assets growth rate of 16.2% (ten-year CAGR) has far outstripped the nominal GDP growth rate for the same period. The banking sector is entirely privately-owned and quite concentrated, with the two largest banks accounting for 69.5% of total assets at the end of 2018. Despite the tensions and financial market turbulences in the region, prudent regulation resulted in stability and resilience of the financial sector. Average capital adequacy ratio was above 18%, non-performing loans (NPL) stood at 2.7%, the Liquidity Coverage Ratio was 124% and the sector's profitability has remained robust at 23.3% return on equity at the end of 2018.

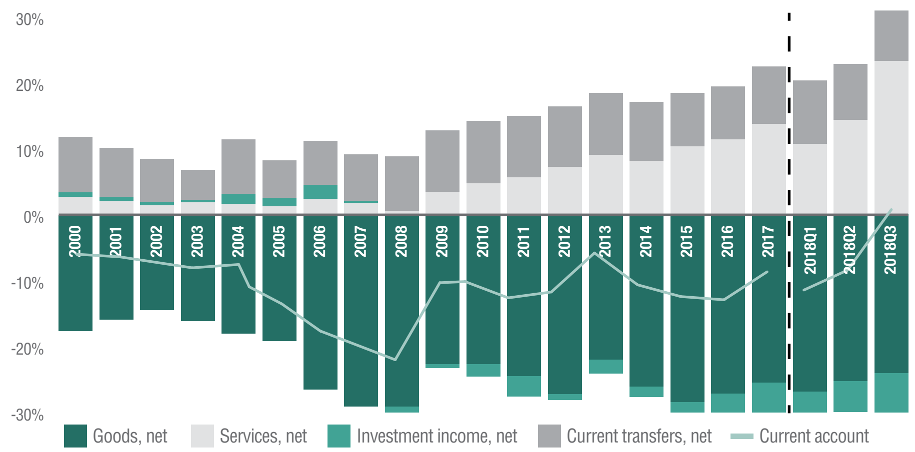
Within the responsible lending framework, National Bank of Georgia tightened regulations for loans issued to individuals. From September 2018, effective interest rate on loans was capped at 50%. From January 2019, loan-to-value (LTV) and payment-to-income (PTI) ratios

Real GDP growth forecasts, IMF



Source: IMF

Current Account



GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

BUSINESS BRIBERY RISK IN 2018

27th

Source: Trace International.

OPEN BUDGET INDEX IN 2017

5th

Up from 16th in 2015

Source: International Budget Partnership

should not exceed maximum norms. In line with de-dollarisation mechanisms, mortgage loans below GEL 200,000 will not be issued in foreign currency (before the cap was GEL 100,000). Tightened regulations support sustainable growth and enhance financial stability due to lower household debt to GDP ratio and increased resilience towards FX induced and systemic risks.

Healthcare

The Georgian healthcare industry experienced important transformations during the last decades. To address high private healthcare costs and basic healthcare coverage for the entire population, Universal Health Care (UHC) was introduced in 2013 and replaced previous state-funded medical insurance plans. New initiatives regarding the reimbursement and differentiating coverage of Universal Health Insurance was adopted in 2017. On average 60% of healthcare spending is funded by private sector. The Georgian healthcare market has shown solid growth in recent years. Output of health and social work sector increased by 10.5% y-o-y to GEL 2.7 million. According to Frost & Sullivan, the total healthcare market is expected to grow at a compound annual growth rate of 8% from 2018 to 2021. Outlook for the healthcare sector is positive as increasing disposable income and supportive Government healthcare will help domestic consumption to increase. Solid growth of overnight visitors in line with significant improvement in healthcare service quality support Georgia to become a medical tourism hub in Caucasus region and to further boost the service export growth.

6.5% monetary policy rate

NBG continued gradual exit from moderately tightened monetary policy and gradually decreased its refinancing rate by 50 basis points to 6.5% during the first quarter of 2019

Pharma

The pharmaceutical market in Georgia is highly concentrated, with three major players holding approximately 75% of the market share. Medicaments and pharmaceutical products have significant contribution in trade turnover. Trade of medicaments increased in measured doses is a significant source of income. Imports of medicaments was the fourth largest commodity group, amounting to US$339 million (3.7% of total import), while re-export of medicaments increased in measured doses was the sixth largest export commodity group, amounting to US$147 million (4.4% of total export) in 2018.

As correlation between domestic consumption of pharmaceutical products and economic cycles is low, this sector generates stable revenue and is expected to continue this trend in line with healthcare sector developments.

Energy Sector

Georgia has a developed, stable and competitively-priced energy sector. The country has overcome the frequent shortages of electricity and gas supply, which were prevalent a decade ago, by renovating and updating energy infrastructure (including guaranteed capacity sources), improving transmission infrastructure and increasingly diversifying its natural gas and electricity importing markets. Economic growth, paired with a transparent and investor-friendly environment, attracts foreign investments in the sector. Share of FDI in the energy sector was on average 12.7% in 2007-2018 and the trend is expected to continue due to the sector's potential to attract foreign funds.

Water Supply and Sanitation (WSS)

Georgia is a country rich in hydro resources, but approximately 45% of the country's population still has no proper access to centralised WSS services. The Georgian Government has committed to provide 100% of the population with access to WSS services by 2020 and is actively working on upgrading the infrastructure. Lost water remains the main challenge in the WSS sector as a majority of the assets are amortised and require continuous rehabilitation and investment to achieve efficiency. The WSS sector in Georgia has the potential to utilise efficiency gains by reducing water loss. Economic growth paired with transparent and investor-friendly price control policies create a favourable environment for investors and international lenders to enter the sector and capitalise on stable revenue streams. Changes in water tariff calculation methodology incentivise companies to invest in the sector. During 2015-2018 the sector turnover increased on average 11.4% y-o-y and reached GEL 264 million in 2018. Harmonisation with EU policies following the signing of the EU Association Agreement is contributing to the increasing reliability of WSS service provision and improvement of service standards for utility customers as well as the stability of utility operations. Unlike other utility segments (electricity and gas), water utility sector in Georgia is mainly state-owned, GGU representing the only private player on the market (natural monopoly, servicing more than one/third of the population) with substantial room for growth.

Renewable Power Generation

In 2008, the power generation market witnessed significant changes to facilitate market liberalisation. All HPPs constructed after August 2008 have been deregulated, which served as a first step towards establishment of a free electricity market. In 2014, the EU and Georgia signed an Association Agreement and Georgia became a full contracting party member of the Energy Community. Further, the Electricity Law was amended in June 2017, deregulating all HPPs below 40MW and gradually moving the large industrial consumers out of the regulated pricing scheme to the free market. Up to 15 large industrial consumers with monthly electricity consumption of 5GWh or more are set to join the free market from May 2019 and all consumers with 5kV+ lines are planned to follow next year. After these changes, direct consumers will constitute approximately half of the total demand and will have to secure electricity from generating companies directly or from traders, which will enable the development of a stable deregulated electricity market.

Electricity consumption has been growing significantly for the last decade on average by 5.7% (CAGR for 2009-2018) in line with overall economic development, especially pronounced in electricity intensive sectors, such as tourism, HoReCa and construction. Georgia has historically been a net exporter of electricity, however, due to sustained consumption growth, the trend has changed and Georgia recently became more import-dependent. To support consumption growth, which is forecasted at c.5%+ for the next decade, the Government is promoting development and construction of domestic renewable capacities through investor-friendly policies and different offtake arrangements. JSC Georgian State Electrosystem, the transmission system operator, has already rolled out a comprehensive plan to improve the transmission capacity over the next decade with a planned investment of approximately EUR 900 million and an additional integration capacity of 4,000MW. Steps are also taken towards diversification of electricity supply mix, with the emphasis on development of wind and solar photovoltaic system (PV).

Property and Casualty Insurance (P&C)

Georgian property and casualty insurance sector have more than doubled in size between 2009 and 2018. According to the Insurance State Supervision Service of Georgia, the total value of gross written premiums on non-life insurance increased by 20.0% y-o-y to GEL 318 million in three quarters of 2018. The largest six insurance providers in Georgia accounted for approximately 74% of the market share in the same period. The Georgian insurance industry has significant potential for further growth. Low rates of insurance penetration compared to peer countries, supportive Government policies (introduction of compulsory local third-party liability motor vehicle insurance in 2020) and growing consumer awareness will further accelerate the growth, which is expected to provide significant opportunities for established companies that seek to increase their relative market share.

Real Estate

Georgia has an active real estate market. In 2018 real estate registration was 858,949 from which 25% was primary registration and 75% was secondary registration. These transactions include residential and commercial properties as well as land registration.

3.3 people per household

Average household size, higher than the EU average

Residential Property

The average household size in Georgia is 3.3 people per household, which is appreciably higher than the EU average of 2.3 according to the United Nations survey in 2017. Households with two to four people make up 58% of total households, according to the 2014 census. Home ownership is the dominant tenure structure, with 93% of householders owning their homes. From 2014 NBG introduced GEL denominated mortgage loans with variable interest rate linked to NBG's refinancing rate, which increased access to finance and boosted mortgage market. In 2018 the number of new mortgage contracts increased to approximately 39,000, 31% higher as compared to the previous year. Higher housing size, Georgian's attitude towards home ownership, ongoing urbanisation and increasing disposable income support this sector to continue solid growth in coming years.

Commercial Property

Trade has the highest share in Georgian Gross Domestic Product (17%). The gross value added of wholesale and retail trade sector increased by 8.3% y-o-y to GEL 6 billion in 2018. According to the Colliers International, Tbilisi provides 94% of the country's office space with around one million square metres, from which 51% is leasable. Georgian office market's share of owner-occupied stock is significant, and Georgia's existing business centres are characterised by their high yield when compared to eastern European cities. Of the total leasable office stock in Tbilisi as of 2017, 38% of the properties are classified as "modern" and the remaining 62% as "traditional" (old and non-refurbished Soviet-era office stock). According to the Colliers International projections, leasable area of modern stocks will reach 211,417 square metres in 2019.

Hotels

Despite the tensions and economic slowdown in our major trading countries, international travellers increased significantly to 8.7 million (+9.8% y-o-y) and brought nearly US$3.2 billion in 2018. According to the Georgian National Tourism Administration (GNTA), 111 new hotels (+35% y-o-y) with 3,054 hotel rooms were opened in Georgia during 2018. Tbilisi is the most popular destination for tourists in Georgia. Based on the Colliers International's research, there has been significant growth in the number of hotel rooms in Tbilisi supplied by international hotel chains. Ten more international upscale hotels are expected to open in the next few years, with approximately 1,962 new hotel rooms. In the mid-class segment, the proportion of international supply is forecasted to increase from 13% in 2016 to 18% in 2019. This rise in demand is combined with the current undersupply of hotel rooms in the Georgian hotel market. ADR in international upscale brands increased by 14% y-o-y to US$181 and occupancy was 68% in 1H18. As for international mid-scale brands, occupancy rate reached 72.6% (+5.3% y-o-y) and average daily rate (ADR) amounted to US$106.8, according to the Colliers International's research. Sector outlook is positive in line with solid growth of overnight visitors and double-digit growth of high-income tourists in Georgia.

Strategic Review Our Business

GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

Beverages Sector
Wine Production and Distribution
The oldest wine was found in 8,000 historic jars in Georgia describing the country as the first wine producer in the world. Registered wine producers focusing mostly on export. Georgia exported 62.7 million litres of wine (+8.1% y-o-y) in 57 countries in 2018. In terms of value, wine export increased by 14.9% y-o-y to US$197 million in 2018. Georgian wine is more famous in the former Soviet Union countries. Russia represented the largest portion of former Soviet Union exports and accounted for 58.2% of 2018 total exports. After the Russian embargo in 2006, Georgia started to diversify its export markets. Wine export to the EU increased over the last years and accounted 16% of total export in 2018. China is the third largest exporting country for Georgian wine with 10.1% share in total wine export. Outlook for Georgian wine is positive due to increasing tourist arrivals and changes to local consumer tastes for domestic bottled wine. Varieties of unique Georgian wine and increasing export potential due to FTAs will further accelerate the growth.

Beer Production and Distribution
During the last decade, the beer market has shown steady growth, except for two years (in 2010 and 2015) where sales were negatively impacted as a result of an increase in excise tax. In 2018 the size of Georgia's beer market was approximately 97 million litres a year and based on 2017 data a per capita beer consumption was 27.5 litres per year. The current low base of beer consumption per capita compared to European peer countries is a further indicator of the potential for market growth. Beer consumption is expected to increase in line with increased disposable income, growing size of beer-consuming population, double-digit growth of tourist arrivals and new exporting market opportunities.

Education
Education is the key sector for boosting the long-term potential output. In order to decrease the skills mismatch and to boost labour productivity, the Georgian Government plans to reform general, higher and vocational education and is committed to increase education's share in GDP significantly from 3.8% in 2018. Currently, the Government's share in the sector is high and only 10% of primary schools are private, which is itself a very fragmented market also. Even though Government spending has been increasing y-o-y for more than the last ten years, it is still low compared to developed countries. Georgia has high participation rate, at 99% in primary, 94% in lower secondary and 84% in upper secondary educational institutions. However, the outcomes of the international assessment tests show the low level of education quality in the country. Sector outlook is positive, as there is room for consolidation and for increasing the education quality through higher private sector participation, having scale effect opportunities.

GEORGIA CAPITAL STRATEGY – CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES

Georgia Capital's Key Principles On Capital Allocation and Managing Companies

Investment and Capital Management
Highly-disciplined entry approach.
The Georgian economy entered into a period of significant development and growth approximately ten years ago and different sectors and businesses are at an early stage of formation. Access to capital and management personnel is limited, owners of businesses are cash poor and, as a result, Georgia Capital can pursue attractive investment opportunities and acquire assets on relatively attractive terms with a view to consolidating fragmented and underdeveloped markets, particularly targeting high-multiple service industries. Georgia Capital is under no time pressure to invest and as such, it takes a selective and opportunistic approach to new acquisitions. Georgia Capital has a natural self-discipline for its capital allocation decisions.

360-degree analysis when evaluating capital returns, new acquisitions opportunities or divestments.
Buybacks are actively considered as an investment opportunity subject to rigorous analyses. On 14 June 2018 the Group announced commencement of a share buyback programme of up to US$45 million (up to 3,938,471 of its shares). All repurchased shares will be held in the Group's treasury. Since the launch of the buyback programme, we have bought back 1,547,329 shares.

Georgia Capital allocates capital such that it does not depend on premature sales of listed investments.
Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. As such, it focuses on shareholder returns and on opportunities which meet its investment return and growth criteria. The Group aims to deliver total shareholder returns of 10-times over 10 years since the demerger date from BGEO Group.

Capital Allocation Outlook Through 2022

A highly-disciplined approach to unlock value through investments.

GEL millions		2018A	2019E	2020E	2021E	2022E	2019-2022
Listed portfolio companies	BoG	(23.9)	(25)	(27)	(29)	(31)	+141 million Dividend inflows
	GHG	–	(4)	(6)	(8)	(11)	
Private portfolio companies, late stage	Water Utility	(28.8)	(30)	(32)	(34)	(35)	+268 million Dividend inflows
	Housing Development	(9.8)	(10)	(15)	(20)	(25)	
	P&C Insurance	(10.0)	(12)	(15)	(18)	(22)	
Private portfolio companies, early stage	Renewable Energy	5.0	74	53	70	(20)	(253) million Capital deployment
	Hospitality and Commercial	32.9	30	9	–	–	
	Beverages	40.6	27	10	–	–	
Pipeline	Education	6.1	70	42	28	–	(140) million Capital deployment
Total[1]		**12.1**	**120**	**19**	**(11)**	**(144)**	**16 million** Net capital inflows

Together with the available GEL 605 million liquid funds and short-term loans, we are well-positioned to support the value creation across our private portfolio businesses and take advantage of new opportunities as and when they arise.

1 Buybacks are not included within the capital allocations.

Georgia Capital PLC Annual Report 2018

GEORGIA CAPITAL STRATEGY – CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED

Key to Success – Aligned Shareholder and Management Interests

Managing Portfolio Companies
Georgia Capital sets the strategy and business plan of each business it acquires or establishes and then actively manages their implementation, particularly at the early stages of development. As the availability of management personnel is limited, by developing top talent in Georgia the Group can add value for its shareholders. Investing time in growing and developing management continues to be critical for the success of the Group's strategy.

Georgia Capital will apply a hands-on management approach to the non-public portfolio companies at early stages of their development and acts as an advisor for the management of the more mature companies.

Exit
As businesses mature, Georgia Capital will normally seek to monetise its investment either through initial public offering, strategic sale or other appropriate exit option, typically within five to ten years from initial investment. As investments are monetised, Georgia Capital performs a 360-degree analysis going through the comprehensive decision-making process evaluating each available option, including but not limited to: new investment opportunities, redeployment of the proceeds in the Company's existing businesses and share buybacks.

Investment stage	Early	Late	Listed
	Acquisition /Entrance — Young Portfolio Companies	Large Portfolio Companies — Target to Exit	Mature Portfolio Companies — Possible Completion of Exit
Sector	Education; Renewable Energy (managed by GGU) 65%; Hospitality and Commercial Real Estate (managed by m²) 100%; Beverages (managed by Georgia Beverages) 80%	Housing Development (managed by m²) 100%; P&C Insurance (managed by Aldagi) 100%; Water Utility (managed by GGU) 100%	GHG (Healthcare Services) 57%; Bank of Georgia (Banking) 19.9%
Portfolio company development focus	Rapid growth organically and through mergers and acquisitions; active investment stage.	Focus on efficiency improvements; diversification of revenue streams; introduction of dividend discipline.	Sustainable shareholder value creation and dividend distributions.
Significance of influence	High		Low
Influence through	• Strategy and performance target setting. • Active human capital management. • Talent development. • Executive coaching. • Active involvement.	• Strategy approval. • Capital allocation approval. • Human capital management. • Advisory and mentoring. • Oversight.	• Board membership (if needed). • AGM voting.
Institutionalisation/ Independence	Low		High

GEORGIA CAPITAL VALUE PROPOSITION – THREE FUNDAMENTAL ENABLERS

Superior Access to Capital*

Only Group of its size and scale focused on investing in and developing businesses in Georgia.

Uniquely positioned given the access to capital in a small frontier economy, where access to capital is limited:

- **c.US$500 million** raised in equity at LSE.
- Issued five Eurobonds totalling **US$1.5 billion.**
- **US$3 billion+** raised from IFIs (EBRD, IFC, etc.).

Flexibility to use own shares as acquisition currency.

** Figures and statements in this section include the track record of our predecessor company.*

Access to Good Management

Reputation among talented managers as the – **"Best group to work for".**

Attracted talents have demonstrated track record of successful delivery.

Proven DNA in turning around companies and growing them efficiently.

Strong skillset in Company exits:

- LSE IPO track record.
- Divestiture skills.

Strong Corporate Governance

Outstanding track record in:

- Institutionalising businesses, creating independently run/managed institutions.
- Investor reporting transparency and granularity.

Strong Board and robust corporate governance.

Aligned shareholders' and management's interests:

- Management compensation linked to performance.
- Equity/Performance dominating compensation structure.

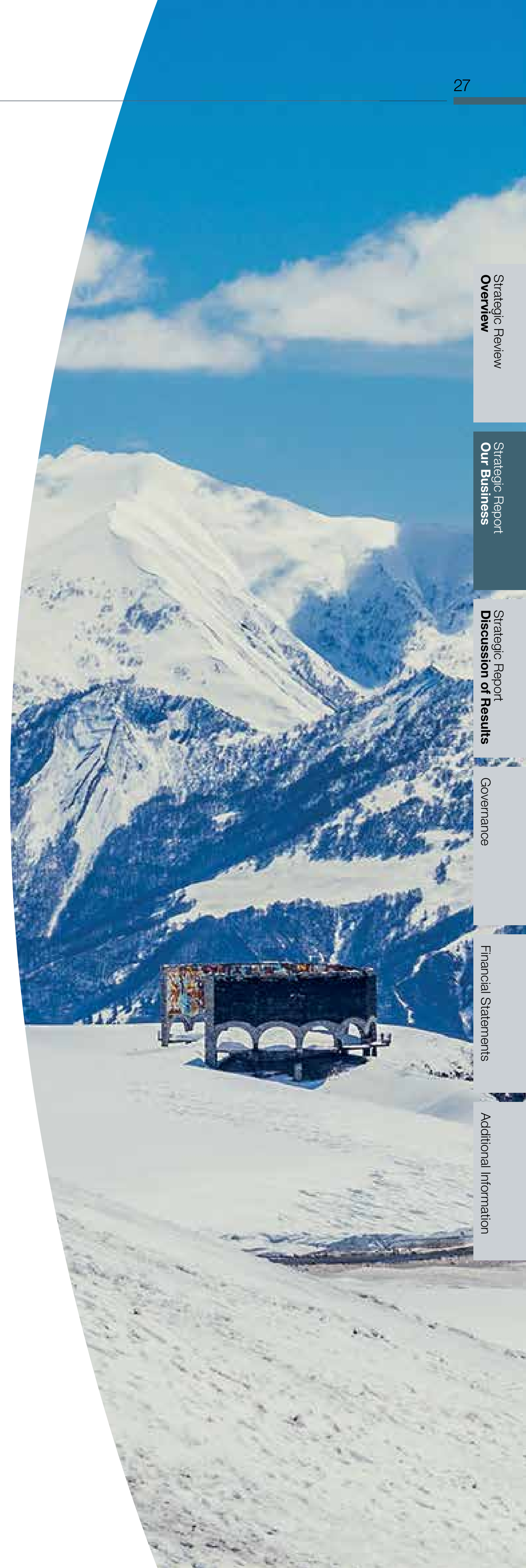


Photo Gudauri – a mountain ski resort situated on a south-facing plateau of the greater Caucasus mountain range in Georgia, 2,200 metres above sea level. Its skiable area enjoys the maximum exposure to the sun, which makes Gudauri a magnificent all-year-round tourist destination, offering exceptionally high-quality skiing opportunities.

SOLID TRACK RECORD DEMONSTRATED BY MANAGEMENT

Successful Track Record of Delivering Strong Results

Georgia Capital management team, under the BGEO Group, has a track record of raising solid capital and executing more than 40 acquisitions. Georgia Capital has successfully integrated the businesses in many sectors, while delivering growth and extracting targeted synergies.

Acquisitions
The Georgia Capital management team, under the BGEO Group, has a track record of executing more than 40 acquisitions in banking, insurance, healthcare, utilities, retail, FMCG and other sectors.

Total number of acquisitions over the years

40+

Capital Raise
Uniquely positioned given the access to capital in a small frontier economy, where access to capital is limited:
- c.US$500 million raised in equity at LSE.
- Issued five Eurobonds totalling US$1.5 billion.
- US$3 billion+ raised from IFIs (EBRD, IFC, etc.).

Total amount of debt raised (US$)

4.5bn+

Exit IRR
- 121% IRR from GHG IPO.
- 66% IRR from m² Real Estate projects.

IRR from GHG IPO

121%

Value Creation Across our Late Stage Private Portfolio and Listed Assets

Listed

Bank of Georgia

Dividend per share CAGR (2010-2018)
34.3%

Outstanding ROAE performance (2014-2018)
20%+

Net Loan book CAGR (2013-2018)
20.6%

GHG

EBITDA more than tripled from GEL 37 million in 2014-2018 (GEL)
132million

Created market-leading healthcare services provider, with an integrated, synergistic business model

Number of beds up
55%

High-quality hospitals
37

District polyclinics
16

Pharmacies
270

First Ever Non-Sovereign Owned Corporate International Bond Issuance from Georgia in March 2018

Notes	US$300 million, six year, 6.125% Eurobonds
Listing	Irish Stock Exchange, GEM market
Notes rating	B2 (Moody's)/B+ (S&P)
Joint Bookrunners	Citi, J.P. Morgan
Joint Lead Manager	Renaissance Capital
Co-Manager	Galt & Taggart

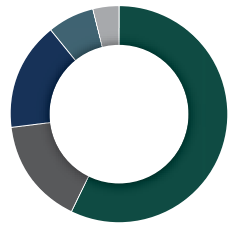
Georgia Capital's Risk Management Policy Key Measures
- Georgia Capital intends to hold liquid assets of at least US$50 million at all times.
- Net Debt to asset portfolio to be no more than 30% at all times.

Allocation by investor type

Banks/PBs **41%**
Asset managers **34%**
Supranational **23%**
Other **2%**

Allocation by geography

United Kingdom **57%**
Georgia **16%**
Rest of Europe **16%**
United States **7%**
Asia and Other **4%**



Private Late Stage

Water Utility

EBITDA increase since acquisition in 2014
51%

Decrease in electricity own consumption (2014-2018)
26%

Dividend paid in 2018 with expected CAGR of 5% through 2022 (GEL)
28.8million

Housing Development

IRR from real estate projects
66%

Capital generated, fully reallocated to hospitality and commercial real estate business (GEL)
74million

Number of apartments completed, with 99.7% sold with US$215 million sales value
2,558

P&C Insurance

Net profit more than doubled in 2014-2018
2x

The return on average equity in 2015-2018
33%+

Amount paid in 2018 with 22% CAGR expected through 2022, growing dividend capacity (GEL)
10million

VALUE CREATION

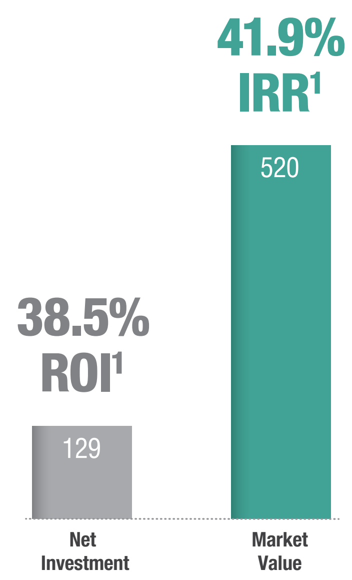
Georgia Capital Generated ROI 37.9% as at 31 December 2018

Listed Investments

GEORGIA HEALTHCARE GROUP

Georgia Healthcare Group Holding Period

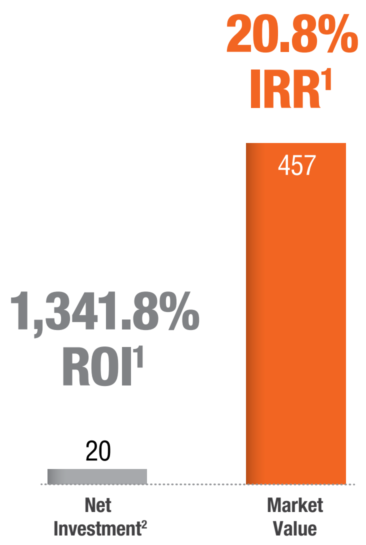
6.1 years



BANK OF GEORGIA

Bank of Georgia Holding Period

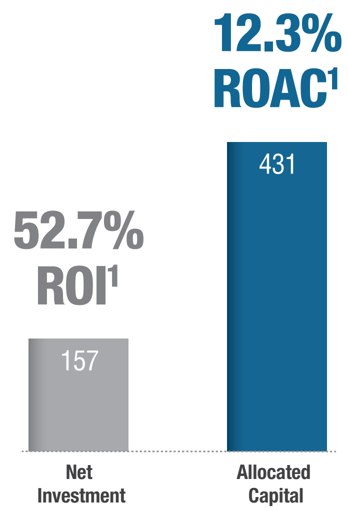
10.1 years



Late Stage Portfolio Businesses

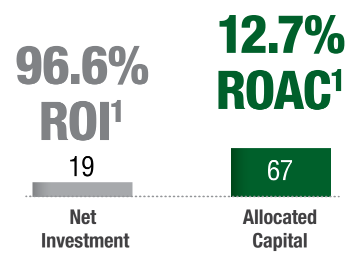
Water Utility Holding Period

2.8 years



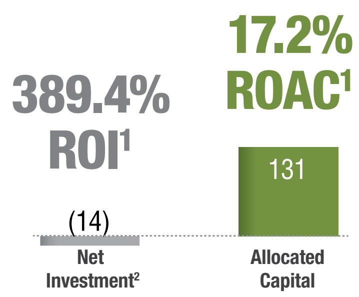
Housing Development Holding Period

7.7 years



P&C Insurance Holding Period

9.1 years



We use the Management Account figures to calculate different returns on our investments. Internal Rate of Return (IRR) and Return on Investment (ROI) are metrics that help us evaluate the historical track record of each listed and private investment, respectively.

IRR for listed investments is calculated based on: a) historical contributions to the listed investment; b) dividends received; and c) market value of the investment as at 31 December 2018.

ROI for private investments is an annualised return on net investment (gross investments less capital returns) calculated at each investment level. Inputs into the ROI calculation are as follows: (i) the numerator is the annualised attributable income of the private portfolio company less allocated GCAP interest expense; and (ii) the denominator, is the net investment less allocated gross debt of GCAP.

Return on Allocated Capital (ROAC) is a metric that provides us with a visibility into returns on current management values for each portfolio company. ROAC is an annualised return on allocated capital as of 31 December 2018 and calculated at each private investment level. Inputs into the ROAC calculation are as follows: (i) the numerator is the annualised attributable income of the private portfolio company, less allocated GCAP interest expense; and (ii) the denominator is the management estimated fair value, as included in the NAV statement, less allocated gross debt of GCAP.

1 For detailed definition please refer to the Glossary on page 243.
2 Net investment amount is GEL 20 million since Bank of Georgia is a stable dividend payer over the last seven years driving consistent decrease in net investment amount, while related attributable earnings are increasing.

1 For detailed definition please refer to the Glossary on page 243.
2 Net investment amount is negative GEL 14 million, as the investment amount was fully recovered through dividends received from P&C insurance business over the investment holding period.

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PORTFOLIO COMPANIES
LISTED

GEORGIA HEALTHCARE GROUP

Healthcare services

Investment Rationale

Very low base: healthcare services spending per capita only US$324 (EU average is US$3,184[1]).

Growing market: healthcare spending growth estimated at 8% CAGR 2018-2021.

Value Creation Potential

High-growth potential driven by opportunity to develop medical tourism and polyclinics (outpatient clinics).

One of the only integrated players in the region with significant cost advantage in scale and synergies.

Well positioned to take advantage of the expected long-term macroeconomic and structural growth drivers.

Operating performance of the highest-quality network in Georgia.

Value Realisation Outlook

Monetisation of the existing stake through sales.

Ownership

Georgia Capital owns 57.0% of GHG at 31 December 2018 (31 December 2017: 57.0%).

1 Source: World Bank, 2015 data.

Financial Metrics

Revenue (GEL millions)

849.9 +13.7%

2018 849.9
2017 747.8

EBITDA (GEL millions)

132.3 +22.3%

2018 132.3
2017 108.1

Profit before tax (GEL millions)

53.9 +16.3%

2018 53.9
2017 46.3

Healthcare EBITDA margin (GEL millions)

24.9% -1.5ppt

Pharma EBITDA margin (GEL millions)

10.1% +1.5ppt

Operating Metrics

Number of referral hospitals

16 NMF

2018 16
2017 16

Number of community clinics

21 NMF

2018 21
2017 21

Number of beds

3,320 +306

2018 3,320
2017 3,014

Number of polyclinics

16 NMF

2018 16
2017 16

Number of pharmacies

270 +15

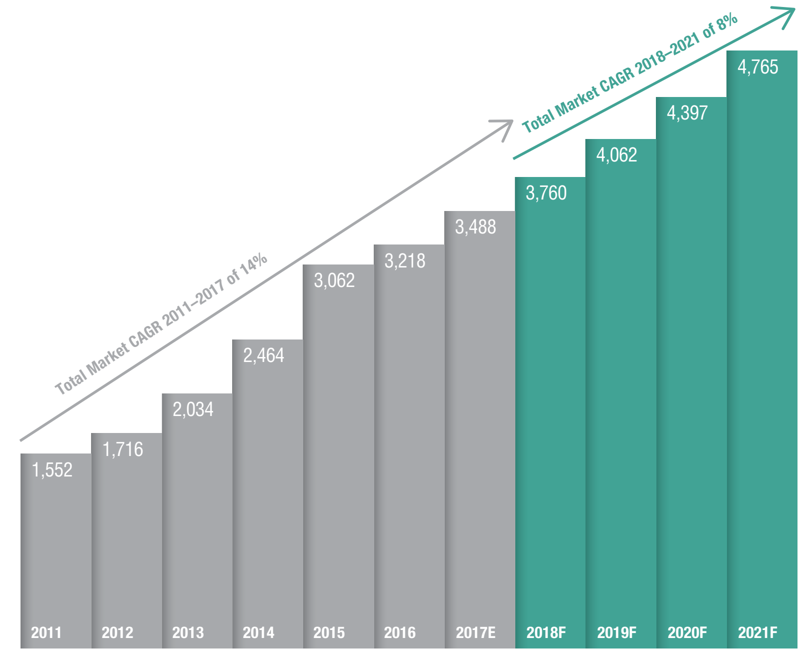
2018 270
2017 255

Bed occupancy rate, referral hospitals[2]

63.3% -1.2ppt

Market Opportunity

Total Healthcare Market (including healthcare services and pharmacy)
GEL millions



Source: Frost & Sullivan analysis 2017

Return On Invested Capital

ROIC[1]

11.0% +0.2ppt

ROIC adjusted[3]

13.9% +1.1ppt

1 ROIC is calculated as EBITDA less depreciation, plus divided by aggregate amount of total equity and borrowed fund.
2 Bed Occupancy rate for referral hospitals is stated excluding newly-launched Regional Hospital and Tbilisi Referral Hospital; the calculation also excludes emergency beds.
3 Return on invested capital (ROIC) is adjusted to exclude newly-launched hospitals and polyclinics that are in roll-out phase.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
LISTED

Healthcare Services

http://ghg.com.ge/

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest healthcare services provider, the largest pharmaceuticals retailer and wholesaler, and the largest medical insurance provider in the fast-growing, predominantly privately-owned, Georgian healthcare market. GHG offers by far the most comprehensive range of inpatient and outpatient services in Georgia. GHG targets the population of the entire country and beyond through its vertically integrated network of 16 referral hospitals and 37 clinics, including 21 community clinics and 16 polyclinics, 270 pharmacies and the largest diagnostics laboratory in Georgia as at 31 December 2018. GHG is the single largest market participant, accounting for 24.9% of total hospital bed capacity in the country as at 31 December 2018. GHG is the largest pharmaceuticals retailer and wholesaler in Georgia, with approximately 30% market share by revenue in 2018. Pharmacy and distribution business has over 2.0 million client interactions per month, with c.0.7 million loyalty card members. GHG is also the second largest provider of medical insurance in Georgia with a 26.7% market share based on gross revenue and has approximately c.230,000 insurance customers at February 2019.

GHG will continue to focus on building its presence throughout the Georgian healthcare ecosystem, while also focusing on enhancing its margins and achieving higher intergroup synergies through various cross-selling initiatives. One of its long-term growth strategies is to capitalise on opportunity that is main advantage of GHG's business model, managing customers on integrated level. By enhancing digital channels and developing a fully-integrated health information system, that will help GHG to manage more efficiently and deliver better care to its customers, GHG targets to extract much of the value of the Group's frontline synergies.

After completing its heavy three-year capex programme, GHG is now focusing on improving cash flow generation and return on invested capital through operating performance improvement across the Group. Strong cash flow generation during 2018 enabled GHG Board to announce the proposed dividend policy reflecting the intent that 20%-30% of annual profit attributable to shareholders will be distributed as dividends. This reflects a combination of both higher earnings and reduced investment requirements over the next few years, while management aims to manage the balance sheet at an average less than 2.0 times net debt to EBITDA from the end of 2020.

GHG's strategic priorities are set out below.

- In the hospitals and community clinics business GHG's aim is to:
  - Continuous improvement of network utilisation, clinical performance and operating efficiency.
  - Rebound healthcare services EBITDA margin up to c.30% in the medium to long term.
  - Achieve a c.30% market share by revenues by beds in the long term (currently c.22.0% share of revenues and c.25.0% share of hospital beds).
  - Roll-out a network of polyclinics to achieve a c.15%+ market share of revenues in the long term (currently 3%).
  - Enlarging the network by adding polyclinics through new launches and strategic acquisitions. Expansion is planned both in Tbilisi and in other regions.
  - Increasing the number of registered patients at polyclinics from current c.150,000 to c.200,000. The increased number of registered customers enhances the cross-selling opportunities within GHG's hospitals and pharmacies.
  - Developing new services: successful roll out of dental clinics and adding other primary care services such as aesthetic.
  - Enhance digital channels.
  - Medical tourism.

GHG Strategic Targets and Priorities

Segment	Referral Hospitals	Community Clinics	Polyclinics	Pharmacy and Distribution	Medical insurance
Market share targets by addressable markets	By Revenue | Beds		By Revenue	By Revenue	By Revenue
Now	c.22% | 25%		c.3%	30%	27%
Long-term	c.30%+		c.15%+	30%+	30%+
Profit and Loss targets in the medium to long term	**Gradually improving to c.30% EBITDA margin**			**9%+ EBITDA margin**	**Combined ratio <97%**

Segment	Referral Hospitals	Polyclinics	Pharmacy and Distribution	Medical insurance	Mega Lab
Key focus areas in the medium term and long term	Successful ramp up of newly-launched hospitals Adding new services Medical tourism Digital channels	Footprint growth Increase the number of registered patients Adding new services Digital channels	Retail footprint growth Margin enhancement Growing wholesale revenue Digital channels and customers loyalty	Increasing market share Increasing profitability Increasing retention rates within the Group	Building effective logistics system Develop retail network Attract B2B clients Digital channels
	Inter-Group Synergies Manage customers on integrated level				

The key strategic focus in the hospital business over the next few years will be to successfully roll-out newly-launched facilities, continue to fill the current gaps in medical services in Georgia and strengthen and expand services in elective care.

- In the pharmaceuticals business GHG's aim is to:
  - Achieve a 30%+ market share, whilst targeting an EBITDA margin to 9.0%+.
  - Adding new pharmacies in the chain – intend to have over 300 pharmacies in the next two to three years.
  - Increasing wholesale revenue by signing new corporate accounts and engaging in state programmes and medical disposable and devices market.
  - Staying focused on gaining additional discounts from manufacturers, subsequently reducing our costs of medicines and products.
  - Enhance the retail margin by launching private label initiatives, increasing the number of loyalty programme users and expanding sales to hospitals.
  - Enhance digital channels.
- In the medical insurance business GHG's aim is to:
  - Maintain the combined ratio to less than 97% over the next few years (currently 94%).
  - Improve synergies by seeking to retain the number of claims of more than 50% (currently c.40.0%).
- Diagnostics:
  - Diagnostics is an important new business line for the Group, where the main goal as of now is to build an effective logistics system for the Group's chain of clinics and hospitals. In the medium to long term GHG will develop retail network, with around 50 blood collection point countrywide and to work on additional B2B contracts.
- Medical Tourism:
  - After improving facilities and standards of care, GHG started developing health tourism by attracting the citizens of neighbouring countries and, conversely, retaining the Georgians currently seeking treatment abroad.

PORTFOLIO COMPANIES CONTINUED
LISTED

BANK OF GEORGIA

Banking

Investment Rationale

- The first entity from Georgia to be listed on the premium segment of the Main Market of the London Stock Exchange (LSE: BGEO) since February 2012.
- High standards of transparency and governance.
- Leading market position[1] in Georgia by assets (34.7%), loans (33.5%), client deposits (33.9%) and equity (29.2%).
- Market with stable growth perspectives.
- Strong brand name recognition and retail banking franchise.
- Sustainable growth combined with strong capital, liquidity and robust profitability.
- Outstanding ROAE performance.
- Dividend per share growing at 34.3% CAGR over the last eight years.

Value Creation Potential

- Loan book growth 15-20%.
- Maintenance of dividend pay-out ratio within 25-40%.

Value Realisation Outlook

- Monetisation of the existing stake through sales.

Ownership

Georgia Capital owns 19.9% of Bank of Georgia Group PLC. As long as Georgia Capital's stake in BoG is greater than 9.9%, it will exercise its voting rights in Bank of Georgia in accordance with the votes cast by all other shareholders on all shareholder votes.

Financial Metrics

ROAE[2]
26.1%

NIM
6.5%

NPL coverage
90.5%

Banking business loan book (GEL millions)
9,398 +21.4%

2018 9,398
2017 7,741

Retail banking growth
24.2%

Cost/Income
36.7%

Tier 1 capital adequacy ratio
12.2%

1 Market data based on standalone accounts as published by the National Bank of Georgia (NBG) at: **www.nbg.gov.ge**.
2 Adjusted for demerger related expenses and one-off impact of re-measurement of deferred tax balance.

Operating Metrics

Retail clients (millions)
2.4 +5.4%

2018 2.4
2017 2.3

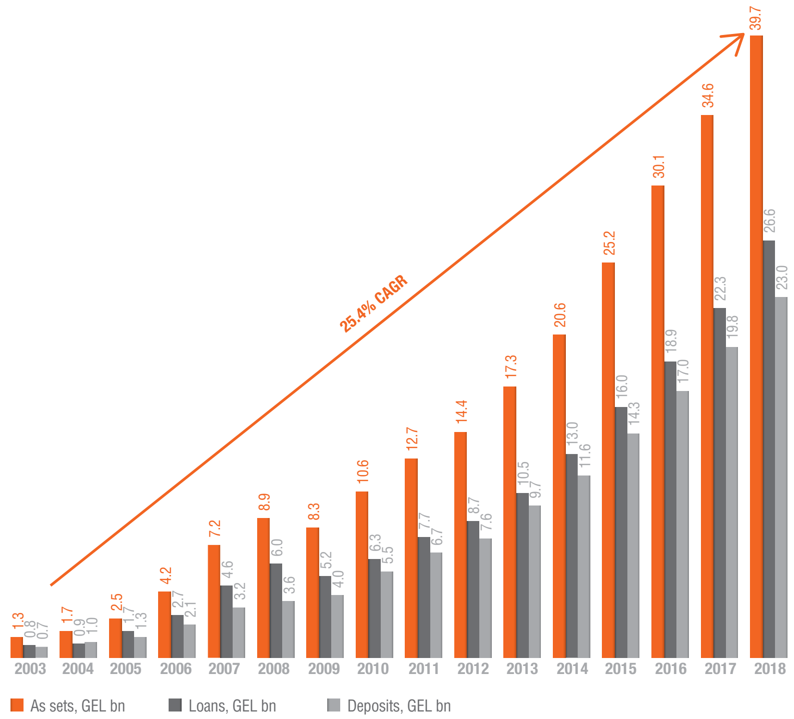
Digital transactions (millions)[2]
48.4 +32.2%

2018 48.4
2017 36.6

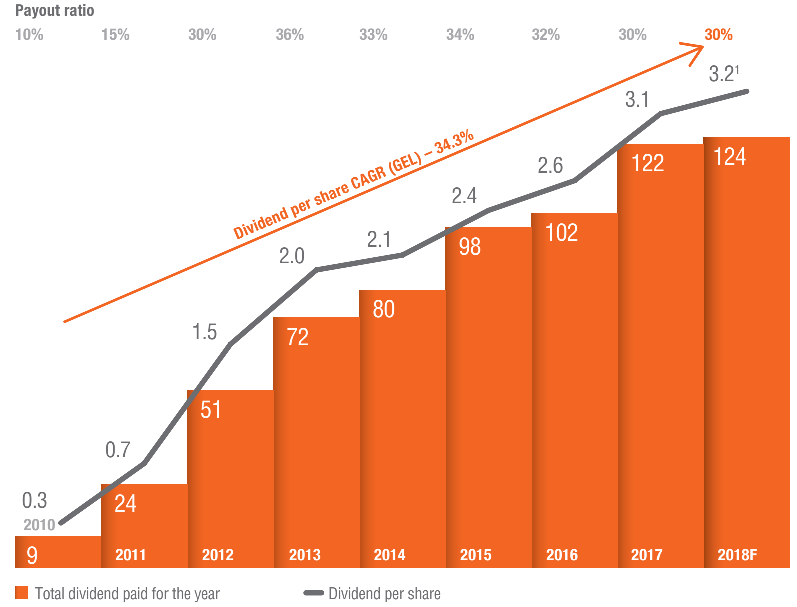
Volume of internet bank/mobile bank transactions (GEL millions)
3,991 +91.1%

2018 3,991
2017 2,088

Market Opportunity



Source: NBG



1 Adjusted for 19.9% BOG share issuance, actual dividend per share was 2.44 in 2017 and expected to be 2.55 in 2018.
2 Excluding transactions through tellers/operators and express pay (self-service) terminals.

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PORTFOLIO COMPANIES CONTINUED LISTED

Bank of Georgia (BoG) Overview
https://bankofgeorgiagroup.com/
Bank of Georgia Group is a Georgia-focused banking business with an impressive track record of delivering superior returns and maximising shareholder value. JSC Bank of Georgia, the systemically important and leading universal Georgian bank, is the core entity of Bank of Georgia Group that offers **Retail Banking, Corporate Investment Banking** and **Wealth Management** services. Among the ancillary business lines are leasing, payment services and banking operations in Belarus through **BNB**. BoG is well positioned to benefit from the superior growth of Georgian economy. The key metrics to measure Banking Business performance are: (1) Return on Average Equity (ROAE) targeted at 20%+; (2) 15-20% growth of its loan book; and (3) regular dividends with targeted 25-40% dividend payout ratio.

BoG is also well positioned in terms of both capital and liquidity to deliver on its growth strategy.

BoG has two primary segments, of which Retail Banking has been the major driver of the Banking Business growth. In Retail Banking BoG aims to harness an optimised branch operating model to effectively serve each target segment of its emerging, mass and affluent clients based on their needs. In Corporate Investment Banking BoG has successfully achieved its risk de-concentration and loan portfolio repositioning targets by the end of 2017 and continues its corporate loan book growth, as well as increasing the share of fee and commission income in the medium term. Going forward, BoG expects the growth of the total loan book to be more balanced between Retail Banking and Corporate Investment Banking. In Wealth Management, under Corporate Investment Banking, BoG is focused on strengthening and promoting its regional private banking franchise. BoG is well positioned to become a regional finance centre, where high net worth individuals are confident to place their funds.

BoG's strategic priorities are:

- 20%+ ROAE.
- Loan book growth of 15-20%.
- Robust capital management.

Capital Position
Aiming to maintain +200bps buffer over minimum regulatory requirement; maintenance of regular dividend payouts, aiming 25-40% dividend payout ratio; track record of GEL 500 million+ cash dividend paid since 2013, with payout ratio above 30% over past six years. The Bank had management trust buybacks of GEL 52.0 million in 2018.

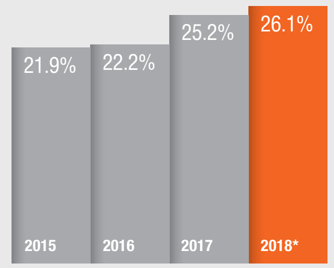
DELIVERING ON BoG STRATEGY

SUCCESSFUL TRACK RECORD OF DELIVERING STRONG RESULTS

BANKING BUSINESS KEY TARGETS

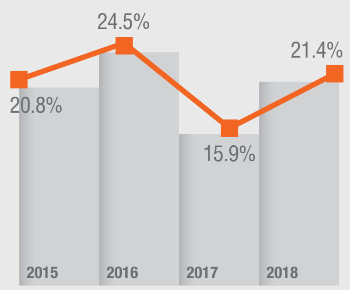
ROAE

20%+



Loan Book Growth

15-20%



ROBUST CAPITAL MANAGEMENT TRACK RECORD

Capital position: aiming to maintain +200 bps buffer over minimum regulatory requirement

+200bps

Regular dividends: linked to recurring profitability. Aiming 25-40% dividend payout ratio

25-40%

GEL 500 million+ cash dividend paid since 2013, with payout ratio above 30% over past six years

30%+

Management trust buybacks: GEL 52.0 million share buybacks in 2018

52.0m

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

Water Utility

Investment Rationale

- Natural monopoly in Tbilisi and surrounding area.
- Utilities sector represents 3% of total Georgian economic output with c.8.2% CAGR (2006-2017).
- Stable regulatory environment with fair return on investment
- Stable cash collection rates.

Value Creation Potential

- EU harmonisation reforms in progress in utilities sector in accordance with Georgia's undertaking under the Association Agreement with the EU, expected to drive water tariffs up.
- High GDP growth combined with rapid tourism growth drives high demand from corporates.
- Energy market deregulation expected to positively affect electricity sales price and market liquidity.
- Upside opportunity from pursuing cost efficiencies by targeting decrease in self-consumption of electricity in order to free up energy for third-party electricity sales.
- Growing dividend payment capacity.

Value realisation outlook

Potential IPO together with the renewable energy business.

Ownership

Water Utility is 100% owned through GGU.

Financial Metrics

Total revenue (GEL millions)

149.1 +10.5%

2018	149.1
2017	135.0

Utility revenue (GEL millions)

131.8 +10.9%

2018	131.8
2017	118.9

Energy revenue (GEL millions)

9.1 -7.2%

2018	9.1
2017	9.8

Other revenue (GEL millions)

8.3 +30.3%

2018	8.3
2017	6.3

Total EBITDA (GEL millions)

83.4 +14.9%

2018	83.4
2017	72.6

Operating Metrics

Water sales (m^3 thousands)

179,819 +3.5%

2018	179,819
2017	173,820

Electricity consumption (kwh thousands)

237,145 -18.4%

2018	237,145
2017	290,714

Electricity generation (kwh thousands)

323,847 -5.2%

2018	323,847
2017	341,528

New connections

5,015 NMF

2018	5,015
2017	2,347

Return On Invested Capital[1]

ROIC[1,2]

10.3% -1.9ppt

1 ROIC is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.
2 Regulated WACC of 15.99% set for a three-year regulatory period (2018-2020), up from previous 13.54%.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

Water Utility Overview

The water utility business has a significant opportunity to increase its operational cash flow over the next few years through cost efficiencies. The business reduces self-consumption of energy, hence freeing up energy for third-party sales. The efficiency combined with the electricity market deregulation is leading to more favourable electricity sales tariffs.

The Electricity Law was amended in June 2017, deregulating all HPPs below 40MW and gradually moving the large industrial consumers out of the regulated pricing scheme to the free market. More than ten large industrial consumers with monthly electricity consumption of 5GWh or more are expected to join the free market in 1H19 and all consumers with 5kV+ lines are planned to gradually follow. After these changes, direct consumers will constitute approximately 40-50% of the total demand and will have to secure electricity from generating companies directly or from traders, which will enable the development of a liquid deregulated electricity market.

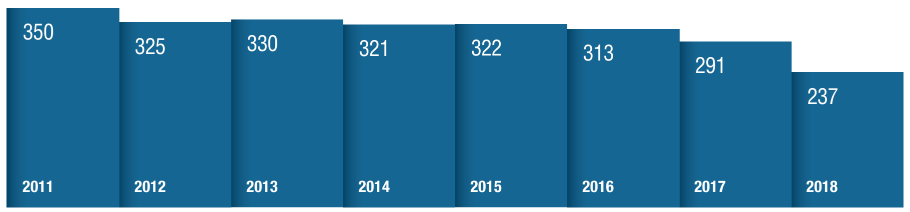
GGU has been investing heavily in its infrastructure, thereby replacing the depreciated asset base over time and achieving continuous growth in the Regulatory Asset Base (RAB). 2017 and 2018 have been the most capital-intensive years for the business, which invested more than GEL 300 million in the upgrade of existing and the development of substantial new water utility infrastructure. GGU's investment in infrastructure significantly improves the rendering of water supply and wastewater services to customers and contributes to achieving operational efficiencies.

In 2017, GGU's regulatory body approved increased tariffs for water supply and wastewater services for a three-year regulatory period based on a new methodology, which is in line with international best practices. New tariffs provide fair return on investment, as well as compensating for eligible operating expenses. Tariffs in Tbilisi have increased by 23.8% for residential customers and decreased by 0.4% for legal entities, serving as a first step towards gradually unifying WSS tariffs. Regulated WACC of 15.99% has been set for a three-year regulatory period (2018-2020), up from previous 13.54%.

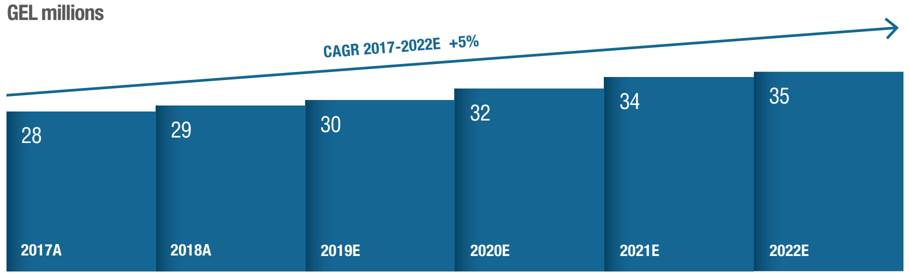
The water utility business is preparing for a potential IPO together with the Renewable Energy and plans to use IPO proceeds to fund new renewable energy projects.

GGU has been successfully growing EBITDA and reaching its targets for several years in a row and the Company is well on track to further increase on the back of organic business growth and by tapping into additional efficiencies in the self-consumption of electricity. Efficient management of capital and strong and stable cash flow generation is expected to enable the water utility business to sponsor steadily increasing dividend payouts to shareholders and to prepare the combined water utility and renewable energy business for a potential IPO in the medium term.

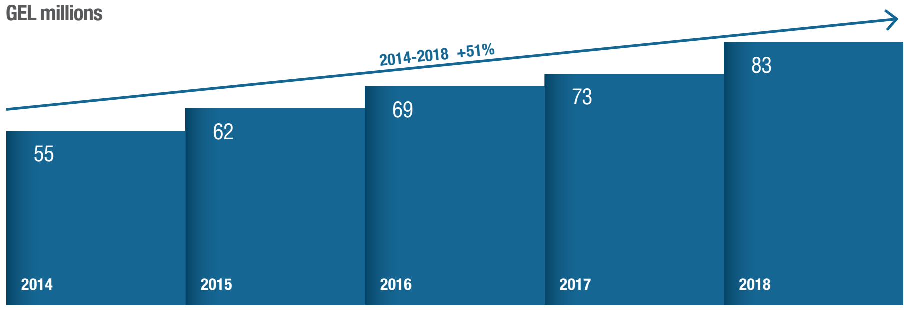
Electricity Consumption
KW/H millions



Projected Dividends Distribution
GEL millions



EBITDA Track Record
GEL millions



Capex[1] Forecast Through 2022 (GEL millions)

	2017A	2018A	2019F	2020F	2021F	2022F
Maintenance capex	23	23	23	23	23	22
Development capex	114	148	65–75	45–58	35–50	30–48
Total capex	**137**	**171**	**88–98**	**68–81**	**58–73**	**52–70**

1 Including VAT.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

Housing Development

Investment Rationale

The shortage of housing from Soviet-era combined with Georgian tradition of multi-generations living under one roof, average household size is significantly higher at 3.3 compared to Eastern or Western Europe.

Most of the housing stock dates back to the Soviet era and is amortised.

In line with the economic growth, urbanisation levels are increasing from the current low level.

Value Creation Potential

Asset light strategy.

Unlock land value by developing housing projects.

Development of third-party land – franchise m² brand name. Undisputed market leading platform of at least 2,500[2] apartments to be delivered in four to five years.

Earn Construction management fees from third-party projects and bring construction works in-house.

Value Realisation Outlook

Cash out by transformation into real estate asset manager.

Ownership

Housing Development is 100% owned through m².

Financial Metrics[1]

Gross revenue from apartment sales (GEL millions)

94.9 +2.5%

2018	94.9
2017	92.6

EBITDA (GEL millions)

8.9 -59.6%

2018	8.9
2017	22.0

Operating Metrics

Number of apartments sold

146 -76.8%

2018	146
2017	629

NSA (square metres)[3]

220,876

2018	220,876
2017	223,272

Number of ongoing projects

2

2018	2
2017	4

1 Housing development business' functional currency is US dollars.
2 2,500 apartments relate to the signed Tbilisi Airport Highway deal.
3 Net sellable area, representing total square metres, including both sold and available for sale areas.

Return On Invested Capital

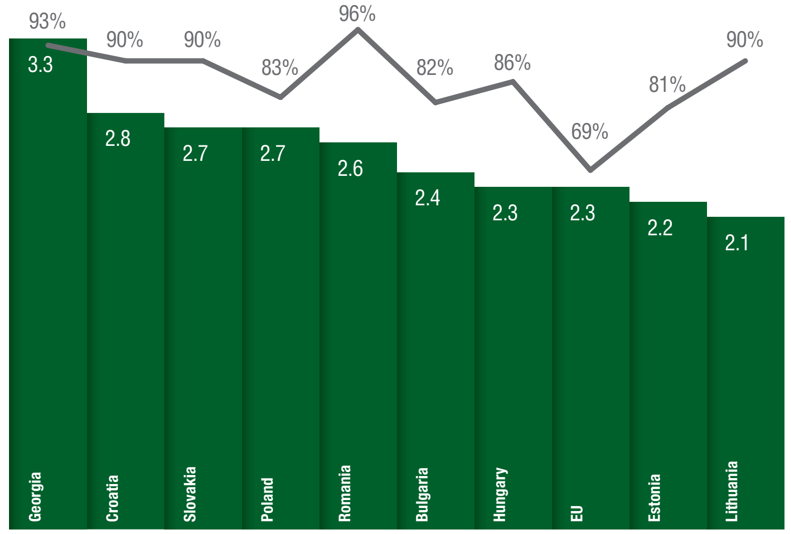
ROIC[1]

4.1% -6.4ppt

1 ROIC is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.

Market Opportunity

Average Household Size and Home Ownership (2016 data)



Average household size — Home ownership

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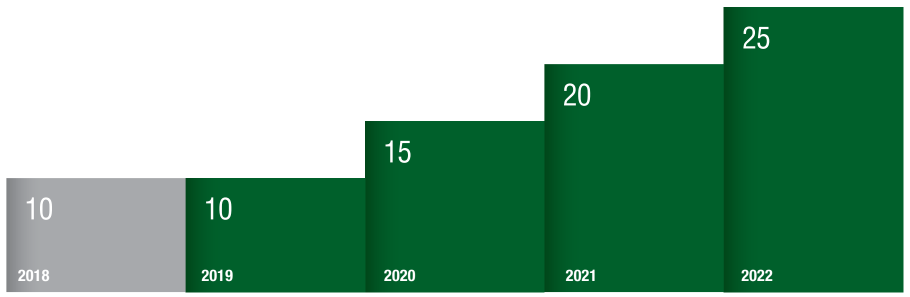
PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

Housing Development Overview
For the past couple of years, m^2 has established itself as one of the most recognisable and trustworthy residential housing brands in the country. The vertical integration of the construction arm into m^2's business model enables the Company to generate fee income from construction management from franchised deals and third-party constructions. m^2 focuses on franchising the m^2 brand and uses its platform to develop third-party land plots as part of its "asset light" strategy. m^2 has sold 2,822 apartments worth US$244.7 million since 2011 with 99.7% of apartments sold in nine successfully completed projects and 86.6% sales in two ongoing projects.

- **Developing remaining residential land bank**. As a residential real estate developer, m^2 targets mass market customers by introducing high-quality and comfortable living standards in Georgia and making them affordable through its well-established branch network and sales force. The total value m^2 is aiming to unlock from the remaining residential land bank by 2020 is US$23.0 million with 3,397 apartments (in addition to 49 remaining apartments to be sold in the existing 11 projects, both completed and ongoing). m^2 does not expect the land bank to grow, as the Company's strategy is to utilise its existing land plots within three to four years and, in parallel, start developing third-party land plots under franchise agreements.
- **Franchising real estate development in Georgia.** m^2 focuses on franchising its well-established brand to develop third-party land plots and generate a fee income. While following its "asset light" strategy, m^2 will capitalise on its:
  - **Strong brand name.** m^2 enjoys 92% customer brand awareness among real estate developers in Georgia.
  - Pricing power. Under m^2 brand apartments can sell at a higher price than under other brands. m^2 has development expertise that the Company uses to achieve efficiency in planning and design stages, which drives revenues as well as margins. Moreover, owing to a vertical integration of its construction arm, m^2 has control over the largest part of a development's cost base, which enables m^2 to achieve construction and project development efficiencies.
  - **Sales.** m^2 is distinguished by its ability to accomplish strong sales performance through dedicated sales personnel and access to finance. Pre-sale reduces the equity needed to finance the projects.
  - **Execution.** m^2 has an excellent track record for projects completed on time and to budget. The Company manages the entire process from development and construction through to apartment handover and property management services.
  - **Access to finance.** m^2 has successfully cooperated with Development Financial Institutions (DFIs), has also been active in local fixed-income instruments market and has issued US dollar-denominated bonds in the local market. Since 2012, m^2 has raised approximately US$100 million of debt financing, of which US$45 million is from international financial institutions.
- **Construction management.** m^2 historically outsourced construction and architecture works and focused on project management and sales. In 2017, m^2 acquired BK Construction LLC, a local real estate construction company, with the aim to bring the construction works in-house and achieve cost and project development efficiencies. m^2 plans to fully utilise the benefits of this vertical integration and boost fee income generation from franchise deals and third-party constructions.

Projected Dividend Distribution Through 2022
GEL millions



PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

P&C Insurance

Investment Rationale

- Significantly underpenetrated insurance market in Georgia.
- Market leader with a powerful distribution network of point of sale and sales agents.

Value Creation Potential

- Compulsory border TPL effective from 1 March 2018.
- Local TPL expected to kick in from 2019 and provide potential to access untapped retail CASCO insurance market with only 4% existing penetration.
- First mover advantage on underpenetrated SME segment.
- Growing dividend payout capacity.

Value Realisation Outlook

- Potential trade sale or IPO.

Ownership

- P&C Insurance is 100% owned through Aldagi.

Financial Metrics

Earned premiums, gross (GEL millions)

90.4 +5.2%

2018 90.4
2017 85.9

Net income[1] (GEL millions)

17.7 +8.8%

2018 17.7
2017 16.3

Combined ratio

75.4%

Loss ratio

38.2%

1 Adjusted for non-recurring items.

Operating Metrics

Active corporate clients

3,101 +45.9%

2018 3,101
2017 2,125

Corporate insurance policies written[1]

60,277 -8.6%

2018 60,227
2017 55,448

Active retail clients

96,247 NMF

2018 96,247
2017 45,598

Retail insurance policies written

150,246 +50.4%

2018 150,246
2017 99,884

1 Excluding credit life insurance.

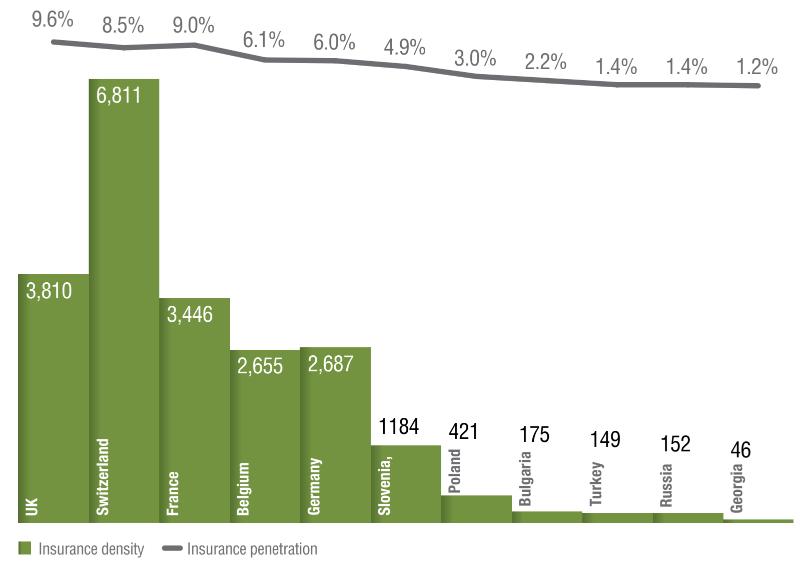
Return On Average Equity

ROAE[2]

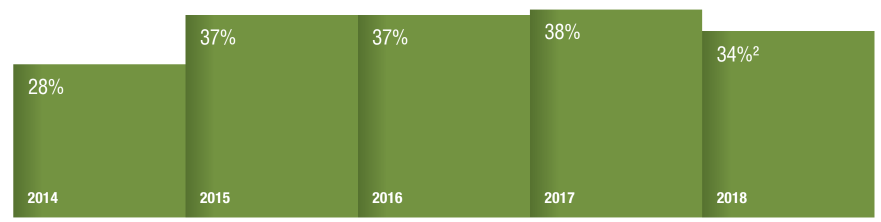
34.4% -3.8ppt

Market Opportunity

Georgia P&C
Penetration 0.6%, Density US$25



ROAE Track Record



2 Adjusted for non-recurring items.

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE

P&C Insurance Overview
Over nearly three decades in the Georgian P&C insurance market, Aldagi has achieved almost universal brand awareness, leading positions in retail insurance services, the largest product portfolio and exceptional financial strength. The Company has doubled its retail portfolio over the last three years, outperformed market growth by 6% and achieved a ROAE of 34%. Based on the latest available market data as at 30 September 2018, Aldagi continues to be the most profitable insurance company in the local market with 38% share of the insurance industry profit and a market share of 32.4% based on gross premiums earned.

The current low level of insurance market penetration in Georgia (1.2%, of which 0.6% relates to P&C insurance and 0.6% to medical insurance) provides enormous potential of growth and Aldagi is well-equipped to capture these opportunities.

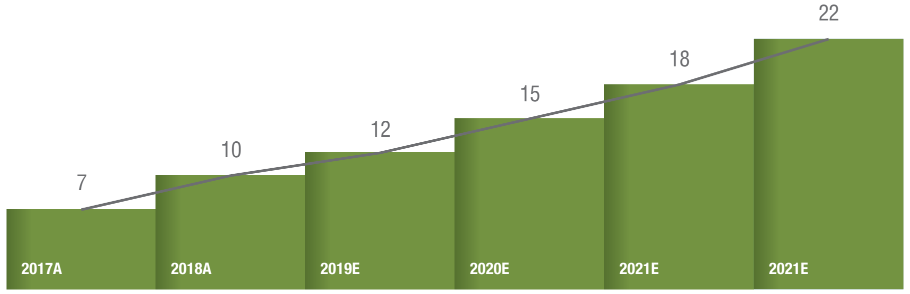
The Company plans to increase the insurance business profitability by strategically focusing on each of its three main business lines set out below:

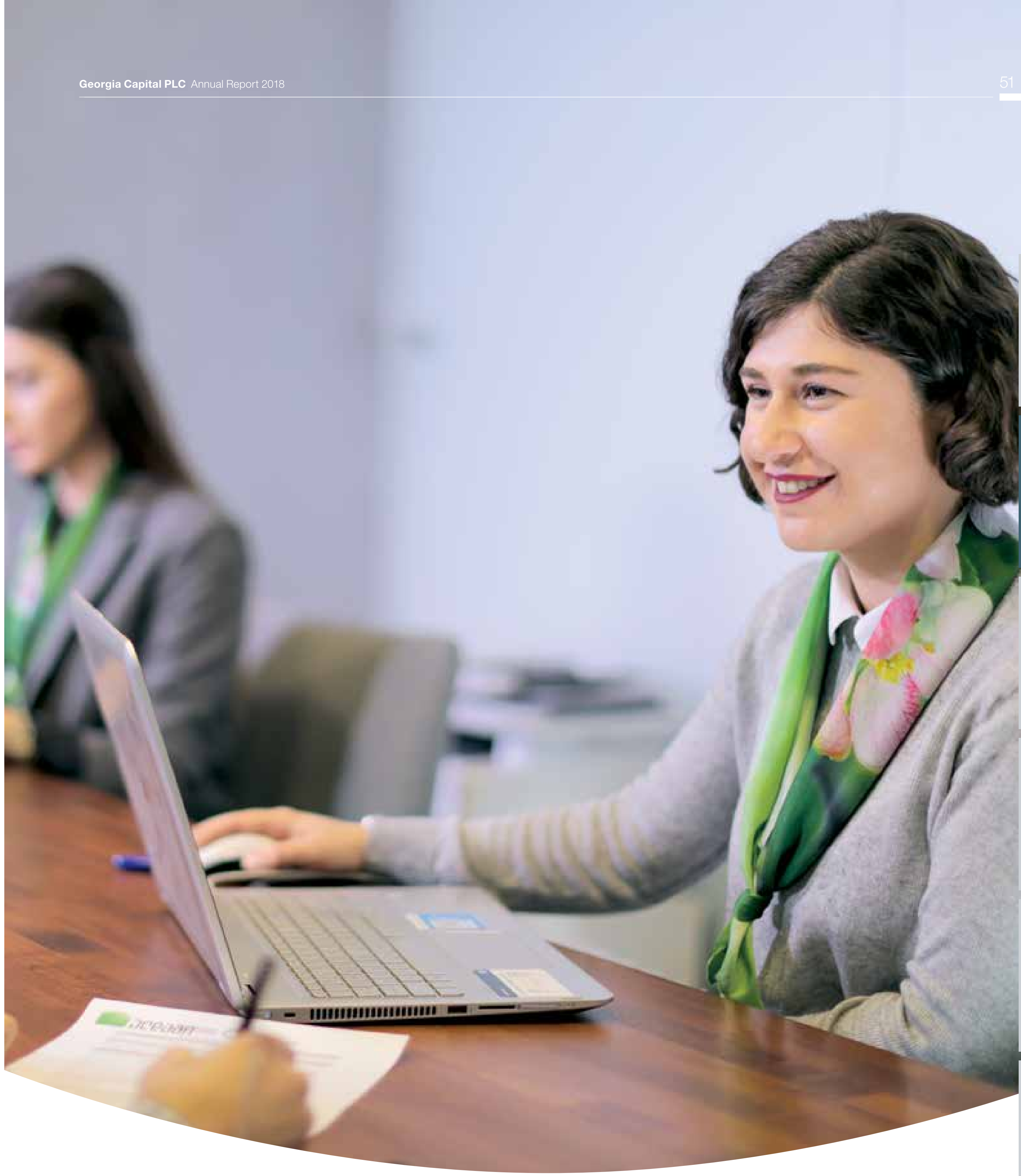
- **Retail customers.** The Georgian retail insurance market offers ample room for growth, as most of its potential is yet to be unlocked. Motor insurance accounts for 58% of the total retail insurance market in Georgia, of which Aldagi's share is 32%. The motor insurance segment has great potential to increase, as only 4% of registered cars are insured on the local market. Moreover, compulsory Border Motor Third Party Liability (MTPL) insurance has recently become effective from March 2018. Furthermore, a new law requiring a mandatory local MTPL for all vehicles registered in Georgia is expected to launch in 2H19 and significantly boost retail market penetration. In 2017, Aldagi actively worked on developing new products and introduced livestock insurance to underpenetrated rural areas. The Company came up with an online travel insurance product, with a unique combination of coverage and competitive pricing. Aldagi partnered with Public Service Hall, whose clients can electronically acquire affordable insurance for any property registered on the public registry. Aldagi aims to further strengthen its market leadership position by harnessing its digital insurance platform. The Company intends to execute all of its processes and procedures, including issuance of e-policies, remote claims regulation and building web/mobile customer profiles, principally through digital channels.
- **SME segment.** Georgia's insurance market for small and medium-sized enterprises is currently in its infancy. Aldagi's strategy is to focus the attention of its experienced retail sales force (in addition to the corporate sales department) towards entering this underpenetrated segment. Aldagi sees significant potential to grow this segment of the portfolio by developing tailor-made products and providing them through digital portals, created especially for SME clients, and its multi-channel distribution network.
- **Large corporates.** Although the level of insurance penetration within the corporate segment is relatively high compared to retail and SME segments, a combination of favourable Georgian macroeconomic conditions, a good investment climate, stable economic growth and an increase in infrastructure projects will further increase customer demand for insurance products.

Expansion Into Car Service Business – Opportunity to Develop Unique Platform with Significant Synergy Potential
In July 2018, we launched another greenfield project when the Georgia Capital entered the periodic vehicle inspection business, a regulated service industry, which is expected to become a GEL 50-55 million market from 2019. The business ramp up, fully financed by debt, was completed in the beginning of March, 2019 and the business targets to reach 35%+ market share once fully operational, while supporting environmental sustainability and road safety across the country. In the first year of operations the business aims to serve between 250,000 to 300,000 vehicles, while targeting 400,000 to 450,000 vehicles annually from 2020. The compound annual growth rate for registered vehicles in Georgia during the years 2012-2016 was 8.6%, which makes vehicle inspection an attractive emerging service business. Georgia Capital expects to report the business separately within Georgia Capital's earnings releases starting from 1H19.

Going forward Aldagi group will be focusing on automotive business by creating car ecosystem – moving from concentrated business to a diversified model combining many different car-related services, such as, insurance, technical inspection, auto service, car import, car washes, auto leasing, and auto and parts auction. By combining several areas of expertise and exploiting synergies between the businesses, Aldagi will be able to offer its clients a full range of solutions specifically adapted to the diversity of their requirements. Creating this ecosystem of partnerships, highly interdependent by product or service network will be our strategic key success factor.

Projected Dividends Distribution Through 2022 (GEL millions)





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PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

Renewable Energy

Investment Rationale

Underdeveloped energy market with potential for significant growth – low per capita power usage.

Cheap to develop – up to US$1.5 million for hydro and up to US$1.4 million for wind development per 1MW.

Value Creation Potential

Opportunity to establish a renewable energy platform with 500MW operating capacity over the medium term (500MW target includes existing energy assets of water utility business).

Energy consumption has grown at c.5.7% CAGR in last ten years. We expect energy consumption to grow further at least by CAGR 5%, translating into doubling of the consumption over the next 10-15 years, while supply growth has been slower and electricity deficit is anticipated to continuously increase.

Stabile dividend provider capacity in the medium term.

Value Realisation Outlook

Potential IPO together with the water utility business.

Ownership

Georgia Capital owns 65% in energy business, remaining 35% is owned by Austrian company RP Global – an independent power producer with 30 years of experience of developing, building, owning and operating renewable power plants globally.

Financial Metrics

Development capex (GEL millions)

68.3 -10.9%

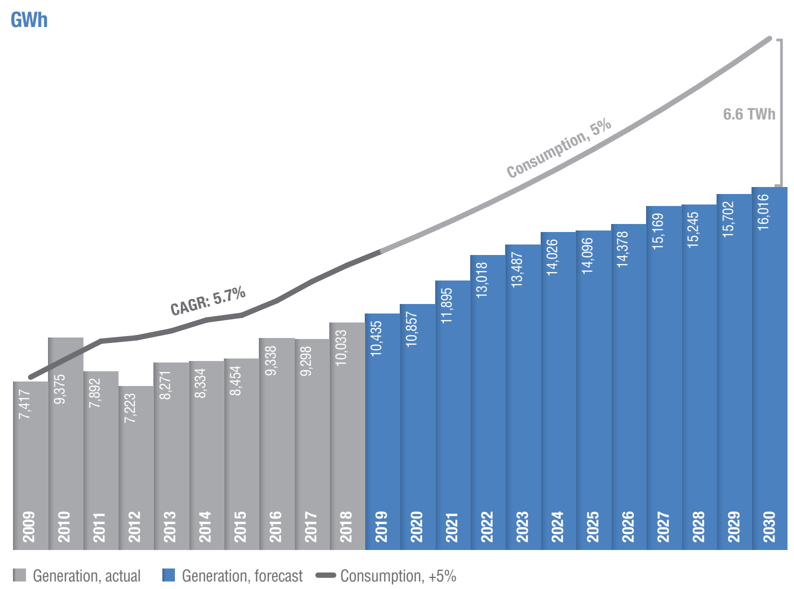
Return On Invested Capital[1]

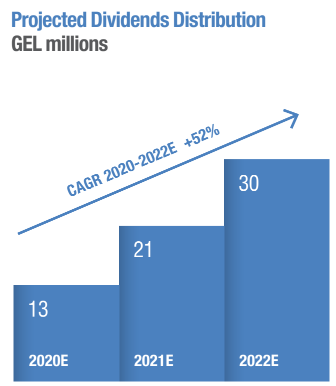
ROIC[1]

-0.9% +3.4ppt

1 ROIC is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.

Market Opportunity





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PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

Renewable Energy Overview
Renewable Energy continues to build ground for its 500MW[1] operating capacity target, developing greenfield renewable projects and in parallel seeking acquisition opportunities among existing projects, which are either commissioned or under feasibility stage. Renewable Energy is on track to fully commission 50MW Mestiachala HPPs in 1H19. In addition, the Company has 46MW of hydro projects and 110MW of wind projects at advanced stage of development, while c.74MW of HPPs and 100MW of wind are also in the pipeline to be further developed.

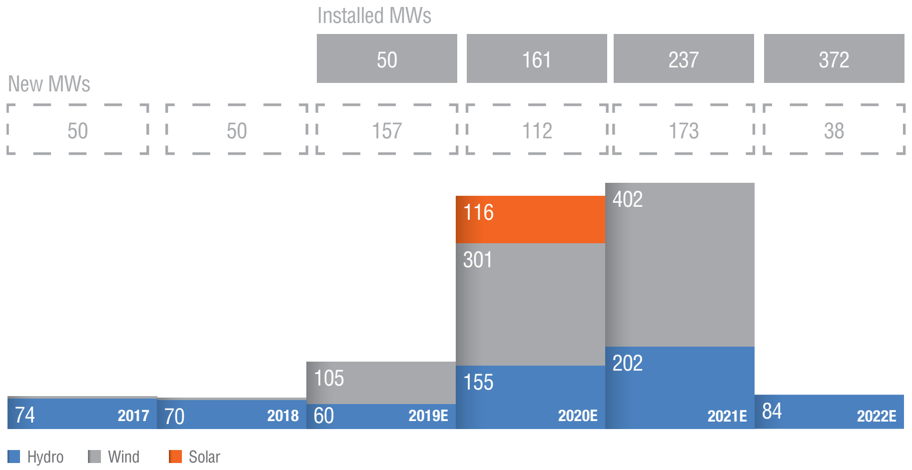
The management foresees growing electricity deficit in Georgia and favourable regulatory conditions, considering steps taken towards full market deregulation, the Company targets further expansion by seeking acquisition opportunities and new greenfield projects. On this basis, renewable energy business aims to establish renewable energy platform with strong cash flow generation and profitability, expected to enable renewable energy business to sponsor steadily increasing dividend payouts to shareholders and to prepare the combined water utility and renewable energy business for a potential IPO in the medium term.

1 Includes existing energy assets of water utility business.

Renewable Energy Project Pipeline as of 31 December 2018

Project	MWs	Construction commencement	Target commissioning[3]	Target ROIC	Generation capacity (GWh)[2]
Mestiachala HPPs	50	1H17	1H19	13.2%	171
Zoti HPPs	46	2H19	1H21	12.9%	164
Bakhvi 2 HPP	36	1H20	1H22	13.5%	127
Racha HPPs	38	1H21	1H23	14.7%	165
Wind Tbilisi	57	2H19	2H20	13.3%	179
Wind Kaspi	54	2H19	2H20	14.1%	215
Wind (other)	99	1H21	1H22	12.5%	306
Solar	30	TBD	TBD	10.1%	64
Total	**410**				**1,391**

Renewable Energy Capex[4] Forecast



2 Generation capacity refers to target net annual generation.
3 Target commissioning dates are indicative and subject to regulatory procedures.
4 Capex figures are presented including VAT.

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

Hospitality and Commercial Real Estate

Investment Rationale

Record number of tourists visiting Georgia every year: 4.8 million visitors in 2018, up 16.9% y-o-y, 10.5% CAGR over the last five years; tourism inflows up 18.4% y-o-y from US$2.7 billion to US$3.2 billion in 2018; 13.2% CAGR over the last five years.

Value Creation Potential

Grow Portfolio of rent-earning assets through real estate developments and opportunistic acquisitions.

Reach more than 1,000 hotel rooms over the next three years. Currently approximately 1,121 rooms of which 152 are operational and c.969 are in the pipeline. Targeting mostly 3-star and 4-star hotels.

Value Realisation Outlook

We aim to spin-off yielding properties as a listed REIT managed by m².

Ownership

Hospitality and Commercial Real Estate is 100% owned through m².

Financial Metrics[1]

Gross profit from operating leases (GEL millions)

4.6 +50.8%

Gross profit from hospitality services (GEL millions)

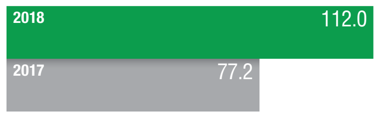
1.9 NMF

Total net operating income (GEL millions)

31.5 NMF

Commercial real estate portfolio (GEL millions)

112.0 +45.1%



1 Hospitality and commercial real estate business functional currency is US dollars.

Operating Metrics

Yield

9.9% +0.8ppt

Occupancy rate

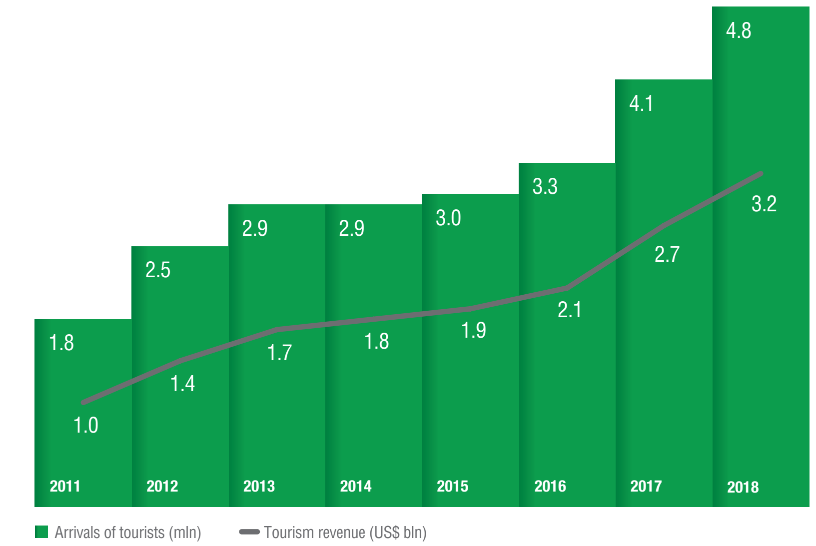
90.1% +1.8ppt

Leased area (square metres)

22,331 +1,854 square metres

Market Opportunity

Arrivals of tourists and tourism revenue, Georgia



Source: Georgian National Tourism Administration

Return On Invested Capital[1]

ROIC

16.4% +12.5ppt

1 ROIC is calculated as EBITDA less depreciation, plus divided by aggregate amount of total equity and borrowed fund.
2 Target opening dates remain subject to adjustment following passing of the design stage.

Hotel Rooms Pipeline as of 31 December 2018[2]

Hotel	Location	Rooms	Target opening date	Current stage	Total cost US$ '000	Target ROIC
Ramada Encore Kazbegi	Capital	152	Q1-2018	Operational	12,066	18.0%
Gudauri	Regions	121	Q2-2019	Construction	10,809	12.8%
Seti Square Mestia, Svaneti	Regions	72	Q4-2019	Design	5,915	16.2%
Ramada Melikishvili	Capital	125	Q1-2020	Construction	12,352	15.7%
Gergeti	Capital	100	Q3-2020	Construction	23,473	13.7%
Ramada Kutaisi	Regions	121	Q4-2020	Design	9,535	17.5%
Mestia, Svaneti	Regions	120	Q1-2021	Design	10,096	15.8%
Telavi	Regions	130	Q2-2021	Design	12,735	13.4%
Javakhishvili	Capital	120	Q2-2021	Design	14,144	13.8%
Kakheti Wine and Spa	Regions	60	Q3-2021	Design	7,500	17.3%
Total		**1,121**				

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PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

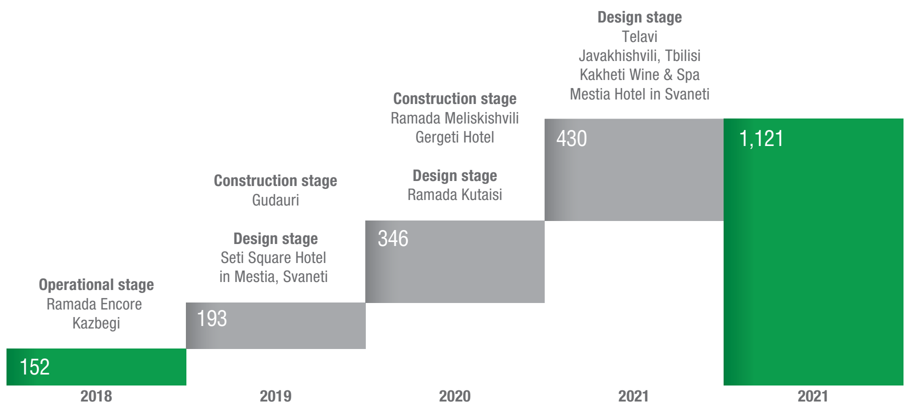
Hospitality and Commercial Real Estate Overview

m² manages a yielding real estate asset portfolio, which it accumulated through its developments under the housing development business, as well as opportunistic investments. The tourism sector in Georgia has demonstrated significant growth and it has potential to place itself on the world map as a high-quality tourist destination. To capitalise on growing touristic activities in the country, m² plans to increase its presence in the hospitality sector and reach the total combined room count of more than 1,000 rooms.

Growing yielding business. m² will continue growing its yielding asset portfolio through:

- **Commercial space**. enhancing the income-generating asset portfolio by incorporating commercial elements in its residential developments and opportunistically acquiring and/or developing high street retail, commercial and office space. In addition to rental income, these assets can also deliver capital appreciation.
- **Hotel development.** m² launched a 3-star Ramada Encore hotel in Tbilisi in March 2018 under a development agreement with Wyndham. The business has three hotel projects under construction – a luxury hotel on Gergeti street in Tbilisi with an expected 100 rooms, Melikishvili Avenue hotel in Tbilisi with an expected 125 rooms and a hotel in the leading ski resort of the Caucasus region, Gudauri, with an expected 121 rooms. Additionally, there are six hotels in a design stage: (a) a hotel in Telavi with an expected 130 rooms; (b) a hotel in Kutaisi with an expected 121 rooms; (c) a hotel in Akhasheni village, Kakheti, in eastern part of Georgia well-known to tourists for wine destination with an expected 60 rooms; (d) a business style 4-star hotel in old Tbilisi with an expected 120 rooms; and e) two hotels in mountainous Svaneti region with an expected 192 rooms in total. The total capital needs to complete the construction and development of the hotels in the current pipeline is estimated at GEL 247.5 million.

The Hospitality Business' Hotel Rooms Development Pipeline
Rooms to target



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PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

Beverages

Investment Rationale

High growth sector, which has doubled during the last five years to GEL 1.9 billion market.

Beer consumption at one of the lowest levels in the wider region at 27.5 litres per capita.

50% CAGR growth in soft drinks export over the last three years.

Georgia's favourable trade regimes (free trade agreements with EU and China) provide potential for export growth.

Value Creation Potential

Best-in-class distribution network platform.

Ten-year special right from Heineken to produce and sell beer in Georgia, Armenia and Azerbaijan.

Grow vineyard base to 1,000 hectares, from current 436 hectares, over the next three years.

Grow production capacity from current 6.1 million wine bottles per year up to 16.6 million at the end of 2019.

Value Realisation Outlook

Trade sale either of the whole business or parts.

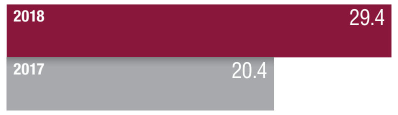
Ownership

Georgia Capital owns 80% of Beverages.

Financial Metrics

Wine revenue (GEL millions)

29.4 +43.7%



Beer revenue (GEL millions)

29.3 +63.5%

Wine EBITDA (GEL millions)

7.2 +31.8%

Beer EBITDA (GEL millions)

(13.8) NMF

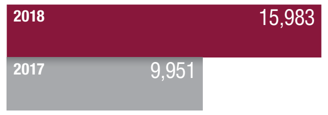
Operating Metrics

Wine sales (bottles '000)

4,346 +22.2%

Beer sales (litres '000)

15,983 +60.6%



Return On Invested Capital[1]

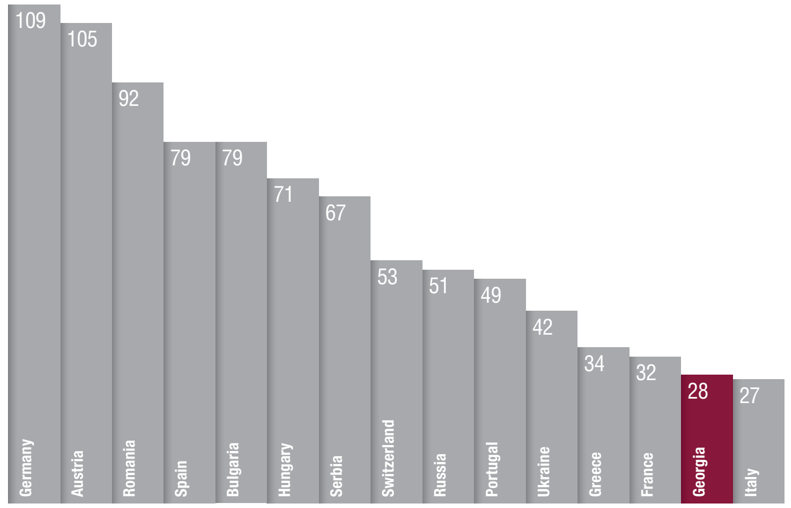
ROIC

-11.4% -7.8ppt

1 ROIC is calculated as EBITDA less depreciation, plus divided by aggregate amount of total equity and borrowed fund.

Market Opportunity

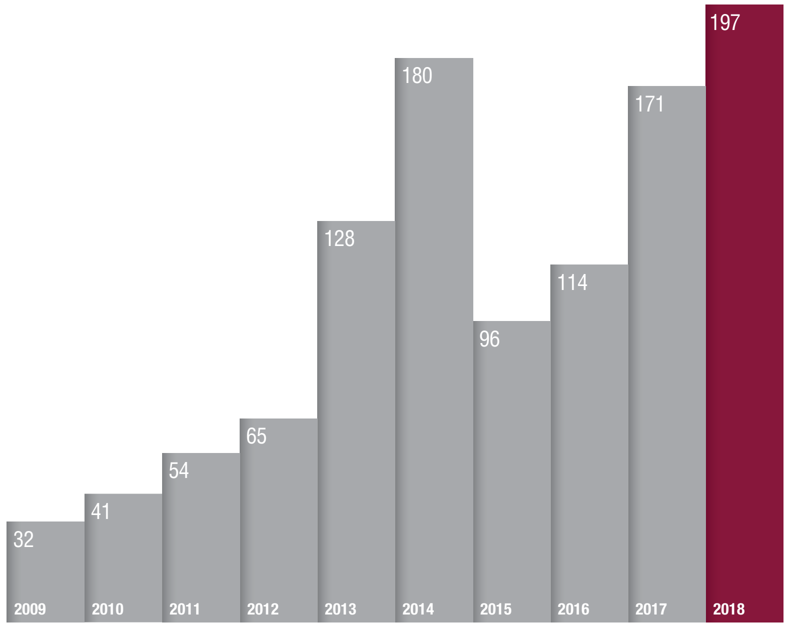
Per Cap Beer Consumption Shows Room for Growth
Beer consumption per capita, litres; 2017



Source: Euromonitor

Wine Exports in US$ Millions

Georgia's Favourable Trade Regimes Provide Potential for Export Growth



Source: Geostat

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PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE

Beverages Overview

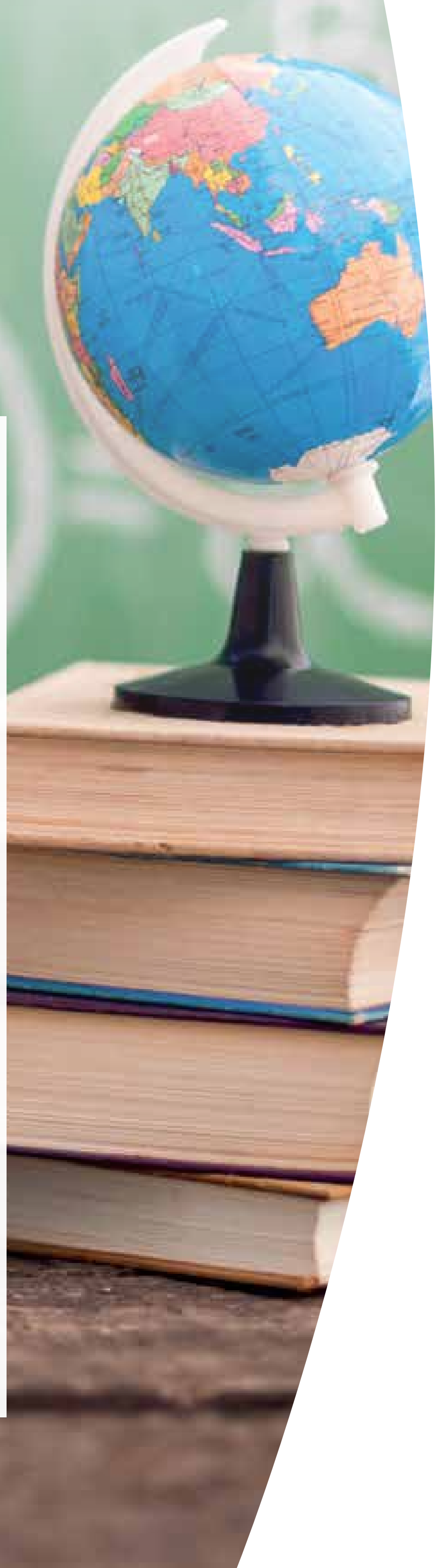
- **Wine business.** Our beverages business sells around 4.3 million bottles of wine annually, with about 72% of sales coming from exports. The beverages business intends to not only retain its leading position on the local wine market, but also to become a top exporter by 2019 and aims to grow its domestic and international wine sales by benefiting from favourable market trends in Georgia and expanding exports through new sales channels in high-growth countries, including China. In 2018, Georgia Capital has acquired Kindzmarauli Marani, LLC (Kindzmarauli), a producer of exquisite Georgian wines and spirits, which owns 350 hectares of vineyards in Georgia's Kakheti region. With this acquisition, beverages business made a major step towards its wine business development to reach a vineyard base of 1,000 hectares over the next three years and has reached 436 hectares of vineyards. This supports the beverages business' wine production, which has been further helped by significant growth opportunities in international markets provided by Georgia's various free trade agreements, including those with China and the European Union. Our wine business is now in the top three wineries in Georgia in terms of the vineyard base. Therefore, management expects to minimise reliance on purchased grapes in the coming years and as a result, manage gross profit margin levels. In the medium term wine business plans to produce premium priced wine and further diversify its exports, retaining the leading position locally, while also maintaining high double-digit growth in revenue from export markets.
- **Distribution business.** Beverages has an established distribution franchise, which has contracts with a number of international beverage brands. The business plans to diversify the products in its distribution portfolio and eventually become the largest third-party distribution company. The strong production and distribution franchise led the Company to establish a partnership with Heineken.
- **Beer business.** Beer business produces beer and lemonade in the local market, while also owning ten-year exclusive license to produce Heineken, Krusovice and Amstel in Georgia and sell in Georgia, Armenia and Azerbaijan – a total population of c.17 million people. The construction of the beer brewing facility completed in 2016 and local mainstream beer and lemonade production was launched in June and August 2017, respectively. Beverages is on track to brew Heineken and Amstel beers in 1H19, while Krusovice production started in June 2018. With a strong management team and a proven track record, Beverages aims to become a leading beverages producer and distributor in South Caucasus.

The Company's target is to achieve 20% beer production market share by the end of 2019, by improving channel mix, launching new products, enhancing distribution platform and targeted marketing. In December 2018 the beer business started exporting lemonade to Russia and the Company's management also expects to start exporting local beer to CIS countries.

Beverages Targets and Priorities

Goal	Become Leading Beverages Producer and Distributor in Caucasus		
	Wine business	**Distribution business**	**Beer production business**
	TELIANI VALLEY	THE FAMOUS GROUSE, Marie Brizard, The MACALLAN, LAVAZZA, MEDOFF, SOBIESKI, CAMPA	
Business segments	• C.4.3 million bottles sold in FY18 (up 22% y-o-y). • GEL 29.4 million revenue in FY18 (up 43.7% y-o-y). • 72% of sales from export. • In 2018, Georgia Capital acquired a 100% controlling interest in Kindzmarauli Marani LLC, a producer of exquisite Georgian wines and spirits, which owns 350 hectares of vineyards. With this acquisition, a major step was made towards increasing our vineyard base to the targeted 1,000 hectares, from the 86 hectares, over the next three years.	• c.6,843 sales points. • Exporting wine to 17 countries, including all former Soviet Union, Poland, Sweden, the US, Canada, China and Singapore.	• Launched local mainstream beer under Aragveli Brand in May 2018 and globally well-known licensed Czech beer Krusovice in June 2018. • In February 2018, Georgia Capital acquired a 100% equity stake in a leading Georgian craft beer producer – Black Lion LLC. • Beer and Lemonade sales amounted GEL 27.5 million and GEL 1.8 million in 2018, respectively. • Ten-year exclusivity with Heineken to produce beer to be sold in Georgia, Armenia and Azerbaijan (c.17 million population).
Market share 2018	• Total and spontaneous awareness shows high recognition of Teliani Valley as a brand on the local market (total awareness 99.3% and spontaneous awareness 65.5%). • Export sales – c.8% market share of exported wine from Georgia, excluding Russia.	• Wine and Sparkling Wine distribution – market leader. • Other products distribution – second largest distributor on the market. • Lavazza coffee distribution – market leader in ground coffee and in HoReCa distribution.	• Local production – 14.1% market share based on litre sales at the end of 2018. • Heineken is the highest equity valued brand in Georgia – 8.3 (out of 10).
Priorities	• Targeting to retain lead position on a domestic market and maintain high double-digit growth of revenue per strategic export market. • Add a premium priced wine and diversify the export markets. • Grow vineyard base from current 436 hectares up to 1,000 hectares (2019-2022).	• Enhance product portfolio, becoming the leading FMCG distributor in Georgia.	• Achieve 20% market share.
	Strategic Sale		

PORTFOLIO COMPANIES CONTINUED
PIPELINE



Education

We see attractive opportunities in what is currently a very fragmented, private high school education market and expect to build a portfolio of affordable high schools to capitalise on our scale advantage.

Industry Investment Rationale

Large and Growing Market

Growing private school market.

Government expected to double spending over the next five years.

Low base – 3.8% of GDP, compared to 5.4% of peers (2016 data).

Government incentivised to support private schools development.

Access is High, but Quality is Poor

Compulsory education lasts nine years from age six to 14 years, literacy level – 99.8%.

Low supply of quality educators.

Poor international pupils assessment results – 60th among 72 countries.

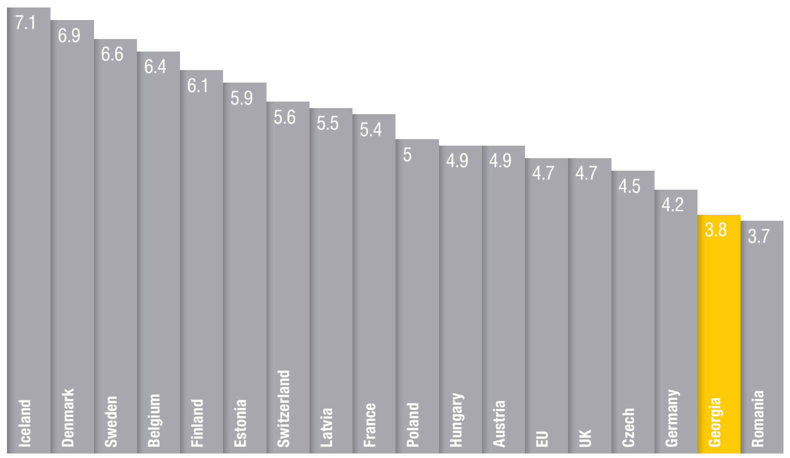
High Trading Multiples

Due to its high-quality revenue and high demand for good-quality affordable education schools are trading at a very high multiples even amongst the service industry.

Market Opportunity

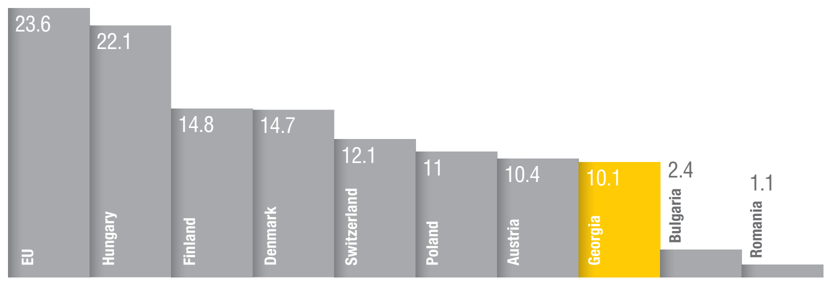
We expect to deploy GEL 140 million of equity capital and by 2025 we are aiming to reach 30,000 pupils.

Government Spending on Education as GDP '%'
GDP% 2016

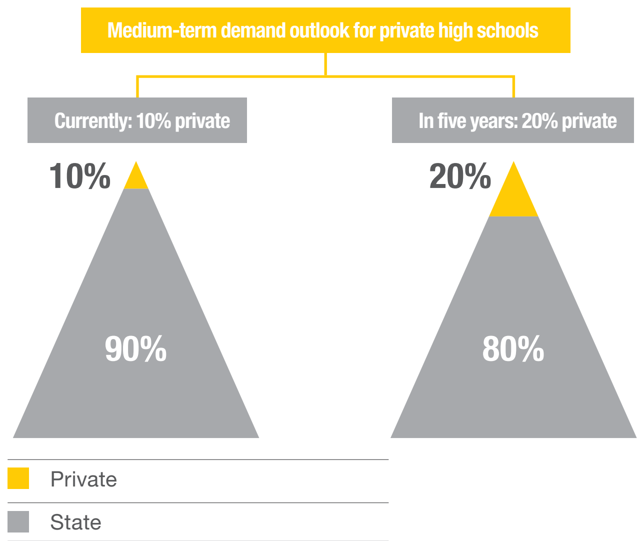


Source: Eurostat, World Bank

Secondary Private School Enrolment
% 2016



Source: World Bank



Currently
10%
private

In five years
20%
private

We aim to build a portfolio of affordable high schools to capitalise on scale advantages in Georgia.

Strategic Review Our Business

RISK MANAGEMENT

We believe that effective risk management underpins the successful delivery of our strategy. We identify, evaluate, manage and monitor the risks that we face through an integrated control framework supported by formal policies and procedures, clearly delegated authority levels and comprehensive reporting. The Board confirms that our framework has been in place throughout the year under review and to the date of approval of this Annual Report and is integrated into both our business planning and viability assessment processes.

Overview

Our Board, supported by our Audit and Investment Committees and executive management, is ultimately responsible for the Group's risk management and internal controls.

As an investor, Georgia Capital is in the business of taking risks in order to seek to achieve its targeted returns for investors and shareholders. The Board approves the strategic objectives that determine the level and types of risk that Georgia Capital is prepared to accept and reviews the Company's strategic objectives and risk appetite at least annually. We believe that, in order to have an effective risk management framework, there needs to be a strong risk management culture within the Group. We have worked to ensure that managing risk is ingrained in our everyday business activities. We seek to create an environment where there is openness and transparency in how we make decisions and manage risks and where business managers are accountable for the risk management and internal control processes associated with their activities. Our culture also seeks to ensure that risk management is responsive, forward-looking and consistent. Georgia Capital's risk culture is built on rigorous and comprehensive investment procedures and disciplined capital management.

Risk Appetite

Our risk appetite is defined by our strategic objectives. We invest capital and develop businesses that will have strong capital returns. Georgia Capital applies the following investment criteria:

- Geographic focus: only investing in and developing businesses in Georgia, the country we know – diversified resilient fast-growing economy across the last decade.
- Sector focus: mostly consolidating fragmented and underdeveloped markets, particularly targeting high-multiple service industries.
- Return target: individually assessed, subject to a minimum 25% IRR at exit.

Investments made by Georgia Capital need to be consistent with our overall aim of total shareholder returns of 10-times over 10 years since the demerger date from BGEO Group.

Capital Management

Georgia Capital adopts a highly-disciplined approach to managing its capital resources as follows:

- 360-degree analysis, when evaluating capital returns, new investment opportunities or divestments.
- Georgia Capital allocates capital such that it does not depend on premature sales of listed portfolio companies. Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. As such, it focuses on shareholder returns and on opportunities which meet its investment return and growth criteria.
- The Board regularly reviews any major investment and divestment opportunities.

Our Framework and Approach to Risk Governance

The Board is responsible for setting the right tone and encouraging characteristics and behaviours which support a strong risk culture and effective risk management process across the Group. The Board's mandate includes determining the Group's risk appetite and risk tolerance as well as monitoring risk exposures to ensure that the nature and extent of the main risks we face are consistent with our overall goals and strategic objectives. Non-executive oversight is also exercised through the Audit Committee which focuses on upholding standards of integrity, financial reporting, risk management systems, going concern and internal control. The Audit Committee's activities are discussed further on pages 130 to 134. The Investment Committee ensures a centralised process-led approach to investment; and the overriding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns. The Investment Committee's activities are discussed further on pages 135 to 136.

At the Board, Committee and executive management levels, we develop formal policies and procedures which set out the way in which risks are systematically identified, assessed, quantified, managed and monitored. Our Investment Committee, which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to embedding our institutional approach across the business. It ensures consistency and compliance with Georgia Capital's financial and strategic requirements, cultural values and appropriate investment behaviours. Each business participates in the risk management process by identifying the key risks applicable to its business. The principal risks and uncertainties faced by the Group are identified through this process, as are the emerging risks.

On a day-to-day basis, management is responsible for the implementation of the Group's risk management and other internal control policies and procedures. Based on our risk culture, managers "own" the risks relevant to their respective function. For each risk identified at any level of the business, the risk is measured and mitigated (if possible) in accordance with our policies and procedures and monitored. Managers are required to report on identified risks and responses to such risks on a consistent and frequent basis. Executive and senior management regularly review the output from the bottom-up process by providing independent challenge and assessing the implementation of the risk management and internal control policies and procedures.

Our reporting process enables key risks and emerging risks to be escalated to the appropriate level of authority and provides assurance to the Committees and the Board. Key developments affecting our principal risks and associated mitigating actions are reviewed quarterly (or more often if necessary on an ad hoc basis, outside of the regular reporting process) by the Audit and Investment Committees, as appropriate, as well as the Board.

A description of these principal risks and uncertainties, including recent trends and outlook, as well as mitigation efforts, can be found on pages 70 to 72 of the Strategic Review.

Risk Governance Structure

BOARD

- Determines the Group's risk appetite as part of strategy setting.
- Overall responsibility for maintaining a system of internal controls that ensure an effective risk management and oversight process across the Group.
- Assisted by the Board Committees with specific responsibility for key risk management areas.

Audit Committee	Investment Committee	Remuneration Committee	Nomination Committee
• Responsible for managing financial reporting risk and internal control and the relationship with the external auditor. • Reviews and challenges risk management reports from Group Finance and Internal Audit. • Specific and primary responsibility for the valuation policy and valuation of the Group's investment portfolio. • Provides oversight and challenge of underlying assumptions on the valuation of the private investment portfolio (54% of net assets at 31 December 2018). • Direct engagement with the external auditor.	• Principal Committee for managing the Group's investment portfolio and its most material risks. • Strict oversight of each step of the investment lifecycle. • Approves all investment, divestment and material portfolio decisions. • Monitors investments against original investment case. • Ensures investments are in line with the Group's Investment Policy and risk appetite.	Reviews and recommends to the Board the Directors' Remuneration Policy to ensure that remuneration is designed to promote the long-term success of Georgia Capital (and to see that management is appropriately rewarded for their contribution to the Group's performance in the context of wider market conditions and shareholder views). It approves variable compensation schemes for our investment professionals that are in line with market practice and enable the Group to attract and retain the best talent. The Committee ensures that their remuneration is aligned with shareholder returns.	Responsible for ensuring that the Board has the necessary, skills, experience and knowledge to enable the Group to deliver its strategic objectives.

MANAGEMENT BOARD

The Management Board is led by the Chief Executive Officer and has:
- Delegated responsibility for management of the Group.
- Delegated responsibility for investment decisions.
- Delegated responsibility for risk management.

Bodies Implementing the Risk Management System

As mentioned above, our Board is responsible for reviewing and approving the Group's system of internal control and its adequacy and effectiveness. Controls are reviewed to ensure effective management of strategic, financial, market and operational, among other risks we face. Certain matters, such as the approval of major capital expenditure, significant acquisitions or disposals and major contracts, among others, are reserved exclusively for the Board. The full schedule of matters specifically reserved for the Board can be found on our website, at: **https://georgiacapital.ge/governance/cgf/schedule**. With respect to other matters, the Board is often assisted by both the Audit and Investment Committees.

The Management Board has the overall responsibility for the Group's assets, liabilities, risk management activities, respective policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Group, as described below.

RISK MANAGEMENT CONTINUED

Internal Audit Department

The Group has an established Internal Audit department, which is responsible for the regular review/audit of the Group's operations, activities, systems and processes, in order to evaluate and provide reasonable, independent and objective assurance and consulting services designed to add value and improve the Group's operations.

The Group's Internal Audit department is independent of the Management Board. The Head of the Group's Internal Audit department is appointed by and reports directly to the Group's Audit Committee. The Group's Internal Audit department discusses the results of all assessments with the Group's Management Board and reports its findings and recommendations to the Group's Audit Committee.

The purpose of the Internal Audit department is to determine whether the Group's risk management, internal controls and corporate governance processes, which are designed and implemented by the Management Board, are adequate such that:

- material risks including strategic, market, liquidity and operational risks, are appropriately identified, measured, assessed and managed across the Group including its outsourced activities;
- interaction with the various internal governance groups occurs appropriately;
- significant financial, managerial, and operating information is accurate, reliable and timely;
- the Group and its employees act with integrity and their actions are in compliance with the policies, standards, procedures and applicable laws and regulations;
- resources are acquired economically, used efficiently, and protected adequately;
- programmes, plans and objectives are achieved; and
- significant legislative or regulatory issues that impact the organisation are recognised and addressed in a timely fashion and properly.

In order to fulfil its function, the Group's Internal Audit department has unrestricted access to all the Group's functions, records, property and personnel and the Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee.

Legal Department

The Legal department's principal purposes are to ensure that the Group's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal department is responsible for the application and development of mechanisms for identifying legal risks in the Group's activities in a timely manner, the investigation of the Group's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Group where necessary and the investigation of possibilities for increasing the effectiveness of the Group's legal documentation and its implementation in the Group's daily activities. The Legal department is also responsible for providing legal support to structural units of the Group.

Finance Department

The Group's risk management system is implemented primarily by the Finance department, which is supervised by the Chief Financial Officer and is responsible for the Financial Risks Management function. It implements the Group's financial and tax risks policies by ensuring compliance with: established open currency position limits; limits on possible losses for the foreign currency risks; tax legislation and all policies and procedures set by the Management Board. The Finance department, which reports to the Management Board, also focuses on the Group's relationship with the tax authorities and provides practical advice and tax optimisation plans for the Group and also assesses the entire Group's tax risks and exposures.

The Finance department also manages foreign currency exchange, money market and derivatives operations and monitors compliance with the limits set by the Management Board for these operations. The Finance department is also responsible for the management of the long-term and short-term liquidity and cash flow and monitors the volumes of cash on the Group's accounts for the purposes of sufficiency. Further, the Finance department monitors the active investment portfolio performance on a regular basis and delivers monthly management reports to the Management Board. The Management Board reviews performance of each portfolio business company on a monthly basis and takes actions, as necessary.

IFRS Technical Accounting Unit

The IFRS technical accounting unit, part of the Finance department, is responsible for monitoring the Group's compliance with relevant International Financial Reporting Standards. The IFRS technical accounting unit is involved in the development process of the Group's accounting policies by leading new accounting standards implementation projects, monitoring of new IFRS developments, preparing an impact assessment on reporting, systems and processes across the Group. In order to increase the understanding of IFRS and to ensure that consistent accounting policies are applied across the Group the IFRS technical accounting unit delivers trainings on new IFRS standards, issues Group accounting policies, general guidance memos on application of IFRS and memoranda on complex, one-off transactions and also prepares quarterly RADAR reports to the Audit Committee summarising material transactions across the Group, including its subsidiaries with respective financial impact. The IFRS technical accounting unit is also involved in the communication processes of Group entities with external auditors.

Internal Control

With respect to Internal Control over financial reporting, including the Group's consolidation process, our financial procedures include a range of system, transactional and management oversight controls. Our businesses prepare detailed monthly management reports that include analyses of their results along with comparisons, relevant strategic plans, budgets, forecasts and prior results. These are presented to and reviewed by executive management. Each quarter, the CFO of the Group and other members of the Finance Team discuss financial reporting and associated internal controls with the Audit Committee, which reports significant findings to the Board. The Audit Committee also reviews the quarterly, half-year and full-year financial statements and corresponding press releases and provides feedback to the Board. The external and internal auditors attend each Audit Committee meeting and the Audit Committee meets regularly both with and without management present.

Going Concern Statement

The Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives and performance are set out on pages 2 to 117. After making enquiries, the Directors confirm that they have a reasonable expectation that Georgia Capital and the Group, as a whole, have adequate resources to continue in operational existence and, therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Viability Statement

In accordance with the Corporate Governance Code, the Directors are required to assess the prospects of the Company to meet its liabilities by taking into account its current position and principal risks. The Group seeks to create value by driving the development of high-growth potential businesses in Georgia, aiming to consolidate fragmented or underdeveloped markets, by either acquiring businesses during their early development stage or by establishing on a greenfield basis.

Georgia Capital capitalises on its access to capital, access to management and commitment to the highest level of corporate governance, which is as strong foundation for greater future business success and increase in Group's value. Georgia Capital runs in-depth annual business planning process, involving operating subsidiary management and Group management with Board input and oversight. In line with the UK Corporate Governance Code, the Board conducted this review over a three-year period beginning 1 January 2019, being the first day after the end of the financial year to which this report relates. In determining the appropriate period over which to make their assessment, the Directors considered the duration of strategic plans, financial forecasts, the diverse nature of the Group's activities, the evolving nature of the regulatory environment in which the Group's businesses operate and future capital allocation projections. A period of three years beyond the balance sheet date was therefore considered the most appropriate viability period for the Company.

In order to consider the Group's viability, the Board considered a number of key factors, including:

- the Board's risk appetite;
- the Group's business model and strategy as set out on pages 14 to 27;
- the Group's principal risks and uncertainties, principally those related to regional instability, portfolio company strategic and execution risk, investment risk, adverse economic conditions, the depreciation of the Lari, lack of liquidity and how these risks and uncertainties are managed, as set out on pages 70 to 72;
- the effectiveness of our risk management framework and internal control processes; and
- stress testing, as described below.

The key factors above have been reviewed in the context of our current position and strategic plan. Since there are no legal guarantees or constructive commitments in place for Georgia Capital to fund losses or activities at subsidiary level, a stress test analysis was prepared on a Holding Company level.

The viability assessment involved a risk identification process which included recognition of the principal risks to viability (risks that could impair the Group's business model, future performance, solvency or liquidity), excluding risks not sufficiently severe over the period of assessment for the Group. Principal risk and uncertainties identified by the Group are regional instability, regulatory, investment, liquidity, portfolio company strategic and execution, and currency and macroeconomic environment risks. We also identified other risks which, while not necessarily severe in themselves, could escalate when combined with others.

For those risks considered sufficiently severe to affect our viability, we performed stress testing for the assessment period, which involved modelling the impact of a combination of severe and plausible risks in combined adverse scenario. The stress test scenario was then reviewed against the Group's current and projected liquidity position. The stress testing also took into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks to which the Group is exposed. The Group prepared single reasonably worst case scenario which assumes inability of private portfolio companies to pay dividends or meet any other obligations towards the Holding Company, the reason for which can be GEL depreciation against the dollar, market competition, operational underperformance, inability to receive construction permits (for our housing development business), delay in energy market deregulation and project cost overruns for water utility and energy business. Partial suspension of share buybacks and capital allocations were used as mitigating action, while no inflows from the sale of listed portfolio companies were assumed.

The Directors have also satisfied themselves that they have the evidence necessary to support the statement below in terms of the effectiveness of the Group's risk management framework and internal control processes in place to mitigate risk. As at 31 December 2018 Georgia Capital owned GEL 142 million cash and GEL 157 million marketable debt securities and equity holdings worth GEL 978 in London Stock Exchange listed companies GHG PLC and BOGG PLC, therefore even in a worst case scenario, with risks modelled to materialise simultaneously and for a sustained period, the likelihood of the Group having insufficient resources to meet its financial obligations is remote. Based on the analysis described above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period from 1 January 2019 to 31 December 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

Understanding Our Risks

The table below describes the principal risks and uncertainties faced by the Group and their potential impact, as well as the trends and outlook associated with these risks and the mitigating actions we take to address these risks. If any of the following risks were to occur, the Group's business, financial condition, results of operations or prospects could be materially affected. The risks and uncertainties described below may not be the only ones the Group faces. Additional risks and uncertainties, including those that the Group is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of the Group's securities.

Matter Considered	Action Taken
REGIONAL INSTABILITY	
Principal Risk/ Uncertainty	The Georgian economy and our business may be adversely affected by regional tensions. Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories, Abkhazia and the Tskhinvali Region/South Ossetia. Countries within the region, including Azerbaijan, Armenia, Russia and Turkey are key trading partners of Georgia. There has been ongoing geopolitical tension, political instability, economic instability and military conflict in the region, which may have an adverse effect on our business and financial position. The ongoing, prolongation or escalation of political instability, geopolitical conflict, economic decline of Georgia's trading partners and any future deterioration of Georgia's relationship with Russia, including in relation to border and territorial disputes, may have a negative effect on the political or economic stability of Georgia, which in turn may have an adverse effect on our business including putting adverse pressure on our business model, our revenues and our financial position.
Key Drivers/ Trends	Russia imposed economic sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed Georgian borders and recognised the independence of Abkhazia and the Tskhinvali/South Ossetia regions. Russian troops continue to occupy the regions and tensions between Russia and Georgia persist. The introduction of a preferential trade regime between Georgia and the EU in July 2016 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may intensify tensions between the countries. The Government has taken certain steps towards improving relations with Russia, but, as of the date of this report, these have not resulted in any formal or legal changes in the relationship between the two countries. Ongoing conflict between Russia and Ukraine, and Russia's and Turkey's worsening relations with the US increase uncertainties in the region. There is an ongoing conflict between Azerbaijan and Armenia which impacts the region.
Mitigation	The Group actively monitors significant developments in the region and risks related to political instability and develops responsive strategies and action plans. One of the most significant changes in the Georgian export market was a shift away from the Russian market after Russia's 2006 embargo. Despite tensions in the breakaway territories, Russia has continued to open its export market to Georgian exports since 2013. While financial market turbulences and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes with FTAs with both the EU and China support the country to enhance resilience to external shocks.
REGULATORY RISK	
Principal Risk/ Uncertainty	The Group operates across a wide range of industries healthcare services, pharmacy and distribution, property and casualty insurance, real estate, water utility and electric power generation, hydro power, wine and beverages. Many of these industries are highly regulated. The regulatory environment continues to evolve. We, however, cannot predict what additional regulatory changes will be introduced in the future or the impact they may have on our operations.
Key Drivers/ Trends	Each of our businesses is subject to different regulators and regulation. Legislation in certain industries, such as healthcare, energy, insurance and utilities is continuously evolving. Different changes, including but not limited to, Governmental funding, licensing and accreditation requirements and tariff structures may adversely affect our businesses.
Mitigation	Continued investment in our people and processes is enabling us to meet our current regulatory requirements and means that we are well placed to respond to any future changes in regulation. Further our investment portfolio is well diversified, limiting exposure to particular industry specific regulatory risks. In line with our integrated control framework, we carefully evaluate the impact of legislative and regulatory changes as part of our formal risk identification and assessment processes and, to the extent possible, proactively participate in the drafting of relevant legislation. As part of this process, we engage in constructive dialogue with regulatory bodies, where possible, and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfill our compliance obligations. Our compliance framework, at all levels, is subject to regular review by Internal Audit and external assurance providers.

Matter Considered	Action Taken
INVESTMENT RISK	
Principal Risk/ Uncertainty	The Group may be adversely affected by risks in respect of specific investment decisions.
Key Drivers/ Trends	An inappropriate investment decision might lead to a poor performance. Investment risks include in appropriate research and due diligence of new investments and unexpected timing of the execution of both the acquisition and divestiture of investments in order to optimise shareholder value.
Mitigation	The Group manages investment risk with established procedures for thorough evaluation of target acquisitions. Investment opportunities are subject to rigorous appraisal and a multi-stage approval process. Target entry and exit event prices are monitored and updated regularly, in relation to market conditions and strategic aims. The Group performs due diligence on each target acquisition including financial and legal matters. Subject to an evaluation of the due diligence results an acceptable price and funding structure is determined and, the pricing, funding and future integration plan is presented to the Investment Committee (or directly to the full Board) for approval. The Committee (or the full Board) reviews and approves or rejects proposals for development, acquisition and sale of investments and makes recommendations to the Board on all major new business initiatives, especially those requiring a significant capital allocation.
LIQUIDITY	
Principal Risk/ Uncertainty	Risk that liabilities cannot be met or new investments made due to a lack of liquidity. Such risk can arise from not being able to sell an investment due to lack of demand from the market or from not holding cash or being able to raise debt.
Key Drivers/ Trends	The Group predominantly invests in private portfolio businesses, potentially making the investments difficult to realise at any one point in time. There is a risk that the Group will not be able to meet its financial obligations and liabilities on time due to lack of cash or liquid assets. The risk involves the inability to generate sufficient cash and cash equivalents to meet all payment obligations; this may be caused by numerous factors, such as inability to refinance its long-term liabilities, or excessive investments in long-term assets and respective mismatch in maturity of funding, liabilities and assets or failure to comply with the creditor covenants causing Event of Default or Default.
Mitigation	Liquidity Management process is a regular process, where the framework is approved by the Management Board and monitoring is done by the Chief Financial Officer. The framework models the ability of the Group to fund under both normal conditions (Base Case) and during stressed situations. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The finance department is actively involved in the liquidity management on a weekly basis and monitors, on a daily basis, the liquidity measures that are analysed by the Management Board at least once a month. Such monitoring involves review of the composition of the cash buffer, potential cash outflows and management's readiness to meet such commitments. It also serves as a tool to revisit the portfolio composition and take necessary measures, if required. The Board also monitors liquidity on a regular basis. JSC Georgia Capital successfully issued holding company US$300 million bonds in March 2018. The debt is actively managed so that Georgia Capital maintains a maximum loan to value (LTV) ratio of 30%. The Group has adopted the following measures to manage its standalone credit profile: • the Group depends on its ability to realise its listed securities on the public markets, which are highly liquid. To limit this risk, the Group has adopted a policy to maintain a cash buffer of at least US$50 million in highly-liquid assets in order to always have sufficient capacity for potential downside scenarios as well as for potential acquisition opportunities. Additionally, the Group will maintain at least US$50 million in marketable securities which can be converted into cash within three to four weeks (this would include BOG and GHG shares); • the cash expense coverage ratio (defined as the sum of annual cash inflows from dividends and interest income from on-lent loans divided by sum of annual cash outflows in bond interest payments and cash operating expenses) should be in excess of 1.25 at all times; • the ratio of extra cash (defined as cash in excess of liquid assets of US$50 million) divided by expected cash outflows over the next 180 days should be in excess of 1.0 at all times; and • the Net Debt to Asset Portfolio should be no more than 30% at all times, where "Net Debt" is defined as borrowings plus guarantees issued and commitments from financial institutions minus liquid assets and "Asset Portfolio" is defined as the sum of fair values of portfolio company investments and loans issued.

Strategic Review Our Business

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PORTFOLIO COMPANY STRATEGIC AND EXECUTION RISKS

Matter Considered	Action Taken
Principal Risk/ Uncertainty	Market conditions may adversely impact our strategy and all our businesses have their own risks specific to their industry. Our businesses have growth and expansion strategies and we face execution risk in implementing these strategies. Our aim is to achieve an internal rate of return of at least 25% from investments. The Group will normally seek to monetise its investments, including through initial public offering, strategic sale or other appropriate exit, typically within five to ten years of acquisition.
Key Drivers/ Trends	Each of our private portfolio investments (Water Utility; Renewable Energy; Housing Development; Hospitality and Commercial Real Estate; Property and Casualty Insurance; Beverages;) and our public portfolio investments (Georgia Healthcare Group and Bank of Georgia) face their own risks. These include risks inherent to their industry, or to their industry particularly in Georgia, and each face significant competition. They also face the principal risks and uncertainties referred to in this table. Macroeconomic conditions, the financial and economic environment and other market conditions in international capital markets may limit the Group's ability to achieve a partial or full exit from its existing or future businesses. It may not be possible or desirable to divest, including whether suitable buyers can be found at the appropriate times or cases where there may be difficulties in obtaining favourable terms or prices.
Mitigation	For each business, we focus on building a strong management team and have successfully been able to do so thus far. Management succession planning is regularly on the agenda for the Nomination Committee which reports to the Board on this matter. The Board closely monitors the implementation of strategy, financial and operational performance, risk management and Internal Control framework and corporate governance of our businesses. We hold management accountable for meeting targets. For each industry in which we operate, we closely monitor industry trends, market conditions and the regulatory environment. We have also sought and continue to seek advice from professionals with global experience in relevant industries. The Group has a strong track record of growth and has accessed the capital markets on multiple occasions as part of the BGEO Group PLC prior to the demerger on 29 May 2018. Our acquisition history has also been successful and we have been able to integrate businesses due to our strong management with integration experience.

CURRENCY AND MACROECONOMIC ENVIRONMENT

Principal Risk/ Uncertainty	Unfavourable dynamics of macroeconomic variables, including depreciation of the Lari against the US dollar may have a material impact on the Group's performance.
Key Drivers/ Trends	The Group's operations are primarily located in, and most of its revenue is sourced from, Georgia. Factors such as gross domestic product (GDP), inflation, interest and currency exchange rates, as well as unemployment, personal income, tourist numbers and the financial situation of companies, can have a material impact on customer demand for its products and services. Year-end Lari depreciation against the US dollar was 3.3% in 2018. On the macro level, the free floating exchange rate works well as a shock absorber, but on the micro level, the currency fluctuation has affected and may continue to adversely affect the Group's results. There is a risk that the Group incurs material losses or loses material amounts of revenue and, respectively, deteriorates its operating solvency in a specific currency or group of currencies due to the fluctuation of the exchange rates. The risk is mostly caused by significant open foreign currency positions in the balance sheets. In April 2017, the IMF approved a new three-year US$285 million economic programme, aimed at preserving macroeconomic and financial stability and addressing structural weaknesses in the Georgian economy to support higher and more inclusive growth. Despite the turbulence in our partner countries' markets, tourism revenues, exports and remittances increased by double digits and supported real GDP to increase by 4.7%, whilst average inflation was close to target at 2.6% in 2018. For the first time in our history, quarterly CA turned to positive at 0.3% of GDP and the annual CA deficit narrowed to 7.7% of GDP in 2018. Monetary policy stance is appropriate to the current macroeconomic environment. Official reserve assets reached a historically high level at US$3.3 billion in 2018.
Mitigation	The Group continually monitors market conditions, reviews market changes and also performs stress and scenario testing to test its position under adverse economic conditions, including adverse currency movements. Currency risk management process is an integral part of the Group's activities; currency risk is managed through regular and frequent monitoring of the Group's currency positions and through timely and efficient elaboration of responsive actions and measures; it starts at the Management Board level, which reviews overall currency positions of the Group several times during the year and elaborates respective overall currency strategies; the Finance department monitors the daily currency position for stand-alone Georgia Capital, weekly currency positions on portfolio company level and manages short-term liquidity of the Group across different currencies. Control procedures involve regular monitoring and control of the currency gap and currency positions, running currency sensitivity tests and elaborating response actions/steps based on the results of the tests.

RESOURCES AND RESPONSIBILITIES

Sustainability lies at the heart of our business and reflects our contribution to sustainable development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors adopted a Code of Ethics, as well as policies which relate to environmental matters, employees, social matters, our respect for human rights and anti-corruption and bribery. Copies of these polices can be found on the Group's website: **https://georgiacapital.ge/governance/cgf/policies**. We are pioneering sustainability practices in our business activities and across our portfolio and are constantly seeking new ways to improve our performance across the Group. We invite you to read more about these policies, practices and initiatives in the sections below, which also incorporates the non-financial information detailed under section 414CB of the Companies Act 2006.

As a Group, we are committed to a long-term investment strategy and to maintaining effective relationships with those businesses in which we invest. We take board seats in our private investments and use these to maintain close relationships with managements of those companies as described within the strategy section on pages 14 to 27. As a consequence of our involved investment style, we manage our investments in the best interests of our shareholders. We continue to meet with our shareholders and listen to any concerns they may have. With investment portfolio of GEL 1,883 million we recognise that our decisions as a Group potentially impact a broad range of stakeholders. Georgia Capital is committed to achieving its strategic and investment objectives while behaving responsibly as an employer and as an international corporate citizen. By implementing a sustainable approach to our activities, we foster long-term relationships with our main stakeholders by providing high returns on investment for shareholders, developing employees and contributing to the economic and social welfare of local communities, while taking into account our environmental footprint. The Group does not invest in environmentally and socially-sensitive business activities and focuses upon the environmental and social issues associated with its commercial activities and investments in order to maximise the opportunities for environmentally and socially-responsible and sustainable economic development. We take responsibility for our actions, carefully consider material ESG risks and how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices and plans.

Social Matters

The Group considers the interests of its main stakeholders when developing the strategy and the processes to improve its operations. We adhere to our Environmental and Social Policy published on the Group's website: **https://georgiacapital.ge/governance/cgf/policies** and we continuously strive to positively contribute to society through the entire scope of our business activities by developing socially-oriented products and services, implementing responsible approaches to our business operations, carrying out sponsorship and charitable activities.

Socially-Oriented Products and Services Energy

The average growth of electricity consumption in Georgia has been 5.7% over the last ten years. The Group is investing in renewable energy to respond the growing demand by developing hydro power plants, wind power plants and solar power plants across Georgia. In addition, the renewable energy business has a pre-construction pipeline of 74MWs of hydro, 210MWs of wind and 30MWs of solar, out of a targeted 500MWs over the medium term. The Group's involvement in renewable energy business supports the country's sustainable growth.

Tourism

The Georgian tourism sector has demonstrated significant growth in recent years; it has generated CAGR of 15.0% in international visitor numbers during 2011-2018. Georgia has potential to place itself on the world map as a high-quality tourist destination due to its unique nature and cultural heritage, its tradition of hospitality and by focusing on niche areas, for example, wine tourism, medical and wellness tourism. The Georgian Government, with the support of the World Bank, has developed a tourism strategy with target goals for 2025, including preserving cultural heritage, developing air and road infrastructure and attracting higher spending markets.

The Group's real estate business, m^2, has entered the hospitality industry, targeting to reach a total room count of more than 1,000 rooms over the next three years. It has obtained a development agreement with Wyndham to develop Wyndham's 3-star brand Ramada Encore and 4-star brand Ramada in Georgia. First Ramada Encore (152 rooms) was opened in Tbilisi in March 2018. m^2 is also developing a 4-star Ramada hotel in Tbilisi (under construction, 125 rooms) and a 4-star Ramada in Kutaisi (design stage, 121 rooms), where the international airport serves low-cost airlines and makes the city popular with tourists visiting Georgia. Two more hotels are in the pipeline in Tbilisi – a luxury hotel on Gergeti Street (under construction, 100 rooms) and a 4-star business class hotel on Javakhishvili Street (design stage, 120 rooms). Apart from Tbilisi, two hotels are in the design stage in Kakheti (City Telavi and Akhasheni village), which is well-known to tourists as a popular wine destination. One further hotel is under construction in Gudauri (121 rooms), the leading ski resort of the Caucasus region. m^2 strives to contribute to the development of all places where it initiates construction through its CSR initiatives.

Strategic Review Our Business

RESOURCES AND RESPONSIBILITIES CONTINUED

Education

Education is a key sector to boost long-term potential economic output in the country. Currently 90% of primary and secondary schools are public, making room for private sector development, which is very fragmented and unaffordable for most of the population. The quality of education at public schools is poor due to a low supply of quality education professionals and teachers earning a very low salary. Georgia Capital entered the Education business by investing GEL 6 million in land outside Tbilisi for a high school development in 2018. The Group plans to introduce a chain of affordable private high schools and aims to reach 30,000 pupils by the end of 2025, becoming the largest chain of affordable private schools in Georgia. Georgia Capital plans to develop a training centre for teachers and retrain the recent graduates from the university, motivating the new generation to provide quality education through adequate pay.

Affordable Housing

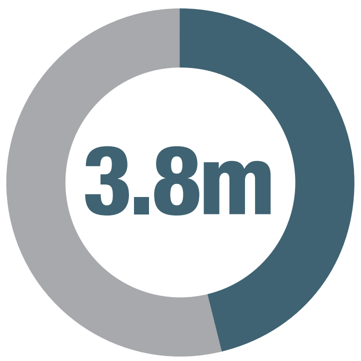
Over the last ten years, the Georgian real estate market has experienced a significant increase in demand. The average household size in Georgia has dropped from 3.8 in 2005 to 3.3 in 2016, and as this figure is expected to move closer to the EU average, which was 2.3 in 2016, demand for residential real estate is expected to increase in the long term. Also, around 35% of housing units in Tbilisi were built more than 40 years ago and are reaching the end of their usable lifecycle. At the same time, the Georgian real estate market is vulnerable to various economic and financial uncertainties and numerous construction projects remain unfinished for long periods of time. In response to this social challenge and increasing demand, the Group's housing development business, m^2 was established in order to offer affordable housing to the emerging middle class in Georgia and especially to young families. Nowadays, m^2 is a major player in Georgia's real estate market, offering its customers turnkey apartments with fine-tuned infrastructure. m^2 has completed nine projects so far and has delivered them to its customers within, and frequently ahead of, the agreed deadlines. The Company plans the design and construction processes so that each square metre is distributed efficiently. m^2 uses energy- efficient construction components, bringing up to 43% energy efficiency of its buildings, which in turn translates into lower utility expenses incurred by the tenants. The level of energy savings in m^2's buildings is significantly above the average residential property in Tbilisi. Starting in 2014, the Company launched another affordable housing product line, Optima, which allows customers to buy a flat of desired size for a lower price, which is achieved by distributing the space more efficiently. As an enhancement of its affordable housing strategy, m^2 plans to develop a neighbourhood on Marshal Gelovani Avenue in Tbilisi, Georgia on a 114,513-square metre-plot with approximately 3,000 apartments. In June 2017, m^2 acquired BK construction LLC, a real estate construction company, which has reduced m^2's construction costs and improved the design management process through vertical integration, giving m^2 the ability to reach the lower-end segment.

A large segment of m^2's customers is made up of young Georgian families (more than 50% of customers are 23-43 years old). The Company believes that by continuing to offer affordable housing products, m^2 is helping them to significantly enhance the quality of their lives and enjoy modern living standards.

Sponsorship and Charity

As part of our sponsorship and charitable activities, the Group continues to focus on promoting and enhancing access to education, conserving nature, supporting people with disabilities and special needs, and facilitating innovative projects that focus on social good. The Group's sponsorship and charity activities encourage partnerships with various foundations and Non-Governmental Organisations (NGOs) to deliver sustainable results and bring positive change. In doing so, we follow our undertakings in respect of social and community matters set out in our Environmental and Social Policy. In 2018, the Group spent a total of GEL 3.8 million to finance different sponsorship and charitable activities, some of which are listed below.

Total sponsorship and charitable expenditure of the Group, 2018 (GEL millions)



Charity **1,780**

Sponsorship **2,060**

Georgia Capital employees participated in Wings for Life World Run in 2018. The Wings for Life World Run is a running competition held worldwide to collect funds for Wings for Life Spinal Cord Research Foundation. The entry fee and all donations raised through fundraising campaigns go directly to life-changing spinal cord research projects and clinical trials at renowned universities and institutes worldwide.

With the support of the Caucasus Nature Fund (CNF), we are involved in the Project of Maintenance of Caucasus Natural and Cultural Heritage. The fund is meant for effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. In 2018, CNF announced a fundraising campaign in connection with its tenth anniversary to support the region's magnificent nature. Georgia Capital and GHG donated US$10,000 and GEL 60,700 to the project, respectively.

Our water utility business managed by GGU regularly runs charitable activities for the social service agency, Child and Environment, and international humanitarian network, Catharsis, in Tbilisi. The water utility business covers the annual water supply expenses for Child and Environment, the agency that cares for homeless children and children with disabilities. Twice a year, GGU sponsors the project "Dinner for Everyone", which is organised by Catharsis for approximately 3,000 people.

In 2018, the renewable energy business, managed by GGU, implemented several social projects supporting education, tourism and sports in Mestia, Svaneti region. Tourism is the most important source of income for the local population in Mestia. For the purposes of tourism development in the region, our renewable energy business is arranging training for family-owned hotels to assist the owners and managers in improving their services and attracting more visitors.

The Group's Property and Casualty (P&C) Insurance business, managed by Aldagi, supports many socially vulnerable people by providing one-time help upon special request. Aldagi traditionally provides a home for at least one family every Christmas. Aldagi's employees are engaged in various programmes that supply socially vulnerable people with food and first aid kits.

As part of its sponsorship activities, the beverage business seeks to promote a healthy and active lifestyle. As the sponsors of the Georgian Rugby Union and National Olympic Committee, the Company aims to attract more youngsters to healthy activities.

The healthcare services business of GHG provides free regular medical examinations in its facilities throughout the country. In 2018, GHG carried out 23 different free screening programmes in total, benefiting up to 73,000 patients. Such free-of-charge medical check-up and screening programmes include managing tuberculosis, breast cancer screenings, prostate cancer screenings, c-hepatitis screenings and diabetes programmes. In addition, GHG's specialists deliver free medical services, including examinations and treatments for socially and economically disadvantaged groups of the population. In cooperation with other healthcare institutions, the Group arranges free blood donations for its patients.

GHG traditionally participates in the Government-subsidised Children's Oncology Programme, under which the Company offers cancer treatment to children with different oncology disorders (leukaemia, tumours and lymphomas) in GHG's Iashvili Pediatric Tertiary Referral Hospital, a multi-profile pediatric medical establishment, that is the sole provider of pediatric oncology services in Georgia. In 2018, more than 600 patients with different types of cancer received treatment at Iashvili onco-haematological department.

Promoting and Enhancing Access to Education

In November 2018, m^2, opened a college for vocational education in the Zestaponi Municipality (Western Georgia). The college was built and developed as part of a memorandum of cooperation with the Ministry of Education and Science of Georgia, which was signed in 2017. The college, with a total project cost of GEL 3 million, offers 11 short-term vocational courses to more than 600 construction specialists/workers annually. m^2 expects to employ most of the college graduates within its construction arm.

m^2 financed the opening of Vazha-Pshavela reading room and a new registration office in the National Parliamentary Library of Georgia as part of the memorandum signed in 2017. The reading room features rare editions of the famous Georgian poet and writer Vazha-Pshavela and will host various events including public lectures, master classes and presentations, contributing to the youth development and supporting education in the country.

GGU has been involved in a dual education system for the first time in 2018. Students engaged in the dual educational programme simultaneously get theoretical knowledge and practical experience in specific professions. Through this programme GGU is able to train future employees with relevant knowledge of water supply and sewerage systems. Together with local and international partners, GGU has successfully implemented several dual educational programmes, among which were the programmes for welders and locksmiths and plumbers.

The water utility business has opened the Training Centre in 2017, aiming to prepare the professional, highly-qualified technical staff. Training Centre programmes and teaching modules are based on the best practice of the world's leading training centres and retraining programmes. Local and international experts have created academic projects that help the Company to develop engineering and other technical qualifications. By this time up to 1,600 employees of the Company have been trained/retrained in their Training Centre.

As part of the development of educational facilities in Svaneti, mountain region in the North-Western Georgia, the Group's renewable energy business modernised a community centre and a public school library in Mestia. The Group believes that educating young people is extremely important for the development of the community as a whole. As a leader in the industry, our P&C insurance business, managed through Aldagi, is responsible for insurance education, not only in terms of professional development, but also informing the younger generation about insurance and its role in society. Aldagi employees frequently attend university events delivering information about insurance in general, insurance products and principles. Aldagi has developed a unique professional development programme to give various stakeholders and interested employees a deeper understanding of the industry.

The healthcare services business partnered with Educare Georgia to support their initiative and sponsored the translation of Khan Academy's, a well-known international learning platform, full biology course into Georgian.

To support the country's new generation and contribute to their development, the healthcare services business cooperates with different universities across Georgia and operates the Students' Programme, which includes the following initiatives: improved healthcare package under UHC, scholarships and sponsoring tournaments, meetings with motivational speakers, master classes and outdoor activities.

GHG management believes that professional medical education is the cornerstone of healthcare quality in Georgia. For this reason, GHG tries to develop a healthy learning environment by financing international and local medical conferences. In 2018, GHG sponsored seven medical conferences and two workshops, which brought together medical scholars and healthcare practitioners from Europe, Asia, the USA and Georgia to share knowledge and experience that influence and shape healthcare delivery. Total financing to support the conferences amounted to GEL 191,544.

Promoting and Enhancing Healthy Lifestyle

Our beverages business produces and sells Georgian wine locally and exports to 17 countries. The Company actively promotes responsible drinking and have developed a special campaign "DON'T DRINK AND DRIVE".

As part of its initiative to promote a healthy lifestyle, m^2 became the general sponsor of FC Kakheti Telavi. Telavi is the largest city in Eastern Georgia and a major tourist destination, known as a major wine region in Georgia. Through this sponsorship, m^2 supports local sports establishments which bring a great benefit to the local area. In 2018 FC Kakheti Telavi and m^2 jointly organised a children's football tournament in the Kakheti region. In 2018 m^2 organised the children's rugby festival with eight teams and it intends to turn the tournament into an annual event.

Aldagi started promoting safe driving with a project organised as special crews riding through the largest cities of Georgia and rewarding people for their secure driving. The project aims to motivate drivers to follow traffic rules and to emphasise the importance of security on the roads. Within the project, Aldagi promoted the necessity of first aid kits and distributed specially designed kits as rewards for secure drivers.

Strategic Review Our Business

RESOURCES AND RESPONSIBILITIES CONTINUED

GHG is sponsoring a medical TV programme reaching out to a wide range of the Georgian population to raise health awareness and promote healthcare practices. GHG has three TV shows, each dedicated to a relevant health expertise, discussing various health and wellness issues, such as screening programmes, allergies, cardiovascular disease, oncology, arthritis and others, in a simple and clear manner. The shows often include celebrity interviews, healthcare news, healthy recipes and helpful tips. In 2018, GEL 120,300 was spent on financing these TV programmes.

Supporting People with Disabilities
In 2017, m^2, together with Kutaisi City Hall, took the initiative to finance the rehabilitation course for children with autistic spectrum disorders in Kutaisi. A rehabilitation course for 40 children will be fully funded during 2018-2019 period (GEL 125,000 from Kutaisi City municipality and GEL 100,000 from m^2).

In 2017 m^2 began construction of a specialised family-type home for children with severe disabilities in Tbilisi. The construction works were implemented as part of the project with the framework of Protection of Children with Disabilities – a project carried out by the Ministry of Labour, Health and Social Affairs, USAID and United Nations Children's Fund (UNICEF). The project aims to create specialised family-type services for children with severe disabilities where they will receive care in a family environment and will be provided with all services necessary for their adequate growth, individual development and smooth integration into the society. After completion of the construction and renovation works, seven children with severe forms of disability were moved to live in the house in 2018. All m^2 buildings are accessible to people with disabilities.

Conserving Nature
In 2017, m^2 committed to restore around 26,000 square metres of burnt territory on Tbilisi's Mtatsminda slope. The works are conducted jointly with Tbilisi City Hall, Caucasus Environmental NGO Network (CENN), Regional Environmental Centre for the Caucasus (REC), the Green Movement of Georgia (GMG), botanical institute of Ilia State University, the Ministry of Environment and Natural Resources Protection of Georgia. After finalising the reforestation plan with specialists from the National Botanical garden of Tbilisi, the first stage of the rehabilitation process was completed successfully in 1H18: building terraces and tracks, planting 3,000 units of eight varieties of plants and installation of irrigation systems. The next stage includes care and protection of the territory for a period of three years. This project received the CSR prize in the Successful Partnership for Sustainable Development category on the event initiated by the CSR club and UN Global Compact Georgia.

Air quality is an immediate and acute problem in Georgian cities. To increase awareness of climate change and lead to a better living, m^2 promotes the use of electric vehicles: 45 new customers were gifted electric scooters in 2017. Moreover, m^2 is the general partner of the start-up company E-space and funds the establishment of infrastructure for electric vehicles across the country (Tbilisi, Batumi, Kutaisi, Rustavi, Kvareli and Telavi) through the "More Oxygen for the City" campaign aiming to install 100 EV (electric vehicle) chargers in Georgia – m^2 has already installed 50 charging stations during 2017 and 2018.

Employee Matters
Recruiting, developing and retaining our talent is one of our most important priorities. We work towards that objective by communicating openly and consistently with our employees, providing training and opportunities for career advancement, rewarding our employees fairly and encouraging employees to give direct feedback to senior management. We recognise the importance of providing a supportive working environment and of providing a healthy work/life balance for all our employees both in Georgia Capital and in our portfolio investments.

The Group has in place a Code of Ethics, as well as policies which relate to environmental matters, employees, social matters, our respect for human rights and anti-corruption and bribery. Copies of these polices can be found on the Group's website: **https://georgiacapital.ge/governance/cgf/policies**

A key factor in our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment.

The Group develops Human Resource (HR) policies and procedures which promote the key principles, areas, approaches and methods that are crucial for building Human Capital Management systems at each business level and at Georgia Capital level in line with the above mentioned policies implemented across the Group. Examples of some of our HR policies and procedures include, but are not limited to:

- employee planning and recruiting;
- staff administration;
- compensation and benefits;
- code of conduct;
- employee development and training human rights;
- grievances;
- retrenchment; and
- anti-nepotism.

We are committed to employee engagement. We believe that effective communication is key and we strive to provide our employees with a continuous flow of information, which includes information about our corporate culture, the Group's strategy and performance, risks relating to its performance, such as financial and economic factors, and our policies and procedures. We provide information in a number of ways, including via managers, presentations, email, intranet and regular town hall and off-site meetings. We also value the views of our employees. We consult with them regularly and have implemented feedback systems, such as frequent employee satisfaction surveys, which ensure that opinions of our employees are taken into account when making decisions which are likely to affect their interests. Employee feedback also helps to improve our customer-focused approach.

In 2018 the Board nominated Kim Bradley as the Independent Non-Executive Director on the Company's Board representing the workforce.

Talent Attraction
Sustained development of the Group's businesses requires the strengthening of the teams of our businesses both by using the Group's own significant internal resources through staff development and rotation and by attracting external candidates. Our Recruitment Policy and relevant control procedures ensure an unbiased hiring process that provides equal employment opportunities for all candidates. According to the HR Policy, internal candidates have priority when filling vacant positions, especially in situations where there are vacancies in top and middle management. In order to attract young talent, we actively partner with leading Georgian business schools and universities, participate in job fairs and run extensive internships not only locally, but also internationally. In 2018, an intern from Stanford University spent one month working on different investment projects at the Georgia Capital office in Tbilisi. Interns are directly coached by the Company executives and middle managers to help them on their path to gaining their first management position. In 2018 Georgia Capital continued its talent acquisition project for its Investment Officer position. The project was launched in 2016 and selected a number of young and talented candidates for various investment projects within the Group. Furthermore, the Investment Officers hired in 2017 were promoted to managerial positions Group-wide. In 2018, GHG's human resources department organised job fairs for students in leading medical universities and nursing colleges in Tbilisi and other regions. GHG has memoranda of understanding with various nursing colleges and universities. In 2018, GHG's EVEX Learning Centre conducted 140-hour six-month free nursing courses and 165 candidates who earned the passing score

were offered jobs at GHG's healthcare facilities. In 2018, GHG continued its special partnership with "Panatsea", the biggest nursing college in Tbilisi. GHG offers the college its medical facilities for their students' pre-graduation training.

In September 2018, GHG signed an exclusive partnership agreement with the pharmacy college "Orientiri". GHG offers grants to its employees who have little or no pharmaceutical education. After two years of college, they can graduate with a pharmacy degree and start a career in one of GHG pharmacies. GHG finances 50% of the total tuition fee. 14 participants are already enrolled and are expected to graduate in 2020. The main goal of the project is to address the shortage of pharmacists and increase the number of staff qualified for this position.

Leadership Programme is one of the pillars of GHG Human Capital Strategy. The Programme is designed for 200 middle level managers to further develop and improve their managerial and leadership skills. 125 managers have already undergone five-month 180-hour General Management Course in 2017 and 2018. Further 75 employees will take the course in 2019. GHG balances gender composition in their Leadership Programme where 59% of the participants are female and 41% are male. GHG has also developed a Personal Development Programme, which further builds leadership competencies through effective performance feedback and coaching sessions. In 2018, 65 middle managers used the 360-degree feedback tool, developed their personal plan and 30 of them also took part in individual coaching sessions.

Training and Development
To manage our employees in a way that best supports our business strategy, we seek to help them contribute to business performance through personal and professional development. Following our aspiration to develop strong leaders, we have developed an extensive Leadership Development Programme.

The Group's corporate learning system is comprised of a wide range of internal and external training sessions specifically designed to meet the needs of front and back office employees at the Group's portfolio companies. Middle and senior level employees are given the opportunity to receive external training in well-known training institutions outside of Georgia.

In 2018, Georgia Capital started the Personal Mastery and Leadership Programme and coaching for its employees at all levels. The Programme provides an individual approach towards developing leadership skills. Employees involved in the Programme gained a greater awareness of their leadership strengths and opportunities for future growth. The Group's P&C Insurance business creates different development opportunities for employees. To help the integration of new employees and make them aware of the systems and procedures, Aldagi delivers an effective Induction Training Programme, where participants have an opportunity to meet with one of the top managers who share their career stories in the company and explain their values and approaches. In 2016, Aldagi established an Internal Business Trainers Programme to encourage employees to become in-house trainers and share their knowledge with colleagues. The P&C insurance business has also established a sales coaching system in the sales and retail department in order to maximise the performance of the staff. During the last two years, up to 15 retail sales agents were promoted to a head of sales position.

During the current year GGU has implemented a 360-degree assessment for the entire management, with the purpose of evaluating the level of their competencies and target their future development. Based on the results, group and individual coaching sessions were organised for 35 employees.

GGU concentrates on staff development as one of the key pillars for sustainable growth of the business. In 2018, GGU carried out an internal project called "The Future Engineer". More than 300 employees had the opportunity to work on and introduce technological solutions to real challenges that the Company is facing in the fields of water supply and sewerage systems.

In 2018, GGU published the Company's engineering manual – Construction and Exploitation of Water Pipes and Sewage Systems. The aim of this manual is to increase the qualification level of the Company's employees and to standardise the processes.

GHG offers continuous medical education through EVEX Learning Centre. Apart from modern training methods, the Centre offers up-to-date equipment, auditoria, computer labs and other facilities that conform to the highest international standards. In 2018, the Centre trained a total of 1,170 nurses, 1,669 physicians and 1,529 back office employees.

In 2018, GHG's healthcare services business spent about GEL 3 million on training and development. Most of the expenditures went towards training nurses, physicians and pharmacists.

Professional development of GHG's pharmacy and distribution business employees is led by the GEPHA Training Centre trainers. In 2018, the GEPHA Training Centre trained a total of 4,500 participants.

To encourage continuing professional development, GHG's medical insurance business has also launched its own Imedi L Academy, offering specialised vocational training programmes and courses to its employees. Imedi L Academy delivered training to 1,000 participants in 2018.

Gender Diversity
Georgia Capital is fully committed to provide equal opportunities as an employer and prohibits unlawful and unfair discrimination. We believe that there are great benefits to be gained from having a diverse and varied workforce. Although we do not set specific diversity targets at Georgia Capital level, we seek to ensure that our corporate culture and policies create an inclusive work environment that helps to bring out the best in our employees. Georgia Capital's Diversity Policy establishes that commitment to the elimination of unlawful and unfair discrimination and values the differences that a diverse workforce brings to the organisation. The Board embraces diversity in all its forms. Diversity of gender, social and ethnic backgrounds, cognitive and personal strengths and balance in terms of skills, experience, independence and knowledge, amongst other factors, will be taken into consideration when seeking to make any new appointment within the business, whether an employee, client, supplier or contractor. At 31 December 2018, Georgia Capital had a total of 20,000 employees across the Group, the breakdown by gender is on the charts on page 78.

In late 2016, m^2 committed itself to incorporate Women Strengthening Principles internally, in the Company's core operations and internal policies and externally, at the marketplace and in the community. The Company systematised its approach to gender equality and executed specific goals throughout 2017 and 2018. m^2 has established internal grievance mechanism for employees to file complaints on gender-based discrimination, also formed special council to discuss issues related to any types of abuse. m^2 adopted gender responsive recruitment strategies, it tracked the percentage of women in traditionally male roles in the company and took measures to gradually increase this number without any specific target set yet. For example, construction team internships were completed by women for the first time in m^2 history.

We are supportive of the ambition shown in recent reviews on diversity, including the Davies Review and the Hampton-Alexander Review, and will continue to examine ways in which we can increase female representation at Board and senior management level. While we do not currently employ any formal diversity targets at Board level, the Board will continue to keep this approach under review.

Strategic Review Our Business

RESOURCES AND RESPONSIBILITIES CONTINUED

Human Rights Policy

The Human Resources and Human Rights Policies are an integral part of the employee on-boarding package at each business level. It is available for employees and the updates are communicated electronically. The Human Rights Policy covers the following:

- equal opportunities and anti-discrimination;
- work environment free of harassment; and
- grievance policy.

We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. Our Human Rights Policy establishes priorities and puts control procedures in place to provide equal opportunities and prevent discrimination or harassment on any grounds, including disability. Our Human Rights Policy applies to all employees and includes procedures in relation to employment processes (including recruitment procedures and procedures governing the continuity of employment of employees who become disabled during the course of their employment), training and development.

Code of Ethics and Anti-Bribery and Anti-Corruption Policy

The Group has a Code of Ethics, as well as Anti-Bribery and Anti-Corruption Policy, which are also applicable to the Group companies.

As an organisation that is fully committed to the prevention of bribery and corruption, the Group ensures that appropriate internal controls are in place and operating effectively. Anti-Bribery and Anti-Corruption Policy enforcement processes include:

- operating an internal whistleblowing and hotline system;
- disclosure of gifts or other benefits, including hospitality offered to, or received by, the Group's personnel;
- voluntary disclosure of corrupt conduct;
- third-party screening to identify the level of risk third parties might pose;
- informing the banks/partners/counterparties about anti-corruption and anti-bribery principles before commencement of business relations;
- ensuring that anti-bribery and anti-corruption clauses are incorporated in the agreements with customers and third parties;
- ensuring that anti-bribery and anti-corruption matters are included in contractual agreements with partners/counterparties; and
- online training programme aiming to raise awareness of corruption and bribery issues among employees.

As part of the Group's third-party screening to identify the level of risk the third parties might pose, the Group carries out the following due diligence processes: indirect investigations, which include general research of the activities undertaken by the proposed business partners, their reputation and information whether the Company is a related party. The Compliance Officers represented by Deputy CEO, Legal and the general counsel have the authority to conduct periodic compliance checks of the operations of the Group.

We are pleased to confirm that there have been no instances of violation of the anti-bribery policy during 2018.

Occupational Health and Safety

Ensuring safety of the workplace and providing healthy working conditions are among the Group's fundamental HR management principles. The Group pays particular attention to preventative measures, such as conducting regular staff training and medical check-ups, certifying workplaces and promoting a healthy lifestyle.

Occupational health and safety is the most critical in the construction business and therefore to enhance the awareness of health and safety risks associated with the construction process, m^2 conducts regular employees and contractors training and educational seminars. In 2017 and 2018, the number of health and safety training hours amounted to approximately 86 and 20, respectively. In addition, m^2 publishes safety brochures and booklets and special rules to be followed when working on sites. Respective control procedures include quarterly audits by external health and safety consultants and monthly internal inspections of m^2 worksites. In addition, m^2 has a comprehensive reporting procedure for health and safety concerns. m^2 follows an Emergency Management Plan to prepare and respond to procedures. The plan outlines possible scenarios during emergency situations and determines specific procedures for the Company's employees, contractors and visitors on how to react when in a crisis situation. Furthermore, m^2 in partnership with NGOs is implementing fire prevention campaigns in schools, as well as a fire risk reduction campaigns in residential complexes.

Environmental Matters

The Group recognises that its operations have both an indirect and direct impact on the environment, and therefore has implemented an Environment and Social Policy which establishes the management's approaches which enable the Company to become a more environmentally-friendly institution.
With fewer than 40 employees at Georgia Capital level, as a Company we have a relatively small direct impact in terms of the environment and other sustainability issues. While across our businesses, the most direct impact on the environment is created by our Housing Development and Hospitality and Commercial Real Estate businesses, managed by m^2. Environmental consideration is an integral part of m^2. It delivers environmentally-conscious products whilst being aware of immense importance of buildings with energy-efficient designs for sustainable development; new buildings present an opportunity to achieve energy savings over the long term. m^2 reduces waste and pollution by using energy-efficient building materials which lead to a significant reduction in energy use. Aiming at increasing the efficient use of energy, water and materials, m^2 installs energy-efficient lighting systems and uses low emission window glasses and other modern insulation materials to cover the façade of the buildings, thus, reducing the U-value of constructed buildings to 0.21W/m^2K. The Directorate General for Neighbourhood and Enlargement Negotiations, European Commission and Green for Growth Fund (GGF) Director, visited m^2 large-scale energy-efficient project and during the visit examined the measures that m^2 is able to implement in the buildings: improved building insulation, modern boilers and appliances, and better insulated windows and doors. For the 801 apartments constructed as part of this initiative, the total expected annual savings of CO_2 are equal to planting 210,000 trees each year. This project was financed by International Finance Corporation (IFC) and Green for Growth Fund (GGF) and supported by the EU. GGF also provided technical assistance to conduct energy audits and identify the most efficient manner to meet high energy standards.

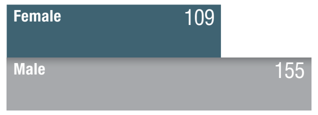
Gender diversity

Directors

84

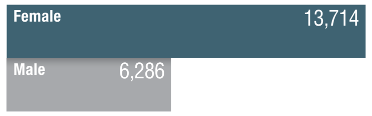
Senior Managers

264



All employees*

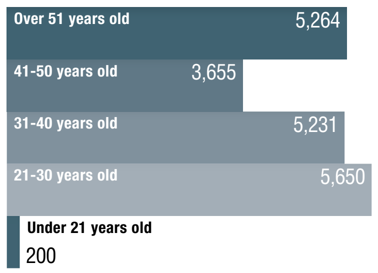
20,000



Age diversity

All employees*

20,000



* Excludes temporary employees.

As for the direct environmental impact, we believe that the impact of the insurance businesses is not significant. Nevertheless, we undertake a number of measures to reduce electricity, paper, water and fuel consumption. Moreover, Aldagi encourages its clients to fulfil their environmental and social responsibilities by offering products like "Green Auto". This campaign offers to insure hybrid cars at low insurance rates.
Water utility and renewable energy businesses, managed by GGU, are in full compliance with the current Georgian Environmental legislation, as well as environmental monitoring and control procedures. GGU's environmental activities strongly and directly support the Georgian Government with the implementation of a national obligation under the EU Association Agreement. Furthermore, GGU's environmental activities directly address UN Sustainable Development Goals under the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The UN Sustainable Development Goals address the global challenges the Company faces, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. It is important that each goal and target is achieved by 2030. GGU is also strongly committed to introducing sustainable water management practices and carrying out water utility business operations which consider the principles of green economy, which targets increasing the country's welfare with minimum environmental impact and maximum resource efficiency. Since sustainable water management encompasses maximisation of resource efficiency, GGU urban water management includes the consumption and reuse of water resources, as well as reduction in energy and material resource consumption and lower emission levels related to Water Utility operations. In order to improve efficiency, GGU invests in the upgrading of ageing infrastructure, introduces innovative technologies and implements continuous training of staff, as well as awareness-raising campaigns. GGU's specific investments for resource efficiency maximisation include the following:

- improvement of worn-out water distribution infrastructure;
- installation of pressure regulators, with corresponding data loggers, and development of their live monitoring systems at 100 different locations throughout the city;
- hydro-modelling, which helps in minimising the energy required for extracting and distributing water;
- development of major water-loss identification mechanisms and carrying out respective repair works;
- installing the new smart meters to the customer base; and
- carrying out social campaigns for educating the younger generation about responsible water consumption.

Furthermore, GGU has specific targets for decreasing its own electricity consumption for its water utility business as part of the overall KPIs set for management team. By making the investments listed above, the Company has successfully managed to decrease the consumption throughout last several years and from consumption level of 291 million kWh in 2017. GGU reached 237 million kWh in 2018. GGU further intends to get to 220 million kWh target over the next three years.

Our water utility business is currently implementing an Environmental and Social Management System (ESMS) in accordance with the roadmap schedule presented in the Environmental and Social Policy Framework, adopted by the Company in 2016, which is also in compliance with the Georgian legislation and the IFC performance standards (Environmental, Health and Safety guidelines for Water and Sanitation). The Environmental and Social Policy Statement declares that the Company is committed to conduct business and provide services in a thoughtful, responsible way, with a view to preventing pollution and safeguarding the natural and social environment. It highlights, that the Company is dedicated to the continuous improvement of operational performance in order to reduce any adverse environmental and social impact. The Environmental and Social Policy Framework consists of a combination of Environmental and Social Policy Statement, legal and regulatory review, overview of GGU's activities and environmental impacts, description of management system including various management plans, procedures and practices, description of the monitoring programme and the stakeholders' engagement process.

In the framework of the ESMS, environmental and social audit of the Company has been performed. The environmental and social audit report covers the environmental topics, which are mainly associated with water treatment, water distribution, sanitation (sewerage system) and wastewater treatment and discharge, as well as occupational health and safety topics related to accidents and injuries, chemical exposure and noise. To manage the risks associated with GGU's business, the Company has elaborated ESMS procedures and topical management plans, which are being implemented according to the Environmental and Social Action Plan (ESAP) in the set timeframe. Additionally, ESMS will facilitate the process of obtaining the ISO14000 standard for environmental management and the ISO26000 standard for social responsibility.

The Group's various implemented projects have a direct positive impact on national and regional environments. In particular, after the rehabilitation of Gardabani WWTP, treated wastewater quality discharged into the Mtkvari River meets all applicable norms and regulations. As a result of the improved wastewater treatment process, water quality in the transboundary Mtkvari River will significantly improve, which will also support the Government of Georgia to implement international environmental agreements.

Projects implemented by our renewable energy business are also in compliance with local and international environmental standards and legislation. In 2018, the environmental and social management system (ESMS) was introduced, which is applicable to all types of renewable projects. In general, for the projects which are at the development stage, the Company elaborates Environmental and Social Impact Assessment (ESIA) documentation, which also includes a scoping report and, if need be, a Resettlement Policy Framework (RFP) and a respective Resettlement Action Plans (RAP).

Additionally, for wind projects at the development stage, bird and bat monitoring is

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RESOURCES AND RESPONSIBILITIES CONTINUED

performed (bat monitoring is done according to EuroBAT Guide). As for the projects at the construction stage, the following management plans are developed: campsite, dumpsite, traffic and waste management plans, stakeholder engagement plan, and environmental and social management plan. The main direction of the energy policy of Georgia is the rational use of energy resources. In terms of hydropower development, preference is given to the construction of small and medium-sized hydropower plants, as they are characterised by comparatively low risk of negative environmental impact. Based on the Memorandum of Understanding signed with the Government of Georgia, the project on the construction and operation of HPPs cascade (Mestiachala 1 HPP and Mestiachala 2 HPP) on Mestiachala River, in Mestia Municipality is being implemented with a total capacity of 50MW. In addition, small plants, Saguramo HPP and Bodorna HPP were also constructed with total capacity of 6.9MW. GGU also invests in wind and solar projects. Large-scale researches, including Environmental and Social Impact Assessments, are being conducted to meet technical and environmental targets. The projects will foster low carbon generation and contribute to Georgia's energy demand.

The Company's Environmental and Social Policy Framework and the ESMS is based on the following principles: no pollution of water, soil and air (including dust and noise). In order to identify the arrangements necessary to prevent pollution of water, air and soil, the Pollution Prevention and Control Plan (PPCP) was developed and adopted by the GGU group of companies and their contractors in compliance with the IFC PS3 and the WB General EHS Guidelines. The PPCP consists of the following components: Wastewater and Storm-water Management; Spill Prevention and Control; Hazardous Materials Storage and Handling; Air Emissions Management; and Dust Control and Noise Management.

Since the Group's business is very much dependent on such climate elements as precipitation, wind speed and air temperature, the Group's development will be definitely affected by the climate change. Current climate changes in Georgia are assessed based on the observation data of hydro-meteorological network. The prognostic scenarios for the periods of 2021-2050 and 2071-2100 were compiled using Regional Climate Model RegCM4. The Group is strongly committed to actively contributing to limiting climate change through its Environmental Policy, procedures and implementation of Environmental Management Plans. Water, Energy and Resources Management Plans were developed and adopted at corporate and site-specific levels. The objective of the plan is to ensure efficient use of water, energy and resources during construction and operation of the proposed development, thereby reducing resource consumption and greenhouse gas emissions.

GHG's medical waste management record-keeping standards remain at least in line with national legislative requirements and were amended in 2018 to be in line with the new national regulations that came into force during the year. GHG personnel are responsible for registering the information on produced hazardous waste on the state platform and filling out waste registration and transportation forms. To further reduce risks and maintain regulatory compliance, GHG regularly conduct internal trainings on waste management procedures and issue special certificates to the attendees who successfully pass the test. At each of the Company's hospitals, there is a special storage room set up to store waste before final disposal.

To prevent human or environmental harm, the Company's clinics collect and dispose of medical and biological waste through a specialised outsourced service. For waste collection, GHG use plastic bags or containers that have sufficient strength and are secured with staples. Then steam sterilisation is used to decontaminate biological and bio hazardous waste, including blood. All used sharp objects are placed in labelled, hermetically sealed single-use containers made of hard plastic. Waste is collected from GHG's sites daily or twice a day when required. The maximum on-site storage time is 24 hours. To ensure reliability of their contractors, GHG regularly examine their monthly reports and impose penalties if necessary. In total, GHG hospitals generated 600 tonnes of medical waste in 2018. The Company will continue to look at innovative ways of reducing medical and biological waste, taking advantage of best practice both in Georgia and internationally.

The beer production process releases additional carbon dioxide (CO_2) and wastewater that directly contribute to environment pollution and climate change. The emission implications on communities, agriculture and the availability of raw materials are complex and challenging. The beer business responsibly reduces these implications:

- by constructing a CO_2 recovery plant, which captures the carbon dioxide released during the carbonated drinks production process;
- by constructing a wastewater treatment plant, that cleans wastewater chemically, biologically and physically to obtain ecologically safe wastewater; and
- by having developed a Green Fridge Policy to reduce the carbon footprint of cooling bottled and canned products through purchasing fridges – branded with its own and licensed trademarks. In order to achieve the following objective the business cooperates with suppliers of cooling equipment, that are able to deliver fridges complying with the highest standards. The beer business continuously improves its procedures to further reduce the energy consumption and environmental impact of the fridges.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (Scopes 1 and 2) and additionally have reported on those emissions under Scope 3 that are applicable to our business. All reported sources fall within our consolidated Financial Statements, which can be found on pages 168 to 240. We do not have responsibility for any emission sources that are not included in our consolidated Financial Statements.

In preparing our emissions data, we have used the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD), Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2016. For wastewater treatment and discharge operations we used conversion factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Our reported data is collected in respect of six of the Group's main businesses:

- Real Estate Development, represented by m^2, which includes its offices and construction sites;
- Water utility and renewable energy businesses, represented by Georgia Global Utilities, which includes all of its offices and operational sites;
- P&C Insurance, represented by Aldagi, which includes all of its offices and retail branches, where the company has operational control;
- Beverages business, represented by Georgian Beverages, which includes all of its offices and operational sites; and
- Georgia Healthcare Group, represented by EVEX and Imedi L, which includes its main office and hospitals, where the Company has operational control.

Data on emissions resulting from travel is reported for business-related travel only and excludes commuting travel. Data from joint ventures, investments or sub-leased properties have not been included within the reported figures. The data is provided by on-site delegates invoices and meter readings.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- Combustion of natural gas, diesel and petrol in stationary equipment at owned and controlled sites.
- Combustion of petrol, diesel and aviation fuel in owned transportation devices (cars and aeroplanes).

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- Used electricity at owned and controlled sites; to calculate the emissions, we used the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2014.
- Used heat and steam (only applies to one site of Imedi L).

Scope 3 includes emissions from:

- Air business travel (short-haul and long-haul); information on the class of travel is unavailable, hence, we used an "average passenger" conversion factor.
- Ground transportation, including taxis, coaches and car hire.

Total Greenhouse Gas Emissions Data for the Period Beginning 1 January 2018 and ended 31 December 2018 (Tonnes of CO_2e)

	2018
Scope 1 (emissions fuel combustion and facility operations)	18,199
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	40,266
Scope 3 (emissions from air travel and ground transportation)	13,525
Total greenhouse gas emissions	**71,990**
FTEs	21,309
Total greenhouse gas emissions per FTE*	**3.38**

* FTE is stated including temporary employees.

Non-Financial Information Statement

This section constitutes the Group's Non-Financial Information Statement, in accordance with sections 414CA and 414CB of the Companies Act. The information to be disclosed under section 414CB has been included in this section, with the exception of a description of the Company's business model and principal risks, which can be found on pages 24 to 25 and 70 to 72.

ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measures (APM) Overview

Management assesses the Group's performance using a variety of measures that are not specifically defined under IFRS and are, therefore, referred to as APMs internally and throughout this document. Management monitors the Group's performance on a regular basis based on developments in the Income Statement and Statement of Net Asset Value (NAV) prepared under the adjusted IFRS methodologies (management accounts). Management believes that such statements provide an important view on Georgia Capital's strategy and helpful insights into management's decision-making. The management accounts are themselves APMs and are not being audited or reviewed. Management dedicates time to ensuring that the Group's APMs are reported in a consistent and transparent way in accordance with the European Securities and Markets Authority (ESMA) published guidelines.

Net Asset Value (NAV) Statement

The management accounts include a NAV Statement, which breaks down NAV into its components and follows changes therein, providing management with a snapshot of the Group's financial position at any given time. The NAV Statement provides a value of Georgia Capital that management uses as a tool for measuring its investment performance. Management closely monitors NAV in connection with capital allocation decisions. The following methodology underlies the presentation of the NAV for period-end dates:

- NAV is calculated at stand-alone GCAP level, which represents the aggregation of the stand-alone assets and liabilities of Georgia Capital PLC and JSC Georgia Capital.
- Holdings in listed and private portfolio companies are carried based on the following methodology:
  - Listed portfolio companies are carried at the period-end market values based on closing share prices on respective stock exchanges.
  - Private portfolio companies are carried at fair value based on a valuation technique believed to be most appropriate to that investment as described in the valuation methodology below.
- NAV per share represents total NAV divided by the number of outstanding shares at the end of the period under IFRS, i.e. issued shares less treasury shares. Treasury shares for these purposes are the sum of shares repurchased under the US$45 million buyback programme and shares held by management trust (unawarded and/or unvested).

Management Income Statement

The management Profit and Loss Statement is an aggregation of the bottom lines of the attributable stand-alone IFRS Profit and Loss Statements of listed and private portfolio companies together with GCAP's stand-alone Profit and Loss Statement. Management views Georgia Capital's Income Statement as a two-fold document that reflects performance of the stand-alone GCAP as well as the performance of each portfolio company. The following methodology underlies the preparation of Management Income Statement.

- The top part of the Income Statement (GCAP Operating Income) represents the aggregation of the two stand-alone holding company accounts, which we call GCAP (i.e. the UK holding company Georgia Capital PLC and the Georgian holding company, JSC Georgia Capital), the performance of which reflects the net result of: a) dividend income accrual based on estimated annual dividend proceeds from portfolio companies to be collected during the year; b) interest income on liquid funds, mezzanine facilities issued and senior loans issued; c) interest expenses on debt incurred at GCAP level (which consists of the bonds issued); and d) expenses incurred at GCAP level. These amounts are derived from the IFRS Consolidated Financial Statements, Note 7 on segment reporting under segment name of Corporate Centre.
- Portfolio company attributable income represents attributable recurring IFRS net profits or losses of each portfolio investment, i.e. stand-alone net profits adjusted to exclude minority interests and impact of non-recurring items. Portfolio company attributable income is viewed as a metric to measure the earning power of Georgia Capital's investments, which itself reflects future dividend generation/distribution capacity of portfolio companies, indicating cash receipt prospects of Georgia Capital.
- Within the bottom part of the Income Statement, the double-counting impact of dividend accrual is reversed and provisions for interest income items is recognised, where immediate collectability is uncertain on instruments such as mezzanine loans. Following these adjustments, management net income for the period is derived.
- Below net income line, to arrive at total comprehensive income, are presented: a) gains or losses from foreign exchange movements across the Group excluding listed portfolio companies; b) non-recurring items of both GCAP and related attributable shares of portfolio companies; and c) realised gains or losses from GCAP's sales of equity interests in portfolio companies.

APM Summary

In October 2015, ESMA published guidelines about the use of APMs. These are financial measures such as KPIs that are not defined under IFRS. In the Strategic Review section of the Annual Report on pages 94 to 99 Georgia Capital describes its financial performance under the management accounts, which are themselves an APM. A number of other measures are used which are also APMs, since they are derived from the management accounts. Further information about the use of APMs, including the applicable reconciliations to the IFRS equivalent where appropriate, is provided at the beginning of the Financial Review section on pages 82 to 88 and should be read alongside the management accounts to IFRS reconciliation. The table on the next page lists all the APMs used within the Annual Report.

Read more on **financial performance** in the **Strategic Review** on pages **91 to 117**.

Read more on about the **use of APMs** in the **Financial Review** on pages **82 to 88**.

APM	Purpose	Calculation	Reconciliation to IFRS
Net Asset Value (NAV)	The metric to measure Georgia Capital's value, used as a tool for monitoring investment performance and for making informed capital allocation decisions.	Total investment portfolio value less net debt. NAV is calculated at stand-alone GCAP level. For the purposes of NAV, listed investments are carried at the period-end market values based on closing share prices on respective stock exchanges and private investments are carried at fair values, determined by reference to market-based multiples appropriate for the business. Please refer to Valuation Policy included on pages 89 to 90.	The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Consolidated Balance Sheet.
NAV per share	The measure of per-share value of Georgia Capital.	NAV per share is calculated as NAV divided by the number of outstanding shares at the end of the period under IFRS, i.e. issued shares less treasury shares.	N/A
GCAP net operating income	A measure to reflect performance of the stand-alone GCAP and evaluate cash generating capacity on a holding company level.	GCAP net operating income reflects the net result of: a) dividend income accrual based on estimated annual dividend proceeds from portfolio companies to be collected during the year; b) interest income on liquid funds, mezzanine facilities and senior loans issued; c) interest expenses on debt incurred at GCAP level; and d) operating expenses incurred at GCAP level.	Reconciles with IFRS, except for dividends on accrual basis, interest income on own bonds held in treasury and research and feasibility expenses, which are capitalised for management account purposes.
Total portfolio company attributable income	A metric to measure the earning power of Georgia Capital's investments.	Portfolio company attributable income represents attributable recurring IFRS net profits or losses of each portfolio investment, i.e. stand-alone net profits adjusted to exclude minority interests and impact of non-recurring items. Additionally, foreign exchange movements are also excluded for private businesses.	The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Consolidated Income Statement.
Net Income	A performance metric to measure the recurring earning power for each individual company, including GCAP.	Aggregation of GCAP net operating income and total portfolio company attributable income less: a) reversal of double counting impact of dividend accrual; and b) provisions for interest income items, where immediate collectability is uncertain on instruments such as mezzanine loans.	The equivalent balance under IFRS and respective reconciliation are shown in the Reconciliation of the consolidated Income Statement.
Total comprehensive income	A performance metric to measure the earning power for each individual company, including GCAP.	Net income less: a) gains or losses from foreign exchange movements of both GCAP and related attributable shares of private portfolio companies; b) non-recurring items of both GCAP and related attributable shares of portfolio companies; and c) realised gains or losses from sales of equity interests in portfolio companies.	The equivalent balance under IFRS and respective reconciliation are shown in the reconciliation of the Consolidated Income Statement.

Strategic Review Discussion of Results

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APM	Purpose	Calculation	Reconciliation to IFRS
EBITDA	Management uses EBITDA as a tool to measure the Group's operational performance and the profitability of its operations. The Company considers EBITDA to be an important indicator of its representative recurring operations.	Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation.	N/A
GCAP net debt	A measure of the available cash to invest in the business and an indicator of the financial risk at GCAP level.	Net debt is calculated at GCAP level as follows: cash and liquid funds plus loans issued less gross debt; loans issued does not include investment type mezzanine loans.	N/A
Internal rate of return (IRR)	A metric to evaluate the historical track record of listed investments.	IRR for listed investments is calculated based on: a) historical contributions to the listed investment less; b) dividends received; and c) market value of the investment.	N/A
Return on net investment (ROI)	A metric to evaluate the historical track record of private investments.	ROI for private investments is an annualised return on net investment (gross investments less capital returns) calculated at each investment level. Inputs into the ROI calculation are as follows: a) the numerator is the annualised attributable income of the private portfolio company less allocated GCAP interest expense; and b) the denominator, is the net investment less allocated gross debt of GCAP.	N/A
Return on allocated capital (ROAC)	A measure to evaluate recurring performance of each portfolio company against the allocated capital.	ROAC is an annualised return on allocated capital and calculated at each private investment level. Inputs into the ROAC calculation are as follows: a) the numerator is the annualised attributable income of the private portfolio company, less allocated GCAP interest expense; and b) the denominator is the management estimated fair value, less allocated gross debt of GCAP.	N/A
Return on invested capital (ROIC)	To evaluate a company's efficiency at allocating the capital under its control to profitable investments.	Return on invested capital is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.	N/A
Return on average total equity (ROAE)	To measure the performance of a company based on its average shareholders' equity outstanding.	ROAE equals profit for the period attributable to shareholders divided by monthly average equity attributable to shareholders for the same period.	N/A
Total return	To measure the annual shareholder return on each portfolio company for Georgia Capital.	Aggregation of: a) change in beginning and ending fair values; b) gains from realised sales (if any); and c) dividend income during period. The net result is then adjusted to remove capital injections (if any) to arrive at the total investment return.	N/A

RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES

Reconciliation of adjusted IFRS measures to consolidated IFRS figures

GEL thousands, unless otherwise noted	Income Statement reconciliation for FY18											
	GHG	BOG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Other	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group total
Income before income taxes, provisions and adjustments	21,373	91,196	43,635	6,929	17,597	(645)	28,808	(19,590)	(1,438)	48,690	–	236,555
Adjustment for dividend income accrual	–	–	–	–	–	–	–	–	–	(72,504)	–	(72,504)
Provision	–	–	–	–	–	–	–	–	–	356	–	356
Net income (management accounts)	**21,373**	**91,196**	**43,635**	**6,929**	**17,597**	**(645)**	**28,808**	**(19,590)**	**(1,438)**	**(23,458)**	**–**	**164,407**
Non-recurring expense	(1,276)	(15,846)	(6,121)	(6,224)	(652)	375	(1,333)	(1,418)	24	(23,449)	–	(55,920)
Net foreign currency (loss)/gain	–	–	(4,969)	(486)	137	(261)	(1,083)	(1,462)	88	(22,900)	–	(30,936)
Reversal of BoGG attributable earning	–	(75,350)	–	–	–	–	–	–	–	–	–	(75,350)
Adjustment for BOGG dividend income	–	–	–	–	–	–	–	–	–	23,875	–	23,875
Profit attributable to non-controlling shareholders	33,138	–	–	–	–	(285)	3	(6,446)	–	–	–	26,410
Reversal of hotel revaluations for Group consolidation purposes	–	–	–	–	–	–	–	–	–	–	(27,061)	(27,061)
Reversal of FX gain on preferred stock issued by m²	–	–	–	–	–	–	–	–	–	–	(1,894)	(1,894)
Other	–	–	–	–	–	–	–	–	–	–	(6,619)	(6,619)
Profit for the period (IFRS Consolidated)	**53,235**	**–**	**32,545**	**219**	**17,082**	**(816)**	**26,395**	**(28,916)**	**(1,326)**	**(45,932)**	**(35,575)**	**16,911**

GEL thousands, unless otherwise noted	Income Statement reconciliation for FY17										
	GHG	BOG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Corporate	Inter-Business Eliminations/ Consolidations	Group total
Income before income taxes, provisions and adjustments	20,890	–	39,156	22,140	16,091	(838)	3,090	(6,619)	13,602	–	107,512
Adjustment for dividend income accrual	–	–	–	–	–	–	–	–	(35,000)	–	(35,000)
Provision	–	–	–	–	–	–	–	–	(2,039)	–	(2,039)
Net income (management accounts)	**20,890**	**–**	**39,156**	**22,140**	**16,091**	**(838)**	**3,090**	**(6,619)**	**(23,437)**	**–**	**70,473**
Non-recurring expense	(2,995)	–	(1,136)	(127)	–	8	(2)	507	–	–	(3,745)
Net foreign currency (loss)/gain	–	–	(482)	41	209	(741)	–	(5,172)	7,508	–	1,363
Profit attributable to non-controlling shareholders	27,955	–	–	–	–	141	–	(3,957)	–	–	24,139
Realised gain from sale portfolio company shares	–	–	–	–	–	–	–	–	90,275	(90,275)	–
Other	–	–	–	–	–	–	–	–	–	2,039	2,039
Profit for the period (IFRS consolidated)	**45,850**	**–**	**37,538**	**22,054**	**16,300**	**(1,430)**	**3,088**	**(15,241)**	**74,346**	**(88,236)**	**94,269**

Strategic Review Discussion of Results

RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES CONTINUED

Reconciliation of adjusted IFRS measures to consolidated IFRS figures continued

	Balance Sheet reconciliation for FY18											
GEL thousands, unless otherwise noted	GHG	BOG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Other	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group total
Adjusted values	**520,332**	**457,495**	**431,017**	**66,785**	**130,524**	**61,182**	**149,079**	**61,027**	**5,933**	**(195,154)**	**–**	**1,688,220**
Fair value adjustment of private companies	–	–	(160,531)	–	(71,949)	–	–	22,344	–	–	–	(206,348)
Reallocation from/to Corporate Centre	–	–	–	–	(2,341)	–	–	(39,289)	–	20,777	20,853	–
Substitution of GHG's market value by book value attributable to shareholders of GCAP	(224,643)	–	–	–	–	–	–	–	–	–	–	(224,643)
Reversal of hotel revaluations for Group consolidation purposes	–	–	–	–	–	–	–	–	–	–	(27,061)	(27,061)
Provision of interest accrued on preferred stock	–	–	–	–	–	–	–	–	–	–	1,103	1,103
GHG hospitals and clinics accounted at cost for GCAP consolidation purposes	–	–	–	–	–	–	–	–	–	–	(9,246)	(9,246)
m² long-term share-based compensation adjustment for consolidation purposes	–	–	–	–	–	–	–	–	–	–	(5,297)	(5,297)
Transfer of market value of 19.9% in BoG to Corporate Centre	–	(457,495)	–	–	–	–	–	–	–	457,495	–	–
Reversal of goodwill recognised on acquisition of non-controlling stake in Kindzamarauli	–	–	–	–	–	–	–	–	–	–	(7,022)	(7,022)
Other	–	–	–	–	–	–	–	–	–	–	(4,103)	(4,103)
Total equity attributable to shareholders of Georgia Capital (IFRS)	**295,689**	**–**	**270,486**	**66,785**	**56,234**	**61,182**	**149,079**	**44,082**	**5,933**	**283,118**	**(30,773)**	**1,201,815**

Reconciliation of adjusted IFRS measures to consolidated IFRS figures continued

	Balance Sheet reconciliation for FY17										
GEL thousands, unless otherwise noted	GHG	BOG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group total
Adjusted values	**933,481**	**–**	**498,181**	**75,609**	**141,480**	**51,511**	**78,142**	**72,457**	**(10,414)**	**–**	**1,840,447**
Fair value adjustment of private companies	–	–	(230,258)	–	(90,287)	–	–	(8,820)	(6)	6	(329,365)
Reallocation from/to Corporate Centre	–	–	–	–	(2,341)	(34,221)	–	(6,128)	34,221	8,469	–
Substitution of GHG's market value by Book value attributable to shareholders of GCAP	(650,976)	–	–	–	–	–	–	–	–	–	(650,976)
Provision of interest accrued on preferred stock	–	–	–	–	–	–	–	–	–	2,039	2,039
Deduction of GCAP's shares held by portfolio companies	–	–	–	–	–	–	–	–	–	(2,751)	(2,751)
GHG hospitals and clinics accounted at cost for GCAP consolidation purposes	–	–	–	–	–	–	–	–	–	(9,283)	(9,283)
m² long-term share-based compensation adjustment for consolidation purposes	–	–	–	–	–	–	–	–	–	(2,317)	(2,317)
Other	–	–	–	–	–	–	–	–	–	(3,131)	(3,131)
Total equity attributable to shareholders of Georgia Capital (IFRS)	**282,505**	**–**	**267,923**	**75,609**	**48,852**	**17,290**	**78,142**	**57,509**	**23,801**	**(6,968)**	**844,663**

RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES CONTINUED

Reconciliation of stand-alone IFRS net income to Management Account Income Statement

	Stand-alone IFRS Income Statement				Management accounts
	Net income (loss) (1)	Net foreign currency loss (gain) (2)	Net non-recurring expense (gain) (3)	Net adjusted earnings of portfolio companies (4) = (1)+(2)+(3)	Attributable income to GCAP[1]
GCAP	(69,803)	22,896	23,449	(23,458)	(23,458)
Attributable income of listed portfolio companies	**431,881**	**–**	**81,815**	**513,696**	**112,569**
of which, BoG PLC	378,642	–	79,628	458,270	91,196
of which, GHG PLC	53,239	–	2,187	55,426	21,373
Attributable income of private portfolio companies	**45,107**	**7,426**	**16,599**	**69,132**	**75,296**
Late stage	**50,026**	**5,139**	**12,996**	**68,161**	**68,161**
of which, Water Utility	32,545	4,970	6,120	43,635	43,635
of which, Housing Development	399	306	6,224	6,929	6,929
of which, P&C Insurance	17,082	(137)	652	17,597	17,597
Early stage	**(3,593)**	**2,375**	**3,626**	**2,408**	**8,573**
of which, Renewable Energy	(816)	(577)	401	(992)	(645)
of which, Hospitality and Commercial	26,396	1,073	1,339	28,808	28,808
of which, Beverages	(29,173)	1,879	1,886	(25,408)	(19,590)
Pipeline	**(1,326)**	**(88)**	**(23)**	**(1,437)**	**(1,438)**
Total	**407,185**	**30,322**	**121,863**	**559,370**	**164,407**

[1] Net adjusted earnings of portfolio companies multiplied by effective ownership stake of GCAP.

VALUATION METHODOLOGY

Equity investments in Georgia Capital's portfolio companies are measured at the managements' estimate of fair value at the reporting date. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction at the reporting date.

Equity Investments in Private Portfolio Companies

Equity investments in private portfolio companies are valued by applying an appropriate valuation method, which makes maximum use of market-based public information, is consistent with valuation methods generally used by market participants and is applied consistently from period to period, unless a change in valuation technique would result in more reliable estimation of fair value.

Fair value of equity investment is usually determined using one of the valuation methods described below:

Price of Recent Transaction

New equity investments in private portfolio companies are valued at acquisition cost for the first 12 to 24 months following their acquisition adjusted for earnings following the acquisition. After this period, the investment is valued using the applicable valuation technique described below.

Listed Peer Group Multiples

The preferred method for valuing equity investments in private portfolio companies is comparison with the multiples of comparable listed companies. This methodology involves the application of a listed peer group earnings multiple to the earnings of the business and is appropriate for investments in established businesses which are profitable and for which we can determine a group of listed companies with similar characteristics.

The earnings multiple used in valuation is determined by reference to listed peer group multiples appropriate for the period of earnings calculation for the investment being valued. The Group identifies peer group for each equity investment taking into consideration points of similarity with the investment such as industry, business model, size of the company, economic and regulatory factors, growth prospects (higher growth rate) and risk profiles. Certain peer-group companies can be more heavily weighted if their characteristics are closer to those of the company being valued than are those of the other companies in peer group.

Generally, last 12-month earnings adjusted for non-recurring items will be used for the purposes of valuation.

a. *Valuation based on enterprise value*

Fair value of equity investments in private companies can be determined as their enterprise value less net financial debt (gross face value of debt less cash) appearing in the most recent Financial Statements.

Enterprise value is obtained by multiplying measures of a company's earnings by listed peer group multiple (EV/EBITDA) for the appropriate period. The measures of earnings generally used in the calculation is recurring EBITDA for the last 12 months (LTM EBITDA). In exceptional cases, where EBITDA is negative, peer EV/Sales (enterprise value to sales) multiple can be applied to last 12-month sales revenue of the business (LTM sales) to estimate enterprise value.

Once the enterprise value is estimated, the following steps are taken:

- Net financial debt appearing in the most recent financial statements is subtracted from the enterprise value. If net debt exceeds enterprise value, the value of shareholders' equity remains at zero if the debt is without recourse to Georgia Capital.
- The resulting fair value of equity is apportioned between Georgia Capital and other shareholders of the Company being valued, if applicable.

Valuation based on enterprise value using peer multiples is used for profitable businesses within non-financial industries.

b. *Equity fair value valuation*

Fair value of equity investment in companies can determined as using price to earnings (P/E) multiple of similar listed companies.

The measure of earnings used in the calculation is recurring adjusted net income (net income adjusted for non-recurring items and forex gains/losses) for the last 12 months (LTM net income). The resulting fair value of equity is apportioned between Georgia Capital and other shareholders of the company being valued.

Fair valuation of equity using peer multiples can be used for businesses within financial sector (e.g. insurance companies).

Net Asset Value

The net assets methodology (NAV) involves estimating fair value of equity investment in private portfolio company as its book value at reporting date. This method is appropriate for businesses whose value derives mainly from the underlying value of its assets and the assets are already carried at their fair value (usually fair valuation of assets is performed by professional third-party valuers) on the balance sheet. Net asset value method is also appropriate for project-based businesses, for which the use of peer multiples will not provide meaningful information and businesses under development up to the point when they become profitable.

Strategic Review Discussion of Results

VALUATION METHODOLOGY CONTINUED

Validation

Fair value of investment estimated using one of the valuation methods described above is triangulated using several other valuation methods as follows:

- Listed peer group multiples – peer multiples such as P/E, P/B (price to book) and dividend yield are applied to respective metrics of the investment being valued. We develop fair value range based on these techniques and analyse whether fair value estimated above falls within this range.
- Discounted cash flow (DCF) – Discounted cash flow valuation method is used to determine fair value of equity investment. Under discounted cash flow analysis unobservable inputs are used, such as estimates of probable future cash flows and internally-developed discounting rate of return. If fair value of investment derived using discounted cash flow technique is higher than fair value estimated using NAV or peer multiples method, we consider such valuation reasonable for the business with growth prospects; while if fair value derived using DCF is lower, we adjust fair value estimate derived using NAV or peer multiples method.

Valuation of Equity Investments in Private Portfolio Companies

The table below summarises fair valuation of equity investments in private portfolio companies as at 31 December 2018:

Business	Valuation method	Multiple applied	Fair value GEL millions.
Late stage portfolio			
Water Utility	EV/EBITDA (based on LTM EBITDA)	8.8	431.0
Housing Development	NAV at reporting date	N/A	66.8
P&C Insurance	P/E (based on LTM Net income)	7.4	130.5
Early stage portfolio			
Renewable Energy	At book value until power plant is operational. EV/EBITDA (LTM) following the launch	N/A	61.2
Hospitality and Commercial Real Estate	NAV at reporting date	N/A	149.1
Beverages – wine	EV/EBITDA (based on LTM EBITDA)	9.1	56.8
Beverages – beer	EV/Sales (based on LTM sales) due to negative EBITDA	2.2	4.3

FINANCIAL REVIEW

DOUBLE-DIGIT REVENUE GROWTH COUPLED WITH STRONG OPERATING CASH FLOW GENERATION

The financial results are presented on two different bases: under International Financial Reporting Standards (IFRS) as adopted by the European Union and under an adjusted IFRS methodology.

2018 was the first year for Georgia Capital as an independent premium listed company on the London Stock Exchange, following the completion of the demerger from BGEO Group PLC on 29 May 2018. The financial results are presented on a basis as if the demerger had occurred at the beginning of the earliest period presented. The Group operates as a holding company of a diversified group of companies focused on investing in and developing businesses in Georgia and its strategy is to acquire and develop and then exit portfolio companies – it is not in the business of managing or owning portfolio companies indefinitely. As such, and in order to provide transparency in our results in the most relevant and useful way for our investors, we have elected to also provide a set of management accounts that adjust the IFRS results to present Georgia Capital on an investment holding company basis (management accounts). Our discussion focuses on both the IFRS and the management accounts. At the Group level we focus more on the management accounts in line with the investment holding company view, whereas at each portfolio investment level our discussion focuses on IFRS results.

A reconciliation of our investment holding company basis management accounts to the IFRS statements is provided on pages 85 to 88. The management accounts are an alternative performance measure (APM); the basis for their preparation is described on pages 82 to 84; they have not been audited or reviewed.

Performance Highlights (IFRS)

(GEL'000)	FY18	FY17	Change
Group consolidated			
Revenue	1,282,866	1,127,170	13.8%
Gross profit	486,675	431,461	12.8%
Private, late stage, portfolio performance			
Revenue, Water Utility	149,127	135,000	10.5%
EBITDA[1], Water Utility	*83,359*	*72,573*	*14.9%*
Gross real estate profit, Housing Development	14,935	8,313	79.7%
EBITDA[1], Housing Development	*8,877*	*21,970*	*-59.6%*
Earned premiums, net, P&C Insurance	67,490	62,770	7.5%
Adjusted net income, P&C Insurance[2]	*17,734*	*16,300*	*8.8%*
Private, early stage, portfolio performance			
EBITDA[1], Renewable Energy	(770)	(1,733)	55.6%
NOI, Hospitality and Commercial Real Estate	31,541	3,369	NMF
EBITDA[1], Beverages	(6,441)	856	NMF
Listed portfolio performance			
EBITDA[1], GHG	132,274	108,148	22.3%
Adjusted net income, BoG[2]	458,270	373,822	22.6%

1 EBITDA is an alternative performance measure (APM) and is defined on page 243 in the Glossary.
2 IFRS net incomes for P&C Insurance and BoG are adjusted to exclude the impact of non-recurring items and non-recurring deferred tax remeasurement charges.

FINANCIAL REVIEW CONTINUED

Consolidated IFRS Income Statement

GEL thousands, unless otherwise noted	FY18	FY17	Change
Revenue	1,282,866	1,127,170	13.8%
Cost of sales	(796,191)	(695,709)	14.4%
Gross profit	**486,675**	**431,461**	**12.8%**
Operating expenses	**(268,984)**	**(213,340)**	**26.1%**
EBITDA	**217,691**	**218,121**	**-0.2%**
Share in profit of associates	247	376	-34.3%
Dividend income	23,875	–	NMF
Depreciation and amortisation	(74,155)	(54,031)	37.2%
Net foreign currency loss	(37,546)	(6,737)	NMF
Interest income	23,275	8,909	NMF
Interest expense	(91,619)	(60,903)	50.4%
Net operating income before non-recurring items	**61,768**	**105,735**	**-41.6%**
Net non-recurring items	(41,251)	(5,330)	NMF
Profit before income tax expense	**20,517**	**100,405**	**-79.6%**
Income tax expense	(3,606)	(6,136)	-41.2%
Profit for the year	**16,911**	**94,269**	**-82.1%**
Total (loss)/profit attributable to:			
– shareholders of Georgia Capital PLC	(9,496)	70,125	NMF
– non-controlling interests	26,407	24,144	9.4%
(Loss)/Earnings per share:			
– basic and diluted	(0.26)	2.34	NMF

As a result of strong operating performance across the businesses, Georgia Capital generated consolidated gross profit of GEL 486.7 million in 2018 (up 12.8% y-o-y). Increase was mainly driven by double-digit growth in the healthcare and pharmacy business gross profit, as GHG has started to capture benefits from major investments in 2016 and 2017. The y-o-y healthcare revenue growth was largely driven by a successful ramp-up of the newly-launched hospitals, while gross profit margin in the pharmacy and distribution business continued to improve mainly as a result of successful ongoing negotiations with manufacturers for price discounts. Consolidated gross profit was also positively affected by increased water supply revenue coupled with significant cost efficiencies in the water utility business. The gross profit of beverages business was up 27% y-o-y to GEL 29.5 million on the back of increased export wine sales and revenues generated from the beer and lemonade business lines. Additionally, Beverages recorded GEL 2.9 million revaluation gain on grapes on its increased vineyard base through the Kindzmarauli acquisition. Gross profit from Housing Development was negatively affected by the absence of GEL 21 million commercial property revaluation gains, which were recognised in 2017. However, gross profit margin excluding revaluation gains in Housing Development still was up from 9% in 2017 to 11% in 2018 on the back of strong project execution.

Consolidated EBITDA remained flat y-o-y due to increased operating expenses. Operating expenses were up as a result of the organic growth of the businesses, where the most material y-o-y impact was driven by the beverages business's launch of beer operations. Also, prior to demerger from the BGEO Group, holding company costs were borne by the former Parent Company.

The Group recorded net operating income before non-recurring items of GEL 61.8 million (down 41.6% y-o-y). Dividend income of GEL 23.9 million from BOG was offset by increased depreciation and amortisation expenses, net interest expenses and unfavourable impact from foreign exchange movements:

- Net Interest expense amounted to GEL 68.3 million (up 31.4% y-o-y), mainly increasing due to the issuance of the inaugural US$300 million bonds by GCAP.
- Foreign exchange loss amounted to 37.5 million, out of which GEL 24.9 was recorded on GCAP level and was mostly related to USD to GEL exchange rate volatility, since GCAP has accounting short foreign currency position in US dollars amounting to c.US$97.5 million (GEL 261 million) at 31 December 2018.
- Depreciation and amortisation increased to GEL 74.2 million (up 37.2% y-o-y) as a result of sizeable development projects carried out in healthcare, water utility and beverages businesses, including launch of new healthcare facilities, development works on Water Utility infrastructure and the beverages business's launch of beer operations.

2018 net non-recurring expenses of GEL 41.3 million were largely related to the demerger from BGEO Group, which triggered recognition of fees for services received in connection with the demerger and acceleration of share-based compensation expenses for accounting purposes.

As a result of the movements described above, consolidated IFRS net profit was GEL 16.9 million in 2018 (down 82.1% y-o-y) and both diluted and basic EPS was GEL (0.26) in 2018 down from GEL 2.34 in 2017.

Consolidated IFRS Balance Sheet

GEL thousands, unless otherwise noted	31-Dec-18	31-Dec-17	Change
Cash and cash equivalents	256,930	346,241	-25.8%
Amounts due from credit institutions	40,299	38,141	5.7%
Debt securities owned	71,824	31,907	NMF
Equity investments at fair value	457,495	1,153	NMF
Accounts receivable	170,228	35,337	NMF
Insurance premiums receivable	57,801	30,855	87.3%
Inventories	278,615	80,110	NMF
Investment properties	151,232	159,989	-5.5%
Prepayments	117,909	87,760	34.4%
Income tax assets	2,405	1,374	75.0%
Property and equipment	1,671,917	657,635	NMF
Goodwill	142,095	21,935	NMF
Intangible assets	51,634	5,457	NMF
Other assets	251,462	69,870	NMF
Assets of disposal group held for sale	–	1,148,584	NMF
Total assets	**3,721,846**	**2,716,348**	**37.0%**
Accounts payable	143,114	42,987	NMF
Insurance contracts liabilities	68,207	46,403	47.0%
Income tax liabilities	1,119	860	30.1%
Deferred income	62,059	73,066	-15.1%
Borrowings	764,355	650,734	17.5%
Debt securities issued	916,401	77,835	NMF
Other liabilities	235,771	63,206	NMF
Liabilities of disposal group held for sale	–	619,029	NMF
Total liabilities	**2,191,026**	**1,574,120**	**39.2%**
Total equity attributable to shareholders of Georgia Capital PLC	**1,201,815**	**844,663**	**42.3%**
Non-controlling interests	329,005	297,565	10.6%
Total equity	**1,530,820**	**1,142,228**	**34.0%**
Total liabilities and equity	**3,721,846**	**2,716,348**	**37.0%**

On 23 August 2018 Georgia Capital announced that it no longer expects to own less than 50% stake in GHG at the end of 2018. As the sell down of GHG shares to below 50% within one year from classification as held for sale, is no longer probable (i.e. the Board withdrew the plan to sell at current share price), investment in GHG stopped meeting IFRS 5 criteria for classification, therefore Georgia Capital ceases to classify GHG as a disposal group held for sale in 2018 annual Consolidated Financial Statements.

Total assets increased to GEL 3,722 million (up 37.0%), which is mainly driven by the following:

- Equity investments at fair value increased due to the contribution of 19.9% BoG equity stake, valued at GEL 457 million at 31 December 2018, into the Group's equity as part of the demerger from BGEO Group.
- Increase in property and equipment balance reflects: (i) launch of new healthcare facilities; (ii) development works on Water Utility infrastructure carried out during the year in order to upgrade the network; (iii) rehabilitation works at the Gardabani wastewater treatment plant, which went through a major rehabilitation after c.30 years of operation, and since July 2018 has been fully functional, servicing the whole population in Tbilisi and surrounding area; and (iv) intensive construction works continued on Mestiachala HPPs during 2018.

Total liabilities increased mainly due to US$300 million Eurobonds issuance by Georgia Capital in March 2018.

Increase in total equity is mainly attributable to the addition of 19.9% BoG equity stake, offset by share buybacks. On 14 June 2018 the Group commenced a share buyback programme of up to US$45 million. During 2018 Georgia Capital had share buybacks of GEL 108.3 million, of which management trust purchases were GEL 63.6 million and GEL 44.7 million was bought back as part of the US$45 million share buyback programme.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Management accounts
Georgia Capital Highlights

Georgia Capital performance (GEL thousands)	FY18	FY17	Change
GCAP net operating income	48,690	13,603	NMF
Total attributable income of portfolio companies	187,865	93,909	NMF
of which, income from listed investments	112,569	20,889	NMF
of which, income from private investments	75,296	73,020	3.1%
Net income	164,407	70,473	NMF

Georgia Capital NAV overview	FY18	FY17	Change
Total portfolio value	1,883,374	1,850,861	1.8%
Net Asset Value (NAV)	1,688,221	1,840,447	-8.3%
Listed investments	977,827	933,481	4.8%
Private investments	905,547	917,380	-1.3%
Liquid assets and loans issued	605,130	264,546	NMF
Net debt	(196,915)	(7,733)	NMF
NAV per share, GEL	47.13	46.73	0.9%
NAV per share, GBP	13.88	13.35	4.0%

In line with the European Securities and Markets Authority (ESMA) guidelines about the use of APMs in the Annual Report, we discuss below the reconciliation of net income under management accounts with IFRS consolidated results.

FY18 net income under IFRS Consolidated Income Statement was GEL 16.9 million as compared to net income under management accounts of GEL 164.4 million. The following items explain the drivers of differences between the two metrics:

a. BOG attributable income – IFRS Consolidated Financial Statements include dividends declared and paid by BOG of GEL 23.9 million, while net income under management accounts include consolidation of attributable 19.9% of BOG's net profit of GEL 91.2 million, adjusted to exclude the impact of non-recurring items.
b. Revaluation of Hotels – revaluation gain of GEL 25.8 million is recorded within Hospitality and Commercial Real Estate business net income within management accounts, while under IFRS Consolidated Income Statement hotels are carried at cost and no revaluation gains or losses are recognised.
c. Non-recurring items and FX gains and losses – GEL 31 million loss from foreign currency movements and GEL 56 million non-recurring expenses are reflected under IFRS Consolidated Income Statement before arriving to net income, while under management accounts they are included below net income line and within other comprehensive income.

Apart from the items notes above, the Income Statement under management accounts mirrors IFRS Consolidated Income Statement and the performance of the underlying businesses are described below. IFRS results of each portfolio business together with management commentary are discussed on pages 102 to 116. A detailed reconciliation of our Management Income Statement to the IFRS Consolidated Income Statement is provided on page 88.

Management monitors the Group's performance on a regular basis based on developments in a management account income statement and statement of Net Asset Value (NAV) prepared under the adjusted IFRS methodologies described in APM Policy on pages 82 to 84. The management accounts are an alternative performance measure (APM); they have not been audited or reviewed. A reconciliation of our management accounts to the IFRS statements is provided on pages 85 to 88.

NAV Statement

All businesses are supported by strong operating fundamentals, but equity market valuations remain under pressure from stock market conditions in emerging and frontier economies.

		Management fair value					
NAV Statement GEL thousands, unless otherwise noted	Ownership %	FY18	FY17	Change amount	Change %	Total return	Total return %
Listed portfolio companies		**977,827**	**933,481**	**44,346**	**4.8%**	**(637,781)**	**-38.9%**
GHG (75,118,503 shares)	57.0%	520,332	933,481	(413,149)	-44.3%	(413,148)	-44.3%
BoG (9,784,716 shares)	19.9%	457,495	–	457,495	NMF	(224,632)	-31.8%
Private portfolio companies		**905,547**	**917,380**	**(11,833)**	**-1.3%**	**(47,474)**	**-5.2%**
Late stage		**628,326**	**715,270**	**(86,944)**	**-12.2%**	**(40,792)**	**-5.7%**
Water Utility	100.0%	431,017	498,181	(67,164)	-13.5%	(38,324)	-7.7%
Housing Development	100.0%	66,785	75,609	(8,824)	-11.7%	(1,512)	-2.0%
P&C Insurance	100.0%	130,524	141,480	(10,956)	-7.7%	(956)	-0.7%
Early stage		**271,288**	**202,110**	**69,178**	**34.2%**	**(6,682)**	**-3.3%**
Renewable Energy	65.0%	61,182	51,511	9,671	18.8%	4,700	9.1%
Hospitality and Commercial	100.0%	149,079	78,142	70,937	90.8%	40,515	51.8%
Beverages	80.0%	61,027	72,457	(11,430)	-15.8%	(51,897)	-71.6%
Pipeline (at cost)		**5,933**	**–**	**5,933**	**NMF**	**(432)**	**NMF**
Education	100.0%	7,071	–	7,071	NMF		
Other	100.0%	(1,138)	–	(1,138)	NMF		
Total portfolio value		**1,883,374**	**1,850,861**	**32,513**	**1.8%**	**(685,688)**	**-26.8%**
Net debt		**(196,915)**	**(7,733)**	**(189,182)**	**NMF**		
of which, cash and liquid funds		299,650	264,546	35,104	13.3%		
of which, loans issued		305,480	–	305,480	NMF		
of which, gross debt		(802,045)	(272,279)	(529,766)	NMF		
Net other assets/ (liabilities)		1,762	(2,681)	4,443	NMF		
Net Asset Value		**1,688,221**	**1,840,447**	**(152,226)**	**-8.3%**		
Shares outstanding		**35,816,947**	**39,384,712**	**(3,567,765)**	**-9.1%**		
Net Asset Value per share (GEL)		**47.13**	**46.73**	**0.40**	**0.9%**		
Net Asset Value per share (GBP)		**13.88**	**13.35**	**0.53**	**4.0%**		

NAV per share in GEL terms was up 0.9%, while total NAV decreased by 8.3% to GEL 1.7 billion at 31 December 2018 as a result of the following movements:

I. **Listed portfolio companies** – The value of holdings in listed portfolio companies increased with the contribution of 19.9% BoG equity stake, valued at GEL 457 million at 31 December 2018, into the Group's equity as part of the demerger from BGEO Group. At the same time, the market value of our 57% equity stake in GHG decreased by 44.3% y-o-y as a result of the weak market conditions.

   Despite delivering a very strong operating performance in 2018 (y-o-y full-year EBITDA up by 22.3%), GHG's share price retreated from GBP 3.55 at 31 December 2017 to GBP 2.04 at 31 December 2018 resulting in a GEL 413 million reduction in the market value of the Group's holding. We did not sell any GHG shares during 2018 as we believe that the stock price was highly undervalued.

   Following the demerger completion, the BoG share price closed at GBP 18.64 on 29 May 2018, its first trading day. The share price retreated in 2H18 and closed at GBP 13.77 on 31 December 2018 even though the bank delivered a strong 26%+ ROAE. As a result, the market value of 19.9% equity stake in BOG decreased by GEL 249 million during 2018. In July 2018, Georgia Capital received GEL 23.9 million dividend payment from BoG and as a result, net market value change after dividends amounted to negative GEL 225 million in 2018.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

II. **Private portfolio companies** – The private portfolio companies continued to perform strongly in 2018, however, valuations were unfavourably affected by negative trends in emerging and frontier markets. Late stage businesses delivered negative 5.7% investment return, despite of the record-high GEL 49 million dividend inflows to GCAP on the back of their strong trading performances.

The early stage portfolio companies continued development to the next levels of their greenfield lifecycles, delivering negative 3.3% return mainly as a result of the underperformance of the beer business, which incurred a GEL 14 million EBITDA loss in 2018 and resulted in GEL 48.4 million mark down in its fair value in 2018. The hospitality and commercial real estate business demonstrated outstanding performance by earning 51.8% investment return driven by GEL 27.6 million revaluation gains from hotels and commercial properties.

The table below summarises total returns across our listed and private portfolio companies:

Business	31-Dec-17 Fair value	Fair value change	31-Dec-18 Fair value	Capital allocations	Inter-business capital reallocation[2]	Dividend inflows	Total return	Comment on Fair value
Listed portfolio companies	**1,639,483**	**(661,656)**	**977,827**	**–**	**–**	**23,875**	**(637,781)**	
GHG	933,481	(413,149)	520,332	–	–	–	(413,149)	
BoG[1]	706,002	(248,507)	457,495	–	–	23,875	(224,632)	
Private portfolio companies	**917,380**	**(17,766)**	**899,614**	**(78,338)**	**–**	**48,629**	**(47,475)**	
Late stage	**715,270**	**(86,944)**	**628,326**	**–**	**(2,477)**	**48,629**	**(40,792)**	
Water Utility	498,181	(67,164)	431,017	–	–	28,840	(38,324)	*Note a*
Housing Development[2]	75,609	(8,824)	66,785	–	(2,477)	9,789	(1,512)	*Note b*
P&C Insurance	141,480	(10,956)	130,524	–	–	10,000	(956)	*Note c*
Early stage	**202,110**	**69,178**	**271,288**	**(78,338)**	**2,477**	**–**	**(6,683)**	
Renewable Energy	51,511	9,671	61,182	(4,971)	–	–	4,700	*Note d*
Hospitality and Commercial[2]	78,142	70,937	149,079	(32,899)	2,477	–	40,515	*Note e*
Beverages	72,457	(11,430)	61,027	(40,468)	–	–	(51,898)	*Note f*
of which, wine	34,520	22,251	56,771	(25,754)	–	–	(3,503)	
of which, beer	37,937	(33,681)	4,256	(14,714)	–	–	(48,395)	
Pipeline	**–**	**5,933**	**5,933**	**(6,365)**	**–**	**–**	**(432)**	
Total	**2,556,863**	**(673,489)**	**1,883,374**	**(84,703)**	**–**	**72,504**	**(685,688)**	

a. The 15% increase in Water Utility's EBITDA created approximately GEL 102 million value, however, this was more than offset by multiple contraction from 9.4 to 8.8 (GEL 48 million decrease) and net debt widening of GEL 121 million. As a result, fair value decreased by GEL 67 million in 2018.

b. Housing Development's fair value was down by GEL 8.8 million mainly on the back of net capital distribution of GEL 7.3 million. FY18 net profit was at break-even level, amounting to GEL 0.4 million, due to slowdown in sales momentum driven by low levels of inventory.

c. For P&C Insurance the 8.8% increase in net income adjusted for demerger related non-recurring items created a GEL 12 million value, however, it was offset by multiple contraction from 8.7 to 7.4 (GEL 23 million decrease), leading to an overall fair value decrease by GEL 11 million.

d. The GEL 9.7 million increase in the fair value for Renewable Energy was mainly driven by GEL 5 million capital allocation from Georgia Capital and by positive impact from exchange rate movements, as the Company assets are denominated in US dollars.

e. Fair value of Hospitality and Commercial increased by GEL 70.9 million on the back of GEL 27.6 million revaluation gains recorded on hotels and commercial properties and GEL 32.9 million capital allocation from Georgia Capital in 2018.

f. Fair value decrease of GEL 11.4 million of Beverages was largely driven by beer business underperformance, where GEL 14 million EBITDA loss in 2018 triggered a mark down of the beverage business value by GEL 48.4 million. The decrease in value was partially offset by the wine business, where the GEL 25.8 million increase in fair value was related to the capital allocations from Georgia Capital for the acquisition of Kindzmarauli.

III. **Net debt** – The GEL 189.2 million increase in net debt resulted from:

a. Increase of GEL 529.8 million in gross debt (debt securities issued and borrowings). Georgia Capital issued US$300 million 6.125% six-year Eurobonds due 2024 in March 2018 and raised US$291 million (GEL 716 million) net proceeds, of which GEL 270 million was used to repay borrowing from the Group's previous Parent Company, BGEO Group. The outstanding balance of debt securities issued at 31 December 2018 was GEL 802 million.

b. Loans issued in the amount of GEL 305 million during 2018, primarily relate to three facilities: (i) a GEL 104.6 million (US$39.1 million) loan to the hospitality and commercial real estate business for ongoing development, construction and growth of the hotel pipeline; (ii) a GEL 46.1 million (US$7.2 million) to the housing development business to refinance some of the existing borrowings; and (iii) a GEL 133.8 million (US$50 million) loan issued to the BoG holding company as part of the demerger, maturing in March 2020. The loans are issued at market terms and interest income from loans issued amounted to GEL 24.6 million in 2018, significantly up from GEL 0.2 million in 2017.

1 Pro-forma beginning balance of BoG represents the contribution of BoG's 19.9% equity stake, valued at GEL 706 million at the date of the contribution, into Georgia Capital's equity by its former parent company BGEO as part of the demerger. BGEO Group PLC is the predecessor of BoG.
2 GEL 2.5 million capital reallocation from the hospitality and commercial real estate business to the housing development business.

c. The increase of GEL 35 million in cash and liquid funds, amounting to GEL 299.7 million at 31 December 2018, is primarily driven by the proceeds from the milestone US$300 million six-year bond issuance. In line with its risk management practices, the Group actively monitors the allocation of its liquid resources and its commitment to maintain at least US$50 million liquid funds. At 31 December 2018, cash and liquid funds were allocated as follows:

Cash and liquid funds	31-Dec-18	31-Dec-17	Change
Cash at bank	142,284	219,400	-35.1%
Internationally listed debt securities	129,295	24,136	NMF
Locally listed debt securities	28,071	21,010	33.6%
Total cash and liquid funds	**299,650**	**264,546**	**13.3%**

Internationally listed debt securities include Eurobonds issued by Georgian corporates (GEL 102 million) and sovereign Georgian Eurobonds (GEL 27 million). Locally listed debt securities are local bonds issued by Georgian corporates, which are listed and traded on the Georgian Stock Exchange. Interest income from cash and liquid funds amounted to GEL 15.0 million in 2018, up from GEL 1.2 million in 2017.

d. During 2018 Georgia Capital deployed cash for share buybacks of GEL 87.4 million, of which management trust purchases were GEL 42.6 million and GEL 44.8 million was bought back as part of the US$45 million share buyback programme.

Income Statement (Management Accounts)

Management views Georgia Capital's income statement as a two-fold document that reflects performance of the stand-alone GCAP as well as the performance of each portfolio company. The management Profit and Loss Statement is an aggregation of the bottom lines of the attributable stand-alone IFRS Profit and Loss Statements of listed and private portfolio companies together with GCAP's stand-alone Profit and Loss Statement. For details on the methodology underling the preparation of Management Account Income Statement, please refer to APM policy on pages 82 to 84.

Income Statement

GEL thousands, unless otherwise noted	FY18	FY17	Change y-o-y
Dividend income	72,504	35,000	NMF
Interest income	39,586	1,380	NMF
Interest expense	(44,711)	(16,266)	NMF
GCAP gross operating income	**67,379**	**20,114**	**NMF**
Operating expenses	(18,689)	(6,511)	NMF
GCAP net operating income (1)	**48,690**	**13,603**	**NMF**
Attributable income of listed portfolio companies	**112,569**	**20,889**	**NMF**
of which, GHG PLC	21,373	20,889	2.3%
of which, BoG PLC[1]	91,196	–	NMF
Attributable income of private portfolio companies	**75,296**	**73,020**	**3.1%**
Late stage	**68,161**	**77,387**	**-11.9%**
of which, Water Utility	43,635	39,156	11.4%
of which, Housing Development	6,929	22,140	-68.7%
of which, P&C Insurance	17,597	16,091	9.4%
Early stage	**8,573**	**(4,367)**	**NMF**
of which, Renewable Energy	(645)	(838)	-23.0%
of which, Hospitality and Commercial	28,808	3,090	NMF
of which, Beverages	(19,590)	(6,619)	NMF
Pipeline	**(1,438)**	**–**	**NMF**
Total portfolio company attributable income (2)	**187,865**	**93,909**	**NMF**
Income before tax, provision and adjustment (1)+(2)	**236,555**	**107,512**	**NMF**
Adjustment for dividend income accrual	(72,504)	(35,000)	NMF
Provision	356	(2,039)	NMF
Income tax	–	–	NMF
Net Income	**164,407**	**70,473**	**NMF**
Net foreign currency (loss) gain	(30,936)	1,362	NMF
Non-recurring expense	(55,920)	(3,745)	NMF
Realised gain from sale of portfolio company shares	–	90,275	NMF
Total comprehensive income	**77,551**	**158,365**	**-51.0%**

1 Attributable income from BoG was restated for the change in IFRS 9 write-off policy in accordance with BoG 4Q18 and FY18 results release. For details please refer to: **https://bankofgeorgiagroup.com/results/earnings**

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Georgia Capital generated gross operating income of GEL 67.4 million in 2018 (up by GEL 47.3 million). Gross operating income was up on the back of strong dividend inflows. The housing development business paid the first-ever dividend of GEL 9.8 million to GCAP. The increase in gross operating income in 2018 also reflects the addition of the 19.9% BoG equity stake to the listed portfolio companies, which paid GEL 23.9 million dividend in July 2018. Excluding the positive impact of dividends received from BoG, 2018 dividend income was up by 38.9% y-o-y. Dividend income is accrued based on paid, declared or expected dividend stream from portfolio companies during the calendar year. The following table summarises the dividend income breakdown:

	FY18	FY17	Change
Water Utility	28,840	28,000	3.0%
BoG	23,875	–	NMF
P&C Insurance	10,000	7,000	42.9%
Housing Development	9,789	–	NMF
Total dividend income	**72,504**	**35,000**	**NMF**

The significant increase in both Interest income and Interest expense in 2018 was driven by the issuance of the inaugural US$300 million bonds and investment of related proceeds into investment securities and loans issued. Georgia Capital earned an average yield of 7.7% on the liquid assets and issued loans, of which 9.8% was earned on the loans issued and 5.1% on the liquid funds. The coupon on the US$300 million bond is 6.125%.

The components of GCAP's Operating expenses for 2018, are presented in the table below:

	FY18	FY17	Change
Administrative expenses[1]	(5,717)	(1,056)	NMF
Management expenses – cash-based[2]	(5,331)	(76)	NMF
Management expenses – share-based[3]	(7,641)	(5,379)	42.1%
Total operating expenses	**(18,689)**	**(6,511)**	**NMF**

Following the demerger from the BGEO Group, administrative and management expenses are now fully borne by the Group, while prior to the demerger (before 29 May 2018) only a portion of the expenses were allocated to the Group. As a result, operating expenses are not directly comparable. GCAP operating expenses have a targeted cap of 2% of Georgia Capital's market capitalisation. 2018 operating expenses were only 1.4% of market capitalisation at 31 December 2018 given the start-up year effect.

Total portfolio company attributable income doubled y-o-y from GEL 93.9 million to GEL 187.9 million in 2018. However, 2017 and 2018 are not directly comparable since BoG's attributable income is not reflected in 2017, while it added GEL 91.2 million in 2018. Excluding BoG attributable profit, portfolio company attributable income was up 2.9% y-o-y in 2018. The increase was mainly driven by GEL 27.6 million revaluation gains from hospitality and commercial real estate business, which were partly offset by different developments in the other private portfolio businesses discussed below.

GHG's attributable income was up 2.3% y-o-y in 2018. The 2.3% y-o-y growth in 2018 reflects the impact of the sell down of a 7% equity stake by Georgia Capital in May 2017, which reduced the portion of attributable net income on y-o-y basis. Had we not reduced our stake in GHG, related attributable income would have increased by 8.3%. GHG continued to deliver on its strategic priorities leading to 22.2% y-o-y growth in EBITDA and achieved a record full-year EBITDA of GEL 132.3 million, as GHG has started to capture benefits from major investments in 2016 and 2017. GHG's strong performance also resulted in 13.9% adjusted ROIC for roll-outs in 2018 (up 110 bps y-o-y). The performance of GHG, in which we continue to hold a 57% stake, is discussed in more details on pages 115 to 116.

Attributable income of BoG was GEL 91.2 million on a full-year basis driven by its strong performance across corporate and retail businesses as business momentum continues to accelerate in Georgia, while cost of risk remained well-contained at 1.6% in 2018 down from 2.2% in 2017. BoG successfully delivered on its strategy, with adjusted ROAE of 26.1% in 2018, well above the targeted through-the-cycle ROAE of 20%+. On 9 July 2018, BoG declared a dividend in respect of 2017 year of GEL 2.44 per ordinary share (c.30% payout ratio), which was paid to its ordinary shareholders on 31 July 2018. The Group received a GBP 7.4 million (GEL 23.9 million) dividend payment from BoG. In 4Q18 and FY18 earnings release BoG recommended an annual dividend for 2018 of GEL 2.55 per share subject to shareholders approval. This represents a payout ratio of 30% and a 4.5% increase over last year's dividend. GCAP is expected to receive a GEL 25 million dividend inflow from BoG in 2019. Please refer to Bank of Georgia Group's 4Q18 and FY18 earnings release for further details at: **http://bankofgeorgiagroup.com/**.

Attributable income from private portfolio companies increased by a more modest 3.1% y-o-y to GEL 75.3 million in 2018.

Late stage portfolio companies demonstrated positive performance in their recurring businesses in 2018. In the housing development business, excluding the GEL 21 million commercial property revaluation gains in 1H17 attributable income was up in 2018, even though the overall sales momentum in 2018 was hurt by low inventory levels due to the delay in the process of receiving new construction permits. Attributable income from the water utility business was up by double digits despite extraordinarily lower precipitation related water inflows to Zhinvali HPP. P&C insurance made steady progress. The 11.9% y-o-y decline in the attributable income from private late stage businesses in 2018 is entirely attributable to the absence of the revaluation gains in Housing Development.

1 Includes expenses such as external audit fees, legal counsel, corporate secretary and other similar administrative costs.
2 Cash-based management expenses are cash salary and cash bonuses paid/accrued for staff and management compensation.
3 Share-based management expenses are share salary and share bonus expenses of management.

Early stage businesses continued development to the next levels of their greenfield lifecycle and related attributable income was GEL 8.6 million in 2018, which was driven by GEL 27.6 million revaluation gain booked in 2H18 on two under construction and one operational hotel and on rent-generating assets within the hospitality and commercial real estate business. The revaluation gain was partially offset by the beverages business, which recorded GEL 29.2 million loss on stand-alone basis in 2018 due to the delays in introduction of branded beers from the Heineken portfolio.

The performance of each private portfolio company is discussed on pages 102 to 114.

Net income of GEL 164.4 million in 2018 reflects the elimination of the dividend accrual from the GCAP attributable income of portfolio companies to avoid double-counting and a provision on our mezzanine loans to portfolio companies.

The Group's total comprehensive income is then driven by net foreign currency loss/(gain), non-recurring expense and realised gains from the sale of portfolio company shares. Other comprehensive income decreased from GEL 87.9 million in 2017 to GEL 86.9 million loss in 2018. The following table summarises the breakdown of other comprehensive income components:

	FY18	FY17	Change
Net foreign currency (loss) gain	(30,936)	1,362	NMF
Non-recurring expense	(55,920)	(3,745)	NMF
Realised gain from sale portfolio company shares	–	90,275	NMF
Other comprehensive income	**(86,856)**	**87,892**	**NMF**

The Group incurred net foreign currency loss of GEL 30.9 million in 2018 from USD to GEL and EUR to GEL exchange rate volatility at GCAP level and across its water utility and beverages businesses. GCAP's GEL 24.8 million net foreign currency loss in 2018 was mostly related to USD to GEL exchange rate volatility, since GCAP has accounting short foreign currency position in US dollars amounting to c.US$97.5 million (GEL 261 million) at 31 December 2018.

Non-recurring expenses in 2018 of GEL 55.9 million are not comparable to the GEL 3.7 million figure in 2017. 2018 non-recurring expenses largely relate to the demerger from BGEO Group, which triggered recognition of fees for services received in connection with the demerger and acceleration of share-based compensation expenses for accounting purposes. GCAP's GEL 23.4 million non-recurring expense was entirely related to the demerger. The following table summarises the breakdown of non-recurring expenses:

	FY18	FY17	Change
GCAP	(23,449)	–	NMF
Listed portfolio companies	(17,122)	(2,995)	NMF
Private portfolio companies	(15,349)	(750)	NMF
Total non-recurring expenses	**(55,920)**	**(3,745)**	**NMF**

The realised gain from sale of portfolio company shares of GEL 90 million in 2017 resulted from the sale of 9.5 million shares of GHG (7.2%) by Georgia Capital in May 2017 for US$40 million cash proceeds, which decreased its stake in GHG to 57%. Georgia Capital did not sell any shares of its portfolio companies during 2018.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Capital Allocation Highlights

We continue to follow the capital allocation projections announced in our 1H18 earnings release. During 2018, actual net capital deployed was GEL 12.1 million, lower by GEL 52 million than our estimate at 30 June 2018. This was mainly driven by additional GEL 10 million dividend inflows from Housing Development and GEL 40 million less capital allocation needs at early stage and pipeline businesses, which we expect to be instead deployed in 2019, i.e. increase previously projected 2019 capital allocations. The table below, which represents capital allocation projections for the existing portfolio businesses and the pipeline businesses, summarises capital allocation outlook as of 31 December 2018. The table does not forecast potential capital deployments in acquisitions or potential capital inflows from exits from current portfolio businesses.

Capital Allocation

(GEL, million)		2018A	2019E	2020E	2021E	2022E	Total in 2019-2022
Listed	BoG	(23.9)	(25)	(27)	(29)	(31)	**(112)**
	GHG	–	(4)	(6)	(8)	(11)	**(29)**
Late stage	Water Utility	(28.8)	(30)	(32)	(34)	(35)	**(131)**
	Housing Development	(9.8)	(10)	(15)	(20)	(25)	**(70)**
	P&C insurance	(10.0)	(12)	(15)	(18)	(22)	**(67)**
Early stage	Renewable Energy	5.0	74	53	70	(20)	**177**
	Hospitality and Commercial	32.9	30	9	–	–	**39**
	Beverages	40.6	27	10	–	–	**37**
Pipeline	Education	6.1	70	42	28	–	**140**
	Total	**12.1**	**120**	**19**	**(11)**	**(144)**	**(16)**

Capital Allocation Overview in 2018

In 2018 Georgia Capital received GEL 72.5 million in dividends, of which GEL 23.9 million was from BoG in 3Q18 and GEL 48.6 million from private late stage portfolio businesses: P&C Insurance – GEL 10 million in 1H18, Water Utility – GEL 28.8 million in 4Q18 and Housing Development – GEL 9.8 million in 4Q18. During 2018 Georgia Capital invested GEL 84.6 million across its early stage businesses and new business lines, of which GEL 78.5 was capital for early stage portfolio companies. The capital was used primarily for bolt-on acquisitions to increase scale and accelerate progress to value creation goals. The following capital allocation decisions were made during 2018:

- GEL 5.0 million was allocated to Renewable Energy, of which GEL 4 million was used for the development of hydro power plants (Zoti HPP and Bakhvi HPP) and the remaining amount was used for the development of wind power plants.
- GEL 32.9 million was allocated to the hospitality business for the development of existing hotels and the acquisition of a land plot for hotel and office space development.
- GEL 40.6 million was allocated to Beverages, of which, GEL 25.2 million and GEL 7.8 million were used for the acquisitions of Kindzmarauli and Black Lion, respectively. Additionally, GEL 6.8 million was used to finance the operating deficit of the beer business.
- GEL 6.1 million was allocated to the Education business to acquire land for a high school development.

Capital Allocation Outlook Through 2019-2022

Listed Portfolio Companies

BoG is a stable dividend payer with outstanding track record and significant growth momentum and strong profitability. We expect that BoG will maintain its dividend payout ratio within targeted 25-40% range. Over the last seven years, BoG has consistently paid out dividends at compound annual growth rate (CAGR) of 39% over the same period. Therefore, we estimate that dividend receipts from BoG will increase approximately by 7% annually and will deliver approximately GEL 112 million dividends in total to Georgia Capital through the end of 2022.

GHG, as the largest integrated healthcare provider, is well-placed to benefit from significant new growth opportunities ahead in areas such as medical tourism, outpatient business where there is high growth in domestic demand, and related services like the provision of dental services, aesthetics, lab diagnostic, etc. GHG management and the Board have reviewed the appropriate framework for capital allocation for the Group and decided to recommend to shareholders at the 2019 Annual General Meeting, a dividend of GEL 0.053 per share, to be paid in respect of 2018 earnings. GHG plans to implement a dividend policy that reflects an annual dividend payout in the range of 20-30% of earnings; Based on the company guidance, we conservatively estimate that GHG's payout ratio will remain at 20% and in total GHG will deliver GEL 29 million dividends to Georgia Capital through the end of 2022 at current ownership stake. This reflects analysts consensus EPS estimate through 2019-2021 years.

Private Portfolio Companies: Late Stage

Water Utility is a stable dividend paying business with no additional equity capital or material debt capital needs. The water utility business paid GEL 29 million dividend in 2018 and we forecast approximately 5% CAGR in the water utility business dividend growth through the end of 2022 driven by higher energy efficiency, a key driver of future dividend growth potential, and overall growth in water consumption as the economy continues to grow. We estimate GEL 131 million dividend cash flow from Water Utility through the end of 2022.

Housing Development paid its first dividend of GEL 10 million in 2018 on the back of previously accumulated cash flows from successfully executed residential projects and confirmed outlook as a result of construction permits received at year-end. We had not estimated dividend inflows from Housing Development in 2018. As the business matures and continues transition into a real estate asset manager business model, we expect it to continue returning money through a combination of dividends and capital returns. Given the strong platform and brand name, Housing Development is well-placed to benefit from the continued growth in demand for private housing as the country's wealth grows. The housing development business does not have any additional equity capital needs through the end of 2022 as it has developed a leading real estate developer platform in Georgia. Housing Development mostly finances its projects through pre-sales. Debt capital needs are specific to individual projects and could appear for short-term periods only. Given the Housing Development's strong project pipeline and outstanding project execution skills, we estimate dividend inflow to remain at the same level of GEL 10 million in 2019, followed by an annual payout increase of GEL 5 million going forward, or GEL 70 million through the end of 2022.

Property and Casualty Insurance is yet another business with strong dividend payout track record and potential for growth as the insurance market remains highly underpenetrated in Georgia. Aldagi paid a GEL 7 million dividend in 2017, which grew by 43% to GEL 10 million in 2018 on the back of a strong growth in the bottom line. Given the business' strong track record and high growth potential we have estimated GEL 12 million dividend payout in 2019, which is expected to grow to GEL 22 million in 2022. Property and Casualty Insurance does not have needs for any additional equity capital or debt capital.

Private Portfolio Companies: Early Stage

Renewable Energy (65% ownership) has a medium-term target of 500MW operating power generation capacity, including the existing 152MW HPP of the water utility business. Energy consumption is forecasted to increase at least by 5% CAGR over the next 15 years, driven by economic growth. The business currently has a 410MW pipeline in place, where it estimates GEL 177 million equity capital needs from Georgia Capital (i.e. 65% of the total equity capital needs) and GEL 968 million debt capital needs through 2022 based on the targeted average 70%:30% debt to equity leverage ratio.

Hospitality and Commercial Real Estate capital needs are estimated based on the 1,000 hotel room target on the back of projected double-digit growth in tourist inflows over the coming years. The business currently has 152 operational hotel rooms and 969 hotel rooms in its pipeline. In order to reach 1,000 fully operational hotel rooms within three years, the hospitality business needs a further GEL 39 million equity capital injection and GEL 186 million in debt capital. We target a 70%:30% debt to equity leverage ratio at hotels.

Beverages. The wine business is targeting 1,000 hectares of vineyards from the current 436 hectares to support the growing demand from export markets for Georgian wine. The beer business has launched the beer factory and is in process of launching additional beer brands to increase the product offering to tap the expected growth in low beer consumption levels of 27.5 litres per capita. As a result, the beverages business requires approximately GEL 37 million equity capital and GEL 67 million debt capital to finance its planned growth through 2020 and beyond.

Private Portfolio Companies: Pipeline Stage

Education. We have identified education as an attractive fragmented service industry with high-growth potential driven by increased demand for quality education and low Government spending. We expect to deploy GEL 140 million in equity capital, while the business will raise GEL 120 million in debt capital. Capital deployment will happen gradually over the next four to five years and by 2025 we expect the business to reach 30,000 pupils and to become the largest chain of affordable schools in Georgia.

Overall, based on the estimated dividend inflows, we continue to expect to collect sufficient cash inflows through the end of 2022 to accommodate the equity capital needs of early stage and pipeline stage portfolio companies during the same period. 2019 is a net equity capital investment year for Georgia Capital, followed by relatively neutral 2020 and 2021, while in 2022 we expect net equity capital returns from portfolio companies. Based on this outlook, and together with the available GEL 605 million funds at GCAP (liquid funds and issued loans) at 31 December 2018, we remain well-positioned to support the value creation across our private portfolio businesses and take advantage of new opportunities meeting our stringent acquisition criteria as and when they arise.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS

Water Utility

Positive operating leverage supports EBITDA margin expansion in 2018

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Revenue	**149,127**	**135,000**	**10.5%**
Water supply	131,814	118,904	10.9%
Energy	9,052	9,755	-7.2%
Other	8,261	6,341	30.3%
Operating expenses	**(60,735)**	**(60,752)**	**-0.03%**
Provision for doubtful trade receivables	(5,033)	(1,675)	NMF
EBITDA	**83,359**	**72,573**	**14.9%**
EBITDA margin	55.9%	53.8%	
Depreciation and amortisation	(25,393)	(20,213)	25.6%
Net interest expense	(14,330)	(12,408)	15.5%
Net non-recurring expenses	(6,121)	(1,135)	NMF
Net profit[4]	**32,545**	**37,401**	**-13.0%**

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Cash flow from operating activities before maintenance capex	**81,590**	**70,150**	**16.3%**
Maintenance capex	(22,540)	(23,203)	-2.9%
Cash flow from operating activities	**59,050**	**46,947**	**25.8%**
Cash flow used in investing activities	**(125,092)**	**(105,024)**	**19.1%**
Development capex	(148,453)	(113,605)	30.7%
Cash flow from financing activities	**19,300**	**88,163**	**-78.1%**
Net proceeds from borrowings	70,888	134,179	-47.2%
Dividends paid out	(28,840)	(28,244)	2.1%
Cash ending balance	**13,713**	**61,963**	**-77.9%**

BALANCE SHEET HIGHLIGHTS	Dec-18	Dec-17	Change
Total assets	**639,267**	**567,936**	**12.6%**
Property, plant and equipment	586,207	441,556	32.8%
Trades and other receivables	19,657	23,738	-17.2%
Cash balance	13,713	61,963	-77.9%
Total liabilities	**368,781**	**300,150**	**22.9%**
Total equity	**270,486**	**267,786**	**1.0%**

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	149.1	135	10.5%
EBITDA	83.4	72.6	14.9%
Development capex[1]	148.5	113.6	30.7%
Maintenance capex[1]	22.5	23.2	-2.9%
FCF	-66	-58.1	-13.7%
Cash from operations	81.6	70.2	16.3%
Net debt	306.5	185.4	65.3%

Key performance metrics	
Net investment	157.4
2018 dividend	28.8
ROIC[2]	10.3%

Capital outlook through 2022	
Capital needs[3]	70.8
of which, equity	–
of which, debt	70.8

1 Capex figures are stated including VAT.
2 Please see definition on page 243.
3 Gross capital needs, excluding dividend distribution.
4 Please refer to page 88 for the reconciliation of FY18 stand-alone Water Utility net income to the attributable income from Water Utility as reported under the Management Account Income Statement on page 97.

Income Statement Highlights

The Water Utility's FY18 revenues were up 10.5% over 2017 on the back of the strong performance of the water supply business.

Revenue from water supply to legal entities and individuals (FY18 up 10.9% over 2017) benefitted from increases for both legal entities and individuals. Revenue from water supply to legal entities increased 7.3% y-o-y to GEL 92.2 million in 2018 reflecting strong business activity across various industries. Revenue from water supply to individuals increased 20.2% y-o-y to GEL 39.6 million in 2018. Most of the increase is attributable to the increased residential tariff effective from 1 January 2018. New connections, which more than doubled from 2,347 in 2017 to 5,015 in 2018, also contributed to the increase in water supply revenues.

FY18 energy revenue was down 7.2% over 2017. The decrease in revenues from electricity power sales is attributable to extraordinarily lower than average precipitation-related water inflows to Zhinvali HPP, partly offset by significant savings in the Water Utility's self-consumption of electricity, which decreased by 18.4% to 237,145 thousand kwh in 2018. FY18 other income was up 30.3% over 2017. The increase mainly reflects higher number of fines charged on illegal connections amounting to GEL 1.7 million in 2018.

Operating expenses remained almost flat y-o-y, amounting to GEL 60.7 million in 2018. This reflects the efficient cost management and continued rehabilitation works, resulting in significant cost savings in infrastructure assets maintenance expenses and raw materials. Overall, in 2018 operating leverage was positive at 10.5 percentage points.

The increase in the provision for doubtful trade receivables to GEL 5.0 million in 2018 was primarily driven by the adoption of IFRS 9. IFRS 9 introduced a forward-looking expected credit loss (ECL) approach effective from 1 January 2018, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach, compared with the previous incurred-loss impairment approach for financial instruments under IAS 39.

The strong increase in water supply revenues coupled with the efficient cost management led to 14.9% y-o-y increase in EBITDA to GEL 83.4 million in 2018.

Net interest expense was up 15.5% y-o-y in 2018 due to increased leverage obtained through international financial institutions and local banks to finance capital expenditures and refinance more expensive and short-term funding. Net non-recurring expenses increased in 2018 due to the acceleration of share-based payment expense recognition following Georgia Capital's demerger from BGEO Group in May 2018. Foreign exchange losses in 2018 reflect the accounting impact from Georgian Lari's depreciation against the Euro as part of GGU's outstanding borrowings are denominated in Euros and GGU recorded losses in 2018 on its unhedged short position of GEL 131 million in Euros at 31 December 2018.

As a result, Water Utility profit was GEL 32.5 million in 2018, down 13.0% y-o-y.

Balance Sheet Highlights

The 32.8% increase in property, plant and equipment in 2018, was primarily due to development works on Water Utility infrastructure carried out during the year in order to upgrade the network. Additionally, GEL 45.6 million of the increase in FY18 is driven by rehabilitation works at the Gardabani wastewater treatment plant, which went through a major rehabilitation after c.30 years of operation, and since July 2018 has been fully functional, servicing the whole population in Tbilisi and surrounding area. Total capex for Gardabani wastewater treatment plant rehabilitation was in line with the estimated GEL 60 million.

2017 and 2018 were capital-intensive years for the water utility business. Efficiency programmes, such as upgrade of water and wastewater network, purchase of heavy machinery and metering of residential and commercial customers, will have a dual effect of reducing own electricity consumption and increasing third-party electricity sales. Additionally, regulated capex is included in Regulated Asset Base, used by the regulator to calculate fair return on investment. For the regulatory period 2018-2020, such return on investment (referred to as WACC in the tariff-setting methodology) is set at 15.99% (up from 13.54% in 2017). Capital expenditure level is expected to decrease in 2019 and gradually reach long-term run-rate level of c.GEL 52-70 million by 2022. The table below summarises capex forecast through 2022:

GEL millions	2018A	2019F	2020F	2021F	2022F
Maintenance capex	23	23	23	23	22
Development capex	148	65-75	45-58	35-50	30-48
Total capital expenditures, including VAT	**171**	**88-98**	**68-81**	**58-73**	**52-70**

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

The increase in total liabilities is due to increased borrowings obtained from international financial institutions (IFIs) and local banks at the end of 2017 to support capital expenditures for development of water supply network. During 2017, GGU secured long-term financing of EUR 81.5 million from IFIs for efficiency-related capital expenditure purposes, namely from European Investment Bank (EIB), The Netherlands Development Finance Company (FMO) and German Investment Corporation (DEG) at the GWP level (GGU's principal utility subsidiary). The borrowings were largely utilised in 2017 and the remaining undrawn balance of EUR 8.6 million was drawn down during 1H18 from the IFI financing. Additionally, c.GEL 48 million was obtained from local banks during 2018 to support intensive capital expenditures.

Cash Flow Highlights

GGU has an outstanding water supply receivable collection rate within the 95-99% range. During FY18, the collection rates for legal entities and households was 94%. Although the Georgian water utility sector historically had low receivables collection rates, as a result of GGU's arrangement with electricity suppliers since 2011, GGU's collection rates remain very strong at approximately 96%. As part of the arrangement non-paying water customers are disconnected from the electricity network and in return, electricity suppliers receive flat monetary compensation from GGU. Operating cash flow was up 16.3% y-o-y in 2018 as a result of the growth in revenues and positive operating leverage.

In 2018, the water utility business distributed dividends in amount of GEL 28.8 million (up 3.0% y-o-y) to Georgia Capital.

2019 Outlook

The water utility business's outlook for 2019 is positive as management expects further continued growth in revenues from water supply with limited increase in operating expenses, while continuing to reduce self-consumption of electricity and increasing third-party electricity sales. Electricity market deregulation, currently expected to be fully enacted from 1 May 2019, is anticipated to positively impact revenue stream from electricity sales. The business plans to gradually decrease volume of capital expenditures after completing two years of an accelerated capex programme and maintain the increasing trend of dividend distribution.

Housing Development

Solid GEL 10 million first-ever dividend payout following successful project execution

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Gross profit from apartments sales	9,445	8,036	17.5%
Gross profit from construction services	5,334	–	NMF
Gross real estate profit	**14,935**	**8,313**	**79.7%**
Revaluation of commercial property[1]	5,524	21,586	-74.4%
Operating expenses	(11,582)	(7,929)	46.1%
EBITDA	**8,877**	**21,970**	**-59.6%**
Profit[2]	**399**	**20,527**	**-98.1%**

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Net cash flows from operating activities	(10,154)	18,657	NMF
Net cash flows used in investing activities	(13,691)	(9,292)	47.3%
Net cash flows from financing activities	16,595	(77,899)	NMF
Net proceeds from borrowings	(850)	2,513	NMF
Cash, ending balance	**10,467**	**20,059**	**-47.8%**

BALANCE SHEET HIGHLIGHTS	Dec-18	Dec-17	Change
Total assets	250,992	245,652	2.2%
Land bank	8,722	58,373	-85.1%
Inventories	105,307	59,199	77.9%
Total liabilities	182,950	168,977	8.3%
Total equity	68,042	76,675	-11.3%

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	137.8	115.1	19.7%
Gross real estate profit	14.9	8.3	79.7%
EBITDA	8.9	22.0	-59.6%
Development capex	13.7	9.3	47.3%
Maintenance capex	–	–	NMF
FCF	-23.8	9.4	NMF
Cash from operations	-10.2	18.7	NMF
Net debt	107.2	65.1	64.7%

Key performance metrics	
Net investment	18.7
2018 dividend	10.0
ROIC[4]	4.1%

Capital outlook through 2022	
Capital needs[3]	31.3
of which, equity	–
of which, debt	31.3

1 Value created on commercial property.
2 Please refer to page 88 for the reconciliation of FY18 stand-alone Housing Development net income to the attributable income from Housing Development as reported under the Management Account Income Statement on page 97.
3 Gross capital needs, excluding dividend distribution.
4 Please see definition on page 243.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

The Housing Development gross profit from apartment sales fluctuates with the cycle of projects and strength of demand in the market for affordable housing. FY18 gross profit was up 17.5% y-o-y. Market conditions remain strong and the FY18 y-o-y increase was driven by strong project execution. In 2018 Housing Development has successfully completed two affordable residential projects located in the centre of Tbilisi. It reached total sales progress of 87% in ongoing projects and managed to sell down large part of its inventory at higher per ticket prices due to the sales closer to full completion stage. Average price per square metre was up 24% in 2018 over 2017. The development of apartment sales in the relevant periods are shown in the table below:

	FY18	FY17
Square metres sold	15,872	45,621
Number of apartments sold	*146*	*629*
Total sales value (US$)	22,341,912	49,118,065
Sales value of apartments (US$)	20,652,166	47,965,669
Average price per square metre	**1,301**	**1,051**

While in the process of receiving the new permits, Housing Development has not started new projects in 2018 and sales momentum was negatively affected by low levels of inventory. Inventory levels will increase by approximately 3,000 apartments over the next few years, since in November Tbilisi City Municipality Council approved the masterplan brief on Housing Development's largest ever in-house affordable housing project. The Digomi project will be developed in three stages and the construction and development of 168,000 square metres residential and 84,000 square metres commercial spaces will continue for approximately four years. Housing Development started pre-sales for stage one from February 2019, where the total sellable area is approximately 22,000 square metres. As of 19 February 2019, 3,176 square metres with US$3.3 million sales value has already been pre-sold and 3,437 square metres has been booked.

During 2018, housing gain from revaluation of commercial property in the amount of GEL 5.5 million was recorded on the apartments intended for lease out and on commercial spaces under development in our three major projects as compared to GEL 21.6 million in 2017. In 2017 revaluation was performed for commercial spaces under development in the above mentioned three major projects after reaching a construction progress threshold.

Gross profit from construction services was GEL 5.3 million in 2018, which was 79% driven by third-party projects. Construction fees were mainly generated from two third-party construction agreements in addition to in-house development projects: (i) the shell and core construction of a new shopping mall located in Tbilisi's Saburtalo district; and (ii) fit-out works for Radisson Tsinandali in Kakheti region. In 2017, m² acquired BK Construction LLC, a local real estate construction company, with the aim to bring the construction works in-house and achieve cost and project development efficiencies.

Operating expenses were GEL 11.6 million in 2018 (up 46.1% y-o-y). The y-o-y increase reflects increased administrative expenses within the construction arm in line with the business ramp up, while bringing construction works in-house will result in cost and project development efficiencies.

Housing Development recorded profit of GEL 0.4 million for FY18 reflects mainly the impact of non-recurring expenses. Non-recurring expenses amounted GEL 6.2 million in 2018 and were mainly driven by acceleration of share-based expense recognition as a result of the Group's demerger from BGEO Group in May and by expenses related to the construction of a college for vocational education in Western Georgia, which was officially opened in 2H18. The college, with a total project cost of GEL 3 million, offers 11 short-term vocational courses to more than 600 construction specialist/workers annually and most of the graduates are expected to be employed within the construction arm. Before net non-recurring items, 2018 Housing Development profit was GEL 6.6 million for the full year.

Housing Development currently has a land bank with a value of GEL 8.7 million, which decreased significantly y-o-y as a result of masterplan brief approval for Digomi land (respective land was transferred from investment property to inventory). Land bank is expected to decrease further over the coming years, in line with its asset light strategy, as Housing Development plans to develop third-party land plots under franchise agreements.

Cash Flow Highlights

The Housing Development business continued to deploy cash for ongoing project developments, while low levels of inventory negatively affected sales, which decreased from US$49.1 million sales value in 2017 to US$22.3 million in 2018 as noted above. Operating cash flow was, therefore, negative GEL 10.2 million in 2018, down from GEL 18.7 million in 2017.

In December 2018, Housing Development distributed GEL 10.0 million dividends. The first ever dividend payment was made on the back of accumulated cash inflows from successfully executed projects.

2019 Outlook

During 2019, Housing Development expects to complete the construction of two ongoing residential projects and kick off the development of its largest housing project in Digomi, which will drive revenue growth and gross margin expansion on the back of expected scale efficiencies. Further, the business aims to complete the design stage and in 4Q19 start pre-sales of its largest-ever franchise project on a third-party land plot located in Tbilisi airport highway in a densely populated suburban area.

P&C Insurance

Double-digit growth in net underwriting profit driven by efficient risk management

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Earned premiums, net	67,490	62,770	7.5%
Insurance claims expenses, net	(25,748)	(25,098)	2.6%
Acquisition costs, net	(9,520)	(9,100)	4.6%
Net underwriting profit	**32,222**	**28,572**	**12.8%**
Net investment profit	3,988	3,490	14.3%
Operating profit	**20,587**	**19,067**	**8.0%**
Net non-recurring items	(652)	–	NMF
Pre-tax profit	**20,072**	**19,275**	**4.1%**
Income tax expense	(2,990)	(2,975)	0.5%
Net profit[3]	**17,082**	**16,300**	**4.8%**

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Net cash flows from operating activities	20,943	12,684	65.1%
Net cash flows used in investing activities	(3,910)	(5,600)	-30.2%
Net cash flows from financing activities	(10,000)	(7,000)	42.9%
Cash, ending balance	**11,103**	**4,185**	**NMF**

BALANCE SHEET HIGHLIGHTS	Dec-18	Dec-17	Change
Cash and liquid funds	38,967	34,335	13.5%
Insurance premiums receivable, net	31,442	28,491	10.4%
Pension fund assets	18,931	18,536	2.1%
Total assets	**145,710**	**135,157**	**7.8%**
Gross technical provision	45,664	50,271	-9.2%
Pension benefit obligations	18,932	18,536	2.1%
Total liabilities	**89,572**	**86,410**	**3.7%**
Total equity	**56,138**	**48,747**	**15.2%**

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Earned premiums, net	67.5	62.7	7.5%
Net income*	17.7	16.3	8.8%
Development capex	–	–	N/A
Maintenance capex	–	–	N/A
FCF	17	7.1	NMF
Cash from operations	20.9	12.7	65.1%
Net debt	–	–	NMF

* Net income is adjusted for non-recurring items.

Key performance metrics	
Net investment	-13.9
2018 dividend	10
ROAE[1]	34.4%

Capital outlook through 2022	
Capital needs[2]	–
of which, equity	–
of which, debt	–

1 Adjusted for non-recurring items.
2 Gross capital needs, excluding dividend distribution.
3 Please refer to page 88 for the reconciliation of FY18 stand-alone P&C Insurance net income to the attributable income from P&C Insurance as reported under the Management Account Income Statement on page 97.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

P&C Insurance recorded solid double-digit increase in net underwriting profit for the full year in 2018 driven by strong increases in net premiums earned.

Net premiums earned were up 7.5% y-o-y in FY18. This was driven by multiple factors: (a) the termination of relationships with loss-making clients to improve the loss ratio and overall bottom line; (b) the introduction of insurance supervision fees from 1 January 2018; (c) restrictions applied by government to our Agro Insurance project (effective from 1 April 2018), limiting client eligibility; (d) net premiums earned from the new compulsory border third-party liability (TPL) insurance of GEL 5.2 million in 2018; and e) substantial increase in net premiums earned from credit unemployment insurance line which kicked in at the end of 2017, with net revenue seven times higher to GEL 1.6 million in 2018. Additionally, as part of the risk management exercise, Aldagi revisited its reinsurance policies and terminated a reinsurance treaty for credit life insurance products as of 1 January 2018 leading to net premiums earned from credit life insurance growing by 29.6% y-o-y in 2018.

Net insurance claims increased in 2018 only by 2.6% y-o-y, where the increase was primarily limited by profitability of compulsory border TPL portfolio, reducing the loss ratio in motor business line from 62.2% to 55.0% y-o-y. Overall, the loss ratio decreased by 1.8 percentage points, reaching 38.2% during 2018.

Net acquisition costs were GEL 9.5 million in 2018 (up 4.6% y-o-y), due to on average higher commission rate on property insurance mainly driven by increased commission rate with a local financial institution. Furthermore, introduction of compulsory border TPL insurance starting from March 2018 increased acquisition costs by GEL 1.2 million y-o-y. Nevertheless, commission ratio decreased from 14.5% to 14.1% in FY18, mainly on the back of decrease in Agro insurance portfolio, which on average has a higher commission rate.

P&C Insurance's key performance ratios remained healthy during FY18 as noted below:

Key ratios	FY18	FY17
Combined ratio	75.5%	75.2%
Expense ratio	37.3%	35.2%
Loss ratio	38.2%	40.0%

The expense ratio increased by 2.1 percentage points reaching 37.3% in 2018. This is due to higher personnel training costs incurred by the end of 2018, impairment charges due to termination of performance bond insurance contract and mandatory costs of participation in compulsory border TPL project.

Net investment profit increased to GEL 4.0 million in 2018 (up 14.3% y-o-y). Investment yield remained high at 10.0% in FY18 compared to 9.9% in FY17. The liquid assets portfolio increased by 13.5% y-o-y in 2018.

P&C Insurance's operating profit and net income reached GEL 20.6 million (up 8.0% y-o-y in 2018) and GEL 17.1 million (up 4.8% y-o-y in 2018), respectively, in 2018.

Balance Sheet Remains Solid and Well-Capitalised

At 31 December 2018, total assets stood at GEL 145.9 million up 7.9% from 31 December 2017 driven by 13.5% increase in cash and liquid funds during the same period. Insurance receivables increased due to prolongation of commercial property contract with significant client in property insurance near pension regulation effective from 1 January 2019, pension assets and related liabilities are expected to substantially decrease starting from 2019. P&C Insurance's strong position is also evidenced by solvency ratio, which stood at 131% at 31 December 2018, well above than the required minimum of 100%. P&C insurance business expects to maintain its solvency ratio at minimum level of 130% over the coming years.

Cash Flow Highlights

Operating cash flow was up 65.1% y-o-y in FY18 on the back of efficient risk management, decreasing payments for claims, while insurance premiums received increased by 5%. Profitability of compulsory border TPL, having overall lower loss ratio, also drove operating cash flow up. Increased Interest inflows in line with liquid assets growth also positively contributed to the increase in operating cash flow.

P&C insurance business paid a GEL 10 million dividend in 2018, which grew by 43% from GEL 7 million in 2017.

2019 Outlook

P&C Insurance expects insurance activity to increase during 2019 across retail and SME segments and has actively started to develop its marketing strategy towards entering these underpenetrated segments, expected to significantly increase revenue generation. Revenue growth may significantly accelerate subject to parliament approval of the mandatory third-party liability (TPL) insurance legislation, which has been submitted with a target launch date of 1 July 2019. The business also will continue to keep its focus on maintaining healthy combined ratio, below 75%, and benefit from border TPL growth.

Renewable Energy

On track to launch first hydro power plant in 1H19

Intensive construction works continued on Mestiachala HPPs during 2018 with GEL 63.9 million capital expenditures spent on development. The major part of the construction works is already completed, including concrete works, pipe fitting, substation construction and electrical equipment installation. The annual net generation capacity is projected at approximately 171GWh, with peak generation in August, when the market prices are higher compared to May-June period, when most of the HPPs in Georgia have peak generation. The project has a 15-year Government PPA in place with the price of US$55 per MWh during Sep-Apr period. The project cost is anticipated at c.US$1.2 million per MW.

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Revenue	**–**	**–**	**NMF**
Operating expenses	**(770)**	**(1,733)**	**55.6%**
EBITDA	**(770)**	**(1,733)**	**55.6%**
Net loss[3]	**(816)**	**(2,177)**	**62.5%**
Attributable to:			
– shareholders of the Group	(530)	(2,093)	74.7%
– non-controlling interests	(286)	(84)	NMF

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Cash flow from operating activities	**(696)**	**(1,466)**	**52.5%**
Cash flow used in investing activities	**(62,295)**	**(69,776)**	**10.7%**
Development capex	(68,258)	(76,565)	10.8%
Cash flow from financing activities	**63,228**	**74,069**	**-14.6%**
Proceeds from borrowings	55,494	57,268	-3.1%
Cash ending balance	**8,388**	**8,298**	**1.1%**

BALANCE SHEET HIGHLIGHTS	Dec-18	Dec-17	Change
Total assets	**169,304**	**96,551**	**75.4%**
Property, plant and equipment	114,645	47,953	NMF
Cash balance	8,388	8,298	1.1%
Total liabilities	**75,145**	**69,920**	**7.5%**
Total debt[4]	70,711	64,848	9.0%
Total equity	**94,159**	**26,631**	**NMF**
Total equity attributable to the shareholders of the Group	**61,203**	**16,505**	**NMF**

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	n/a	n/a	n/a
EBITDA	-0.8	-1.7	55.6%
Capex	68.3	76.6	-10.9%
FCF	n/a	n/a	n/a
Cash from operations	-0.7	-1.5	52.5%
Net debt	62.3	56.6	10.2%

Key performance metrics	
Net investment	56.6
2018 dividend	–
ROIC[1]	-0.9%

Capital outlook through 2022	
Capital needs[2]	1,240
of which, our equity (65% stake)	177
of which, equity from minority	95
of which, debt	968

1 Please see definition on page 243.
2 Gross capital needs, excluding dividend distribution.
3 Please refer to page 88 for the reconciliation of FY18 stand-alone Renewable Energy net loss to the attributable loss from Renewable Energy as reported under the Management Account Income Statement on page 97.
4 Mezzanine ban from GCAP is classified as borrowing in stand-alone IFRS Financial Statements of renewable energy business, which in 2018 was converted to equity.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

Renewable Energy financials reflect Mestiachala HPP being in its construction stage and other Renewable Energy projects being under development. The increase in property, plant and equipment compared to 31 December 2017 is primarily attributable to the construction of Mestiachala HPPs. The increase in total equity is primarily attributable to capital injections from the shareholders for development and construction of renewable projects. Overall the renewable energy business is financing the projects with up to 30% equity contribution.

Renewable Energy continues to build ground for its 500MW operating capacity medium-term target. It searches for opportunities to develop new hydro projects and seeks acquisition possibilities among existing projects, which are either commissioned or under feasibility stage. Currently, preparation works are underway to commence construction works on 46MW Zoti HPPs in 2H19, located in Western part of Georgia, expected to have net generation of 164MWhs, with c.53% of generation covered by 15-year Government PPA (average US$51 per MWh during September-April period). In 2Q18 the Company applied for an MoU for yet another new project – 38MW Racha HPPs. Cost per MW is anticipated to be at c.US$1.5 million with the capacity factor estimated to be as high as c.49%. Additionally, preliminary SPA has been signed for Bakhvi 2 HPP in August 2018 and the management is working on prolongation of MoU formed with the Government. Subject to successful MoU prolongation, the project construction works are anticipated to start in the first half of 2020 with the planned commissioning in the first half of 2022. Based on the current feasibility study results, installed capacity of Bakhvi 2 HPP is anticipated to be 36MWs, with annual net generation of c.127GWhs. Total cost per MW is projected to be c.US$1.3 million.

Renewable Energy also continues on the development of wind projects, and wind farms near Tbilisi and Kaspi are at an advanced stage with the planned construction commencement in second half of 2019 and commissioning in second half of 2020. The management is currently negotiating with the Government regarding MoU and PPA terms and conditions, expecting to finalise the documentation in 1H19.

The table below summarises the indicative pipeline of upcoming energy projects:

Renewable Energy Projects Pipeline as of 31 December 2018

Project	Target MWs	Construction commencement date	Target commissioning date[1]	Target ROIC[2]	Net annual generation capacity (GWh)
Mestiachala HPPs	50	1H17	1H19	13.2%	171
Zoti HPPs	46	2H19	1H21	12.9%	164
Bakhvi 2 HPP	36	1H20	1H22	13.5%	127
Racha HPPs	38	1H21	1H23	14.7%	165
Wind Tbilisi	57	2H19	2H20	13.3%	179
Wind Kaspi	54	2H19	2H20	14.1%	215
Wind (Kutaisi, Plevi, Tkibuli)	99	1H21	1H22	12.5%	306
Solar	30	TBD	TBD	10.1%	64
Total	**410**				**1,391**

2019 Outlook

Renewable Energy is on track to commission Mestiachala HPP in 1H19 and start construction works on 46MW Zoti HPPs and 111MW wind projects in 2H19. The business will continue to develop Renewable Energy projects to reach its target of 500MWs installed capacity in the medium term. We foresee a growing electricity deficit, and considering steps taken towards full market deregulation, favourable regulatory conditions. Accordingly, in addition to continuing the development of its current pipeline, the Company plans to continue looking into new projects.

1 Target commissioning dates are indicative and subject to regulatory procedures.
2 Target return on invested capital is calculated based on average stabilised EBITDA divided by total invested capital.

Hospitality and Commercial Real Estate

A year of growth in revenue, earnings, portfolio and pipeline

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Gross profit from operating leases	4,588	3,042	50.8%
Gross profit from hospitality services	1,945	–	NMF
Gross real estate profit	**6,761**	**3,042**	**NMF**
Revaluation of commercial property[3]	27,621	977	NMF
Operating expenses	**(2,841)**	**(650)**	**NMF**
Net operating income (NOI)	**31,541**	**3,369**	**NMF**
Profit (loss)[4]	**26,396**	**3,135**	**NMF**

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Net cash flows from operating activities	5,670	2,689	NMF
Net cash flows used in investing activities	(79,444)	(32,483)	NMF
Net cash flows from financing activities	87,735	40,372	NMF
Net proceeds from borrowings	*76,397*	*12,696*	NMF
Cash, ending balance	**28,616**	**14,806**	**93.3%**

BALANCE SHEET HIGHLIGHTS	Dec-18	Dec-17	Change
Cash and cash equivalents	28,615	14,805	93.3%
Investment property	225,343	56,770	NMF
Land bank	37,459	14,529	NMF
Commercial real estate	187,884	42,241	NMF
Total assets	**294,833**	**130,022**	**NMF**
Borrowings	104,557	14,749	NMF
Total equity	**159,839**	**87,955**	**81.7%**

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	38.5	4.6	NMF
NOI	31.5	3.4	NMF
Development capex	81.0	32.5	NMF
Maintenance capex	–	–	NMF
FCF	(66.8)	(29.8)	NMF
Cash from operations	5.7	2.7	NMF
Net debt	91.7	24.2	NMF

Key performance metrics	
Net investment	107
2018 Dividend	–
ROIC[1]	16.4%

Capital outlook through 2022	
Capital needs[2]	225.1
of which, GCAP equity	39.6
of which, debt	185.5

1 Please see definition on page 243.
2 Gross capital needs, excluding dividend distribution.
3 Value created on commercial property.
4 Please refer to page 88 for the reconciliation of FY18 stand-alone Hospitality and Commercial Real Estate net income to the attributable income from Hospitality and Commercial Real Estate as reported under the Management Account Income Statement on page 97.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

INCOME STATEMENT HIGHLIGHTS

Gross profit from operating leases was up 50.8% y-o-y in FY18 primarily due to the expansion of the commercial real estate portfolio, supported by high-occupancy levels. The portfolio available for lease continues to be successfully leased with an occupancy rate and an average yield of 90.1% and 9.9%, respectively, in 2018, compared to 88.3% and 9.1% in 2017. The commercial real estate business obtains commercial space (ground floor) at residential developments from the housing development business and also acquires it opportunistically from third parties. Nearly 80% of the total commercial assets portfolio represents office and retail areas and another 20% residential and industrial spaces.

Our first hotel, Ramada Encore on Kazbegi ave. has completed its ninth full month of operations, generating GEL 1.9 million of gross profit with US$74.6 ADR and 44.4% occupancy rate and earning net operating profit margin of 37.8% since its launch in March 2018. The hotel has a capacity of 152 rooms and is catering to the needs of the rapidly-growing market for budget travellers in Georgia.

In 2018 hospitality business booked revaluation gain of GEL 25.8 million on two under construction and one operational hotel, while a revaluation gain of GEL 1.9 million was recorded on rent-generating assets. Management hires an independent, internationally recognised valuation company to determine the fair values of hotels after a predetermined construction progress threshold is reached.

Balance Sheet Highlights

At 31 December 2018, total assets of Hospitality and Commercial Real Estate were GEL 294.8 million (more than doubled from GEL 130.0 million at 31 December 2017) and was largely concentrated in investment property. In 2018 Commercial Real Estate increased more than four times compared to 31 December 2017 due to the commencement of construction of Ramada Melikishvili hotel, acquisition of under construction Gudauri hotel, completion of Ramada Encore Kazbegi Hotel and commercial portfolio expansion. Borrowings increased due to the funding of the ongoing hotel developments and acquisition of a single commercial real estate asset, all of which was fully financed by Georgia Capital. In December 2018 Hospitality and Commercial Real Estate has initiated the process of placing US$30 million bonds into the local market backed by rental income stream from commercial properties. The bonds are being issued at par with a three-year tenor and an annual coupon rate of 7.5%, payable quarterly. The Proceeds will be used to finance upcoming hotel developments.

The hospitality business continued to build ground for its targeted 1,000 hotel rooms portfolio, by investing GEL 19 million in an under-construction hotel in Gudauri and a land plot in Telavi for hotel development. The business has three hotel projects under construction – a luxury hotel on Gergeti street in Tbilisi with an expected 100 rooms, the Melikishvili Avenue hotel in Tbilisi with expected 125 rooms and a hotel in the leading ski resort of the Caucasus region, Gudauri with an expected 121 rooms. Additionally, there are six hotels in a design stage: (a) a hotel in Telavi with expected 130 rooms; (b) a hotel in Kutaisi with expected 121 rooms; (c) a hotel in Akhasheni village, Kakheti, in Eastern Georgia well-known tourist wine destination with expected 60 rooms; (d) a business style 4-star hotel in old Tbilisi with expected 120 rooms; and e) two hotels in mountainous Svaneti region with expected 192 rooms in total. The total capital needs to complete the construction and development of the hotels in the current pipeline is estimated at GEL 247.5 million, summarised in the table below:

Hotel	Rooms	Current stage	Target opening date[1]	Total cost excl. VAT US$ '000	Target ROIC[2]
Ramada Encore Kazbegi, Tbilisi	152	Operational	Q1-2018	12,066	18.0%
Gudauri	121	Construction	Q2-2019	10,809	12.8%
Seti Square in Mestia, Svaneti	72	Design	Q4-2019	5,915	16.2%
Ramada Melikishvili, Tbilisi	125	Construction	Q1-2020	12,352	15.7%
Gergeti, Tbilisi	100	Construction	Q3-2020	23,473	13.7%
Ramada Kutaisi	121	Design	Q4-2020	9,535	17.5%
Mestia, Svaneti	120	Design	Q1-2021	10,096	15.8%
Telavi	130	Design	Q2-2021	12,735	13.4%
Javakhishvili, Tbilisi	120	Design	Q2-2021	14,144	13.8%
Kakheti Wine and Spa	60	Design	Q3-2021	7,500	17.3%
Total	**1,121**				

Cash Flow Highlights

The first operational Ramada Encore hotel added GEL 2.3 million to operating cash flow, which more than doubled from GEL 2.7 million in 2017 to GEL 5.7 million in 2018. As the hospitality and commercial real estate business progressed towards its targeted 1,000 hotel room portfolio in 2018, it continued to acquire under construction hotels and land plots for further development. Hospitality and Commercial Real Estate targets 70%:30% debt to equity leverage ratio at hotels and during 2018 m² received a loan from Georgia Capital with an outstanding balance of GEL 104.6 million (US$39.1 million) at 31 December 2018. The loan proceeds will be used primarily for ongoing development, construction and growth of the hotel pipeline.

2019 Outlook

The hospitality business plans to commence the construction of a Ramada hotel in Kutaisi in 1Q19, currently in the design stage, complete the design stage of Telavi and Kakheti, Wine and Spa hotels and commission hotels in Gudauri and Seti Square Svaneti in 2019.

1 Target opening dates for hotels under design stage are subject to outcomes of design process and may be changed.
2 Target return on invested capital per each hotel equals stabilised adjusted net operating income divided by total investment.

Beverages

Outstanding growth in revenues driven by strong performance in the wine business

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Consolidated			
Revenue	76,214	55,730	36.8%
Gross profit	29,254	22,378	30.7%
EBITDA	(6,441)	856	NMF
Net loss[4]	(29,173)	(14,393)	NMF
Wine business			
Revenue	29,352	20,427	43.7%
Gross profit	14,042	10,063	39.5%
Gross profit margin	47.8%	49.3%	
Operating expenses	(6,891)	(4,636)	48.6%
EBITDA	7,151	5,427	31.8%
Net profit	(91)	4,137	NMF
Beer business			
Revenue	29,308	17,927	63.5%
Gross profit	10,087	6,956	45.0%
Gross profit margin	34.4%	38.8%	
Operating expenses	(23,841)	(12,489)	90.9%
EBITDA	(13,754)	(5,533)	NMF
Net loss	(28,475)	(19,507)	46.0%
Distribution business[3]			
Revenue	24,896	24,413	2.0%
Gross profit	5,252	5,166	1.7%
Gross profit margin	21.1%	21.2%	
Operating expenses	(4,627)	(4,438)	4.3%
EBITDA	625	728	-14.1%
Net loss	(197)	308	NMF

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	76.2	55.7	36.8%
EBITDA	(6.4)	0.9	NMF
Development capex	32.4	30.6	5.6%
Maintenance capex	0.4	–	NMF
FCF	(42.1)	(40.0)	-5.3%
Cash from operations	(13.8)	(9.8)	39.7%
Net debt	107.1	49.6	115.9%

Key performance metrics	
Net investment	116
2018 dividend	–
ROIC[1]	-11.4%

Capital outlook through 2022	
Capital needs[2]	104
of which, equity	37
of which, debt	67

1 Please see definition on page 243.
2 Gross capital needs, excluding dividend distribution.
3 Starting from 4Q18 distribution business represents separate business line after reorganisation within the Company, therefore results of distribution business line for comparative periods differ from the one presented in the previous announcements.
4 Please refer to page 88 for the reconciliation of FY18 stand-alone Beverages net loss to the attributable loss from Beverages as reported under the Management Account Income Statement on page 97.

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Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

In 2018 Georgia Capital continued to invest in the beverages business, successfully acquiring 100% equity stakes in the leading Georgian craft beer producer, Black Lion LLC (total consideration of US$3.2 million) in February 2018 and in the prominent winery Kindzmarauli Marani LLC (total consideration of US$9.5 million). Through the acquisition of Kindzmarauli, which added 350 hectares of vineyards, bringing the total vineyard base to 436 hectares, our wine business is now a top three winery in Georgia in terms of the vineyard base. Therefore, management expects to minimise reliance on purchased grapes in the coming years and as a result, manage gross profit margin levels.

Beverages revenue in 2018 was up 36.8%. The increase was driven by revenues generated from the beer and lemonade business line and by mostly organic growth in the wine business supported by the country's strong export markets growing at 13% y-o-y in 2018 reaching record-high 86.2 million wine bottle export sales. In line with the market growth, our wine bottle sales also increased significantly by 22% from c.3.5 million bottles in 2017 to 4.3 million in 2018.

Top-line growth was also supported by the GEL 2.9 million revaluation gain on grapes recorded in December 2018, driven by our increased vineyard base through the Kindzmarauli acquisition. Beverages achieved a well-diversified revenue mix in 2018: wine (41%), distribution (21%), and beer and lemonade (38%).

The wine business maintained a solid gross profit margin of 48% in 2018, compared to 49% in 2017, despite discontinuation of the Government subsidy on grapes, which adversely affected grape purchase prices for the business and therefore, the cost of goods sold. Wine EBITDA increased by 31.8% y-o-y.

Beer EBITDA was negative GEL 13.8 million in 2018, compared to negative GEL 5.4 million in 2017. During 2017, the beer business actively invested in beer facilities to accommodate the launch of its beer and lemonade businesses, however, the launch of key Heineken brands was delayed, thereby negatively impacting the 2018 performance. Based on the updated timeline, Heineken and Amstel production are expected to commence in 1H19. Starting from 2H18 Beverages has strengthened its beer business with a new CEO and COO and new management decreased the negative EBITDA contribution by 18.6% h-o-h in 2H18 on the back of efficient cost management. Our beer business is actively working on export markets and first batch of lemonade was exported in Russia in December 2018.

2019 Outlook

The wine business expects to maintain high double-digit revenue growth on strategic export markets, while diversifying the export revenue streams. At the same time the wine business plans to invest in improving the quality processes, renewing production facilities and acquiring additional vineyards to further increase production capacity and reduce cost of goods sold. On the back of improvement in the quality processes, the business is expected to enter the premium wine segment, thereby diversifying its current product mix.

The beer business plans to achieve 20% volume market share in beer by the end of 2019, by launching the Heineken brands in 1H19, improving product mix, launching new brands, enhancing the distribution platform and targeted marketing.

GHG

The completion of significant investment programme now beginning to be reflected in business performance, delivering GEL 132 million FY18 EBITDA

GEL thousands, unless otherwise noted

INCOME STATEMENT HIGHLIGHTS	FY18	FY17	Change
Consolidated			
Revenue	849,917	747,750	13.7%
EBITDA	132,274	108,148	22.3%
Net profit[3]	53,239	45,940	15.9%
Healthcare services business			
Revenue	305,598	265,396	15.1%
EBITDA	76,008	70,071	8.5%
EBITDA margin (%)	24.9%	26.4%	
Net profit	16,133	27,360	-41.0%
Pharmacy and distribution business			
Revenue	518,578	450,315	15.2%
EBITDA	52,215	38,854	34.4%
EBITDA margin (%)	10.1%	8.6%	
Net profit	34,157	21,182	61.3%
Medical insurance business			
Net insurance premiums earned	55,112	53,710	2.6%
EBITDA	4,051	(436)	NMF
Net profit/(loss)	2,949	(2,602)	NMF

CASH FLOW HIGHLIGHTS	FY18	FY17	Change
Net cash flow from operating activities	99,580	58,239	71.00%
EBITDA to cash conversion	*75%*	*54%*	*+21ppts*
Net cash used in investing activities	-85,347	-128,748	-33.70%
Net cash flow from financing activities	-26,917	96,647	NMF
Cash and cash equivalents, beginning	**48,840**	**23,239**	**110.20%**
Cash and cash equivalents, ending	36,154	48,840	-26.00%

GEL millions, unless otherwise noted

KEY HIGHLIGHTS	FY18	FY17	change
Revenue	849.9	747.8	13.70%
EBITDA	132.3	108.1	22.30%
Development capex	52.6	79.7	-34.10%
Maintenance capex	11.1	9.6	15.50%
FCF	-12.7	25.6	NMF
Cash from operations	99.6	58.2	71.00%
Net debt	342.4	296.9	15.30%

Key performance metrics	
Net investment	128,9
2018 dividend	–
ROIC[1]	11.00%
ROIC adjusted[2]	13.90%

1 Please see definition on page 243.
2 Return on invested capital is adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase.
3 Please refer to page 88 for the reconciliation of FY18 stand-alone GHG net income to the attributable income from GHG as reported under the Management Account Income Statement on page 97.

Strategic Review Discussion of Results

DISCUSSION OF INVESTMENT PORTFOLIO IFRS RESULTS CONTINUED

GHG delivered double-digit y-o-y growth in consolidated revenues for 2018, driven by double-digit growth in healthcare services and pharmacy and distribution businesses revenues. The y-o-y healthcare revenue growth was largely driven by a successful ramp-up of the newly-launched hospitals. Tbilisi Referral Hospital contributed GEL 17.7 million to 2018 revenues, reaching 46.5% occupancy rate in 4Q18 and Regional Hospital's occupancy rate was 32.7% in 4Q18, adding GEL 21.0 million to 2018 revenues. By the end of 2018 GHG entered into the Georgian dental market by launching dental clinics within the Group's polyclinics, aiming to consolidate this highly-fragmented market, with an estimated annual market size of GEL 100 million, where no single player in Georgia has previously been able to establish a scalable business.

During 2018, GHG continued to focus on improving operating performance and developing synergies across the business lines. The gross margin in the pharmacy and distribution business continued to improve 100 bps y-o-y in 2018, mainly as a result of ongoing negotiations with manufacturers for price discounts. GHG is the largest purchaser of pharmaceuticals in Georgia. The healthcare services business gross margin remained strong at around 41.9% in 2018, despite the flagship hospitals roll-out phase and the impact of the Government's changes to Universal Healthcare Programme (UHC) effective from May 2017. As a result of new initiatives that the medical insurance business implemented since 2Q18, its loss ratio improved significantly 690 bps y-o-y in 2018. Insurance business has significantly improved claims retention rates within the Group, total claims retained within the Group was up 690 bps y-o-y and total claims retained on outpatient services was also up 1,120 bps y-o-y in 2018.

Healthcare services EBITDA margin was 24.9% in 2018, compared to 26.4% in 2017, reflecting the planned significant investment and roll-out phase of newly-launched hospitals and polyclinics. The EBITDA margin for referral hospitals and community clinics was 25.7% in FY18 (27.2% in FY17). Excluding the dilutive effect of roll-outs, the EBITDA margin was towards targeted level, 28.7% in FY18. The pharmacy and distribution business delivered outstanding performance and, on the back of extracted procurement synergies, posted record-high EBITDA margin above 10% in 2018 (10.1%), substantially exceeding its "more than 8%" medium-term target. The medical insurance business made a solid contribution of GEL 4.1 million in 2018 to GHG's EBITDA, after improved operational efficiency over the last 18 months.

Cash Flow Highlights

Net cash flows from operating activities was up 71.0% y-o-y in 2018 to GEL 99.6 million on the back of strong EBITDA performance and a substantially improved EBITDA to cash conversion ratio. After a number of hospital openings in 2018, benefits of the major investment programme started to materialise and was reflected in the reduced working capital needs. As a result, EBITDA to cash conversion ratio improved considerably, reaching 75.3%, which is expected to further improve going forward.

In FY18 GHG spent a total of GEL 63.7 million on capital expenditures (capex), of which maintenance capex was GEL 11.1 million. With the opening of the Mega Laboratory ("Mega Lab"), GHG has now completed its three-year intensive capital expenditure phase. 2018 was the final year of the major investment programme and investment volume slowed (development capex outflow down 34.1% y-o-y) as the projects completed. With the improved operational cash flow and declining investment volume, the Group has stabilised the needs for new borrowings. Net outflow from financing activities amounted to GEL 26.9 million, which reflects only marginal excess of new funding over the repaid borrowings during the year and interest payments.

Please refer to GHG's announcement for more details at: **http://ghg.com.ge/financial-results**

Strong cash flow generation during 2018 enabled GHG board to announce the proposed dividend policy. Please refer to GHG's announcement for more details at **http://ghg.com.ge/news-announcements**

Photo Old Tbilisi, home to the diverse cultural heritage of the city. The panoramic view of Tbilisi at sunset is truly breathtaking.

Governance

DIRECTORS' GOVERNANCE STATEMENT

Irakli Gilauri
Chairman and Chief Executive

David Morrison
Senior Independent Non-Executive Director

The Board is responsible for ensuring sound management and long-term success of the Group which can only be achieved with an appropriate governance framework.

Dear shareholders

We are pleased to present the first Governance Statement since the Group was admitted to listing and commenced business following the successful demerger of BGEO Group PLC in May 2018. All Directors were appointed prior to listing to allow them time to understand the business. In addition, Directors received detailed training in respect of the responsibilities and obligations of directors of premium listed companies on the London Stock Exchange. This training included their duties and responsibilities under the UK Corporate Governance Code, Listing Rules, the Disclosure Guidance and Transparency Rules, the Companies Act 2006 and the Market Abuse Regulation.

The Board is responsible for ensuring sound management and long-term success of the Company which can only be achieved with an appropriate governance framework. The Board has applied the UK Corporate Governance Code published in 2016 (the "Code") and it is against that version of the Code that we are reporting.

We are pleased to report on some key features of the robust governance structure we have established since May 2018:

- a complete Committee structure with terms of reference that are compliant with the UK Corporate Governance Code, with each Committee composed to ensure that we have the correct skill sets for them to operate effectively;
- a Board with a proven track record in business with both sector and country-specific knowledge consisting of seven Directors: our Chairman and CEO and six Independent Non-Executive Directors; and
- comprehensive governance policies.

The Board has been fully briefed on the revisions made to the Code during 2018, which applied to the Group from 1 January 2019. A gap analysis was undertaken against the revised Code and the Company has been taking appropriate steps to ensure it complies with the new Code. For example, Kim Bradley was appointed as the designated Non-Executive Director to engage with the workforce. Revised Committee Terms of References and Group Policies, compliant with the revised Code, were adopted towards the end of 2018. We look forward to providing an update in next year's report on the further steps we have taken to comply with the additional requirements of the updated Code.

We remain committed to working with our management to ensure that our high standards extend beyond the boardroom and are continually implemented in the successful delivery of the Company's strategic priorities.

Irakli Gilauri	David Morrison
Chairman and Chief Executive	Senior Independent Non-Executive Director
3 April 2019	3 April 2019

Compliance Statement

Since our listing in May, we applied the main principles and complied with the Provisions of the 2016 UK Corporate Governance Code, with the below exceptions.

Section A.2.1 of the Corporate Governance Code recommends that the roles of Chairman and Chief Executive should not be exercised by the same individual. Section A.3.1 recommends that the Chairman on appointment should be independent. The Company's Chairman, Irakli Gilauri, also serves as the Company's Chief Executive Officer and is not considered by the Board to be independent. Our explanation is set out on the next page.

The Board did not undertake a formal effectiveness evaluation due to the comparatively short period between the Company's listing and year end 2018 and the significant proportion of Board time devoted to the Group's demerger from BGEO Group PLC (B.6.1 and B.7.2), but shall undertake such a review in 2019.

The Code and associated guidance are published by the Financial Reporting Council and are available at: **www.frc.org.uk**.

Set out on our website at: **https://georgiacapital.ge/governance/cgf** is the Board's assessment of its application of the Main Principles of the Code as required by LR 9.8.6.

Combined CEO and Chairman Role

We acknowledge that our decision to combine the roles of Chairman and CEO in a single person (Irakli Gilauri) is not compliant with provision A.2.1 of the 2016 UK Corporate Governance Code (and provision 9 of the 2018 UK Corporate Governance Code). This matter is regularly reviewed (including with our shareholders as discussed below) by the Nomination Committee and the Board. After careful consideration, the Board continues to believe that the current structure better serves our Company and recommend that it should continue. The basis for this conclusion is summarised below.

As a matter of procedure, the combination of the roles was expressly discussed with the shareholders of the Company's predecessor prior to the demerger, and described in the demerger circular and prospectus that created the Company. The demerger including this structure was approved by 100% of shareholders who voted. There has also been engagement in early 2019 by Non-Executive Directors with shareholders by letters, calls and also face-to-face meetings in the United Kingdom, Europe and the USA, in which shareholders again confirmed their support for the structure. We would not want to change our structure against the wishes of our shareholders.

More importantly, we believe that combining the two roles also continues to make sense in our case as a matter of substance:

Georgia Capital is unusual as a listed company because we manage it first and foremost as a holding company focused on investing in and developing businesses, with the result that we hold and operate a highly diversified group of companies.

- Our central group management structure is quite small (head office has around 30 employees). It is principally at the level of the central management team at which the board provides challenge, most importantly on investment/divestment decisions through the Investment Committee as discussed below.
- The highly diverse portfolio of businesses, except for the very early stage ones, have an unusually strong measure of operational independence. Two of them are independently listed: we are a 19.9% investor in Bank of Georgia Group PLC which has its own board and is independent of us; and we own 57% of Georgia Healthcare Group PLC, which also has a separate board composed mainly of Independent Non-Executive Directors, although Irakli Gilauri sits on this board as the sole Non-Executive Director who is not independent. Each of the private portfolio companies also has its own strong CEO who operate their businesses with a significant degree of operational independence, with principal oversight and strategic guidance exercised by Mr Gilauri or another member of the central group management team.
- We believe that the role of a Non-Executive Chairman on top of a CEO in this environment could interfere with the lean group structure. It would also add extra cost.

The Board is almost entirely independent and is highly experienced.

- Other than the CEO, our Board is composed solely of independent Non-Executive Directors (six in total). As there is only one Executive Director, and each Non-Executive Director approaches the Company with true independence, the Executive Director cannot form a block to try and convince enough independent directors to support him. Our decisions at the Board and the decisions of the Investment and Nomination Committees (on which the CEO sits) are typically reached through consensus, but ultimately it is a majority decision: the CEO does not have a veto and is heavily outnumbered.
- The Non-Executive Directors are experienced business people of particular high quality for a FTSE Small/MidCap company and we would invite shareholders to consider their biographies and note the degree of real expertise and experience they bring to the Board. They have a diverse range of backgrounds and nationalities and each brings a fresh view and particular expertise to board discussions. The Senior Independent Director, a former partner at a top US law firm, is highly experienced in the region and is the governance lead for the Board and the Non-Executive Directors. He also chairs the Audit Committee. Previous roles for the other Non-Executive Directors include:
  - career at Goldman Sachs specialising in real estate;
  - investment officer at a major investment fund;
  - career at McKinsey with particular focus on healthcare and valuation;
  - career in banking, investment funds and investor relations; and
  - membership and experience on a number of UK boards and qualified accountant.

The role of the Investment Committee in our company context is outsized. The Investment Committee plays the key role for Group in making decisions on portfolio investments and exits, managing all aspects of investment policy and strategy. It scrutinises, challenges and ultimately either approves or disapproves of investment and divestment proposals and initiatives, including significant add-on investment for the existing portfolio companies. It also considers the commercial terms of major transactions (i.e. over £2.5 million). All Board members sit on the Investment Committee, but it is chaired by a Non-Executive Director, not the Chairman/CEO.

The Group's NAV is set by the Audit Committee. The Group's key financial and investor communications metric is its net asset value as approved by the Audit Committee, a committee of all Independent Directors on which the CEO does not sit.

The Non-Executive Directors exercise key secondary oversight of the private portfolio businesses.

- Although we think of ourselves as a holding company and delegate day to day management to our portfolio companies and ongoing strategic advice to the Group CEO/Chairman and his central team, the private portfolio companies' CEOs also present directly to the Board to update them and to seek approvals on the most important capital allocation and strategic matters. In that sense, the most important decisions of our private portfolio companies are reserved for the Board.
- The Directors also engage directly with senior management and the workforce in Georgia so that there are further unfiltered channels of access. A number of Non-Executive Directors (including the Chair of the Investment Committee) regularly tour facilities and projects of the portfolio companies and meet with one or more of the portfolio company CEO/ executive management once a quarter which facilitates direct and open access.

Given the structure of the Group explained in the foregoing, the Board continues to believe the current combined Chairman/CEO structure best suits the Group and notes that the recent shareholder engagement exercise shows that its shareholders understand and support this approach.

Governance

BOARD OF DIRECTORS

Irakli Gilauri

Chairman and Chief Executive

Biography

Irakli Gilauri was appointed as Chairman and Chief Executive of the Company on 24 February 2018. Irakli Gilauri also serves as a member of the Company's Nomination and Investment Committees.

Mr Gilauri is a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group. He also sits on the Supervisory Board of JSC Georgia Capital. Mr Gilauri formerly served as the CEO of BGEO Group from 2011 to May 2018. He joined as CFO of Bank of Georgia in 2004 and was appointed as Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Mr Gilauri has up to 20 years of experience in banking, investment and finance. Prior, he was an EBRD (European Bank for Reconstruction and Development) banker. Over the last decade, Mr Gilauri's leadership has been instrumental in creating major players in a number of Georgian industries, including banking, healthcare, utilities and energy, real estate, insurance and beverages.

Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance.

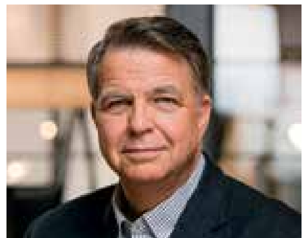
David Morrison

Senior Independent Director

David Morrison was appointed as Senior Independent Non-Executive Director of the Company on 24 February 2018. Mr David Morrison also serves as Chairman of the Company's Audit Committee and as a member of the Company's Investment and Nomination Committees.

Mr Morrison is a Non-Executive Director of Georgia Healthcare Group PLC and a member of the Supervisory Board of JSC Georgia Healthcare Group. He sits on the Supervisory Board of JSC Georgia Capital. Mr Morrison previously served as the Senior Independent Non-Executive Director of BGEO Group PLC from October 2011 until May 2018, which included positions as Chairman of Audit Committee and a member of Remuneration and Nomination Committees. Mr Morrison spent most of his career (28 years) at Sullivan & Cromwell LLP where he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, including capital raisings, IPOs and mergers and acquisitions. Mr Morrison is the author of several publications on securities law-related topics, and was recognised as a leading lawyer in Germany and France. In 2008, Mr Morrison turned his attention to conservation finance as the Founding CEO of the Caucasus Nature Fund (CNF), a charitable trust dedicated to wilderness protection in Georgia, Armenia and Azerbaijan. He now acts as Chair of CNF's supervisory board, and serves on the boards of two other conservation trusts he helped to create in 2015 and 2016.

Mr Morrison received his undergraduate degree from Yale College and his law degree from the University of California, Los Angeles. He was also a Fulbright scholar at the University of Frankfurt.



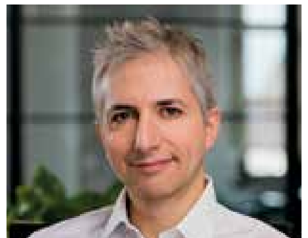
Kim Bradley

Non-Executive Director

Kim Bradley was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves on the Remuneration and Nomination Committees, and as Chairman of the Investment Committee.

Mr Bradley previously served as Independent Non-Executive Director of BGEO Group PLC from December 2013 until May 2018. Mr Bradley served as Chairman of BGEO Group PLC's Risk Committee and as a member of BGEO Group PLC's Audit and Nomination Committees. Mr Bradley retired from Goldman Sachs in early 2013, following 15 years as a professional in the Real Estate Principal Investments and Realty Management divisions, where he focused on investment in both European real estate and distressed debt. In addition to his investment activities, Mr Bradley led Goldman Sachs' asset management affiliates in France, Italy and Germany, where he was involved in financial and tax audits as well as the management of internal audit activities. He has also served as President of Societa Gestione Crediti and a member of the Board of Directors of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in both the United States and Europe, where his activities included real estate workouts and restructuring, as well as acquisitions. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon. Mr. Bradley is also Managing Partner at Sabino Capital Partners LLC, an entity through which he provides real estate advisory. He is a member of the Supervisory Board of JSC Georgia Capital.

Mr Bradley holds an MA in International Affairs from the Columbia University School of International and Public Affairs and an undergraduate degree in English Literature from the University of Arizona.



Massimo Gesua' sive Salvadori

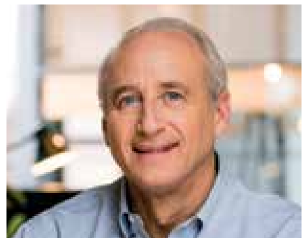
Non-Executive Director

Dr Massimo Gesua' sive Salvadori was appointed as Independent Non-Executive Director of the Company on 24 February 2018. He also serves as a member of the Company's Investment, Nomination and Audit Committees.

Dr Gesua' sive Salvadori is a bank analyst covering banking and other financial stocks globally. He works for Odey Asset Management, a London-based hedge fund, which he joined in 2011. He is responsible for generating investment ideas and understanding broad trends.

Dr Gesua' sive Salvadori worked as a management consultant at the London office of McKinsey & Co. between 2002 and 2011, specialising in financial services and served clients across different geographies in developed and emerging markets as part of the banking strategy practice. He is a member of the Supervisory Board of JSC Georgia Capital.

Dr Gesua' sive Salvadori, a native of Venice, obtained an MPhil and a PhD from Oxford University, where he attended St. Antony's College. He graduated with a BSc in Economics from Warwick University. He attended the United World College of the Adriatic in Duino. His postgraduate studies were funded through scholarships by the Foreign and Commonwealth Office, the Economic Research Council, the Fondazione Einaudi and the Ente Einaudi.



William Huyett

Non-Executive Director

William Huyett was appointed as Independent Non-Executive Director of the Company on 24 February 2018. He also serves as a member of the Company's Remuneration, Investment and Nomination Committees.

Mr Huyett was appointed as Non-Executive Chairman of Georgia Healthcare Group PLC on 20 September 2018, having served as an Independent Non-Executive Director since 18 June 2017. He serves as a member of the Clinical Quality and Safety Committee and the Nomination Committee of Georgia Healthcare Group PLC. He is also Chairman of the Supervisory Board of JSC Georgia Healthcare and a member of the Supervisory Board of JSC Georgia Capital.

Mr Huyett is Chief Financial Officer of Cyclerion Therapeutics, recently spun out from Ironwood Pharmaceuticals, a NASDAQ-listed biopharmaceutical innovator in Cambridge MA where he was Chief Operating Officer. Prior to that, during a 30-year career at McKinsey & Company in the US and Europe, he served clients in healthcare and other technology-intensive industries. He advised those clients on value creation strategies and their implications for organisation effectiveness and board governance. His areas of expertise include corporate portfolios, growth, mergers and acquisitions, and divestitures. He is co-author of a text on corporate finance: *Value: Four Cornerstones of Value Creation.* He currently serves on the boards of two not-for-profit institutions, Rockefeller University in New York and Marine Biological Laboratory Woods Hole.

Mr Huyett earned a BSc in Electrical Engineering and an MBA from the University of Virginia.

Caroline Brown

Non-Executive Director

Dr Caroline Brown was appointed as Independent Non-Executive Director of the Company on 24 February 2018. She also serves as a member of the Company's Investment, Nomination and Audit Committees.

Dr Brown has managed divisions of FTSE100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC. Dr Brown has chaired audit committees of listed companies for the past 15 years and is a Fellow of the Chartered Institute of Management Accountants. Dr Brown was an advisor to the Board of Georgia Healthcare Group PLC from 24 February 2018 to 31 December 2018. Dr Brown currently serves as the Chair of NAHL Group PLC, and as an independent Non-Executive Director on the boards of London-quoted companies, Luceco plc and Earthport plc. Dr Brown also serves as a Trustee of the Raspberry Pi Foundation. She is a member of the Supervisory Board of JSC Georgia Capital.

Dr Brown holds a first-class degree and PhD in Natural Sciences from the University of Cambridge and a Masters of Business Administration from the Cass Business School, University of London.

Jyrki Talvitie

Non-Executive Director

Jyrki Talvitie was appointed as Independent Non-Executive Director of the Company on 24 February 2018. He also serves as Chairman of the Company's Nomination and Remuneration Committees and as a member of the Company's Investment Committee.

Mr Talvitie has worked in the financial industry for 28 years in banks as well as on both the buy and sell side of markets. Prior to joining the Board, Mr Talvitie worked in Moscow for 14 years, his latest position being in charge of Strategic Partners and Investors at Sberbank, the largest bank in Russia and one of the top 15 in the world. He is also a member of the Management Board of Magnit, a Russian publicly quoted retailer. Before Sberbank Mr Talvitie was a Management Board Member at Russian Direct Investment Fund, Head of Investor Relations at VTB Bank and established and ran the Russian operations of East Capital, a Swedish Private Equity and Asset Management company, while also managing a Financials Fund. Prior to moving to Russia in 2003, Mr Talvitie worked for BNP Paribas in Paris, Bank of New York in London and Moscow, as well as several Nordic banks, both in Helsinki and Moscow. Mr Talvitie has extensive board experience, having served on over ten boards of both public and private companies in Georgia, Finland, Russia, Kazakhstan and Ukraine. He is a member of the Supervisory Board of JSC Georgia Capital.

Mr Talvitie holds an Executive MBA from London Business School as well as a Masters of Law from Helsinki University. Mr Talvitie also holds a Diploma in Company Direction from the Institute of Directors in London.

Link Company Matters Limited

Link Company Matters Limited acts as Company Secretary to Georgia Capital PLC and reports to the General Counsel. Link Company Matters Limited is one of the UK's largest professional services secretarial teams and was voted Service Provider of the Year at the 2018 ICSA Awards. With offices in the UK and mainland Europe, Link Company Matters Limited supports both domestic and international clients, including a wide range of AIM-quoted and Main Market companies, with all aspects of their company secretarial and governance needs.

Governance

EXECUTIVE MANAGEMENT TEAM

Georgia Capital Management

Georgia Capital

Irakli Gilauri, Chairman and Chief Executive

See page 120 for his biography.

Avto Namicheishvili, Deputy CEO

From 28 January 2019, Mr Namicheishvili assumed the role of interim CEO of the Group's water utility and renewable energy businesses, in addition to his Deputy CEO role at Georgia Capital. Formerly he was BGEO Group General Counsel. He was General Counsel of the Bank of Georgia from 2007 to 2018 and has played a key role in all of the Group's equity and debt raises on the capital markets, and over 25 mergers and acquisitions. Prior, he was a Partner at a leading Georgian law firm. Holds LLM. in international business law from Central European University, Hungary.

Ekaterina Shavgulidze, Chief Investment Officer

Formerly served as the Head of Funding and Investor Relations of BGEO Group. Ms Shavgulidze joined BGEO as a CEO of BGEO's healthcare services business in 2011. She played a key role in the Georgia Healthcare Group's IPO as a Group Head of IR. Prior to that, she was an Associate Finance Director at AstraZeneca, UK. Holds an MBA from Wharton Business School.

Giorgi Alpaidze, Chief Financial Officer

Formerly BGEO Group CFO. Joined BGEO as Head of Group's Finance, Funding and Investor Relations in 2016. He has extensive international experience in banking, accounting and finance. Previously he was a senior manager in Ernst & Young LLP's Greater New York City's assurance practice. BBA from the European School of Management in Georgia. US Certified Public Accountant

Eka Duchidze, Executive Director

Formerly served as corporate secretary and investor relations coordinator at BGEO Group. Joined Bank of Georgia as Corporate Secretary in 2005. During the past years she has carried out a number of crucial roles, including Executive Assistant to CEO and Head of Internal Branding. Recently, Eka oversaw the development of SOLO Banking and SOLO Lifestyle at Bank of Georgia. Prior, she served for eight years at the World Bank Group of which for two years she was at the World Bank HQ in Washington DC as a Programme Assistant at OPIC Department.

Listed GHG

Nikoloz Gamkrelidze, CEO, Georgia Healthcare Group

Previously deputy CEO (Finance) of BGEO Group. Our healthcare business story starts with Mr Gamkrelidze, who started it in 2006, and has successfully led it through outstanding growth and most recently the IPO on the London Stock Exchange. Holds an MA in international healthcare management from the Tanaka Business School of Imperial College London.

Georgia Capital Management

Listed BoG

Archil Gachechiladze, CEO, Bank of Georgia

Previously CEO at GGU, the Group's water utility and renewable businesses. Prior to that Mr Gachechiladze was a Deputy CEO in charge of corporate banking in Bank of Georgia. He launched the Bank's industry and macro research, brokerage and advisory businesses, as well as he was leading investments in GGU and launched Hydro Investments. Previously, he was an Associate at Lehman Brothers Private Equity in London, and worked at Salford Equity Partners, EBRD, KPMG, Barents and the World Bank. Holds MBA with distinction from Cornell University and is CFA charterholder.

Private GGU

Avto Namicheishvili, Interim CEO, GGU

From 28 January 2019, Mr Namicheishvili assumed the role of interim CEO of the Group's water utility and renewable energy businesses, in addition to his Deputy CEO role at Georgia Capital. Formerly he was BGEO Group General Counsel. Joined as a General Counsel to the Bank of Georgia in 2007, and has since played a key role in all of the Group's equity and debt raises on the capital markets, and over 25 mergers and acquisitions. Prior, he was a Partner at a leading Georgian law firm. Holds LL.M. in international business law from Central European University, Hungary.

m²

Irakli Burdiladze, CEO, m² Real Estate

Joined as a CFO at the Bank of Georgia in 2006. Before taking leadership of real estate business in 2010, he served as the COO of the Bank. Prior he was a CFO at a leading real estate developer and operator in Georgia. Holds a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies.

Aldagi

Giorgi Baratashvili, CEO, Aldagi

Joined as the Head of Corporate Clients division of Aldagi in 2004. Before taking the leadership of our P&C insurance business in 2014, he served as Deputy CEO of Aldagi in charge of strategic management for corporate sales and corporate account management. Holds the Master Diploma in International Law.

Wine

Giorgi Tskhadadze, CEO, Wine Business

CEO of wine business since November 2018. He was previously Head of Water Utility within GGU, having joined the Group in December 2014. Prior to that, he held executive positions at several leading local companies, including as CFO at IDS Borjomi and Poti Sea Port. Prior to joining GGU, Mr Tskhadadze was acting as a partner at Proxima Prime Partners. Holds BSc degree in Economics and Engineering from Tbilisi State University.

Beer

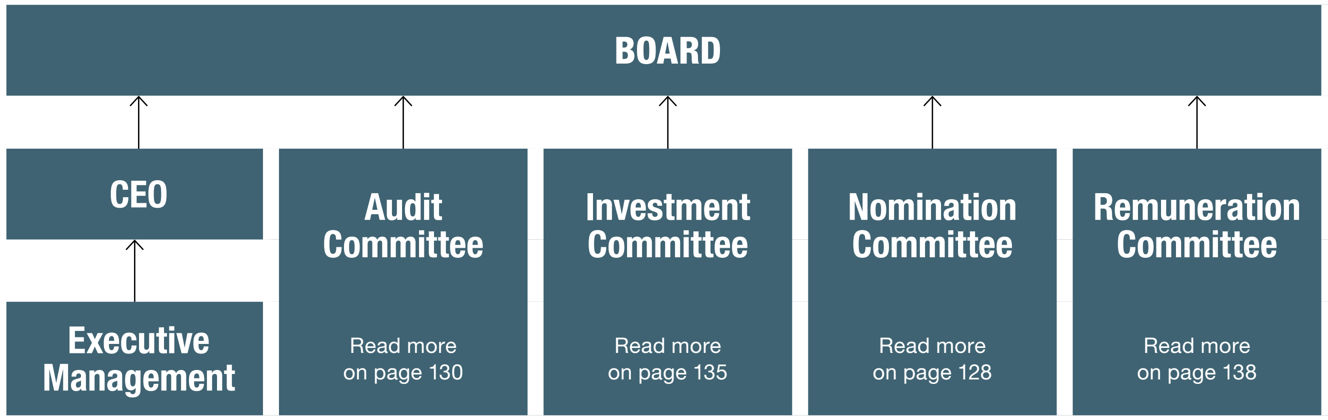
Tornike Nikolaishvili, CEO, Beer Business

CEO of beer business since September 2018, having previously been Chief Marketing Officer at Bank of Georgia from March 2018. Previously he was a Commercial Director at EFES Georgia – Natakhtari Brewery. Before joining EFES, he was an Advertising Manager of Cartu-Universal. Overall, he has 15 years' experience in FMCG sector. Holds BBA degree of European School of Management.

Governance

CORPORATE GOVERNANCE FRAMEWORK

Our Governance Structure



The Board is comprised of seven Directors, six of whom are Independent Non-Executive Directors. The biographies of all our Directors can be found on pages 120 to 121 and at: **https://georgiacapital.ge/governance/board**. More information on the composition of the Board can be found later in this report on page 125.

The Georgia Capital Board is assisted in fulfilling its responsibilities by four principal Committees: Investment, Audit, Nomination and Remuneration. The terms of reference are approved by each Committee and the Board and reviewed annually and can be found at: **https://georgiacapital.ge/governance/cgf/terms**.

For further information about the Committees see the Nomination Committee Report on page 128, the Audit Committee Report on page 130, the Remuneration Committee Report on page 138 and the Investment Committee Report on page 135.

The Board is responsible to shareholders for creating and delivering shareholder value over the long term through the management of the Group's business. Among our responsibilities are setting and overseeing the execution of the Group's strategy within a framework of effective risk management and internal controls, demonstrating ethical leadership and upholding best practice corporate governance.

Each Director also recognises their statutory duty to take into account the Company's various stakeholders in its deliberations and decision-making. You can read more about our main stakeholders, and the ways in which we have engaged with them over the year, in the Resources and Responsibilities section of this Annual Report on pages 73 to 81.

By setting the tone at the top, establishing the core values of the Company and demonstrating our leadership, we are creating a culture that clearly sets an expectation that every employee acts ethically and transparently in all of their dealings. This, in turn, fosters an environment where business and compliance are interlinked. One of the CEO's priorities over the next 12 months, which will be closely monitored by the Board, is to develop and foster the Group's culture across the Company, JSC Georgia Capital and each of the portfolio companies.

We also monitor management's execution of strategy and financial performance. While our ultimate focus is long-term growth, the Company also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. A full formal schedule of matters specifically reserved for the Board can be found on our website at: **https://georgiacapital.ge/governance/cgf/schedule**.

Outside of these matters, the Board delegates authority for the day-to-day management of the business to the CEO. The CEO delegates aspects of his own authority, as permitted under the corporate governance framework, to the Management Board.

Operation of the Board

The Board meets at least four times a year in Georgia. We also hold meetings at our London offices, with Directors either attending in person or via teleconference. Each quarter the following topics are usually discussed in the Board meeting:

- financial update (with formal financial results announcements typically being approved in separate phone conferences);
- macroeconomic developments, including a focus on both the Georgian and regional markets;
- an assessment of current and potential future risks to the Company;
- regulatory and legislative updates, including corporate governance as appropriate;
- updates from the Committee meetings, typically including at least an Audit Committee Report on accounting issues and internal audit; and
- business updates from selected portfolio companies.

The entire Board sits on the Investment and Nomination Committees, and every meeting reviews the investment pipeline and takes action as necessary on new investments or disinvestments.

In addition, amongst the Board's responsibilities are:

- oversight of the Company;
- strategy and assessment of the principal risks;
- the governance structures;
- setting the corporate culture and values: and
- accountability to shareholders and other stakeholders for the Company's long-term success.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. These include the budget, quarterly trading updates, half-year and full-year results, the Annual Report and Accounts, and the Notice of AGM.

The Chairman and CEO seeks input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. The Senior Independent Director supports the Chairman in his role, acts as an intermediary for other Non-Executive Directors when necessary and liaises with the Non-Executive Directors outside of the Board and Committee meetings. The Senior Independent Director met with the Non-Executive Directors without the Chair present at least once during the year to appraise the Chairman's performance.

Board and Committee Meeting Attendance

Details of Board and Committee meeting attendance in 2018 are as follows:

Members	Board	Audit Committee	Nomination Committee	Remuneration Committee	Investment Committee
Irakli Gilauri	6/6	n/a	1/1	n/a	2/2
David Morrison*	6/6	5/5	1/1	n/a	2/2
Kim Bradley*	6/6	n/a	1/1	3/3	2/2
Massimo Gesua' Sive Salvadori*	6/6	5/5	1/1	n/a	2/2
William Huyett*	6/6	n/a	1/1	3/3	2/2
Caroline Brown*	6/6	5/5	1/1	n/a	2/2
Jyrki Talvitie*	6/6	n/a	1/1	3/3	2/2

Notes: * Denotes independent Director.

The Board's Objectives for 2019 are:

- Continuous review of overall strategy for the Group.
- Monitor the Group's implementation of its strategy and financial performance.
- Oversee improvements to risk management and internal controls, as needed.
- Continue succession planning at the Board and senior management level.
- Continuing to develop the future talent pipeline at the levels below the Board.
- Active and disciplined pursuit of new investment opportunities.

We consider that a diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, and balance in terms of skills, experience, independence and knowledge are important to effectively govern the business. The Board and its Nomination Committee will work to ensure that the Board continues to have the right balance of skills, experience, independence and knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

We believe our overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all of the Directors. Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries. They bring valuable external perspective to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to decision-making. No individual, or group of individuals, is able to dominate the decision-making process and no undue reliance is placed on any individual.

All our Directors were appointed in February 2018, ahead of our admission to listing on the London Stock Exchange in May 2018. We have assessed the independence of each of the six Non-Executive Directors and are of the opinion that each acts in an independent and objective manner. We consider that, under the UK Corporate Governance Code, all of our Non-Executive Directors are independent and free from any relationship that could affect their judgement.

Evaluation of Board Performance

The Board continuously strives to improve its effectiveness and recognises that its annual evaluation process is an important tool in reaching that goal. For 2018, it was agreed not to undertake a formal effectiveness evaluation due to comparatively short period between the Company's listing and year end and the significant proportion of Board time devoted to the Group's demerger from BGEO Group PLC. In 2019 we will conduct a comprehensive review of the Board's composition, expertise, dynamics, management and focus on meetings, support, risk management, oversight, controls and priorities.

Succession Planning and Board Appointments

We believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that continued tenure brings a depth of Company-specific knowledge that is important to retain.

The Board's Nomination Committee is responsible for both Director and senior management succession planning. There will be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board, including a review of other significant commitments Directors may have.

More details on the role and performance of the **Nomination Committee** are on pages **128 to 129**.

Non-Executive Directors' Terms of Appointment

On appointment, our Non-Executive Directors are provided with a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25-35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. Having reviewed all Directors' current time commitments, we are confident that all Non-Executive Directors have sufficient time to dedicate the amount of time necessary to contribute to the effectiveness of the Board.

The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Diversity Policy

We value diversity in all forms in accordance with our Diversity Policy. More information on the Company's Diversity Policy, its objectives, implementation and results can be found on page 77.

Governance

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

External Appointments
Prior to accepting any external appointments, Directors are required to seek the Board's approval. The Board believe that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a Non-Executive Director of the Company. Our Non-Executive Directors hold external directorships or other external positions but the Board believes they still have sufficient time to devote to their duties as a Director of the Company.

Board Induction, Ongoing Training, Professional Development and Independent Advice
On appointment, each Director takes part in an induction programme, during which they meet members of senior management and receive information about the role of the Board and individual Directors, each Board Committee and the powers delegated to those Committees. They are also advised by the Company Secretary and the UK General Counsel of the legal and regulatory obligations of a Director of a company listed on the London Stock Exchange. Induction sessions are designed to be interactive and are tailored to suit the needs of the individual, taking into account previous experience and knowledge. Prior to demerger, all Directors received detailed training in respect of the responsibilities of companies that have a premium listing on the London Stock Exchange.

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which the Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2018, which included briefings, site visits, development sessions and presentations by our Company Secretary and the UK General Counsel, members of management, external speakers and our professional advisors. During the year our Company Secretary and UK General Counsel provided updates on legislative changes including the Non-Financial Reporting Directive and diversity initiatives, as well as refresher training session on directors' duties under the Companies Act, in particular section 172. In addition, amendments to the Disclosure Guidance and Transparency Rules and the FRC's guidance on reporting were presented. The UK General Counsel also provided training to the Board on the new UK Corporate Governance Code and the new FRC Guidance on Board Effectiveness.

All Directors have access to the advice of the Company Secretary and the UK General Counsel, as well as independent professional advice, at the Company's expense, on any matter relating to their responsibilities.

Company Secretary
The Board appointed Link Company Matters Limited to act as Company Secretary to Georgia Capital PLC in June 2018. Link Company Matters Limited is one of the UK's largest professional services secretarial teams. Previously in the year this position was held by Rebecca Wooldridge, an experienced lawyer specialising in corporate governance, who was subsequently appointed as UK General Counsel to the Group.

Directors
All Directors are required by the Company's Articles of Association and the UK Corporate Governance Code to be elected by shareholders at the first Annual General Meeting in May 2019 following their appointment. Going forward, in line with the Code's recommendation, all Directors will seek re-election on an annual basis. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for election as applicable.

Workforce Engagement
In December 2018, Kim Bradley was appointed as the designated Non-Executive Director for employee engagement. The Board is considering various mechanisms for engagement in 2019. The Board is also encouraged to engage with employees outside of formal channels and workforce engagement since our listing in May 2018 has included visits to construction sites and portfolio company offices. The Board will also offer advice on ongoing developments and feasibility studies of the Company's subsidiaries, and will provide strategic insights where useful. The matter of workforce engagement will be something that the Board will focus on in 2019.

Annual General Meeting
The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting. All shareholders are invited to attend the Annual General Meeting, where there is an opportunity for individual shareholders to question the Chairman and, through him, the Chairs of the principal Board Committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

As recommended by the UK Corporate Governance Code, all resolutions proposed at the 2019 Annual General Meeting will be voted on separately and the voting results will be announced to the London Stock Exchange and made available on the Company's website as soon as practicable after the meeting. These will include all votes cast for and against and those withheld, together with all proxies lodged prior to the meeting. In the event that 20% or more of votes have been cast against a resolution, an explanation will be provided in the announcement to the London Stock Exchange of the actions the Company will be taking to address shareholders' concerns. A follow up announcement would then be made within six months of the Annual General Meeting regarding feedback received from shareholders and the subsequent actions taken by the Company.

See page 244 for further **Shareholder Information** and page 137 for further information on **shareholder engagement**.

UK Bribery Act 2010 (the "Bribery Act")
The Board stands firmly against bribery and corruption and is committed to the Group acting in an ethical manner. To support this, and in response to the legislation, the Group has implemented and enforces its Anti-Bribery and Anti-Corruption Policy. The Board attaches the utmost importance to the Policy and its systems. The Company has also introduced a whistleblowing system, including an anonymous helpline, under its Whistleblowing Policy.

Directors' Responsibilities
Statements explaining the **responsibilities of the Directors** for preparing the Annual Report and consolidated and separate Financial Statements can be found on page 154 of this Annual Report.

A further statement is provided confirming that the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Internal Controls and Risk Management
The Company has a comprehensive system of internal controls in place, designed to ensure that risks are mitigated and that the Company's objectives are attained. It is accountable for reviewing and approving the effectiveness of internal controls operated by the Company, including financial, operational and compliance controls, and risk management. The Board recognises its responsibility in respect of the Company's risk management process and system of internal control and oversees the activities of the Company's external auditors and the Group's risk management function (supported by the Audit Committee).

A review of the **Company's risk management approach** is further discussed in the Strategic Review on pages **66 to 68**.

For detail on the management and mitigation of each **principal risk** see pages **70 to 72**.

The Group's **Viability Statement** is detailed on page **69**.

Please refer to pages **130 to 134** for further detail in relation to the role of the **Audit Committee**.

The Group's governance structure for **risk management** is illustrated on page **67**.

Governance

NOMINATION COMMITTEE REPORT

Developing and recruiting the talent pipeline for a unique Group

JYRKI TALVITIE
Chairman of the Nomination Committee

Dear shareholders

I am pleased to present the first Nomination Committee Report for the Group.

Following the listing of the Company, the Nomination Committee has primarily focused on ensuring the Board and its Committees are suitably resourced to facilitate the successful delivery of our strategic and financial objectives. We have also provided input into the significant processes undertaken to separate the functions of the investment business and banking business and to reposition the management team. We are pleased to report that the Nomination Committee is satisfied that the overall size, composition of the Board and its Committees is appropriate for the Group and that each contains the right combination of skills, experience and knowledge. In addition, we have in place strong leaders across our portfolio companies.

However, we acknowledge that improvements can always be made and see 2019 as an opportunity to continue to build on our progress. In particular, the following areas will be prioritised during 2019:

- succession planning at the Board and senior management level;
- continuing to develop the future talent pipeline at the levels below the Board; and
- increasing diversity and inclusion across all levels of the business.

I invite you to read more on the activities we have undertaken during 2018 in the following report.

Jyrki Talvitie
Chairman of the Nomination Committee
3 April 2019

The Role of the Nomination Committee

The role of the Nomination Committee is to assist in ensuring that the Board comprises individuals who are best able to discharge the responsibilities of Directors, having regard to the highest standards of governance, the strategic direction of the Company and the diversity aspirations of the Board. We also help to ensure that the Company appoints excellent executive managers within our portfolio of companies, capable of successfully executing our strategic objectives.

In summary, the key responsibilities of the Nomination Committee include:

- regular review of the composition of the Board and its Committees to ensure they are appropriately constituted and balanced in terms of diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, and balance in terms of skills, experience, independence and knowledge;
- responsibility for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- giving full consideration to succession planning for Directors, including the Chairman and CEO and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- keeping under review the Group's leadership needs, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- making recommendations to Board concerning the re-election by shareholders of Directors under the annual re-election provisions of the UK Corporate Governance Code or the retirement by rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and their independence, bearing in mind the need for progressive refreshing of the Board (particularly in relation to Directors being re-elected for a term beyond six years).

The Nomination Committee undertook its annual review of its Terms of Reference in December and agreed upon the necessary revisions to ensure the responsibilities of the Committee were aligned with those detailed in the 2018 UK Corporate Governance Code.
The full terms of reference of the Nomination Committee can be found on our website here: **https://georgiacapital.ge/governance/cgf/terms**.

Composition and Members' Meeting Attendance

The composition of the Nomination Committee and the members' meeting attendance for the year 2018 are set out in the Board and Committee meeting attendance table on page 125, and the skills and experience each member contributes can be found on pages 120 to 121, The majority of the members of the Nomination Committee are Independent Non-Executive Directors. From time to time, when appropriate, other members of management may be invited to provide a fuller picture and deeper level of insight into key issues and developments.

During the year the Nomination Committee also reviewed the time commitment of the Non-Executive Directors, taking into account any external directorships, length of service as well as independence of character and integrity. When considering this alongside the Company's strategic direction and the required skills and competencies required of the Board, the Nomination Committee recommends that each Non-Executive Director and the Executive Director be elected at the 2019 AGM.

Role of the Chairman of the Board

We acknowledge that our decision to combine the roles of Chairman and CEO is not compliant with provision A.2.1 of the 2016 UK Corporate Governance Code (and Provision 9 of the 2018 UK Corporate Governance Code). This matter is regularly reviewed (including with our shareholders) by the Nomination Committee. After careful consideration, the Nomination Committee and the Board continue to believe that the current structure better serves our Company and recommend that it should continue.

The basis for this conclusion, and our shareholder engagement on this matter, is set out in the Directors' Governance Statement on page 119.

Diversity Policy

Our Board embraces diversity in all its forms. Diversity of skills, background, experience, knowledge, outlook, approach, gender, nationality and ethnicity, amongst other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Similarly, we are clear that diversity of outlook and approach, while inevitably being difficult to measure, may be equally important.

We are supportive of the ambition shown in recent reviews on diversity, including the Davies Review and the Hampton-Alexander Review, and will continue to examine ways in which we can increase female representation at Board and senior management level. While we do not currently employ any formal diversity targets at Board level, the Board will continue to keep this approach under review.

The Nomination Committee is responsible for maintaining and assessing the effectiveness of the Company's Diversity Policy and will be undertaking a review of this as part of its activities for 2019.

Succession Planning and Talent Development

As identified in the Chairman's letter above, succession planning at the Board and senior management level will be a primary focus of the Nomination Committee throughout 2019.

A large part of this focus will be to ensure that appropriate opportunities are in place to develop high-performing individuals and to build diversity in senior roles across the business. We have a fantastic talent pool of employees within Georgia Capital PLC and firmly believe that focusing on their development is the best way to ensure a healthy and diverse pipeline of future leaders of the Company. We increase the skills of our existing executive managers and develop a pipeline of new executive, senior and middle managers through coaching, mentoring and leadership programmes.

Training and Director Induction

We are committed to the continuing development of our Directors in order that they may build on their expertise and develop an ever more detailed understanding of the business and the markets in which Group companies operate. All of our Directors participated in ongoing training and professional development throughout 2018, which included briefings, site visits, development sessions and presentations by our UK General Counsel and Group Company Secretary, members of management, external speakers and our professional advisors.

Each Director, upon appointment, receives a tailored induction to the Company and its various businesses over the first six months of appointment, with the purpose of:

- building an understanding of the nature of the Company, its business and its markets;
- building a link with the Company's people;
- building an understanding of the Company's main relationships; and
- understanding the obligations and responsibilities of a Director of a UK premium listed company.

Board and Committee Evaluation

Following the completion of the demerger process in late May 2018, the Nomination Committee decided that holding an effectiveness review during the remainder of the year would not provide sufficient value for the Board and the Company. An evaluation will be undertaken in 2019 once Directors have had an appropriate amount of time to work together and fully assess the effectiveness of the Board and its Committees. The Senior Independent Director met the Non-Executives without the Chairman/CEO present.

Governance

AUDIT COMMITTEE REPORT

Commitment to comprehensive and transparent reporting

DAVID MORRISON
Chairman of the Audit Committee

Dear shareholders
This is the first Audit Committee Report for Georgia Capital PLC. Following the demerger the opportunity presented to introduce new members to the Company's Board and to this Committee, and I take this opportunity to thank my fellow Audit Committee members, Dr Caroline Brown and Massimo Gesua' sive Salvadori.

During the year our focus has been on ensuring that solid foundations are in place for the audit processes in the new company. With this in mind, we undertook a full tender exercise for the appointment of an external auditor during the autumn of 2018. Full details of the process, which culminated with the Board accepting our recommendation that Ernst & Young LLP (EY) be reappointed, are set out in this report.

Alongside this we have considered a range of financial reporting matters, including: the consolidation of Georgia Healthcare Group PLC; the use of alternative performance measures (APMs); and the introduction of IFRS 16. On APMs, we are satisfied that the information presented, adjusting the IFRS results to present Georgia Capital as a stand-alone parent Company of a diversified group of businesses, is very relevant to and useful for our investors.

We launched Georgia Capital PLC with a commitment to transparency to our shareholders and potential investors. We hope you find our comprehensive first Annual Report and Accounts to be consistent with that commitment.

We invite your suggestions on how we can make future editions of the report most useful to you.

Further details are in the following report.

David Morrison
Chairman of the Audit Committee
3 April 2019

Introduction
This report provides insight into the functioning of the Audit Committee (the "Committee") and its activities during the reporting period including an overview of the key areas of activity and principal topics covered at each meeting of the Committee.

For the financial year 2018, these activities included a review of the performance and effectiveness of the Company's external auditor and the Company's internal controls, including Internal Audit, risk management and combined assurance systems. The Audit Committee also exercised its responsibilities for ensuring the integrity of the Company's published financial information and reviewing the judgements made by management, and the assumptions and estimates on which they are based.

Composition and Operations of the Audit Committee
The composition of the Audit Committee complies with the UK Corporate Governance Code (the "Code"), which provides that the Audit Committee should comprise of at least three Independent Non-Executive Directors. The Audit Committee members are David Morrison (Chairman), Dr Caroline Brown and Massimo Gesua' sive Salvadori, all of whom are considered independent. The Board is satisfied that two members of the Audit Committee have recent and relevant financial experience and that the Audit Committee as a whole has competence relevant to the sector in which the Company operates. Dr Caroline Brown has deep experience of accountancy and audit and is a Fellow of the Chartered Institute of Management Accountants. Mr Morrison has both chaired and sat on audit committees of publicly-traded companies for the last ten years.

Attendance at meetings by Audit Committee members during the year can be found on page 125. The Company Secretary is Secretary to the Audit Committee and attends all meetings. The meetings are also attended by: the Chief Financial Officer and the Head of Internal Audit; and representatives of the Company's external auditor, EY. Other

members of the Board, and members of the executive team, also attend where necessary to provide a deeper level of insight into key issues and developments.

The Audit Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. The Audit Committee's Terms of Reference outline its primary roles and responsibilities. These were updated in December 2018 to reflect the requirements of the 2018 UK Corporate Governance Code (the "Code") and are available on the Company's website at: **https://georgiacapital.ge/governance/cgf/terms**.

The Audit Committee works to a planned programme of activities focused on key events in the annual financial reporting cycle and standing items that it considers regularly under its Terms of Reference. It also reacts to business developments as they arise. The Audit Committee also holds separate meetings, not attended by management, to allow us to discuss any issues of concern in more detail and directly with the external auditor and the Head of Internal Audit.

Mr Morrison will attend the AGM to respond to any shareholder questions that may be raised on the Audit Committee's activities.

Key Purpose and Responsibilities
On behalf of the Board, the Audit Committee safeguards high standards of integrity and oversees conduct in financial reporting, internal control and risk management, and Internal Audit. It also supervises the work of our external auditor. A full description of the Audit Committee's roles and responsibilities is set out in the Terms of Reference.

The Chairman of the Audit Committee reports to the Board on how it has discharged its responsibilities at Board meetings. As the Company only commenced operating in May 2018, the Board considered that there would not be value in it carrying out a formal effectiveness evaluation of itself during 2018. Consequently, an effectiveness evaluation will be conducted in 2019.

Business Developments
The Audit Committee considered the financial implications of a number of business developments during the course of the year, including the postponement of our previously announced decision to reduce our holding of Georgia Healthcare Group plc (GHG) to less than 50% by the end of 2018 in the light of the Board's view that the current share price significantly undervalues the performance and value creation prospects of GHG. The Audit Committee also considered the implications of new pipeline projects.

Financial Reporting
A principal responsibility of the Audit Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the Financial Statements.

The Audit Committee received detailed reporting from the external auditor in respect of key areas of audit focus during the year. The Audit Committee and the external auditor, without management present, discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate. Taking into account the external auditor's assessment of risk, but also using our own independent knowledge of the Group, we reviewed and challenged where necessary, the actions, estimates and judgements of management in relation to the preparation of the Financial Statements. The significant accounting matters and financial judgements considered by the Audit Committee in relation to the Financial Statements are set out below.

Matter considered	Action taken
Accounting for demerger	Agreed the treatment of the transfer of BGEO Group plc's investment business to the Company. In addition, agreed the treatment of demerger costs and demerger implications on management share remuneration.
Use of alternative performance measures (APMs)	Following the introduction of APMs, the Audit Committee confirmed that the requirements of the Disclosure, Guidance and Transparency Rules and the mandatory guidelines issued by ESMA on APMs were met and the reconciliation between the APMs and the IFRS results was clear, balanced and understandable. The presentation of the results continued to be fair and balanced. Further information on the Company's use of APM's during the year can be found on pages 82 to 84.
Introduction of IFRS 16	The Audit Committee received regular updates from management about the implementation of IFRS 16 and reviewed work on the impact assessment of IFRS 16 adoption, which was reviewed by EY.
Revenue recognition	The Audit Committee considered appropriate application of IFRS 15 and monitored effectiveness and adequacy of controls over revenue recognition across different businesses within the Group through the reports from management, internal and external auditors.
Impairment review of goodwill and of fixed assets	The Audit Committee considered management's assessment of the recoverability of goodwill relating to cash generating units and the carrying value of fixed assets held within the beer business. The Audit Committee reviewed the assumptions applied by management and is satisfied that the carrying value of fixed assets and goodwill is not impaired.
Accounting for interest in company holding agricultural land	Due to regulatory restrictions on foreign ownership of agricultural land, the Company's interest in Kindzmarauli Marani LLC is held by a special purpose vehicle. The Audit Committee was satisfied that the Company had control as defined by IFRS and the interest is consolidated into the Company's accounts.
Accounting for listed portfolio investment in GHG	The Audit Committee was satisfied that the Company's listed portfolio investment in GHG no longer meets the criteria for classification as held for sale and thus is reclassified as continuing operations in 2018 Financial Statements.
Valuation of investment property	Considered the reports of management, prepared based on the third-party valuation and the view of the external auditors.

Internal Audit
The Audit Committee is responsible, on behalf of the Board, for overseeing the Internal Audit function, which serves as one of the Group's sources of assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group. The Audit Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. We review and approve the Internal Audit Policy

Governance

AUDIT COMMITTEE REPORT CONTINUED

and oversee the Internal Audit Plan, which is designed using a risk-based approach aligned with the overall strategy of the Group.

In 2018, the Internal Audit assignments focused on financial reporting, operational controls and risk management processes. Results of each assignment were discussed and presented to the Audit Committee.

Throughout the year, we received regular reports from Internal Audit on its audit activities and significant findings as well as the corrective measures recommended to management. We also reviewed and monitored management's responsiveness to the corrective measures and found that, on the whole, management accepted recommendations and used them as a basis to improve processes.

The Head of Internal Audit has direct access to the Audit Committee and the opportunity to discuss matters with the Audit Committee without other members of management present. We also monitor the resources dedicated to Internal Audit as well as the relevant qualifications and experience of the team.

We reviewed the Internal Audit plan for 2019 and approved the Internal Audit Charter. We also reviewed the effectiveness of the Internal Audit department by considering progress against the agreed plan, taking into account the need to respond to changes in the Group's business and the external environment. We also considered the quality of the reporting by Internal Audit to the Audit Committee and the ability of Internal Audit to address unsatisfactory results. On this basis, we concluded that the Internal Audit function is effective and respected by management, and that it conforms to the standards set by the Institute of Internal Auditors.

External Audit
With respect to our responsibilities for the external audit process on behalf of the Board, we:

- approved the annual audit plan, which included setting the areas of responsibility, scope of the audit and key risks identified;
- oversaw the audit engagement, including the degree to which the external auditor was able to assess key accounting and audit judgement;
- reviewed the findings of the external audit with the external auditor, including the level of errors identified during the audit;
- monitored management's responsiveness to the external auditor's findings and recommendations;
- reviewed the qualifications, expertise and resources of the external auditor;
- monitored the external auditor's independence, objectivity and compliance with ethical, professional and regulatory requirement;
- reviewed audit fees;
- monitored the rotation of key partners in accordance with applicable legislation; and
- recommended the appointment, re-appointment or removal, as applicable, of the external auditor.

Audit Tender
For the audit of the Financial Statements in this Annual Report, the Company complied with the mandatory audit processes and the Audit Committee complied with the responsibility provisions set out in terms of the Competition and Markets Authority Statutory Audit Services Order 2014 ("CMA Order") relating to: (a) putting the audit services engagement on tender every ten years; and (b) strengthening the accountability of the external auditors to the Audit Committee, including: requiring that only the Audit Committee is permitted to agree to the external auditors' fees and scope of services; influence the appointment of the audit engagement partner; make recommendations regarding the appointment of auditors; and authorise the auditors to carry out non-audit services.

Following the demerger and our listing in May 2018, the Audit Committee decided to conduct a full tender amongst appropriate firms for the statutory audit and related services of the Group. The tender was for the provision of external audit and audit-related services for the three years (2019, 2020 and 2021) beginning with the review of Financial Statements for six months ending 30 June 2019 and audit of Financial Statements for the year ending 31 December 2019. The Audit Committee led the process as described below.

Request for Proposal
Requests for Proposals/Invitations to Tender (RFPs) were sent in the third quarter of 2018, including to firms outside of the "Big Four" audit companies. These were selected as those most likely to fulfil the criteria in particular for capability, competence and audit quality across their UK and Georgian teams. The RFP explained that the tender was for the periods stated above and that the auditor would also be subject to re-appointment at the Company's Annual General Meetings.
The RFP outlined that Georgia Capital's objectives for the tender process were to:

- secure high-quality external audit services;
- appoint a firm who will provide high standards of professional service; and
- appoint a firm who will provide excellent value for money.

To ensure all participating firms had equal and sufficient information to understand the Group's business, the RFP provided general information about the business, timeline and description of tender process, outline of evaluation criteria, scope of work and tender response format. The RFP contained detailed information on the required contents of the proposals from the firms. We received responses from a number of companies who confirmed their willingness to participate in the tender process, confirmed their independence and signed non-disclosure agreements.

Tender Process
All firms who confirmed participation had access to equal and sufficient information to understand the Group's business through data room, including historical financial information, Group structure, Group accounting policies, and risk management and internal audit processes outlines. The firms also had access to publicly available information including the first and second quarter results releases and the comprehensive listing prospectus of the Group, and to the management of Georgia Capital.

All firms provided a proposal and were invited to present to the Audit Committee in October 2018. All Audit Committee members attended all face to face presentations alongside the CFO and IFRS Advisory Manager. Attendees from the firms were a combination of their UK and Georgian based teams, and each were given adequate time to present, including time for Q&As with the Audit Committee.

The RFP had set out the criteria that the Audit Committee used in making a recommendation to the Board on auditor appointment. These were broken down as follows, with each section given equal weighting:

- capability and competence;
- audit quality and service quality;
- behaviour and deliverables; and
- pricing.

A summary of proposal was prepared for each firm and circulated to the Audit Committee members along with the full proposals. The Audit Committee discussed the strengths and weaknesses for each firm. Based on this process, the Audit Committee determined that EY had the highest capability, competence and quality for the role. The Committee recommended two firms to the Board for it to consider for the provision

of external audit and audit-related services for the three years (2019, 2020 and 2021) indicating a preference for EY. This recommendation was accepted by the Board and separate resolutions proposing EY's re-appointment and determination of EY's remuneration by the Audit Committee will be proposed at the 2019 AGM.

In making this recommendation, the Audit Committee confirmed in accordance with clause 489(5) of the Companies Act that: (i) they were free from the influence of a third party; and (ii) there was no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation (Regulation (EU) No 537/2014) restricting the choice by the general meeting of shareholders as regards the appointment of a particular statutory auditor or audit firm. The results of the audit tender were communicated to shareholders via an RNS announcement on 12 November 2018.

EY appointed Richard Addison as our lead partner in 2018. The external auditor is required to rotate the audit partner responsible for the Group at least every five years. Following the successfully completed tender for the provision of external audit services this year, set out below, the Group will be required to put the external audit contract out to tender no later than 2028.

Auditor Effectiveness
We have an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the auditor and the process they have adopted to identify Financial Statements risks and key areas of audit focus;
- regular communications between the external auditor and both the Audit Committee and management, including discussion of regular papers prepared by management and EY;
- regular discussions with EY (without management present) and management (without EY present) in order to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a review of EY's 2018 Transparency Report and the annual FRC Audit Quality Inspection Report of EY.

In previous years, BGEO Group plc Audit Committee assessed effectiveness using a formal questionnaire issued to all Audit Committee members and also to the executive management of the Group leading the audit which covers, among other items, the quality of the audit and audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the audit team's communication with the Audit Committee and management and the auditor's independence and objectivity. This year, once the Audit Committee had determined to undertake a tender exercise, it was decided to postpone the questionnaire element of the review of the auditor's effectiveness until the result of that exercise was known.

Following EY's success in the tender exercise, the Audit Committee agreed that they had sufficient information to make an assessment of the external auditor's work during the 2018 financial year without completing the questionnaire. Following our assessment of the external auditor, we formed our own judgement (which was consistent with management's view) and reported to the Board that:

- the audit team was sound and reliable, providing high-quality execution and service;
- the quality of the audit work was of a high standard;
- EY's independence and objectivity were affirmed;
- EY was in a position to challenge management on its approach to key judgements; and
- appropriate discussions were held with the Audit Committee during the audit planning process.

Auditor Independence
The Audit Committee is responsible for the development, implementation and monitoring of the policies and procedures on the use of the external auditor for non-audit services, which help to ensure that the external auditor maintains the necessary degree of independence and objectivity. Further to its work on this in 2016, the Audit Committee continues to take account of the European Union Audit Directive and Regulation in conjunction with the FRC's Ethical Standard for Auditors, effective for the Company from 1 January 2017, in respect of prohibitions, as well as the provisions set out in the 2016 version of the Code in relation to non-audit services, and updates the Group's non-audit services policy accordingly. Any non-trivial work other than for audit or interim statements to be undertaken by the external auditor now requires authorisation by the Audit Committee except in very narrow circumstances. The Group's Policy on Non-Audit Services is available on our website at: **https://georgiacapital.ge/governance/cgf/policies.**

The ratio of non-audit fees to audit fees exceeds 1:1. However, nearly all of the non-audit fees relate to reporting accountant services provided in relation to the demerger. The Audit Committee is of the view that separation of teams within EY to undertake these services was the most efficient method of achieving them. The Audit Committee (and EY) do not consider that this work compromises the independence of the external auditor. As indicated in Note 26 of the audited IFRS Financial Statements for 2018, the total fees paid to EY for the year ended 31 December 2018 was GEL 5.4 million, of which GEL 2.1 million related to work other than the audit or review of the interim accounts.

The Audit Committee has formally assessed the independence of EY, which included review of: (i) a report from EY describing their arrangements to identify, report and manage any conflicts of interest, and their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and (ii) the value of non-audit services provided by EY. EY has also confirmed its independence throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards.

Whistleblowing, Conflicts of Interest, Anti-Bribery and Anti-Corruption and Data Protection
The Audit Committee ensured that there are effective procedures relating to whistleblowing and reviewed and updated the Whistleblowing Policy. Responsibility for the Policy passed to the Board in 2019 in line with the requirements of the 2018 UK Corporate Governance Code.

The Audit Committee is responsible for the Conflicts Authorisation Policy through which we assess actual and potential conflicts of interest and assist the Board in its review of the permissibility of such conflicts.

The Audit Committee keeps under review the Group's Anti-Bribery and Anti-Corruption Policy and procedures and receives reports from management on a regular basis in relation to any actual or potential wrongdoing. There were no significant findings in 2018. The Policy was updated during the year.

Risk Management and Internal Controls
In relation to risk management and internal financial control, the Audit Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over financial reporting and certain types of operational risk: IT and information security (including cybersecurity), corporate security and similar areas of operational risk and internal and external fraud or misconduct. Further information on risk management and internal controls can be found on pages 66 to 68.

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AUDIT COMMITTEE REPORT CONTINUED

The Audit Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. This includes reports from, and regular discussions with, the Group executives with whom it regularly meets. We receive reports from the Internal Audit team on the control environment and, as mentioned earlier in this report, we approve the Internal Audit plan which is risk-based and aligned with the Group's strategy.

During 2018 and up to the date of this Annual Report and Accounts, the Internal Audit team did not find any significant weaknesses in risk management or internal controls. With respect to external assurance, the Audit Committee reviews the external auditor's reports to the Audit Committee, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit. Without management present, the Audit Committee and EY discussed the key areas of audit focus, the suitability of the accounting policies which have been adopted and whether management's key reporting estimates and judgements were appropriate.

Fair, Balanced and Understandable Reporting

The Audit Committee reviewed the 2018 Annual Report and Accounts to consider whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

We did this by satisfying ourselves that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. We reviewed several drafts of the 2018 Annual Report and Accounts and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO. We also considered other information regarding the Group's performance and business presented to the Board during the period, both from management and the external auditor. After consideration of all of this information, we are satisfied that, when taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Committee Effectiveness Review

As noted in the Chairman's introduction to the report, the membership of the Audit Committee is new following the demerger in the first half of 2018. The Audit Committee therefore resolved that a review of its effectiveness during 2018 would be premature and intends instead to undertake such a review in mid-2019.

Priorities for 2019

For 2019, the Audit Committee's priorities are:

- review and approve the planned semi-annual assessments of portfolio company fair values;
- continue the build-out of the Internal Audit function and its reach to the different business units;
- ensure that processes put in place to alert the Board to emerging risks (such as management presentations, Internal Audit and external audit reporting) are functioning as planned and that the external auditors deliver on their promised level of service;
- review and approve the accounting for one-off and complex transactions, including acquisitions; and
- monitoring the successful implementation of IFRS 16.

For detail on the management and mitigation of each principal risk see pages **70 to 72**.

For **Independent Auditor's Report** see pages **159 to 167.**

For **Financial Statements** see pages **168 to 240.**

INVESTMENT COMMITTEE REPORT

Independent and objective review and challenge of the Group's investments

Kim Bradley
Chairman of the Investment Committee

I am delighted to be able to report on the work of the Investment Committee since the Company was listed following the demerger of BGEO Group PLC in May 2018. The Investment Committee was established to assist to provide an independent and objective review of investment opportunities and performance, within the scope of its term of reference. The terms of reference and Investment Committee membership was approved by the Board as part of the demerger processes.

The intention is that the Investment Committee will meet not less than three times a year and otherwise as required. The Investment Committee met during the year to discuss investment opportunities, assess risks and rewards and review Major Transactions.

In line with the decision taken by the Nomination Committee in respect of Committee evaluations, an Investment Committee effectiveness review will be undertaken during 2019.

I look forward to reporting to you next year on how the Investment Committee continues to develop and the areas of work within its remits that it has focused on.

Kim Bradley
Chairman of the Investment Committee
3 April 2019

Composition

The composition of the Investment Committee is a matter for the Board, on the recommendation of the Nomination Committee and in consultation with the chairman of the Investment Committee. Presently, all Directors are members of the Investment Committee.

Key Purpose and Responsibilities

The Investment Committee is responsible for managing all aspects of investment policy and its strategy for the Group and provides oversight of the Group's investments within strategy and risk frameworks. In addition, the Investment Committee's responsibilities include:

- selecting investment opportunities based upon recommendations of the executive management, such recommendations to be based upon in-depth, rigorous analysis (of business plans, Financial Statements, projections, risks and rewards, fit with the Group's strategy, etc.) as well as the legal structure of the investment;
- considering the material commercial and legal terms of relevant Major Transactions;
- assessing the risks and rewards and general attractiveness and suitability of proposed Major Transactions;
- where it deems appropriate, making investment recommendations and providing ongoing guidance on pricing, contractual negotiations and other considerations prior to signing;
- reviewing each major transaction and its development at least twice per year, or more often if necessary;
- ensuring that management has the appropriate plans and controls in place, with the necessary resources and capability to manage the investment risk framework;

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INVESTMENT COMMITTEE REPORT CONTINUED

- receiving and reviewing (annually) the assurance from management that the investment risk framework adopted by the Group is appropriate; and
- reviewing investments associated with a major transaction, where an investment is underperforming or where it is otherwise appropriate to review the possibilities of exiting an investment.

A "Major Transaction" is an investment opportunity, acquisition or disposal which is in excess of £2.5 million.

Key Activities
The Investment Committee's role is to provide oversight of investment activity and challenge management where appropriate. In 2018, the Investment Committee undertook a review of the investment risk framework, and received assurance from executive management that the framework adopted was appropriate. The Investment Committee received a number of macro and political updates relevant to the Georgian economy and reviewed investment opportunities which were being considered by management. They also reviewed and authorised capital expenditure requests from the Group's current portfolio companies.

Priorities for 2019
- In-depth review of selected businesses that will complement the Investment Committee's oversight of annual business plans for the portfolio, with specific focus on operational execution and value creation;
- ensuring consistency of portfolio monitoring and review metrics and practices with Georgia Capital professionals;
- continued focus on investment monitoring meetings and related internal valuation discussions; and
- Investment Committee support and focus on capital allocation to both new business creation and add on opportunities for existing businesses in line with strategy.

SHAREHOLDER ENGAGEMENT

In May 2018, the Company's shares were admitted to listing on the London Stock Exchange following the demerger from BGEO Group PLC. Since then, the Company has established a comprehensive shareholder engagement programme and encourages an open and transparent dialogue with existing and potential shareholders.

The Board's primary contact with institutional shareholders is through the Chairman and Chief Executive Officer (CEO), Chief Financial Officer, Advisor to the CEO and Head of Investor Relations, each of whom provide a standing invitation to shareholders to meet and discuss any matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors. The Board has also appointed David Morrison as the Senior Independent Director whose role includes acting as an intermediary to the Board for shareholders.

Ahead of the demerger, a presentation was provided to shareholders of BGEO Group PLC which laid out the key milestones in the demerger process and provided a detailed breakdown of the structure of this Company post demerger. Shareholders were engaged with frequently throughout the demerger process to address any concerns.

We will engage with shareholders, through the Company's forthcoming Annual General Meeting to be held in May 2019 but will also continue to communicate with shareholders on important developments throughout the year. Our Half-Year Results and quarterly trading updates are supported by a combination of presentations and telephone briefings as was the announcement of our first annual results in February 2019. Over the course of 2018, members of the Board and management met with over 100 institutional investors, and participated in more than 20 investor conferences and roadshows. Throughout the year, our Directors and management met with shareholders in Georgia, the United Kingdom, Europe and the US.

In October 2018, Georgia Capital, in conjunction with Galt & Taggart and others, hosted a Georgia investor day in London, which was open to all investors and analysts. This Georgia day provided the opportunity for investors to receive an update from the Chairman and CEO on strategy and performance as well as meet informally with Board members and raise matters of interest. We were pleased to have approximately 100 investors and analysts attend and have ensured that the views expressed by investors have been fed back to the Board.

Ahead of publication of the Governance Report and the new Remuneration Policy in this report, the members of the Remuneration Committee and the Senior Independent Director met with major shareholders to discuss the combined Chairman and CEO role and the Policy and to gather feedback.

In addition to our shareholders, we meet with analysts throughout the year, hold regular meetings with the Group's existing lenders and actively engage with potential lenders to discuss our funding strategy. Our UK General Counsel and our Company Secretary also have ongoing dialogue with shareholders' advisory groups and proxy voting agencies.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The full Board is regularly kept informed of these views by the Chairman as well as executive management and the Investor Relations team and, to the extent deemed appropriate, the Group has taken active steps to adopt different ways of working in response to feedback received from shareholders and other stakeholders. Informal feedback from analysts and the Group's corporate advisors is also shared with the Board.

Our website, **https://georgiacapital.ge/**, provides our shareholders with access to the Group's results, press releases, investor presentations, analyst reports, details on our corporate governance and corporate and social responsibility framework, our leadership, as well as other information relevant to our shareholders. We also ensure that shareholders can access details of the Group's results and other news releases through the London Stock Exchange's Regulatory News Service.

Governance

DIRECTORS' REMUNERATION REPORT

Innovative alignment of remuneration with shareholders' long-term interests

Jyrki Talvitie
Chairman of the Remuneration Committee

Dear shareholders

On behalf of the Board I am pleased to present our first Directors' Remuneration Report as an independently listed company. This Remuneration Report is split into two sections:

- our Directors' Remuneration Policy (the "Policy") which will be presented to our shareholders for approval at the 2019 AGM on 22 May 2019; and
- the Annual Remuneration Report providing detail of amounts paid during the reporting year ending 31 December 2018.

As we outlined in the 2018 Circular to shareholders that formed the basis for the demerger which created Georgia Capital, the Policy is based on the share-based model operated by our predecessor and is therefore closely aligned with the Company's long-term development strategy and value creation for our shareholders. Compared to the compensation package at our predecessor, BGEO Group PLC, the Georgia Capital package for Irakli Gilauri, the CEO, provides for:

- a 35% reduction in total salary;
- no cash salary;
- longer vesting periods (salary shares vest up to the six years from the start of the work year rather than five years and the discretionary deferred shares have total maximum vesting and holding period of five years);
- a shareholding requirement equivalent to 200% of salary, including post-employment shareholding requirement; and
- new malus and clawback provisions for discretionary deferred shares.

In addition to the above changes set out in the prospectus, in choosing our Policy outlined below, we have taken into account the requirements of the new UK Corporate Governance Code 2018 (the "Code"). In the first months of 2019, the Remuneration Committee and the Senior Independent Director engaged extensively with our investors on the new Policy through letters to our shareholders, and, where possible, calls and face-to-face meetings. Investors were broadly supportive of the Policy including the long-term alignment of the Executive Directors and of the shareholders. Shareholders' further feedback has been incorporated in the Policy and Directors' Remuneration Report as applicable.

Key Policy Principles

- to compete effectively in the global market in order to recruit and retain top private-equity talent;
- to align management interests with those of shareholders throughout the investment and economic cycles;
- to follow the principles and provisions of the Code and good governance – in particular to support strategy and promote long-term sustainable success and align with the interests of investors and shareholders; and
- to fuel the value creation strategy of a diversified group of companies focused on investing and developing businesses in the emerging market of Georgia.

Subject to the changes to the components of base salary, the vesting periods, pension contributions, shareholding guidelines and malus and clawback provisions as set out below, the new Policy continues with the basics of the approved Remuneration Policy at our predecessor BGEO Group PLC.

Key Policy Features

1. Compensation is delivered in shares, not cash.
   As a Company investing in and developing diverse sectors of the Georgian economy, the Remuneration Committee considers that the best quantitative performance metric is long-term shareholder return. Our approach to remuneration will continue to use shares for both base and bonus compensation. For the CEO, there will be no cash salary, with salary being delivered entirely as deferred share salary calculated as a fixed number of shares (fixed for the duration of the Policy) awarded annually. The deferred salary shares will vest on a phased basis over six years from the commencement of a work year.
2. Variable pay up to a maximum of 100% of salary.
   For the CEO, performance will be rewarded with an award of discretionary deferred shares up to a maximum of 100% of the fixed number of deferred salary shares. This will be subject to annual performance targets and the discretion of the Remuneration Committee. Discretionary deferred shares will have phased vesting and will be subject to a total maximum vesting and holding period of five years following grant.
3. Other features of the Policy:
   - new shareholding guidelines requiring Executive Directors to build up shareholding equivalent to 200% of salary with a requirement that a departing Executive Director maintains the required shareholding for two years post-employment;
   - the flexibility for the Remuneration Committee to adopt a more typical remuneration structure (in relation to base salary and bonuses) in its approach to recruiting incoming Executive Directors but within the boundaries (including quantum) of the Policy; and
   - a 2% pension contribution fully in line with that available for the wider workforce, together with an executive benefits package that is reflective of market practice. However Irakli Gilauri, the existing CEO, has agreed for this pension contribution to be waived.

Pay for Performance in 2018

Georgia Capital is proud of the first set of results delivered as a listed company. Mr Gilauri has also exceeded targets in respect of the active and disciplined pursuit of new investment opportunities and the diversification of the funding base for portfolio activities. Further detail on the performance targets set in respect of 2018 and the level of performance achieved can be found on page 149. As a consequence of this performance, the Remuneration Committee approved an award of 85% of maximum opportunity which the Remuneration Committee considers to be a fair reflection of his performance.

Other Activities of the Remuneration Committee

- Considered the revised Code and the impact on role and remit of the Remuneration Committee.
- Reviewed and recommended updated Terms of Reference of the Remuneration Committee.
- Reviewed the Group companies' remuneration structures.
- Set the remuneration for senior management.
- Reviewed changes to pension provision following the introduction of Georgian state pension legislation.

Looking Forward

The Directors' Remuneration Committee has devoted a considerable amount of time to developing the executive remuneration framework. It is our intention that the new Policy will operate for the next three years as the CEO, the Executive Directors and executive management team work to deliver long-term value to you, our shareholders. We hope that the new Policy will gain your support at the upcoming 2019 Annual General Meeting. If you so support it, its implementation will be our priority in 2019.

Jyrki Talvitie
Chairman of the Remuneration Committee
3 April 2019

What's in this Report

This Directors' Remuneration Report discloses the amounts earned and other information relating to the year ended 31 December 2018.

The Remuneration Report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The Remuneration Report has been prepared in line with the recommendations of the new Code and the requirements of the UKLA Listing Rules.

This Remuneration Report details the first Remuneration Policy (set out on pages 140 to 147) to be put to shareholders which will be voted on at the 2019 AGM. Subject to approval by shareholders, the new Policy will apply from the 2019 AGM.

The Annual Report on Remuneration (set out on pages 138 to 153), which includes the Annual Statement by the Chairman of the Remuneration Committee, will be subject to an advisory vote at the 2019 AGM.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' Remuneration Policy

Subject to shareholder approval, this Policy will take effect from the date of the 2019 AGM on 22 May 2019 and will become formally effective for the three years following that date. As Georgia Capital PLC is a newly-listed company (May 2018) a summary of changes to the previous Remuneration Policy is not applicable. However, please see the comments from the Chairman of the Remuneration Committee in his statement on the main changes between this policy and the BGEO Group PLC policy that applied before the demerger.

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service agreements, deferred share remuneration schemes and pension and benefit plans. After the Policy becomes effective after the 2019 AGM, Georgia Capital PLC will amend the existing terms of the service contracts of its Executive Director, Irakli Gilauri, to incorporate the terms of the new Policy.

The Remuneration Committee retains its discretion under the new Policy to make minor amendments to the Policy for regulatory exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining prior shareholder approval.

Executive Directors Remuneration Policy

The Policy provides for an Executive Director's remuneration package to be comprised of the elements set forth below. For the avoidance of doubt, all references to Executive Directors refer to the Executive Directors of Georgia Capital PLC to cover the present Executive Director Irakli Gilauri and any future Executive Directors of Georgia Capital PLC while this Policy is in force. The compensation structure of executive management (who serve on the Management Board of JSC Georgia Capital, but who are not Executive Directors of Georgia Capital PLC) is set by the Remuneration Committee and is modelled on this Policy (except that they may receive a part of their salary in cash) but the Remuneration Committee is not bound by the Policy when setting their remuneration packages. The Remuneration Committee can set different vesting terms and conditions for the Executive Management Team as the Remuneration Committee thinks appropriate.

SALARY IN THE FORM OF LONG-TERM DEFERRED SHARES		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
• To reflect the role and required duties, skills, experience and individual contribution to the Group whilst promoting long-term value creation and share price growth.	• The level of base salary for an Executive Director is fixed in his or her service agreement(s). The level of salary is reviewed by the Remuneration Committee when a service agreement is up for renewal. • No cash salary. Salary is comprised entirely of long-term deferred shares ("deferred share salary") in the form of nil-cost options annually in respect of the work year, and is usually expected to be awarded within one month of the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the award. • Deferred share salary in respect of a work year will vest over five years with 20% vesting in each of the second, third, fourth, fifth and sixth years following the end of the work year. At vesting, the Executive Director will receive (in addition to the deferred share salary) cash payments equal to the dividends paid on the underlying shares between the beginning of the year immediately following the work year and the vesting date. • Lapse provisions (natural malus) are built into the deferred share salary as set out in the "Service Agreements" and "Policy for Loss of Office" sections below. Extended malus and clawback provisions do not apply to base salary as the Remuneration Committee considers that the discretionary deferred shares provide a sufficiently large pool from which to draw extended malus or clawback repayments, if necessary in the circumstances to do so.	• The maximum number of deferred share salary shares is 200,000 per annum for Irakli Gilauri, of which 20,000 shares per annum are for his work as the CEO of Georgia Capital PLC and 180,000 shares per annum are for his work as a CEO of JSC Georgia Capital and its subsidiaries. • The number of deferred share salary is fixed for the duration of the employment contracts with Georgia Capital PLC and JSC Georgia Capital. • The maximum number of deferred share salary set for an Executive Director will be no more than the Remuneration Committee considers reasonable based on his/her duties, skills and experience, at the time when his/her salary is set, which will normally be at the time at which his/her service agreement(s) are entered into.

PERFORMANCE-BASED REMUNERATION – DISCRETIONARY DEFERRED SHARES		
PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
• To motivate and reward an Executive Director that meets or exceeds the KPIs set for him or her by the Remuneration Committee for the relevant period. • Performance-based remuneration solely in the form of discretionary deferred shares (no cash bonus) in order to: – Closely align the interests of an Executive Director with shareholders. – Minimise risk taking for short-term gain. – Encourage long-term commitment to the Group.	• Performance-based remuneration is awarded annually entirely in the form of nil-cost options over the Group shares subject to vesting ("discretionary deferred shares"). The Group does not award cash bonuses to Executive Directors of Georgia Capital PLC. • The Remuneration Committee will determine annually whether an award is merited based on an Executive Director's achievement of the KPIs set for the work year and the performance of the Group during the work year. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of an Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures. The outcome of an Executive Director's performance and the Remuneration Committee's determination will be reported in the Directors' Remuneration Report for the work year in consideration. • Any discretionary deferred shares are expected to be granted following the end of the work year and vest 25% in each of the second, third, fourth and fifth years following the end of the work year, although the Remuneration Committee retains the discretion to determine the timing of the award. • Each tranche of vested discretionary deferred shares must then be held for a further one year. • At vesting, an Executive Director receives cash payments equal to the dividends paid on the underlying shares between beginning of the year immediately following the work year and the vesting date. • KPIs for an Executive Director are set towards the beginning of each work year and reflect each Executive Director's targeted contribution to the Group's overall key strategic and financial objectives for the coming work year. KPIs may also include non-tangible factors such as self-development, mentoring and social responsibility. • There is no contractual right to discretionary deferred shares and the Remuneration Committee reserves the right to award no discretionary deferred share remuneration if the Group's performance is unsatisfactory. • Lapse provisions (natural malus) and extended clawback and malus applies under the circumstances as set out in the notes to this Policy table.	• For Mr Gilauri, the maximum number of discretionary deferred shares that may be awarded is capped at 200,000 shares (i.e. 100% of deferred share salary). • For an Executive Director (other than Mr Gilauri), the maximum opportunity in respect of the previous work year is 100% of total salary.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

PENSION		
PURPOSE AND LINK TO STRATEGY	**OPERATION**	**OPPORTUNITY**
• The Group is required to comply with pension requirements set by the Georgian Government. • Pension provision is the same for all employees in the Group in Georgia.	• Pension provision will be in line with Georgian pension legislation, which may change from time to time. • The most recent pension legislation that JSC Georgia Capital must comply with has been in effect since January 2019. • There is no provision for the recovery or withholding of pension payments.	• The same arrangement applies to employees across the Group in Georgia. • In line with current Georgian legislation, an Executive Director and the Group each contribute 2% of total remuneration from JSC Georgia Capital and the Georgian Government contributes a further small amount currently 0-2% depending on income levels. However Irakli Gilauri has agreed for pension contributions to be waived. • Pension contributors will only increase above the level if mandated by Georgian legislation or if mandated by any other applicable legislation in any jurisdiction.

BENEFITS		
PURPOSE AND LINK TO STRATEGY	**OPERATION**	**OPPORTUNITY**
• Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	• Benefits consist of: life insurance; health insurance; incapacity/disability insurance; Directors' and Officers' liability insurance; physical examinations; tax gross-ups and tax equalisation payments, company car and driver; mobile phone costs; personal security arrangements (if requested by the Executive Director); assistance with completing tax returns (where required); relocation costs for Executive Director and close family; and legal costs.	• There is no prescribed maximum amount payable. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the Executive Director is based. • Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. • Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefit is significant.

OTHER EXECUTIVE DIRECTOR POLICIES - SHAREHOLDING REQUIREMENTS	
PURPOSE AND LINK TO STRATEGY	**OPERATION**
• To further align Executive Directors' interests with shareholders. • To ensure Executive Directors build and then maintain a significant shareholding over the long term. • To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group post-employment.	• Executive Directors are required to build and then maintain a shareholding equivalent to 200% of salary. Such amount to be built up within a five-year period from appointment as an Executive Director (the "Required Shareholding"). • For these purposes all beneficially owned shares as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares will count towards the Required Shareholding (as such awards are not subject to any performance conditions). • Executive Directors are to retain the lower of (i) the Required Shareholding or (ii) the shareholding at the time employment ceases, for a period of two years from the date on which employment ceases unless the Remuneration Committee determines otherwise. • In very exceptional circumstances, for example, in the event of a serious conflict of interest, the Remuneration Committee has the discretion to vary or waive the Required Shareholding but must explain any exercise of the discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use the discretion.

Notes to the Policy Table – Executive Directors

Deferred Share Salary

At present there is no cash salary. The Remuneration Committee may determine that some cash salary is appropriate for an incoming Director (see "Approach to Recruitment Remuneration").

The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with the Executive Director's role within the Group. Paying salary solely as deferred share compensation rather than as cash means that an Executive Director's day-to-day actions are geared towards sustained Group performance over the long term. The deferred share salary component is neither a bonus nor an LTIP, it is salary fixed at the outset of each Executive Director's service contract and is therefore not subject to performance targets or measures. The salary increases or declines in value depending on Group performance aligning an Executive Director's interests directly and naturally with those of the Group's shareholders.

While it is not the current intention, the Remuneration Committee has the discretion under the Policy to increase the amount of deferred share salary for incoming Executive Directors (i.e. not for the current CEO) by 10%.

Performance-Based Remuneration

Performance is measured entirely through the discretionary deferred share compensation plan (see Discretionary Deferred Remuneration, below), which measures performance over the financial year. The vast majority of remuneration is inherently linked to performance and shareholder value as the vast majority of remuneration is in the form of deferred share salary and discretionary deferred shares. The Group does not operate an LTIP because it believes that there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share remuneration.

Discretionary Deferred Remuneration

Performance is measured over the course of the financial year, and is paid in nil-cost options which are granted following the financial year and vest 25% in each of the second, third, fourth and fifth years following the end of the work year. A further one year holding period from the date of vesting applies to the vested discretionary deferred shares. For example, any discretionary deferred remuneration in respect of 2019 will be granted in 2020 and the vesting schedule will be 25% in each of January 2021, January 2022, January 2023 and January 2024, and are subject to a further holding period of one year on each tranche. Therefore, the total maximum vesting and holding period is five years from the end of the work year.

Performance measures are chosen to reflect strategic priorities for the Group and are chosen by the Remuneration Committee annually towards the start of the relevant performance year. The aggregate pool of shares available for each year for awards of discretionary deferred shares for the Executive Directors and the executive management team as a whole is determined annually by the Remuneration Committee in its absolute discretion, based on a number of factors including:
- financial objectives;
- strategic objectives; and
- people and culture objectives.

The Remuneration Committee does not utilise strict weighting of performance measures to ensure that flexibility is encouraged if, for example, strategic objectives evolve as the Group does or business circumstances change during the year. The Remuneration Committee believes that this flexibility ensures that the Board can work with an Executive Director so that he/she does not take excessive risk to achieve KPIs when, for example, markets have turned. The Remuneration Committee has the discretion to reduce awards, including to zero, when performance outcomes do not align to the shareholder experience. The precise measures will be determined by the Remuneration Committee and disclosed retrospectively in the Remuneration Report following the year of the Remuneration Committee's determination.

As mentioned in the Policy table above, the maximum value of discretionary deferred shares that the current CEO, Mr Gilauri, may be awarded in a given year for the remainder of his service contract with the Group is capped at the same number of shares as his total deferred share salary. In the event that it does introduce cash salary for a new Executive Director, the Remuneration Committee retains the discretion to determine how total salary is measured for the purposes of the cap in the Policy table.

Clawback and Malus

Discretionary deferred shares are subject to malus, and clawback for up to two years from vesting, in the following circumstances:
- misconduct in the performance or substantial failure to perform duties;
- significant financial losses, serious failure of risk management or serious damage to the reputation of Georgia Capital PLC or JSC Georgia Capital, caused by misconduct or gross negligence (including inaction in performance of his/her duties by the Executive Director);
- material misstatement or material errors in the Financial Statements that relates to the area of responsibility of the Executive Director or can be attributed to their action (or inaction in performance of his/her duties);
- deliberately misleading Georgia Capital PLC or JSC Georgia Capital in relation to financial performance; and
- an award being made on the basis of erroneous or misleading data, provided that for payments based on erroneous or misleading data (other than where such error has been caused by fraud, wilful misconduct, deliberate action/inaction and/or gross negligence of the Executive Director), malus and clawback apply to discretionary deferred remuneration awarded for the year in question.

Provided that the Policy is approved by shareholders at the AGM 2019, the above provisions will form part of Mr Gilauri's service contract. The Group also intends to amend the Executive Equity Compensation Plan if and as required to reflect the above.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

For the Group's current Executive Director, Mr Gilauri, the Group also has unusually strong malus provisions where all unvested shares (deferred share salary and discretionary deferred shares) lapse when the service contract is terminated under certain circumstances, including for cause such as gross misconduct, substantial and repeated failure to perform duties, fraud or conviction of a felony. This may be several years of salary deferred shares and discretionary deferred shares. Please see the "Termination of the JSC Georgia Capital service agreement" in the table below for more information.

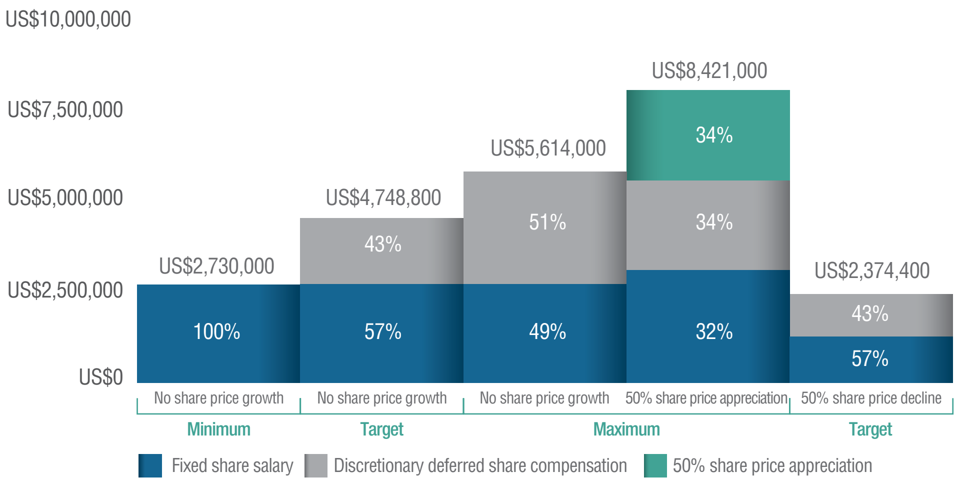
Discretion
The Remuneration Committee retains a substantial degree of discretion in relation to Policy. This includes:
- the determination of discretionary deferred shares, if any;
- selection of KPIs that will determine the discretionary deferred remuneration, which may vary from year to year in order to align with strategy and financial objectives;
- any adjustments required to an Executive Director's KPIs during the work year when, for example, there has been a change in strategy or business circumstances which results in one or more of KPIs becoming an inaccurate gauge of performance; and
- the discretion to override any formulaic outcomes when it considers it reasonable in the circumstances to do so.

Equity Compensation Trust and Dilution Limits
An equity compensation trust ("Trust"), was established for the purposes of satisfying deferred share salary and discretionary deferred share compensation in the form of nil-cost options awarded to Executive Directors and eligible members of the Executive Management Team. The Trust was established in 2018.

Business Expenses
Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contract, on provision of valid receipts.

Illustration of Application of Remuneration Policy
The chart below shows an estimate of the remuneration that could be received by Mr Gilauri, the Group's sole Executive Director and CEO, in respect of 2019 under the proposed Policy at five different performance levels.

The 50% share price appreciation disclosure is made voluntarily by the Group (as performance measures are limited to one year) for investor information.



Notes:
1. Salary is comprised of deferred share salary and benefits. Mr Gilauri does not receive a cash salary and has waived all pension contributions. For illustration purposes, the value of the deferred share salary payable to Mr Gilauri is US$2,730,000, calculated by reference to the share price of US$13.65 on 12 July 2018, being the date of the Remuneration Committee meeting (the official share price of GBP 10.324 converted into Dollars using an exchange rate of 1.3223, being the official exchange rate published by the Bank of England on the same date).
2. For the purpose of calculating the value of discretionary deferred shares for illustration in this chart a share price of US$14.42 per share was used. The actual value of the discretionary deferred share award in respect of the performance of the 2019 work year will be reported in the 2019 Annual Report and Accounts as at latest closing share price before the Remuneration Committee meeting at which the award is decided.
3. Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration which is deferred share salary and benefits. No share price growth assumptions have been made.
4. On-target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and 140,000 discretionary deferred shares, being 70% of the maximum opportunity. No share price growth assumptions have been made.
5. Maximum opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 100% being the number of shares granted under the deferred share salary. No share price growth assumptions have been made.
6. Maximum plus 50% share price growth reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 100% of the maximum opportunity and share price grows by 50%.
7. Target with 50% share price depreciation reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described in 1 above) and discretionary deferred shares compensation award of 70% of the maximum opportunity and share price depreciates by 50%.
8. For long-term incentive awards, disclosure of the value of the award in the event of a 50% share price appreciation is required by the Companies (Miscellaneous Reporting) Regulations 2018. Such disclosure is not required for short-term incentive awards, such as those made by the Group, where performance measures are limited to one year, nor is it required for salary compensation in the form of shares. The reason for this is that an increase in the value of the deferred shares resulting from share price appreciation in the period through to the vesting date is not considered to constitute remuneration for the purposes of the regulations. However, the Group has decided to voluntarily disclose information showing the value of a 50% increase in the share price for investor information.

Approach to Recruitment Remuneration
Any new Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her maximum remuneration package would comprise the components described in the Policy table above. The Remuneration Committee may, at its sole discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package up to the limits set out in the Policy table above in relation to for new Executive Directors. In particular, the Remuneration Committee may determine it is appropriate to also pay a cash salary to a newly-appointed Director. Should the Remuneration Committee elect to pay some salary in cash, a commensurate reduction will be made to the fixed share salary. These discretions will only be exercised to the extent required to facilitate the recruitment of the particular individual.

In addition to the components and outside the limits set out in the Policy table, the Remuneration Committee may also decide to provide to an incoming Executive Director:

- Relocation support, tax support and legal fees depending on the individual's circumstances, including, where relevant, to his or her family. The Group has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

- Upon the recommendation of the Remuneration Committee, a "buy out" incentive award intended to compensate the incoming Executive Director for any awards granted to an incoming Executive Director by a previous employer and which have been foregone as a result of the individual's employment with the Group. In these circumstances, the Group's approach will be to match the estimated current value of the foregone awards by granting awards of deferred share compensation which vest over a similar period to the awards being bought out or longer. The application of performance conditions and/or clawback provisions may also be considered, where appropriate. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation.

Service Agreements and Policy on Payments for Loss of Office for our Directors
The Group's policy towards exit payments allows for a variety of circumstances whereby an Executive Director may leave the Group. The Remuneration Committee reserves the right to determine exit payments other than those set out below where appropriate and reasonable in the circumstances to do so, including where an Executive Director leaves by mutual agreement. The Remuneration Committee may decide to pay some or all of the Executive Director's legal fees in relation to the termination. In all circumstances, the Remuneration Committee does not intend to reward failure and will make decisions based on the individual circumstances. The Remuneration Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Group and shareholders at the time.

The following sections (1) and (2) summarise the termination and payments for loss of office provisions pursuant to Mr Gilauri's service agreement with Georgia Capital PLC and JSC Georgia Capital, respectively. The Remuneration Committee retains the discretion to apply different notice, termination and payment for loss of office provisions to incoming Executive Directors. The termination provisions of Non-Executive Director letters of appointment is described in section (3). The Executive Directors' service agreements and letters of appointment are kept for inspection by shareholders at the Group's registered office.

Notice Periods
At the date of this Annual Report, Mr Gilauri is the sole Executive Director of the Group. Mr Gilauri has a service contract effective from 29 May 2018 with the Georgia Capital PLC for an indefinite term (subject to annual re-election at the AGM) which is terminable by either party on not less than four months' notice unless for cause where notice served by the Group shall have immediate effect.

Mr Gilauri also has a service agreement with JSC Georgia Capital effective from 29 May 2018 for an employment term of five years which is terminable by either party on not less than three months' notice unless for cause where notice served by the Group shall have immediate effect.

Both documents are available for inspection by shareholders at the Group's registered office.

(1) Termination of Georgia Capital PLC Service Agreement
In the event that an Executive Director's service agreement is terminated on notice, Georgia Capital PLC may put Mr Gilauri on garden leave for some or all of the notice period during or after which period he will receive a pro-rata portion of the deferred salary.

Georgia Capital PLC may terminate Mr Gilauri's employment early with immediate effect without notice or pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related where a non-custodial penalty is imposed) or becoming of unsound mind.

The Company may also terminate the service agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of deferred share salary payable for the unworked portion of the notice period.

The vesting and lapse provisions of the deferred share salary under the service agreement with the Company follow the provisions in the service agreement with the JSC set out in the third column of the table below.

(2) Termination of JSC Georgia Capital (the "JSC") Service Agreement
This table sets out the default vesting and lapse provisions, but the Remuneration Committee retains the discretion to determine different treatment upon agreement with the Executive Director.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Termination Reason	Separation Payments	Vesting and Lapse of Awards
Termination by the JSC for cause (e.g. gross misconduct, substantial and repeated failure to perform duties, fraud or conviction of an felony).	Vested deferred share salary (including divided equivalents) to termination date and holiday pay, unpaid business expenses and benefits.	Any unvested awarded deferred share salary and discretionary deferred share compensation as at the date when the Executive Director ceases to be an Executive Director shall lapse.
Termination by the JSC without cause.	Six month's deferred share salary plus deferred share salary to termination date and any awarded but unpaid discretionary deferred securities (all awards including dividend equivalents), holiday pay, unpaid business expenses and benefits.	Any unvested awarded deferred share salary and discretionary deferred share compensation shall vest immediately.
Termination by the Chief Executive Officer for good reason.	As above for Termination by the JSC without cause.	As above.
Termination by the Chief Executive Officer without good reason.	Vested deferred share salary (including dividend equivalents) to termination date and any awarded holiday pay, unpaid business expenses and benefits.	Any unvested awarded deferred share salary and discretionary deferred share compensation as at the date when the Executive Director ceases to be an Executive Director shall lapse.

In addition to the vesting and lapse provisions above, in certain other circumstances including if the Executive Director terminates by reason of death, disability, redundancy or retirement, there is a change of control or, at the end of the term of the service agreement, the Executive Director is not offered a new service contract upon substantially similar terms or continued Board membership, unvested awarded deferred share salary and discretionary deferred shares will vest immediately.

The service contract also permits the JSC to put the Executive Director on Garden Leave for a period of up to four months from termination, during such time the Executive Director will receive a pro-rata portion of deferred share salary, but will not be entitled to any other benefits, bonuses, discretionary deferred shares or reimbursement expenses. The Executive Director is also subject to non-compete provisions for up to six months after the termination of his/her employment, which period might be extended to two years in certain circumstances.

(3) Termination of Non-Executive Directors' Appointments
Each Non-Executive Director is required to submit himself or herself for annual re-election at the AGM.

The letters of appointment for Non-Executive Directors provide for a one-month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any material breach or non-observance of his or her obligations to the Group is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified as acting as a Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

Consideration of Employment Conditions Elsewhere in the Group
The Remuneration Committee does not formally consult employees when drawing up Directors' Remuneration Policy but in determining an Executive Director's remuneration, the Remuneration Committee considers:
(i) the pay and employment conditions of senior management including executive management;
(ii) any changes in pay and employment conditions across the Group as a whole;
(iii) whether employees across the Group are personally satisfied with the way they are remunerated; and
(iv) any feedback received during the year from the Human Resources department, executive management and other employees on the executive remuneration structure.

Differences in The Remuneration Policy for Executives Relative to the Broader Employee Population
For a FTSE All-Share company of our size and depth making a meaningful impact on the Georgian economy, our Executive Directors must have the skills, experience, work ethic and attitude required to successfully execute our strategy, manage evolving public policy demands, meet our objectives and create value for shareholders over the long term. In order to recruit and retain this talent, we assess the value of remuneration against other FTSE companies of similar size and sector listed in the UK. Executive Directors are not currently paid cash and therefore remuneration in the form of deferred shares forms all their compensation and totally aligns them to the shareholder experience.

The principles of remuneration for the Executive Directors and the executive management are aligned; remuneration is designed to align remuneration with the performance of the Group and shareholder experience. In particular the remuneration structure of the Deputy CEO is close to that of the Executive Directors' (although the vesting pattern among other matters may vary). Further, the majority of compensation delivered to executive management is also in shares or phantom shares, however, most are also entitled to a modest cash salary.

The compensation of employees in the Group, other than Executive Directors and executive management, is benchmarked against the Georgian labour market as this is the most relevant comparator. Our employees are offered competitive remuneration packages which include benefits and the opportunity to participate in the pension scheme on the same terms as applicable to Executive Director and the executive management. Bonuses are usually paid in cash. The Remuneration Committee are regularly updated by the Human Resources department in respect of the pay and conditions of the wider workforce.

Non-Executive Directors' Remuneration Policy
The table below sets out our Policy for the operation of Non-Executive Directors' fees and benefits of Georgia Capital PLC. Each Non-Executive Director also serves as a member of the Supervisory Board of JSC Georgia Capital. The fees for Non-Executive Directors are currently the same as those disclosed in the prospectus of the Group. It is proposed that, if the Policy is approved, the Non-Executive Director fees stated below will apply in each year that the Policy operates from the date of approval of the Policy.

Component	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY
Base cash fee	• Attract and retain high-performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group.	• Cash payment on a quarterly basis. • The fee of the Chairman will be determined by the Remuneration Committee. Fees for Non-Executive Directors will be determined by the Board. • The amount of remuneration may be reviewed from time to time by the above, which may take into account the time commitment, responsibilities and the technical skills required to make a valuable contribution to the Board, and by reference to comparators, benchmarking, results of the annual review and other guidance. The Board also reserves the right, in their discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The Board reserves the right to structure the Non-Executive Directors' fee differently in its absolute discretion. • Non-Executive Directors are reimbursed for reasonable business expenses, including travel and accommodation, which are incurred in the course of carrying out duties.	• The maximum aggregate Georgia Capital PLC fees for all Non-Executive Directors which can be paid under Georgia Capital PLC's Articles of Association is GBP 750,000. • A specific maximum has not been set for the individual base cash fee. • The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time commitment and responsibility. • The Chairman receives a fee which reflects the extra time commitment and responsibility. However no Chairman's fee is received when the Chairman and CEO roles are combined. • The fees paid to each Non-Executive Director will be disclosed in the relevant reporting year's Annual Report.
Committee fees	Compensate for additional time spent discharging Committee duties.	• Cash payment on a quarterly basis. • The amount of remuneration for Committee membership is reviewed as above.	• The Chairman does not receive Committee fees.

Consideration of Shareholder Views
A formal shareholder consultation process was undertaken in early 2019 to gather investor feedback on the proposed Remuneration Policy. The Remuneration Committee members and the Senior Independent Director engaged extensively with our investors through letters to shareholders, as well as were possible calls and face-to-face meetings with them on the new Policy in the United Kingdom, Europe and the USA. Shareholders were generally supportive of the proposals and their feedback has been taken into account during the development of the new Remuneration Policy set out here.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' Remuneration Report

The Remuneration Committee and its Advisors

The Remuneration Committee is principally responsible to the Board for establishing a remuneration policy for the Executive Directors, the Chairman and designated members of executive management team that rewards fairly and responsibly and is designed to support Georgia Capital's strategy and promote its long-term sustainable success. The Remuneration Committee will ensure that performance-related elements of Executive Directors' remuneration are transparent, stretching and rigorously applied. The Remuneration Committee's full Terms of Reference were updated in December 2018 to reflect the requirements of the Code and are available on our website: **https://georgiacapital.ge/governance/cgf/terms**.

Under these new Terms of Reference, the Remuneration Committee will take into account pay and employment conditions elsewhere in the Group. The Remuneration Committee will also oversee any major changes in employee benefits structures throughout the Group.

The Remuneration Committee is comprised of three independent Non-Executive Directors: Jyrki Talvitie who serves as Chairman; Kim Bradley; and Bill Huyett. The members' attendance is shown in the Board and Committee meetings attendance table on page 125.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by telephone outside of these meetings. Other attendees at the Remuneration Committee meetings who provided advice or assistance to the Remuneration Committee on remuneration matters from time to time included the CEO, the other Board members and the UK General Counsel. Attendees at the Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Remuneration Committee received additional advice on compliance from Baker & McKenzie LLP, the Georgia Capital's legal advisors. The Remuneration Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

To aid in drafting the updated Director's Remuneration Policy, Georgia Capital engaged a specialised remuneration consultant, Willis Towers Watson (WTW), to conduct an independent review of the Company's current Remuneration Policy. The findings of this review were subsequently presented to the Remuneration Committee and have been used as a basis for the ongoing shareholder engagement in respect of the new Policy. WTW are independent advisors appointed following a competitive tender process who have no other relationship with the Group. WTW's fees are typically charged on an hourly basis with estimates for work agreed in advance. During the year, WTW charged GBP 27,000 for Remuneration Committee matters.

Shareholder Context

Georgia Capital PLC has not held an Annual General Meeting since listing and therefore there are no voting results on which to report. Details of the remuneration-related voting will be reported on in the 2019 Directors' Remuneration Report.

Directors' Remuneration

Single total figure of remuneration for the Executive Director (audited)

The table below sets out the remuneration earned by the Georgia Capital PLC's sole Executive Director, Irakli Gilauri during 2018, in respect of his employment with the Georgia Capital for the year ended 31 December 2018. 100% of Mr Gilauri's compensation as set out in the table below is in the form of deferred shares that vest in tranches with a vesting period of up to six years from the beginning of the work year. The values shown in the table are calculated at a constant share price as described in footnotes 1 and 2 to the table. The actual value of the compensation as it is received over time will fluctuate with increases and decreases in the value of the share price as illustrated in the graph on page 144.

	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary compensation (US$)	Discretionary deferred shares (US$)[3]	Taxable benefits (US$)[4]	Pension benefits	Total (US$)
2018	–	1,615,562	1,615,562	2,451,400	–	–	4,066,962

Notes:
1 Mr Gilauri does not receive a cash salary.
2 Deferred share salary. The figures show the Georgia Capital PLC shares underlying nil-cost options granted in respect of the relevant year. 118,356 deferred salary shares were awarded in 2018 (i.e. 200,000 annual salary pro rated since the listing on 29 May 2018). The value of US$1,615,730 is calculated by reference to the share price as the date of the Remuneration Committee meeting, 12 July 2018, being US$13.65 a share (the official share price of GBP 10.324 converted into dollars using an exchange rate of 1.3223, being the official exchange rate published by the Bank of England on the same date). Deferred share salary in respect of a work year will vest over five years with 20% vesting in each of the second, third, fourth, fifth and sixth years following the end of the work year.
3 Discretionary deferred share remuneration. The figures show the value of Georgia Capital shares underlying nil-cost options granted in respect of bonus award for the year. For 2018, awards were granted over 170,000 shares. The value is calculated by reference to the share price on 8 February 2019, which the last available price as the date of the Remuneration Committee meeting which determined the discretionary deferred share award, 10 February 2019, being US$14.42 a share (the official share price of GBP 11.14 converted into dollars using an exchange rate of 1.2942 being the official exchange rate published by the Bank of England on the same date). Discretionary deferred shares vest 25% in each of the second, third, fourth and fifth years following the end of the work year.
4 There are no taxable benefits or pension benefits (nor dividends) for 2018. Mr Gilauri was reimbursed for reasonable business expenses, on the provision of valid receipts. No money or other assets are received or receivable by Mr Gilauri in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of performance measures or targets relating to the relevant period.

Alternative remuneration table showing the Executive Director's 2018 remuneration discounted for time value of money (unaudited)

For investor information, the alternative table below sets out the share remuneration earned by Irakli Gilauri in 2018 as per the previous table (Single total figure of remuneration for the Executive Director) but taking into account the time value of money discounted at 15%, given that both the salary shares and discretionary deferred shares vest over a number of years.

	Deferred share salary (US$)	Discretionary deferred shares (US$)	Total salary and discretionary deferred shares remuneration
2018	941,579	1,520,050	2,462,629

The following table sets out details of total remuneration for the Chairman and Chief Executive Officer, Mr Gilauri, for the year ended 31 December 2018 and his discretionary compensation as a percentage of maximum opportunity. In future years the information will be provided on a current year and historical basis.

	2018
Single total figure of remuneration (US$)	4,066,962
Discretionary compensation as a percentage of maximum opportunity (%)	85

Note: Maximum opportunity is 100% of total number of salary shares as set out in the section above.

Basis for Determining Mr Gilauri's Discretionary Deferred Share Compensation in Respect of 2018

Mr Gilauri's KPIs included both objective and non-tangible components. The below KPIs were set pre-demerger and the objective elements largely track the Group's KPIs as he is expected to deliver on the Group's strategy, but the KPIs also include non-tangible factors such as leadership, strategy development and implementation, as well as corporate and social responsibility.

The following table sets out the objective KPIs set for Mr Gilauri in respect of 2018 as well as Mr Gilauri's performance against them.

Key Performance Indicator	2018 Target	2018 Performance	Committee evaluation
INVESTMENT BUSINESS			
Growth of NAV of portfolio companies in line with strategy.	Delivery on strategy.	Met expectations.	Growth of NAV of portfolio companies in line with budget. Strong performance at portfolio companies resulted in GEL 72.5 million dividend receipts by Georgia Capital.
Achieve strategic priorities of portfolio companies in line with strategy.	Delivery on strategy.	Met expectations.	All strategic priorities of portfolio companies achieved in line with strategy, including development of pipelines in line with 1,000-hotel room target, secured new projects at renewables business towards 500MW target and increased vineyard base towards 1,000 hectares target.
Active and disciplined pursuit of new investment opportunities.	Continues growth of portfolio.	Exceeded expectations.	Building of an investment process that allowed for screening of 95 cases in the first year. Georgia Capital developed valuation models. Robust prioritising of investment cases and solid pipeline. Slight underperformance at the Water Utility was mainly due to weather (lack of snowfall).
Diversify the funding base for portfolio companies.		Exceeded expectations.	Successful issuance of US$300 million Eurobond by Georgia Capital at an attractive price. Local bond issuance of US$30 million by m^2 as well as diversified IFI funding by the utility and renewable businesses. Also good diversification of banking relationships evidenced by deposit, lending and other banking arrangements with virtually all banks in Georgia.
GROUP-WIDE			
Active mentoring and development of senior management.	Coaching and mentoring.	Met expectations.	Through coaching and mentoring, good progress was made in creating values that will further enhance senior management's critical competencies to become strategic thinkers and future leaders.
Personal development.	Continues self-development.	Met expectations.	Mr Gilauri has continued to prioritise his self-development through feedback received from the Board and his co-workers, as well as continuous coaching and the leadership development programme.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

The Remuneration Committee concluded that, in respect of 2018, Mr Gilauri met or exceeded all of his KPI targets. In addition to the pre-set KPIs, Mr Gilauri's performance was exceptional in respect of:

- the formation of Georgia Capital;
- the demerger process from BGEO Group PLC; and
- the establishment of procedures and policies such as risk management, management accounts as well as robust motivation and compensation structures. Mr Gilauri played a pivotal role in the demerger project, which was very well executed and received strong shareholder support. The turnover of the investor base during the demerger process had been exceptionally well managed by Mr Gilauri, avoiding unnecessary volatility in the share price.

In addition to the KPIs listed in the table above, the Remuneration Committee consider non-tangible factors such as leadership and forward-looking strategy development when determining Mr Gilauri's discretionary compensation. Mr Gilauri's KPIs largely track the Group's KPIs as he is expected to deliver on the Group's strategy, so that more information on the performance against the KPIs can be found in other sections of this Annual Report. As a consequence of this performance, the Remuneration Committee approved an award of 85% of maximum opportunity which the Remuneration Committee considers to be a fair reflection of his performance.

Percentage Change in Remuneration Of CEO

As Georgia Capital PLC listed during 2018, there is no disclosure of remuneration relating to prior years. Accordingly, this Remuneration Report does not set out the percentage change in remuneration as there is no prior year comparator which can be shown. In 2018 no awards were made over nil-cost options to Mr Gilauri in respect of deferred share salary and discretionary deferred shares.

Single Total Figure of Remuneration for Non-Executive Directors (audited)

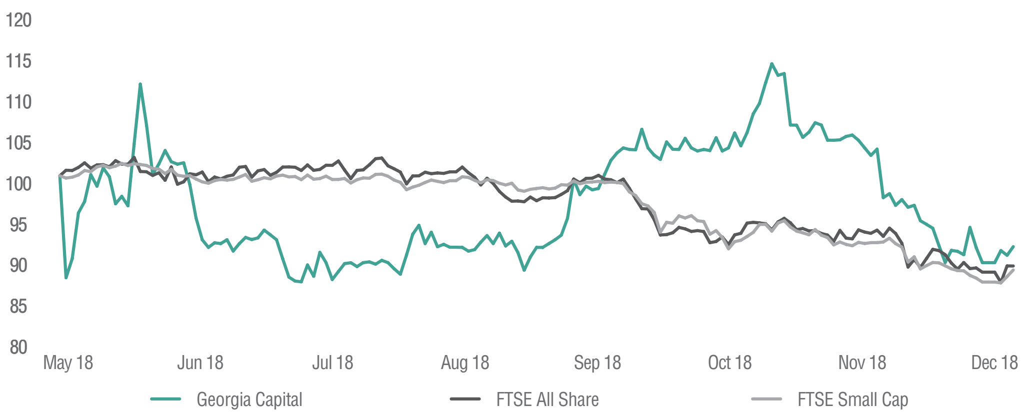
The table below sets out the remuneration received by each Non-Executive Director for the year ended 31 December 2018.

	Georgia Capital PLC fees (US$) 2018	JSC Georgia Capital fees (US$) 2018	Total fees (US$) 2018
David Morrison	47,560	76,061	123,621
Massimo Gesua' Sive Salvadori	51,122	79,365	130,487
Kim Bradley	37,427	60,958	98,385
William Huyett	51,122	79,365	130,487
Caroline Brown	51,122	79,365	130,487
Jyrki Talvitie	48,688	76,123	124,811
Total	287,041	451,237	738,278

Notes:
1 The Group has only been publicly listed since 29 May 2018. David Morrison and Kim Bradley waived their fees until 21 May 2019 as they were remunerated as BGEO Group PLC directors until that date. BGEO Group PLC fees are not included in the above table as fees in this report are for Georgia Capital and its Group entities only.

Total Shareholder Return

The following graph compares the Total Shareholder Return (TSR) of Georgia Capital with the companies comprising the FTSE All Share Index and FTSE Small Cap Index for the period from 29 May 2018 until 31 December 2018. Georgia Capital has been a member of the FTSE All Share Index since its premium listing in 29 May 2018.



Source: Thomson Reuters Datastream

Relative importance of Spend on Pay

The following table shows the Georgia Capital's actual spend on pay for all employees.

	Remuneration paid to all employees of the Group
Year ended 31 December 2018 (US$ '000)	103,135

Directors' Interests in Shares (Audited)

The following table sets forth the respective holdings of GCAP shares of each Director as at 31 December 2018.

	Number of GCAP shares held directly	Number of vested but unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised GCAP shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in GCAP shares
Kim Bradley	7,950	N/A	N/A	7,950
Caroline Brown	–	N/A	N/A	–
Massimo Gesua' sive Salvadori	11,699	N/A	N/A	11,699
Irakli Gilauri	592,424	N/A	412,515	1,004,939
William Huyett[1]	500	N/A	N/A	500
David Morrison	43,457	N/A	N/A	43,457
Jyrki Talvitie	5,762	N/A	N/A	5,762

Notes:
1 As at 31 December 2018, W.I. Huyett Revocable Trust, a PCA of Mr Huyett, also held 6,500 GCAP shares
2 As at 31 December 2018, Mr Gilauri vested and unvested shareholding was 1,004,939 GCAP shares, representing approximately 2.6% of the Company's share capital (excluding shares purchased under buyback programme and held in treasury). The vesting period for the majority of unvested shares exceeds three years. None of Mr Gilauri's connected persons have any interests in the shares of the Company.

The new Policy focuses on base salary in deferred salary shares and discretionary compensation in discretionary deferred shares. The long vesting periods naturally result in Executive Directors building up large holdings of unvested nil-cost options; this also serves to achieve a delay between vesting and performance. The Policy naturally results in Mr Gilauri and our executive management team holding a significant number of unvested shares and achieves a delay between performance and vesting. We believe these results are consistent with the principles of the Investment Association and to further strengthen this, under the new proposed Policy, Georgia Capital is introducing formal guidelines on shareholding and on post-employment shareholding.

The Group does not require Non-Executive Directors to hold a specified number of shares in Georgia Capital. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. There have been no changes in the Non-Executive Directors' Georgia Capital shareholdings since the date of their appointment to the Board further to those reported above.

Several of our Non-Executive Directors chose to subscribe in the GHG IPO on 12 November 2015. The following table sets forth the respective holdings of GHG shares of each Director as at 31 December 2018.

As at 31 December 2018	Shares held at GHG directly
Kim Bradley	19,000
Irakli Gilauri	411,700
David Morrison	116,600

Mr Gilauri's Interests in Group Debt Securities

On 9 March 2018, Mr Gilauri acquired an aggregate principal amount of US$1,000,000 notes issued by JSC Georgia Capital which are listed on the Irish Stock Exchange.

Details of Non-Executive Directors' Letters of Appointment

Georgia Capital has entered into letters of appointment with each Non-Executive Director. The letters of appointment require Non-Executive Directors to provide one month's notice prior to termination. The letters of appointment for the majority of current Non-Executive Directors are effective from 24 February 2018. Each Non-Executive Director is put forward for election at each Annual General Meeting following his or her appointment. Continuation of a Non-Executive Director's employment is conditional on his or her continued satisfactory performance and re-election by shareholders at each Annual General Meeting.

A succession plan adopted by the Board provides for a tenure of six years on both the Georgia Capital PLC and JSC Georgia Capital boards. Upon the expiry of such six-year tenure, the appointment of the relevant Non-Executive Director may cease at the next upcoming AGM.

Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Non-Executive Director on the Board beyond the relevant six-year period, the Board may offer the Non-Executive Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Shareholding of Executive Management

The following table sets forth the respective Georgia Capital shares held by the top members of our Executive Management Team as at 31 December 2018.

	As at 31 December 2018		
	Number of GCAP shares held directly	Number of unvested GCAP shares	Total number of interests in GCAP shares
Avto Namicheishvili	212,415	149,000	361,415
Giorgi Alpaidze	–	11,468	11,468
Ekaterina Shavgulidze	25,627	72,400	98,027
Nikoloz Gamkrelidze	23,200	50,000	73,200

Remuneration Committee Effectiveness Review

Given that the Group only listed in May 2018, the Remuneration Committee will undertake an effectiveness review in 2019.

Implementation of Remuneration Policy For 2019

Details of how the Policy will be implemented for the 2019 financial year if approved by shareholders at the 2019 Annual General Meeting are set out below. Subject to shareholder approval, the Policy will take effect from the date of the 2019 Annual General Meeting and is intended to apply until the date of Annual General Meeting in 2022.

For Irakli Gilauri

2019 FIXED PAY

Total deferred share salary	200,000 Georgia Capital deferred shares underlying nil-cost options.
Pension	Mr Gilauri has agreed for all pension contributions to be waived.
Benefits	Details of the benefits received by Executive Directors are on page 142.

There are circumstances in which unvested deferred shares may lapse, and narrow circumstances in which such shares may vest immediately are set out in the Policy.

2019 Discretionary Deferred Share Remuneration

Opportunity	Maximum is 100% of number of salary shares
Deferral terms	The Remuneration Committee will determine whether an award is merited based on an Executive Director's achievement of the KPIs set for by the Remuneration Committee the work year and the performance of the Group during the work year. If Mr Gilauri is awarded discretionary deferred shares with respect to 2019 work year, the award will vest 25% in January of each of 2021, 2022, 2023 and 2024. Each tranche will be subject to a further holding period of one year. Upon vesting, Mr Gilauri will receive (in addition to the vested shares) cash payments equal to the dividends paid (if any) on the underlying shares between beginning of the year immediately following the work year and the vesting date.
Performance measures	For 2019, the Remuneration Committee has determined that the performance measures will be based on KPIs (see below). The Remuneration Committee has considered the detail of each KPI and ensured that measurable targets are included. The KPIs will be reviewed by the Remuneration Committee throughout the year and by the Board as appropriate. See notes to the Policy for malus and clawback provisions.

The Remuneration Committee set the 2019 KPIs for the CEO as follows:
Performance targets:
- Growth of NAV per business plan – use newly developed valuation methodology.
- Generate cash at GCAP level as well as portfolio company level – in line with budget.
- Expense Ratio target.
- Active and disciplined pursuit of new investment opportunities.
- Achieve strategic priorities in portfolio companies.

Developmental targets:
- Active mentoring and development of management team including successor(s).
- Continue personal development.
- Initiate cultural change in Georgia Capital PLC, JSC Georgia Capital and their portfolio companies.

2019 KPIs were selected based on our framework of value creation as presented below.

	OPERATING THE HOLDING COMPANY	#1 INVESTMENT PIPELINE FLOW	#2 PORTFOLIO COMPANY VALUE CREATION	#3 EXIT AND MONETISATION	VALUE CREATION
Performance expectations	Decisive allocation of capital Attracting great talent Efficient operations	Catalysing deal flow Effective pricing and negotiations	Value maximising mix of growth and ROIC improvement	Well-timed and value creating exits to new owner, public or private	Total shareholder return
Quantitative metrics and considerations that inform Board evaluation	Expense ratio NAV growth Talent pipeline in the portfolio companies and holding company	Aggregate quality and volume of deals reviewed Three year post assessment of performance against pro-formas	Cash generation ROIC and revenue growth Speed of corrective action, adaptation	Gain on sale relative to NAV Decisiveness in recognising "early fail"	

Non-Executive Director Remuneration

The table below shows the fee structure for Non-Executive Directors for 2019. Non-Executive Directors' fees are determined by the Board.

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee	The fee for the Board is competitive enough to attract and retain individuals. The Chairman receives a fee which reflects the extra time committed and responsibility. However no Chairman's fee is received when Chairman and CEO roles are combined. The Senior Independent Non-Executive Director receives a higher base fee which reflects the extra time and responsibility.	Cash payment on quarterly basis.	The amount of remuneration may be reviewed from time to time by the Board. The fees may be amended and varied if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate for all Non-Executive Directors which may be paid by Georgia Capital PLC for PLC fees is GBP 750,000, which is consistent with the current limit in the PLC's Articles of Association.
Cash fee for each Committee membership	Additional fee to compensate for additional time spent discharging Committee duties.	Cash payment on quarterly basis.	The amount of remuneration for the membership may be reviewed from time to time by the Board. The Chairman does not receive Committee fees.

Signed on behalf of the Remuneration Committee

Jyrki Talvitie
Chairman of the Remuneration Committee
3 April 2019

Governance

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the consolidated and stand-alone Financial Statements in accordance with applicable law and regulations.

Company law requires us to prepare Financial Statements for each financial year. As required, we have prepared the accompanying consolidated and separate statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law.

We must not approve the accompanying consolidated and stand-alone Financial Statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing the accompanying consolidated and separate Financial Statements, we are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and the Group, and to enable us to ensure that the consolidated and stand-alone Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the consolidated and stand-alone Financial Statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We are also responsible for the maintenance and integrity of the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- The consolidated and stand-alone Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group taken as a whole.
- The Strategic Report and Directors' Report contained in this Annual Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's position and performance, business model and strategy.

By order of the Board

Irakli Gilauri
Chairman and CEO
3 April 2019

DIRECTORS' REPORT

The Directors present their Annual Report and the audited Consolidated Financial Statements for the year ended 31 December 2018.

Strategic Review
The Strategic Report on pages 2 to 117 was approved by the Board of Directors on 3 April 2019 and signed on its behalf by Irakli Gilauri, Chief Executive Officer.

Management Report
This Directors' Report together with the Strategic Review on pages 2 to 117 form the Management Report for the basis of DTR 4.1.5 R.

Information Contained Elsewhere in the Annual Report
Information required to be included in this Directors' Report can be found elsewhere in the Annual Report as indicated in the table below and is incorporated into this report by reference:

Information	Location in Annual Report
Future developments	Pages 2 to 117
Going Concern Statement	Page 69
Viability Statement	Page 69
Risk Management	Pages 66 to 72
Principal risks and uncertainties	Pages 70 to 72
Directors' Governance Statement	Pages 118 to 119
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Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, foreign currency risk and financial instruments	Note 30 on pages 231 to 235

Articles of Association
Georgia Capital PLC's (the "Company") Articles of Association may only be amended by a special resolution at a general meeting of the shareholders. The process for the appointment and removal of Directors is included in our Articles of Association. The Georgia Capital PLC Articles of Association are available on the Company's website at: **https://georgiacapital.ge/governance/cgf/articles**.

Share Capital and Rights Attaching to the Shares
Details of the movements in share capital during the year are provided in Note 24 to the consolidated Financial Statements on pages 223 to 224 of this Annual Report. As at the date of this Annual Report there was a single class of 39,384,712 ordinary shares of one pence each in issue, each with one vote. The rights and obligations attaching to the Company's ordinary shares are set out in its Articles of Association. Holders of ordinary shares are entitled, subject to any applicable law and the Company's Articles of Association, to:

- have shareholder documents made available to them including notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- participate in any distribution of income or capital.

The Company is permitted to make market purchases of its own shares provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006. Authority was given at a General Meeting of the Company on 26 March 2018 for the Company to purchase up to 3,938,471 shares (approximately 10%) of Georgia Capital's shares. This authority will expire at the conclusion of the Company's AGM in 2019 or, if earlier, the close of business on 23 June 2019.

An update and renewal of the authority to make market purchases will be sought from shareholders at the AGM of the Company, for up to 5,671,823 shares, representing approximately 14.99% of the Company's issued ordinary share capital excluding treasury shares as at 3 April 2019. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available cash resources of the Company. Ordinary shares purchased by the Company may be held in treasury or cancelled.

As part of its investment policy, in June 2018, the Board approved and announced the commencement of a share buyback programme of up to US$45 million in accordance with the terms of the general authority granted by shareholders at the 2018 General Meeting. Repurchased shares are held in treasury. As at 31 December 2018, 1,251,829 shares, representing 3.2% of the Company's issued share capital, were bought back for an aggregate amount of US$17.9 million, with a nominal value of GBP 0.01 per share. As at the date of this Report, an aggregate amount of US$22.1 million shares have been bought back.

At a general meeting of the Company on 26 March 2018, the Directors were given the power: a) to allot shares up to a maximum nominal amount of GBP 131,282.33 representing approximately one-third of the Company's issued share capital as at 26 March 2018; and b) to allot equity securities up to an aggregate nominal amount of GBP 131,282.33, in connection with an offer by way of a rights issue: (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any securities into shares granted under paragraph (a), and subject to the Directors having the right to make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory. These authorities will expire at the conclusion of the 2019 AGM (or, if earlier, at the close of business on 23 June 2019) and approval will be sought at that meeting to renew a similar authority for a further year.

None of the ordinary shares carry any special rights with regard to control of Georgia Capital.

Governance

DIRECTORS' REPORT CONTINUED

There are no restrictions on transfers of shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing or pursuant to the Group's Inside Information Disclosure Policy;
- pursuant to the Company's Securities Dealing Policy and Code, whereby the Directors and designated employees require approval to deal in Georgia Capital's shares or cannot deal in certain periods; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

There are no restrictions on exercising voting rights save in situations where Georgia Capital is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to Georgia Capital). Georgia Capital is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Results and Dividends

The Company made a profit before taxation of GEL 20.5 million. The Company's profit after taxation for the year was GEL 16.9 million.

Georgia Capital may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by the Company's Directors. The Directors may also pay such interim dividends as appear to be justified by the profits of Georgia Capital available for distribution.

As Georgia Capital is a holding company, Georgia Capital relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividends to its shareholders.

As stated in the prospectus, the Company expects to be a cash-generative business with the opportunity for attractive capital investment to enhance its growth prospects, both through organic investments and acquisitions. The Board intends to pursue a capital return policy that reflects this strategy whilst also delivering shareholders high quality, long-term dividend growth, through share buybacks or other potential exits. However, the Board may periodically reassess the Company's dividend policy and the payment of dividends (or quantum of the same) will depend on the Group's existing and future financial condition, results of operations, capital requirements, investment and divestment cycles, liquidity needs and other matters the Board considers relevant from time to time.

Equity-Settled Option Plan (ESOP)

The Company operates an employee benefit trust (EBT) (the "ESOP"), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependents, and which is used in conjunction with the Group's employee share schemes. Whilst ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

In accordance with the ESOP documentation, Sanne Fiduciary Services Limited has waived its right to receive any dividends. This waiver will remain in place indefinitely, unless otherwise instructed by Georgia Capital. The Company has committed that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the premium segment of the London Stock Exchange will not exceed 10% of Georgia Capital's ordinary share capital over any ten-year period.

Powers of Directors

The Directors may exercise all powers of the Company subject to applicable legislation and regulations and Georgia Capital's Articles of Association.

Conflicts of Interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2018. The Company's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law.

Directors' Remuneration

Directors' fees are determined by the Remuneration Committee from time to time. The remuneration of Directors must be in accordance with the Directors' Remuneration Policy. A Remuneration Policy will be put to the shareholders for approval at the 2019 AGM. In the meantime, remuneration has been determined as approved by shareholders of BGEO Group during the demerger in accordance with the Circular. The fees paid to the Non-Executive Directors in 2018 pursuant to their letters of appointment are shown on page 150. The fees paid to our sole Executive Director in 2018 pursuant to his service agreements with Georgia Capital are shown on page 148.

Directors' Interests

The Directors' beneficial interests in ordinary shares of Georgia Capital as at 31 December 2018 are shown on page 151 together with any changes in those interests between the financial year end and the date on which this Directors' Report was approved by the Board.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of the Company (other than any person engaged by the Company as auditor) shall be indemnified by the Company against any liability in relation to Georgia Capital, other than (broadly) any liability to the Company or a member of the Company, or any criminal or regulatory fine. In addition, the Company has put in place Directors' and Officers' indemnity insurance.

Related Party Disclosures

Details of related party disclosures are set out in Note 33 to the consolidated Financial Statements on pages 239 to 240 of this Annual Report.

Significant Agreements

On 29 May 2018, Georgia Capital entered into a Relationship Agreement with Georgia Healthcare Group PLC (GHG) and JSC Georgia Capital which regulates the degree of control that the Company and its associates may exercise over the management and business of GHG.

The principal purpose of the Relationship Agreement is to ensure that GHG and its subsidiaries are capable at all times of carrying on their business independently of Georgia Capital and its associates. The Relationship Agreement will continue until the earlier of: (i) GHG shares ceasing to be admitted to listing on the Official List; and (ii) Georgia Capital, together with its associates, ceasing to own or control (directly or indirectly) 20% or more of the voting share capital of GHG. If Georgia Capital ceases to be a controlling shareholder (within the meaning of LR 6.1.2A of the Listing Rules), and continues to exercise control over the votes indicated in clause (ii) above, then it may terminate the Relationship Agreement by giving one month's written notice to GHG.

Under the Relationship Agreement, for so long as Georgia Capital and its associates together hold 20% or more of the voting share capital of GHG, Georgia Capital and its associates shall amongst other things:

- conduct all transactions, agreements or arrangements entered into between: (i) Georgia Capital and its associates; and (ii) GHG or any of its subsidiaries on an arm's length basis and on normal commercial terms and in accordance with the related party transaction rules set out in the Listing Rules;
- not take any action that has or would have the effect of preventing GHG or any of its subsidiaries from complying with their obligations under the Listing Rules;
- not propose or procure the proposal of any resolution of the shareholders (or any class thereof) which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and/or
- abstain from voting on any resolution required by LR 11.1.7R(3) of the Listing Rules to approve a transaction with a related party involving Georgia Capital.

The Relationship Agreement entitles Georgia Capital to appoint one person to be a Non-Executive Director of GHG for so long as it (together with its associates) holds at least 20% of the voting share capital of GHG.

The Relationship Agreement also provides that (subject to permitted exceptions) neither Georgia Capital nor its associates shall compete with the business of GHG nor use any names associated with GHG and that GHG shall not use any names associated with Georgia Capital or its associates. The Company has complied with the terms of the Relationship Agreement and, in so far as it is aware, GHG has complied with the mandatory provisions of the Relationship Agreement during the financial year.

Copies of both Relationship Agreements are available to view at the Company's registered office.

As disclosed in the Company's prospectus dated 26 March 2018 ("Prospectus"), for such time as the Company (or its concert parties) holding in Bank of Georgia Group PLC is greater than 9.99% of the voting rights exercisable at a general meeting of Bank of Georgia Group PLC, the Company will exercise its voting rights at general meetings of Bank of Georgia Group PLC in accordance with the votes cast by all other Bank of Georgia Group PLC shareholders. This is known as proportional voting and does not apply to Excluded Resolutions (as such term is defined in the Bank of Georgia Group PLC's articles of association).

Presence Outside of Georgia

We have our Group office in London: see page 244.

Employee Disclosures

Our disclosures relating to the number of women in senior management, employee engagement and our policies on human rights, including employment of disabled persons, are included in the section Employee matters on pages 76 to 78.

Political Donations

The Company did not make any political donations or expenditure during 2018. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2019 AGM.

Code of Conduct and Ethics

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Company's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Company operates. Our Code of Conduct is available on our website at: **https://georgiacapital.ge/governance/cgf/policies**.

Independent Auditors

A resolution to reappoint Ernst & Young LLP as auditors of Georgia Capital will be put to shareholders at the upcoming AGM.

Major Interests in Shares

The table below lists shareholders with voting rights of more than 3% as of 31 December 2018. (outstanding share capital excluding shares purchased under buyback programme and held in treasury):

	As of 31 December 2018	
Shareholder	Number of voting rights	% of voting rights
M&G Investment Management Ltd	2,909,062	7.63
Schroder Investment Management Ltd	2,018,210	5.29
LGM Investments Ltd	1,469,631	3.85
Norges Bank Investment Management	1,275,172	3.34
Dimensional Fund Advisors (DFA)	1,163,967	3.05

Source: Georgeson, Computershare

The Company has not received any further notifications in respect of changes in voting rights for the period 1 January 2019 up to and including 3 April 2019. **https://georgiacapital.ge/ir/news/regulatory-announcements** and the London Stock Exchange website: **https://www.londonstockexchange.com/home/homepage.htm**.

Post-Balance Sheet Events

On 6 February 2019, the Group's hospitality and commercial business, owned through m^2 Real Estate, acquired the remaining 40% equity stake in Kass 1 LLC. The total consideration for the buyout was US$5.2 million (GEL 13.9 million), where US$0.3 million (GEL 0.8 million) was paid in cash and US$4.9 million (GEL 13.1 million) was settled through bonds issues by the commercial real estate Business.

On 26 March 2019, Georgia Healthcare Group announced its recommendation of a final dividend of GEL 0.053 per share, to be paid in respect of the 2018 financial year, subject to shareholder approval.

On 25 March 2019 the Group's beverages business acquired the brand name and commercial assets of Georgia's oldest beer brand – Kazbegi, brewed since 1881. Total cash consideration for the acquisition is US$3.65 million. Kazbegi, the fifth largest market player with its focus on HORECA market, has up to 4% and 5% market shares in beer and lemonade, respectively.

Statement of Disclosure of Information to the Auditor

We confirm that, so far as we are aware, there is no relevant audit information of which the Company's auditors are unaware and we have taken all steps that we reasonably believe should be taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

Governance

DIRECTORS' REPORT CONTINUED

Information to be Disclosed in Accordance With the Listing Rule 9.8.4R

The following information required to be disclosed in terms of Listing Rule 9.8.4R is not applicable unless stated otherwise:

- the amount of interest capitalised during the period under review and details of any related tax relief;
- information in relation to the publication of unaudited financial information;
- any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company;
- details of any non-pre-emptive issues of equity for cash by the Company;
- any non-pre-emptive issues of equity for cash by the Company or by any unlisted major subsidiary undertaking;
- parent participation in a placing by a listed subsidiary;
- any contract of significance in which a Director is or was materially interested;
- any waiver of dividends by a shareholder; and
- details of any long-term incentive schemes.

The Directors' Report on pages 155 to 158 was approved by the Board of Directors on 3 April 2019 and signed on its behalf:

By order of the Board

Link Company Matters Limited
Company Secretary
3 April 2019

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INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion:

- Georgia Capital PLC's Group Financial Statements and Parent Company Financial Statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of Georgia Capital PLC which comprise:

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2018	Separate Statement of Financial Position as at 31 December 2018
Consolidated Income Statement for the year ended 31 December 2018	Separate Statement of Changes in Equity for the year ended 31 December 2018
Consolidated Statement of Comprehensive Income for the year ended 31 December 2018	Separate Statement of Cash Flows for the year ended 31 December 2018
Consolidated Statement of Changes in Equity for the year ended 31 December 2018	Related Notes 1 to 34 to the extent they apply to the Company Financial Statements, including a summary of significant accounting policies
Consolidated statement of cash flows for the year ended 31 December 2018	
Related Notes 1 to 34 to the Financial Statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 70 to 72 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 69 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' Statement set out on page 69 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- whether the Directors' Statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 69 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our Audit Approach

Key audit matters	• Risk of fraud in recognition of revenue across the different businesses within the Group. • Valuation of investment properties and infrastructure assets. • Assessment of the recoverable amount of property, plant and equipment in the beer business. • Impairment of goodwill allocated to the pharmaceutical, healthcare and medical insurance businesses.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

Audit scope	• We performed an audit of the complete financial information of seven components and audit procedures on specific balances for a further two components. • The components where we performed full or specific audit procedures accounted for 95% of profit before tax and non-recurring items, 95% of revenue and 90% of total assets.
Materiality	• Overall Group materiality of GEL 3.1 million which represents 5% of profit before tax and non-recurring items.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
Risk of fraud in recognition of revenue across the different businesses within the Group (GEL 1,283 million, 2017: GEL 1,127 million) *Refer to the Audit Committee Report (page 131); Accounting policies (pages 192 to 194); and Note 25 (pages 224 to 227) to the Consolidated Financial Statements.* Investors' and analysts' expectations of the Group and its separate portfolio investments could result in pressure on management to overstate revenue. There is a risk that management may override controls through manipulating revenue and hence increasing profit. In 2017 the Group early adopted IFRS 15 – Revenue from contracts with customers. There were no material misstatements identified in the prior year audit, however application of IFRS 15 remains a high risk area due to the complexity of the standard and the relatively limited experience in its application. Whilst most of the Group's sales arrangements are generally straightforward, requiring some or limited judgement to be exercised, revenue is accounted for at each business differently, and there is a risk that management could manipulate the timing of the revenue through top side adjustments or by creating fictitious sales. A certain degree of judgement is generally present in those sales arrangements which are executed over a longer period of time, namely those coming from the healthcare, housing development, water utility and insurance businesses. There is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in calculating the cut off or by recording fictitious revenue transactions across the business.	Our procedures were performed by component teams and the primary audit team in all full and specific scope components. • We obtained an understanding of the different revenue streams and revenue models covering all businesses: healthcare, commercial and hospitality, housing development, water utility, P&C insurance and beverages. • We evaluated the relevant controls in the revenue cycle by assessing the design and tested the operational effectiveness of key controls, across the major revenue streams. • We discussed key contractual arrangements with management and obtained relevant documentation, where applicable, and validated compliance with IFRS 15 requirements. • We performed cut-off testing for a sample of revenue transactions around the period end date, and ensured they were recognised in the appropriate period. • We performed test of details by testing key items and representative samples by agreeing back to supporting documentation. • We recalculated and substantively tested on a sample basis the inputs present in the manual adjustments posted by management at year-end, including consignment sales adjustment at the beverages business; completion rates at the housing development business; as well as those used in the adjustment to long-term treatments in the healthcare business and in the water utility business. For the insurance businesses, we recalculated the multi-year adjustment and verified the inputs such as premium amount, commencement, expiry and cancellation dates. • Within the healthcare business, we validated the accuracy of the corrections and rebates through analytical calculations and performed hindsight analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias. • We used data analytics on beverages and pharmaceutical revenue streams, and ran correlation analysis between the cash receipts during the year and the revenue recorded in the Income Statement. • We performed other substantive analytical procedures on the water utility business designed to identify unusual trends. • We performed other audit procedures specifically designed to address the risk of management override of controls including journal entry testing, paying particular focus to the timing of revenue transactions, covering the cut-off risk and occurrence of revenue throughout the year.	Based on the procedures performed, including those in respect of top side adjustments and cut off, we did not identify any evidence of material misstatement in the revenue recognised in the year. We are satisfied that the disclosures in the financial statements are in accordance with IFRS.

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
Valuation of investment properties and infrastructure assets **Net book value investment properties of GEL 151 million (2017: GEL 160 million) and infrastructure assets of GEL 386 million (2017: GEL 253 million)** *Refer to the Audit Committee Report (page 131); Accounting policies (pages 190 and 191); Accounting judgments and estimates (page 202); and Notes 13 (page 215), 14 (pages 216 and 217) and 31 (page 237) to the Consolidated Financial Statements.* The Group applies fair value model for measurement of investment properties and revaluation model for measurement of infrastructure assets. Real estate valuations are inherently uncertain and subject to an estimation process, particularly due to the fact that the Group's real estate is located primarily in Georgia, where the market for such assets is relatively illiquid. Although the real estate valuations are performed by appropriately qualified valuers, there remains a risk that individual assets might be inappropriately valued. The Group's infrastructure assets are unique by nature and their fair value is relatively difficult to measure. Revaluations should be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The risk has remained consistent with the prior year.	Our procedures were performed by component teams and the primary audit team, including our valuation specialists, in all full and specific scope components. • We understood the methodology applied by management in valuing the investment properties and infrastructure assets and walked through the controls over the process; • We used a risk-based approach based on market movements to select properties for review by our real estate specialists; • For a sample representing 97% of the net fair value movement and 88% of the fair value of the investment property at year-end we analysed the data, application of the methods and logic and reasoning applied by the valuers. We compared this information to the publicly available information on norms and benchmarks in the Georgian market; • We tested the accuracy of the underlying property database by verifying the location and total area of the properties selected to the Georgian public registry; • We engaged our real estate specialists to assist us in evaluating the appropriateness of the Group's valuations of investment properties, including the following: – the competence, professional qualifications and objectivity of the external valuers engaged by the Group; – through examining the valuation reports and discussion with management and the valuers, we obtained an understanding of the objectives and scope of the valuers' work, the methods and assumptions that they had used and the conclusions that they had reached; • challenging the methods and assumptions used in the valuation reports, including consideration as to whether there was contrary market intelligence that had not been taken into account in the valuers' analyses; • In respect of the valuation of infrastructure assets we: – compared whether the fair value measurement methodology adopted by management was consistent with the prior year; – obtained the discounted cash flow model prepared by management and engaged our internal valuations specialists to assist us with testing the integrity of the financial model and evaluating the appropriateness of the discount rate; challenging the key assumptions underpinning the cash flow projections, including but not limited to water tariffs and supply volumes, maintenance CAPEX, useful life of core assets, and EBITDA margin; and – challenged the growth forecasts during the plan period, having regard to historical performance and market expectations. • We assessed the appropriate recognition of the results of the valuations in accordance with IAS 16 'Property, Plant and Equipment' and IAS 40 'Investment Property'.	Based on the results of our audit procedures, we concluded that the valuations of investment properties are within a reasonable range and fairly stated as at 31 December 2018. We are satisfied that the carrying value of infrastructure assets is not materially different from its fair value as at 31 December 2018. We also concluded that the related disclosures provided in the Group's financial statements are appropriate.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
(New in 2018) **Assessment of the recoverable amount of property, plant and equipment in the beer business (GBG) (GEL 98 million, 2017: GEL 95 million)** *Refer to the Audit Committee Report (page 131); Accounting policies (page 190); Accounting judgments and estimates (page 203); and Note 14 (pages 216 and 217) to the Consolidated Financial Statements.* We focused on this area due to the size of the carrying value of the assets being assessed, the underperformance of the beer business and because the assessment of the recoverable amount of the property, plant and equipment in the beer business involves significant judgements about the future results of the business, long-term growth rate and the discount rate applied to the future cash flow forecast.	Audit procedures were performed by the relevant component and the primary team, including valuation specialists. • We obtained an understanding of the beer business fixed assets' impairment assessment performed by management and walked through the controls over the process; • We agreed the carrying value of the fixed assets to the accounting records; • We assessed the appropriateness of the valuation methodology applied by management in determining the value in use (VIU) by comparing with the requirements of IAS 36 Impairment of assets; • We checked the integrity of the discounted cash flow models prepared by management, and tested key assumptions: – We validated that the cash flows underpinning the calculation are consistent with the four-year budget; – We tested the projected sales volumes, sales prices, operating margin, CAPEX level with reference to peer and external market data, taking into consideration planned commercial initiatives; – We challenged the growth forecasts during the plan period, having regard to market expectations; – We engaged our internal valuations specialists to assist with our consideration of the discount rates and the long-term growth rates by comparing the rates utilised to third party evidence and in relation to the discount rate, our independently estimated discount rates; and – Independently recalculated the sensitivity of the key inputs, stressing each of the above assumptions individually and in combination to best reflect what we considered to be reasonably foreseeable changes in the key assumptions. • We assessed whether the disclosures in the Group Financial Statements appropriately reflect the estimation uncertainty.	Based on the results of our procedures, we consider management's estimate of the recoverable amounts to fall within a reasonable range of outcomes, whilst noting that the recoverable amount of property, plant and equipment in the beer business is highly sensitive to reasonably possible changes in the key assumptions. Management describes these sensitivities appropriately in the significant accounting judgements and estimates note to the Group Financial Statements. We concluded that the related disclosures provided in the Group Financial Statements are appropriate.

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
(New in 2018) **Impairment of goodwill allocated to the pharmaceutical, healthcare and medical insurance businesses (Goodwill, GEL 142 million, 2017: GEL 22 million)** *Refer to the Audit Committee Report (page 131); Accounting policies (pages 184, 185 and 191); and Note 15 (page 218) to the Consolidated Financial Statements.* The Group has a significant amount of goodwill allocated to the pharmaceutical (GEL 78 million), healthcare (GEL 34 million) and medical insurance (GEL 3 million), beverage (GEL 12 million) and P&C Insurance (GEL 15 million) businesses, which is tested for impairment annually. The amount of goodwill has increased from GEL 22 million as at 31 December 2017 to GEL 142 million as at 31 December 2018 because the investment in Georgia Healthcare Group plc is no longer classified as a discontinued operation as at 31 December 2018. There is a risk that these cash generating units ('CGUs') may not achieve the anticipated business performance to support their carrying value, leading to an impairment charge that has not been recognised by management. Significant judgement is required in forecasting the future cash flows of each CGU and the rate at which they are discounted. We have focused the risk of goodwill impairment to the pharmaceutical, healthcare and medical insurance businesses, as historically there has been sufficient headroom and profitable operations in P&C Insurance and beverage (wine) business units such that impairment is unlikely when considering reasonably possible scenarios. The risk has increased from the prior year as the investment in Georgia Healthcare Group plc is no longer classified as a discontinued operation as at 31 December 2018.	Audit procedures on goodwill impairment were performed by the integrated primary team, including EY valuation specialists. • We understood the methodology applied by management in performing its impairment test for each of the relevant CGUs and walked through the controls over the process; • We assessed the appropriateness of the valuation methodology applied by management in determining the value in use (VIU) by comparing it with the requirements of IAS 36 Impairment of assets; • For CGUs where there were indicators of impairment or low levels of headroom, we checked the integrity of the discounted cash flow models prepared by management, and tested key assumptions by: – validating that the cash flows underpinning the calculation were consistent with the three-year strategic plan approved by the Board; – challenging the short and long-term growth forecasts, by analysing the accuracy of budgeting historically to evaluate the robustness of forecasting; – engaging our internal valuations specialists to assist with our consideration of the discount rates; and – assessing the adequacy of sensitivity analysis performed by management, stressing each of the above assumptions individually and in combination to reflect what we considered to be reasonably foreseeable changes in the key assumptions. • We considered the appropriateness of the related disclosures in Note 4 and Note 15 of the financial statements.	We concluded that for each CGU, management's evaluation of the recoverable amount of goodwill falls within a reasonable range whilst noting that the headroom relating to the healthcare business remains sensitive to reasonably possible changes in key assumptions. We further conclude that: • the allocation of goodwill to CGUs is appropriate and in line with the requirements of IAS 36; • the forecasts used are a reasonable basis upon which to perform the impairment assessment; • the assumptions for the pre-tax discount rate and long-term growth applied by management are within an acceptable range, and are consistent with independent economic forecasts; and • the related disclosures provided in the financial statements are appropriate.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

2018 is the first financial year of Georgia Capital PLC post demerger from BGEO plc. The key audit matters set out in the table previously are consistent with those in the prior year report of BGEO plc to the extent they apply to Georgia Capital PLC, with the exception of the addition of the assessment of the recoverable amount of property, plant and equipment in the beer business, and impairment of goodwill allocated to the pharmaceutical, healthcare and medical insurance businesses. Given the size of the property, plant and equipment, and continued underperformance of the beer business mainly caused by the delay in launching Heineken beer brands, we have focused on this area in 2018. The amount of goodwill has increased from the prior year as the investment in Georgia Healthcare Group plc is no longer classified as a discontinued operation at 31 December 2018.

An Overview of the Scope of our Audit

Tailoring the Scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile and changes in the business environment when assessing the level of work to be performed at each entity.

In scoping the audit, we reflect the Group's structure (holding companies, healthcare, pharmacy and distribution, medical insurance, property and casualty insurance, beverages, real estate and water utility and renewable energy). In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Financial Statements, we performed full or specific scope audit procedures over nine components covering entities within the UK and Georgia, which represent the principal business units within the Group.

Of the nine components selected, we performed an audit of the complete financial information of seven components ("full scope components") which were selected based on their size or risk characteristics. For another two components ("specific scope components"), we performed audit procedures on specific accounts within the component that we considered had the potential for the greatest impact on the significant accounts in the Financial Statements either because of the size of these accounts or their risk profile. In 2018 the remaining components not subject to full or specific Group scoping mainly represent certain entities within the beverages and water utility and renewable energy segments which are not significant individually or in the aggregate. The size of remaining components ranges from -5% to 3.3% of the Group's profit before tax and non-recurring items and from nil% to 1% of the Group's revenue.

The table below illustrates the coverage obtained from the work we performed:

	2018				2017			
	No.	Revenue	Profit[4]	Total assets	No.	Revenue	Profit[4]	Total assets
Full scope[1]	7	85%	125%	84%	7	89%	113%	85%
Specific scope[2]	2	10%	-30%	6%	1	5%	-15%	10%
Full and specific scope coverage	9	95%	95%	90%	8	94%	98%	95%
Remaining components[3]		5%	5%	10%		6%	2%	5%
Total reporting components	9	100%	100%	100%	8	100%	100%	100%

1 We audited the complete financial information.
2 We audited specific accounts within these components. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.
3 We performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group Financial Statements. We also performed specified procedures in respect of the Kindzmarauli acquisition.
4 Profit before non-recurring items and tax. The coverage of 125% by full scope components represents six full scope components having a positive contribution of 195% offset by one full scope component having a negative contribution of 70%.

Changes From the Prior Year

In 2018 the scope of JSC Insurance Co Imedi L within the healthcare segment was changed from "other procedures" to "specific scope" due to its risk profile and relative size in the Group.

Involvement with Component Teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from EY Georgia operating under our instruction. For the five full scope components and the two specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, we held an audit team event led by the Senior Statutory Auditor, where the primary audit team and the component teams considered the audit risk and strategy. The primary audit team continued to follow a programme of planned visits that has been designed to ensure that the audit is executed and delivered in accordance with the planned approach and to confirm the quality of the audit work undertaken. The Senior Statutory Auditor is based in the UK, but since Group management and operations reside in Georgia, the primary audit team operates as an integrated team including members from the UK and Georgia. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Georgia. The Senior Statutory Auditor visited Georgia six times during the current year's audit and there was regular interaction between team members in the UK and Georgia.

These visits involved discussing the audit approach with the Georgian members of the integrated primary team and the component teams and any issues arising from their work, meeting with Group and local management, attending planning and closing meetings and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams throughout the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group Financial Statements.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be GEL 3.1 million (2017: GEL 5.3 million), which is 5% (2017: 5%) of profit before tax and non-recurring items. We believe that profit before tax and non-recurring items best represents the results of the operations of the Group as GEL 33 million out of GEL 41 million of non-recurring expenses related to demerger costs which is a significant one-off event and is not related to the ongoing trading of the Group. We therefore, considered profit before tax and non-recurring items to be the most appropriate performance metric on which to base our materiality calculation.

Starting Basis
- Profit before tax – GEL 20.5 million

Adjustments
- Non-recurring expenses, net – GEL 41.3 million (Note 28 to the Group's Financial Statements)

Materiality
- Totals GEL 61.8 million profit before tax and non-recurring items
- Materiality of GEL 3.1 million (5% of materiality basis)

Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely GEL 1.54 million (2017: GEL 2.6 million). We have set performance materiality at this percentage as this is the first year for the Company as a listed company.

Audit work at component locations for the purpose of obtaining audit coverage over significant Financial Statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of the final revised performance materiality allocated to components was GEL 0.38 million to GEL 1.16 million (2017: GEL 0.6 million to GEL 1.8 million).

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of GEL 0.15 million (2017: GEL 0.26 million), which is set at 5% of final materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

Other Information
The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon, including the following sections in the Annual Report:

- Strategic Report set out on pages 2 to 117;
- Governance section, including Directors' Governance Statement, Shareholder Engagement, Board and Executive Management, Corporate Governance Framework, Nomination Committee Report, Audit Committee Report, Investment Committee Report, Directors' Remuneration Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 118 to 158; and
- Additional Information, including Abbreviations, Glossary and Shareholder Information, set out on pages 241 to 244.

The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 154** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 130 to 134** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 118** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on Other Matters Prescribed by the Companies Act 2006
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which we are Required to Report by Exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 154, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Explanation as to What Extent the Audit was Considered Capable of Detecting Irregularities, Including Fraud
The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code and the Listing Rules of the UK Listing Authority requirements) and those laws and regulations relating to the provision of healthcare and pharmaceutical services, water supply services, property and casualty and health insurance services in Georgia.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plans targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in above. Our procedures involved: journal entry testing, with a focus on journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, Group management, Internal Audit, management of business segments; and focused testing as referred to in the Key Audit Matters section above.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the Group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other Matters We Are Required to Address
- We were appointed by the Company and signed the engagement letter on 23 July 2018 to audit the Financial Statements for the year ending 31 December 2018 and subsequent financial periods.
- Following the recommendation of the Audit Committee, a resolution proposing to reappoint EY will be proposed at the 2019 AGM.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ended 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of Our Report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
3 April 2019

Notes:
1 The maintenance and integrity of the Georgia Capital PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2 Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	8	**256,930**	346,241
Amounts due from credit institutions	9	**40,299**	38,141
Debt securities owned	10	**71,824**	31,907
Equity investments at fair value	10	**457,495**	1,153
Accounts receivable	11	**170,228**	35,337
Insurance premiums receivable		**57,801**	30,855
Inventories	12	**278,615**	80,110
Investment properties	13	**151,232**	159,989
Prepayments		**117,909**	87,760
Income tax assets	17	**2,405**	1,374
Property and equipment	14	**1,671,917**	657,635
Goodwill	15	**142,095**	21,935
Intangible assets	15	**51,634**	5,457
Other assets	16	**251,462**	69,870
Assets of disposal group held for sale	6	**–**	1,148,584
Total assets		**3,721,846**	2,716,348
Liabilities			
Accounts payable	22	**143,114**	42,987
Insurance contracts liabilities	18	**68,207**	46,403
Income tax liabilities	17	**1,119**	860
Deferred income	21	**62,059**	73,066
Borrowings	19	**764,355**	650,734
Debt securities issued	20	**916,401**	77,835
Other liabilities	16	**235,771**	63,206
Liabilities of disposal group held for sale	6	**–**	619,029
Total liabilities		**2,191,026**	1,574,120
Equity	24		
Share capital		**1,293**	10,000
Additional paid-in capital		**–**	466,187
Treasury shares		**(118)**	–
Other reserves		**415,473**	171,254
Retained earnings		**785,167**	197,222
Total equity attributable to shareholders of Georgia Capital PLC		**1,201,815**	844,663
Non-controlling interests		**329,005**	297,565
Total equity		**1,530,820**	1,142,228
Total liabilities and equity		**3,721,846**	2,716,348

The Financial Statements on pages 168 to 240 were approved by the Board of Directors on 3 April 2019 and signed on its behalf by:

Irakli Gilauri
Chief Executive Officer

Georgia Capital PLC
Registered No. 10852406

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	2018	2017 (Represented)*
Revenue		**1,282,866**	1,127,170
Cost of sales		**(796,191)**	(695,709)
Gross profit	25	**486,675**	431,461
Salaries and other employee benefits	26	**(137,068)**	(107,212)
Administrative expenses	26	**(107,526)**	(85,699)
Other operating expenses		**(11,601)**	(12,837)
Expected credit loss/impairment charge on financial assets	27	**(10,610)**	(6,171)
Impairment charge on insurance premium receivables, other assets and provisions	27	**(2,179)**	(1,421)
		(268,984)	(213,340)
EBITDA		**217,691**	218,121
Share in profit of associates		**247**	376
Dividend income		**23,875**	–
Depreciation and amortisation		**(74,155)**	(54,031)
Net foreign currency loss		**(37,546)**	(6,737)
Interest income		**23,275**	8,909
Interest expense		**(91,619)**	(60,903)
Net operating income before non-recurring items		**61,768**	105,735
Net non-recurring items	28	**(41,251)**	(5,330)
Profit before income tax expense		**20,517**	100,405
Income tax expense		**(3,606)**	(6,136)
Profit for the year		**16,911**	94,269
Total (loss)/profit attributable to:			
– shareholders of Georgia Capital PLC		**(9,496)**	70,125
– non-controlling interests		**26,407**	24,144
		16,911	94,269
(Loss)/Earnings per share:	24		
– basic and diluted		**(0.2572)**	2.3378

* 2017 Consolidated Income Statement and respective notes have been re-presented to include the figures of Georgia Healthcare Group PLC, a subsidiary of the Group previously presented as disposal group held for sale. For details, please refer to Note 6.

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	2018	2017 (Represented)
Profit for the year		**16,911**	94,269
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Income/(Loss) from currency translation differences		**9,185**	(1,984)
Changes in the fair value of debt instruments at FVOCI (2017: available-for-sale)		**(1,207)**	47
Realised loss on financial assets measured at FVOCI (2017: available-for-sale) reclassified to the Consolidated Income Statement		**–**	(2)
Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI		**117**	–
Income tax impact	17	**–**	165
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**8,095**	(1,774)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity instruments designated at FVOCI (Note 24)		**(248,505)**	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(248,505)**	–
Other comprehensive loss for the year, net of tax		**(240,410)**	(1,774)
Total comprehensive (loss)/income for the year		**(223,499)**	92,495
Total comprehensive (loss)/income attributable to:			
– shareholders of Georgia Capital PLC		**(250,882)**	68,618
– non-controlling interests		**27,383**	23,877
		(223,499)	92,495

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (THOUSANDS OF GEORGIAN LARI)

	Attributable to shareholders of Georgia Capital						
	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2016	8,482	368,166	118,869	151,536	647,053	228,814	875,867
Effect of early adoption of IFRS 15	–	–	–	(17,622)	(17,622)	(601)	(18,223)
1 January 2017	8,482	368,166	118,869	133,914	629,431	228,213	857,644
Profit for the year	–	–	–	70,125	70,125	24,144	94,269
Other comprehensive loss for the year	–	–	(1,152)	(357)	(1,507)	(267)	(1,774)
Total comprehensive income for the year	–	–	(1,152)	69,768	68,618	23,877	92,495
Transfer of revaluation reserve at disposals	–	–	(540)	540	–	–	–
Issue of share capital (Note 24)	1,518	101,279	–	–	102,795	–	102,795
Increase in equity arising from share-based payments (Note 29)	–	11,202	–	–	11,202	1,495	12,697
Dividends paid by subsidiaries	–	–	–	(7,000)	(7,000)	–	(7,000)
Sale of interests in existing subsidiaries*	–	–	71,980	–	71,980	36,623	108,603
Dilution of interests in subsidiaries	–	–	506	–	506	1,547	2,053
Increase in share capital of subsidiaries	–	–	–	–	–	14,493	14,493
Acquisition of non-controlling interests in existing subsidiaries	–	–	(18,409)	–	(18,409)	(43,919)	(62,328)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	35,236	35,236
Contributions under share-based payment plan	–	(14,460)	–	–	(14,460)	–	(14,460)
31 December 2017	10,000	466,187	171,254	197,222	844,663	297,565	1,142,228

* The Group sold approximately 7% equity interest in Georgia Healthcare Group PLC. Following the sale, the Group held 57% equity interests in GHG in 2017 and 2018.

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Attributable to shareholders of Georgia Capital							
	Share capital	Additional paid-in capital	Treasury Shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2017	10,000	466,187	–	171,254	197,222	844,663	297,565	1,142,228
Effect of adoption of IFRS 9 (Note 3)	–	–	–	192	(10,808)	(10,616)	(3,216)	(13,832)
1 January 2018	**10,000**	**466,187**	**–**	**171,446**	**186,414**	**834,047**	**294,349**	**1,128,396**
(Loss)/Profit for the year	**–**	**–**	**–**	**–**	**(9,496)**	**(9,496)**	**26,407**	**16,911**
Other comprehensive (loss) income for the year	**–**	**–**	**–**	**(241,386)**	**–**	**(241,386)**	**976**	**(240,410)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(241,386)**	**(9,496)**	**(250,882)**	**27,383**	**(223,499)**
Issue of share capital (Note 24)	**1,526**	**127,843**	**–**	**577,913**	**(2,298)**	**704,984**	**–**	**704,984**
Formation of new Parent Company (Note 24)	**1,644,011**	**–**	**–**	**(1,644,011)**	**–**	**–**	**–**	**–**
Capital Reduction and demerger transactions (Note 24)	**(1,654,244)**	**(600,525)**	**–**	**1,644,011**	**610,758**	**–**	**–**	**–**
Increase in equity arising from share-based payments (Note 29)	**–**	**25,865**	**–**	**6,694**	**–**	**32,559**	**6,062**	**38,621**
Dilution of interests in subsidiaries	**–**	**–**	**–**	**2,760**	**–**	**2,760**	**(2,760)**	**–**
Increase in share capital of subsidiaries*	**–**	**–**	**–**	**–**	**–**	**–**	**23,348**	**23,348**
Acquisition of non-controlling interests in existing subsidiaries***	**–**	**–**	**–**	**(13,080)**	**–**	**(13,080)**	**(8,629)**	**(21,709)**
Non-controlling interests arising on acquisition of subsidiary (Note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**44**	**44**
Dividends paid by subsidiaries**	**–**	**–**	**–**	**–**	**(211)**	**(211)**	**(10,792)**	**(11,003)**
Other purchases of treasury shares (Note 24)	**–**	**–**	**(41)**	**(44,676)**	**–**	**(44,717)**	**–**	**(44,717)**
Contributions under share-based payment plan	**–**	**(19,370)**	**(77)**	**(44,198)**	**–**	**(63,645)**	**–**	**(63,645)**
31 December 2018	**1,293**	**–**	**(118)**	**415,473**	**785,167**	**1,201,815**	**329,005**	**1,530,820**

* The minority shareholder of the Group in Georgian Renewable Power Company JSC contributed GEL 23,348 thousands to the equity in 2018.
** JSC GEPHA, a subsidiary of the Group's healthcare business, paid dividend to its minority shareholders in the amount of GEL 10,792 thousands.
*** GEL (6,446) change in non-controlling interest is related to deemed acquisition of NCI arising from share acquisition put option issued in 2017 to non-controlling shareholders of GEPHA".

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	2018	2017 (Represented)
Cash flows from operating activities			
Revenue received		**1,196,852**	1,039,032
Cost of goods sold paid		**(818,201)**	(718,745)
Net realised loss from foreign currencies		**–**	(483)
Net other (expense paid)/income received		**(13,701)**	1,741
Salaries and other employee benefits paid		**(108,376)**	(82,143)
General, administrative and operating expenses paid		**(110,616)**	(89,919)
Interest received		**22,291**	8,909
Net change in operating assets and liabilities		**(2,324)**	2,767
Net cash flows (used in) from operating activities before income tax		**165,925**	161,159
Income tax paid		**(2,423)**	(6,135)
Net cash flow from operating activities		**163,502**	155,024
Cash flows used in investing activities			
Net withdrawals of amounts due from credit institutions		**14,586**	18,074
Loans issued/(repaid)		**(135,785)**	1,617
Acquisition of subsidiaries, net of cash acquired	5	**(25,339)**	(59,076)
Repayment of remaining holdback amounts from previous year acquisitions		**(14,820)**	(6,390)
Purchase of debt securities		**(62,297)**	(2,463)
Proceeds from sale and redemption of debt securities		**28,780**	–
Proceeds from sale of investment properties	13	**2,566**	402
Purchase and construction of investment properties	13	**(20,397)**	(17,199)
Proceeds from sale of property and equipment and intangible assets		**1,496**	6,968
Purchase of property and equipment		**(378,928)**	(352,880)
Purchase of intangible assets		**(23,919)**	(17,547)
Dividends received		**23,875**	–
Net cash flows used in investing activities		**(590,182)**	(428,494)

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	2018	2017 (Represented)
Cash flows from financing activities			
Proceeds from borrowings	19	**247,574**	454,374
Repayment of borrowings	19	**(393,981)**	(8,503)
Proceeds from debt securities issued	19	**747,184**	40,000
Redemption and buyback of debt securities issued	19	**(80,747)**	(18,533)
Other purchases of treasury shares	24	**(44,717)**	–
Proceeds from issue of share capital		**–**	24,244
Dividends paid	24	**(10,012)**	(7,000)
Interest paid		**(96,312)**	(71,036)
Contributions under share-based payment plan		**(66,701)**	(14,460)
Increase in share capital of subsidiaries		**2,675**	14,651
Purchase of additional interest in existing subsidiaries		**(5,719)**	–
Transaction costs incurred in relation to share issue	24	**(2,298)**	–
Proceeds from sale of interests in existing subsidiaries		**–**	108,603
Proceeds from sale of interests in existing subsidiaries		**–**	–
Net cash from financing activities		**296,946**	522,340
Effect of exchange rates changes on cash and cash equivalents		**(8,416)**	(12,657)
Effect of change in expected credit losses for cash and cash equivalents		**(1)**	
Net (decrease) increase in cash and cash equivalents		**(138,151)**	236,213
Cash and cash equivalents, beginning of the year	8	**346,241**	158,868
Cash and cash equivalents of disposal group held for sale, beginning of the year	6	**48,840**	–
Cash and cash equivalents of disposal group held for sale, end of the year	6	**–**	48,840
Cash and cash equivalents, end of the year	8	**256,930**	346,241

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents		**3,581**	–
Accounts receivable		**–**	175
Prepayments		**90**	–
Investments in subsidiary	2	**1,377,083**	–
Total assets		**1,380,754**	175
Liabilities			
Other liabilities		**591**	–
Total liabilities		**591**	–
Equity	24		
Share capital		**1,293**	172
Treasury shares		**(41)**	–
Retained earnings		**1,395,861**	–
Net (loss)/profit for the year		**(16,950)**	3
Total equity		**1,380,163**	175
Total liabilities and equity		**1,380,754**	175

The Parent Company distributable reserves as at 31 December 2018 were GEL 1,378,911 (31 December 2017: 3).

The Financial Statements on pages 168 to 240 were approved by the Board of Directors on 3 April 2019 and signed on its behalf by:

Irakli Gilauri
Chief Executive Officer

Georgia Capital PLC
Registered No. 10852406

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

Financial Statements

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
At incorporation on 5 July 2017	–	–	–	–	–
Profit for the year	–	–	–	3	3
Issue of share capital (Note 24)	172	–	–	–	172
31 December 2017	172	–	–	3	175
Loss for the year	**–**	**–**	**–**	**(16,950)**	**(16,950)**
Increase in equity arising from share-based payments	**–**	**–**	**–**	**277**	**277**
Issue of share capital (Note 24)	**1,644,011**	**–**	**–**	**(202,460)**	**1,441,551**
Capital reduction (Note 24)	**(1,642,718)**	**–**	**–**	**1,642,718**	**–**
Cancellation of deferred redeemable shares	**(172)**	**–**	**–**	**–**	**(172)**
Purchase of treasury shares (Note 24)	**–**	**–**	**(41)**	**(44,677)**	**(44,718)**
31 December 2018	**1,293**	**–**	**(41)**	**1,378,911**	**1,380,163**

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

	Notes	2018	2017
Interest income received		**38**	–
Salaries and other employee benefits paid		**(810)**	–
General, administrative and operating expenses paid		**(1,443)**	–
Net other (expense paid)/income received		**(14,063)**	–
Cash flows from operating activities		**(16,278)**	–
Capital redemption from subsidiary		**64,468**	–
Cash flows from investing activities		**64,468**	–
Cash flows from financing activities			
Purchase of treasury shares	24	**(44,718)**	–
Net cash from financing activities		**(44,718)**	–
Effect of exchange rates changes on cash and cash equivalents		**109**	–
Net increase in cash and cash equivalents		**3,581**	–
Cash and cash equivalents, beginning of the period		**–**	–
Cash and cash equivalents, end of the period		**3,581**	–

The accompanying notes on pages 178 to 240 are an integral part of these Financial Statements.

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (THOUSANDS OF GEORGIAN LARI)

1. Principal Activities
Georgia Capital PLC ("Georgia Capital") is a public limited liability company incorporated in England and Wales with registered number 10852406. Georgia Capital PLC holds 100% of the share capital of the JSC Georgia Capital, which makes up a group of companies (the "Group"), focused on investing in and developing businesses in Georgia. Group principally operates in utility and renewable energy, property and casualty insurance, housing development, hospitality and commercial property construction and development, wine and beer production businesses through privately held subsidiaries. In addition to its privately held subsidiaries, the Group owns healthcare, pharmaceutical and medical insurance businesses through London Stock Exchange premium-listed Georgia Healthcare Group PLC and has significant investment in London Stock Exchange premium listed Bank of Georgia Group PLC. The shares of Georgia Capital are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities under the ticker CGEO, effective 29 May 2018.

JSC Georgia Capital was established on 6 August 2015 as a joint stock company (JSC) under the laws of Georgia. As of 31 December 2017, the Group's ultimate 100% owner was BGEO Group PLC ("BGEO" currently BGEO Group Limited), a company incorporated in England and listed on the London Stock Exchange.

On 29 May 2018 BGEO Group PLC (BGEO) completed demerger of its business activities into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC. As a result, Georgia Capital PLC became ultimate parent of Investment business, i.e. the Group.

Georgia Capital's registered legal address is: 84 Brook Street, London W1K 5EH, United Kingdom.

As at 31 December 2018, the following shareholders owned more than 5% of the total outstanding shares* of Georgia Capital. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	As at 31 December 2018
M&G Investment Management Ltd	8%
Schroder Investment Management	5%
Others	87%
Total	**100%**

* For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares which includes shares held in the trust for share-based compensation purposes of the Group and treasury shares bought as part of buyback programme announced on 14 June 2018.

2. Basis of Preparation
General

The Consolidated Financial Statements of Georgia Capital PLC represent continuation of consolidated financial statements of JSC Georgia Capital prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2018 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These Financial Statements are prepared under the historical cost convention except for:

- the measurement at fair value of debt securities owned and equity investments, derivative financial assets and liabilities, investment properties, and revalued property and equipment;
- the measurement of inventories at lower of cost and net realisable value; and

The Financial Statements are presented in thousands of Georgian Lari (GEL), except per-share amounts and unless otherwise indicated.

Going Concern

The Board of Directors of Georgia Capital has made an assessment of the Group's and Company'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 and Company's ability to continue as a going concern for the foreseeable future. Therefore, the separate and Consolidated Financial Statements continue to be prepared on a 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 2018. 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.

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

2. Basis of Preparation continued
Subsidiaries and Associates

Total amount of investment in subsidiaries in the Company's separate Statement of Financial Position as at 31 December 2018 was GEL 1,377,083 (31 December 2017: nil), represented by direct investment in JSC Georgia Capital. The deemed cost of the investment was determined as quoting price of the Company as at listing date adjusted for subsequent capital reductions. The Consolidated Financial Statements as at 31 December 2018 and 31 December 2017 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	 31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Georgia Capital	**100.00%**	–	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Investment	6/8/2015	–
JSC m² Real Estate	**100.00%**	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	27/9/2006	–
m² Residential, LLC	**100.00%**	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	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%**	100.00%	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
m² Hospitality, LLC	**100.00%**	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	17/8/2015	–
m², LLC (formerly JSC m²)	**100.00%**	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	12/2/2014	–
m² Kutaisi, LLC	**100.00%**	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
m² at Melikishvili, LLC	**100.00%**	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
Kass 1, LLC	**67.00%**	60.00%	Georgia	20 Merab Kostava st., Tbilisi	Real estate	16/10/2014	27/12/2017
Kakheti Wine and Spa, LLC	**100.00%**	–	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	23/4/2018	–
m² at Gudauri, LLC	**100.00%**	–	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	24/4/2018	–
m² Zugdidi, LLC	**100.00%**	–	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	7/11/2018	–
m² Svaneti, LLC	**100.00%**	–	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	14/11/2018	–
m² at Chavchavadze LLC	**100.00%**	100.00%	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–
m² Commercial Properties LLC	**100.00%**	100.00%	Georgia	80 Chavchavadze Ave., Tbilisi	Real estate	11/6/2014	–
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	–
BK Construction, LLC	**100.00%**	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	18/5/2017	2/6/2017
m² Commercial Assets, LLC	**100.00%**	–	Georgia	Tbilisi, Chavchavadze ave. 29	Real estate	4/10/2018	–
Melikishvili Business Centre, LLC	**100.00%**	–	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	4/12/2018	–
Georgia Hospitality Management Group, LLC	**100.00%**	–	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Real estate	22/8/2018	
JSC Georgian Renewable Power Company	**65.00%**	65.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	 31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Geohydro	**85.00%**	85.00%	Georgia	79 D. Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	**100.00%**	100.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	**100.00%**	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	20/8/2015	–
JSC Caucasian Wind Company	**100.00%**	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
JSC Caucasian Solar Company	**100.00%**	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
JSC A Group	**100.00%**	–	Georgia	1, Berbuki str., Saburtalo, Tbilisi	Various	20/9/2018	–
JSC Insurance Company Aldagi	**100.00%**	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	31/7/2014	–
JSC Insurance Company Tao	**100.00%**	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
Aliance, LLC	**100.00%**	100.00%	Georgia	20, Chavchavadze ave., floor 2, Vake-Saburtalo, Tbilisi	Various	3/1/2000	30/4/2012
Auto Way LLC (formerly known as Green Way, LLC)	**100.00%**	100.00%	Georgia	20, Chavchavadze ave., Vake, Tbilisi	Various	9/8/2004	30/4/2012
Insurance Informational Bureau, LLC	**22.50%**	22.50%	Georgia	Baratashvili bridge underground crossing, Mtkvari Left Bank, Old Tbilisi, Tbilisi	Insurance	23/7/2007	–
JSC Uno Leasing (formerly known as JSC AMF)	**100.00%**	100.00%	Georgia	3, Pushkini str., Krtsanisi, Tbilisi	Leasing	17/11/2017	–
JSC Greenway Georgia (formerly known as Premium Residence, LLC)	**100.00%**	100.00%	Georgia	6, University str., Vake, Tbilisi	Vehicle Inspection	9/7/2010	1/5/2012
GreenWash, LLC	**100.00%**	–	Georgia	6, University str., Vake, Tbilisi	Car wash	31/8/2018	–
Georgia Healthcare Group PLC	**57.05%**	57.05%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	**100.00%**	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L	**100.00%**	100.00%	Georgia	9, Anna Politkovskaias Str. Vake-Saburtalo District, Tbilisi	Insurance	22/6/2007	–
JSC GEPHA	**67.00%**	67.00%	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
JSC ABC Pharmacia (Armenia)	**100.00%**	100.00%	Armenia	Kievnaia sts. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
ABC Pharmalogistics, LLC	**100.00%**	**100.00%**	Georgia	Sanapiro Str.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
JSC Medical Corporation EVEX	**100.00%**	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**66.70%**	66.70%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia, LLC	**66.70%**	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Medical services	15/10/2004	12/9/2011
Tskaltubo Regional Hospital, LLC	**66.70%**	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Medical services	29/9/1999	12/9/2011

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(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 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Patgeo, LLC	**100.00%**	100.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
GN KO, LLC	**50.00%**	50.00%	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
High Technology Medical Centre, LLC	**100.00%**	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
Geolab, LLC	**–**	50.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
Nephrology Development Clinic Centre, LLC	**80.00%**	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
Catastrophe Medicine Pediatric Centre, LLC	**100.00%**	100.00%	Georgia	U. Chkeidze str. N 10, Tbilisi	Medical services	18/6/2013	5/8/2015
JSC Pediatria	**76.00%**	76.00%	Georgia	1, t. Chkheidze str., Didube-Chugureti District, Tbilisi	Medical services	5/9/2003	5/7/2016
Emergency Service, LLC	**100.00%**	100.00%	Georgia	#2, D. Uznadze st., Tbilisi	Medical services	28/7/2009	6/1/2016
JSC Poti Central Hospital (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	Guria str. 171, Poti	Medical services	29/10/2014	1/1/2016
Deka, LLC	**97.20%**	97.20%	Georgia	23, P. Kavtaradze Str., Tbilisi	Medical services	12/1/2012	11/6/2015
EVEX-Logistics, LLC	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	2/2/2015	–
EVEX Collection, LLC	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	25/3/2016	–
Unimed Achara, LLC (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Samtskhe, LLC (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
Unimedi Kakheti, LLC (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	20 Chavchvadze ave, Tbilisi	Medical services	29/6/2010	1/5/2012
M. Iashvili Children's Central Hospital, LLC (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	2/6 Lubliana Street, Tbilisi	Medical Service	3/5/2011	19/2/2014
Institute of Pediatrics, Alergology and Rheumatology Centre, LLC (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical Service	6/3/2000	19/2/2014
Iv Bokeria Tbilisi Referral Hospital (merged with JSC Medical Corporation EVEX)	**100.00%**	100.00%	Georgia	Kindzmarauli I turn, N1, Isan-Samgori, Tbilisi	Medical Service	16/3/2017	–
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (merged with JSC Medical Corporation EVEX)	**96.87%**	96.87%	Georgia	9 Paolo Iashvili street, Kutaisi	Medical services	3/11/2000	20/5/2008
Referral Centre of Pathology, LLC	**100.00%**	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held: 31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
EVEX Learning Centre	**100.00%**	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
JSC Mega-Lab	**100.00%**	100.00%	Georgia	23 Kavtaradze str., Tbilisi	Medical services	6/6/2017	–
New Clinic, LLC	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
Alliance Medi, LLC	**100.00%**	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
Medical Centre Alimedi, LLC	**–**	100.00%	Georgia	17 R. Tabukashvili str., Tbilisi	Medical services	27/9/2003	8/11/2017
JSC Polyclinic Vere	**97.80%**	97.80%	Georgia	18-20 Kiacheli str.,Tbilisi	Medical services	22/11/2017	25/12/2017
New Dent, LLC	**75.00%**	–	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	24/12/2017	–
JSC Vabaco	**67.00%**	–	Georgia	37. Bochorishvili Str. Saburtalo district, Tbilisi	Software developer	3/9/2013	28/9/2018
Georgian Global Utilities, LLC	**100.00%**	100.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/8/2007	31/12/2014
Georgian Water and Power, LLC	**100.00%**	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/6/1997	31/12/2014
Rustavi Water, LLC	**100.00%**	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/8/1999	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	Aghmashenebeli St., Mtskheta	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	**100.00%**	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/3/2011	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 Teliani Valley	**77.62%**	75.75%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007
Georgia Logistics and Distribution, LLC (Formerly known as Teliani Trading (Georgia), LLC)	**100.00%**	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	**100.00%**	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	**100.00%**	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac production	23/9/2006	20/3/2007
Kupa, LLC	**70.00%**	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak barrel production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	**100.00%**	100.00%	Georgia	Tsilkani, Mtskheta Region, Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
Global Coffee Georgia, LLC		100.00%	Georgia	29a Gagarini street, Tbilisi	Coffee distribution	26/12/2016	–
New Coffee Company, LLC		100.00%	Georgia	Tskneti Highway, No. 16/18, app. 36	Coffee distribution	23/9/2009	15/2/2017
Genuine Brewing Company, LLC	**100.00%**	–	Georgia	75 Chavchavadze Ave., Tbilisi	Beer production and distribution	14/11/2016	7/2/2018
JSC Georgian beverages	**100.00%**	–	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Oak barrel production	7/6/2016	–
Kindzmarauli Marani, LLC	**100.00%**	–	Georgia	56 A. Tsereteli Ave., Tbilisi	Winery	18/12/2001	25/4/2018
JSC Liberty Consumer	**75.10%**	98.28%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(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 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Intertour	**99.94%**	99.94%	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	**100%**	100.00%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–

In May 2017, the Group sold 7.21% equity interests in Georgia Healthcare Group PLC, received net proceeds of GEL 96,998 and recognised GEL 63,382 unrealised gain on sale of interests in existing subsidiaries.

Associates	Proportion of voting rights and ordinary share capital held 31 December 2018	31 December 2017	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	**35.00%**	35.00%	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016
JSC Isani Parki	**6.00%**	6.00%	Georgia	Kakheti Highway, Isani, Tbilisi	Real estate	18/12/2017	–

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 IFRS 9, Financial Instruments is measured at fair value with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. Summary of Significant Accounting Policies continued
Business Combination Under Common Control
The business combinations under common control are accounted for using pooling of interest method with restatement of periods prior to the combination under common control.

The assets and liabilities acquired are recognised 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 recognised as a result of business combination under common control.

Investments in Associates and Joint Ventures
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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures 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 or joint venture. The Group's share of its associates' and joint ventures' 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 or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group is considered an organisation similar to a venture fund. When the Group acquires an associate, at initial recognition, the Group makes an irrevocable choice to measure investment in associate under the equity method or at fair value through profit or loss under IFRS 9.

Investments in Subsidiaries in Parent Company Financial Statements
For the purposes of Parent Company Financial Statements investments in subsidiaries are accounted at cost. Investments in subsidiaries are accounted in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations when they are classified as held for sale or distribution. Dividends from a subsidiary are recognised in the Parent Company Financial Statements when the Parent's right to receive the dividend is established.

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued

Fair Value Measurement

The Group measures financial instruments, such as debt securities owned, equity investments, derivatives and non-financial assets such as investment properties and revalued property, plant and equipment at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Consolidated Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the Consolidated Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Non-Current Assets Held For Sale and Discontinued Operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the Statement of Financial Position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Profit or Loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the Statement of Cash Flows.

The asset or disposal group ceases to be classified as held for sale if the criteria for classification are no longer met. Non-current asset or disposal group that ceased to be classified as held for sale is measured at the lower of: (a) carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment to carrying amount of non-current asset that ceases to be classified as held for sale is recognised in the Income Statement in the period in which criteria for held for sale classification are no longer met. Financial Statements for the periods since classification as held for sale are amended accordingly if the disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

3. Summary of Significant Accounting Policies continued

Non-Current Assets Held For Sale and Discontinued Operations continued

The results of operations of the component previously presented in discontinued operations is reclassified and included in income from continuing operations for all periods presented. Amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the Statements of Financial Position for prior periods are not reclassified to reflect the classification in the Statement of Financial Position for the latest period presented.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within 90 days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Financial Assets

Initial Recognition

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

Financial Assets at Amortised Cost (Debt Instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

Financial Assets at Fair Value Through OCI (Debt Instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the Statement of Profit or Loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under debt securities owned.

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued

Financial Assets continued

Financial Assets Designated at Fair Value Through OCI (Equity Instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the Statement of Profit or Loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments and listed equity investment in Bank of Georgia Group PLC under this category.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in the Statement of Profit or Loss. This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of Financial Assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

3. Summary of Significant Accounting Policies continued

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 primarily derecognised (i.e. removed from the Group's Consolidated Statement of Financial Position) when:

- 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 has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities

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.

Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, borrowings including bank overdrafts and debt securities issued.

Borrowings and Debt Securities Issued

Borrowings and debt securities issued are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings and debt securities issued are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when borrowings are derecognised as well as through the amortisation process.

Borrowing Costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Insurance and Reinsurance Receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the Consolidated Statement of Income.

Reinsurance receivables, included in other assets, primarily comprise of balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued

Insurance Liabilities

General Insurance Liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the Consolidated Income Statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability Adequacy Test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the Consolidated Income Statement by establishing an unexpired risk provision.

Deferred Acquisition Costs

Deferred acquisition costs (DAC), included in insurance premiums receivable, are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

Investment Properties

Investment property is a land or building or a part of a building held to earn rental income or for capital appreciation purposes and which is not used by the Group or held for sale in the ordinary course of business. Property that is under construction, is being developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognised 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 recognised 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 capitalised 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 derecognised 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	100
Hotels	Up to 100
Infrastructure assets	10-40
Factory and equipment	7-30
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective groups 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 capitalisation.

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.

Biological Assets

Biological assets comprise grapes on the vine. Upon harvest the grapes are measured at fair value less costs to sell with any fair value gain or loss recognised in the Consolidated Income Statement.

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 four 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 programmes 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued

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 recognised in the Consolidated Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

Share-Based Payment 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 which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share Capital

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

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

Dividends
Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Income and Expense Recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Dividend Income
Dividend revenue is recognised when the Group's right to receive the payment is established.

Insurance Income and Expense
- Premiums written
  Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year before deduction of commission and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on monthly pro-rata basis.
- Premiums ceded
  Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro-rata basis.

3. Summary of Significant Accounting Policies continued

Income and Expense Recognition continued

Insurance Income and Expense continued
- Provision for unearned premiums
  The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated statement of comprehensive income in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.
- Benefits and 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. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims.

Income and Expense Recognition Healthcare and Pharma Revenue
The Group recognises revenue 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.
Healthcare services that the Group provides to the clients are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. 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 by reference to the stage of 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 by reference to the stage of 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 is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state). Invoice corrections are estimated at contract inception. The estimation of potential future corrections and rebates is calculated based on statistical average correction rate which is applied to gross amount of invoices that were not approved by the state as at reporting date. The Group's gross revenue (before deducting its corrections and rebates) is based on the official invoices submitted to and formally accepted by the customers (state, insurance companies, provider clinics and individuals) and accruals for already performed but not yet billed service.

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 when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must be met before revenue is 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 recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.
- Revenue from connection and water meter installation – includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Revenue from connection and water meter installation is recognised over the time in line with the satisfaction of performance obligation over the life of water meters.

Revenue from electric power sales is recognised on the basis of metered electric power transferred.

Real Estate Revenue
Gross real estate profit comprises revenue from sale of developed real estate property, revenue from construction services, revenue from hospitality operations and revaluation gains on investment properties.

Revenue from sale of developed real estate property is recognised over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognise revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such payments are recognised as deferred income. Significant financing component is usually immaterial.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued
Income and Expense Recognition continued
Real Estate Revenue continued
Revenue from construction services is recognised over the time based on the progress towards complete satisfaction of a performance obligation using output method based on the completion level reflected in monthly completion reports. Payment arrangements for construction services usually include advance payment of part of transaction price (usually up to 10%) and monthly progress payments during the construction by the customer, 5% from each monthly progress payment is usually retained by the customer as guarantee for a year after the completions of construction. Significant financing component is usually immaterial.

Revenue from hospitality operations is generated through hotel room and meeting space rental and sale of foods and beverages. Revenue is recognised when the Group satisfies a performance obligation, i.e. over the time the customer stays in the hotel and food and beverages are delivered to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer.

Beverages Revenue
Revenue from the sale of beverages is recognised when the Group satisfies the performance obligation, i.e. when the control of the goods has passed to the buyer, usually on delivery of the goods. For the finished goods sold on consignment basis, revenue is recognised when the goods are transferred to the end-customer or on expiration of specified period. Revenue recognised in connection to the sale of finished goods reflects an adjustment for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer).

Gain on measurement of grapes at fair value less costs to sell is recognised at the point of harvest.

Revenue from Customer Loyalty Programme
Customer loyalty programme points accumulated in the business are treated as deferred revenue and recognised in revenues gradually as they are earned. The Group recognises gross revenue earned from customer loyalty program when the performance obligation is satisfied, i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilised by customers based on statistical data. These points are treated as liability in the Statement of Financial Position and are only recognised in revenues when points are earned or expired.

Interest and Similar Income and Expense
For all debt financial instruments measured at amortised cost and fair value through OCI interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

EBITDA
The Group separately presents EBITDA on the face of the consolidated income statement. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net foreign currency (loss) gain, profits from associates and net non-recurring items.

Non-Recurring Items
The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

Taxation
The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Group and its subsidiaries operate.

The annual profit earned by entities is not taxed in Georgia, except for insurance companies. Corporate income tax is paid on dividends, donations, abnormal losses, non-business related disbursements, etc. The corporate income tax arising from the payment of dividends is accounted for as a liability and expensed in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The corporate income tax rate is 15% in Georgia.

According to the UK tax legislation, UK companies pay corporation tax on all its profits. UK corporate tax rate is 19%. 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.

3. Summary of Significant Accounting Policies continued
Functional, Presentation Currencies and Foreign Currency Translation
The Consolidated Financial Statements are presented in Georgian Lari, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Consolidated Income Statement as net foreign currency gain (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia (NBG) exchange rate on the date of the transaction are included in net foreign currency gain (loss). The official NBG exchange rates at 31 December 2018 and 31 December 2017 were as follows:

	Lari to GBP	Lari to US$	Lari to EUR
31 December 2018	**3.3955**	**2.6766**	**3.0701**
31 December 2017	3.5005	2.5922	3.1044

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the Consolidated Income Statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Adoption of New or Revised Standards and Interpretations
The nature and the effect of these changes are disclosed below:

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted the new standard from the effective date by recognising the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 did not restate comparative information.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(a) Classification and Measurement
Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's accounts receivables, cash and cash equivalents, amounts due from credit institutions and loans disbursed. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

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3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
IFRS 9 Financial Instruments continued
Other financial assets are classified and subsequently measured, as follows:
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted and some quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's investment in equity instruments were classified as AFS financial assets. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Net gains and losses, including any interest or dividend income from financial assets at FVPL, are recognised in profit or loss Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the Statement of Profit or Loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table below summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at 1 January 2018 and shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	ECL	New carrying amount under IFRS 9
Assets					
Cash and cash equivalents	Loan and receivables	Amortised cost	346,241	(2)	346,239
Amounts due from credit institutions	Loan and receivables	Amortised cost	38,141	–	38,141
Debt securities owned			31,907	–	31,907
Debt securities	Available for sale	FVOCI–debt	31,907	–	31,907
Equity investments at fair value			1,153	–	1,153
Corporate shares	Available for sale	FVOCI–designated	1,153	–	1,153
Accounts receivable	Loan and receivables	Amortised cost	158,725	(13,830)	144,895
Total assets			**2,716,348**	**(13,832)**	**2,702,516**
Total liabilities			**1,574,120**	**–**	**1,574,120**

In addition to the application of new measurement categories under IFRS 9, the Group changed the presentation of debt and equity investment securities, which are presented separately as "debt securities owned" and "equity investments at fair value" in the Statement of Financial Position. Prior to the change, debt and equity investment securities were presented together as "investment securities".

(b) Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans disbursed and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
IFRS 9 Financial Instruments continued
For other debt financial assets (i.e., amounts due from credit institutions and loans at amortised cost and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to retained earnings.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings and NCI: Line items that were not affected by the changes have not been included. As a result, total equity cannot be recalculated from the numbers provided.

	Retained earnings	Other reserves	Non-controlling interest	Total equity
Closing balance under IAS 39 (31 December 2017)	197,222	171,254	297,565	1,142,228
Reclassifications under IFRS 9	–	–	–	–
Recognition of expected credit loss under IFRS 9 for assets at amortised cost	(10,616)	–	(3,216)	(13,832)
Recognition of expected credit loss under IFRS 9 for assets at FVOCI	(192)	192	–	–
Opening balance under IFRS 9 (1 January 2018)	**186,414**	**171,446**	**294,349**	**1,128,396**

The following table demonstrates the impact on opening balance of loss allowance:

	Loss allowance under IAS 39/IAS 37 at 31 December 2017	ECL	Loss allowance under IFRS 9 at 1 January 2018
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)			
Cash and cash equivalents	–	(2)	**(2)**
Debt securities owned	–	(192)	**(192)**
Accounts receivable	(18,695)	(13,830)	**(32,525)**
Total impact of adopting IFRS 9 at 1 January 2018	(18,695)	(13,832)	**(32,527)**

(c) Hedge Accounting
The Group continues to apply the hedge accounting requirements of IAS 39.

(d) Other Adjustments
In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary Financial Statements such as assets held for sale and liabilities associated with them and exchange differences on translation of foreign operations were adjusted as necessary.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's Consolidated Financial Statements.

Amendments to IAS 40 Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's Consolidated Financial Statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
The IASB issued amendments to IFRS 2 Share-Based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions continued
periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for share-based transactions with net settlement features for withholding tax obligations is consistent with the approach clarified in the amendments.

In addition, the Group has no cash-settled share-based payment transactions and had not made modifications to the terms and conditions of its share-based payment transaction where modification changed classification from cash-settled to equity-settled. Therefore, these amendments do not have any impact on the Group's Consolidated Financial Statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments did not have impact on the Group's Consolidated Financial Statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification That Measuring Investees at Fair Value Through Profit or Loss is an Investment-by-Investment Choice
The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's Consolidated Financial Statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of Short-Term Exemptions for First-Time Adopters
Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's Consolidated Financial Statements.

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 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 2022, with comparative figures required. Early application is permitted using either a full retrospective or a modified retrospective approach, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently evaluating the impact.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

3. Summary of Significant Accounting Policies continued
Standards Issued But Not Yet Effective continued
Transition to IFRS 16
The Group plans to adopt IFRS 16 using modified retrospective approach, i.e. the Group will recognise cumulative catch-up adjustment on opening balance sheet without the restatement of prior period comparatives. At transition the Group will recognise a lease liability for leases previously classified as an operating lease applying IAS 17. Lease liability will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group will also recognise a right-of-use asset for such leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application. The Group applies the following practical expedients:

- The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Group excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the Statement of Financial Position (Increase/(Decrease)) as at 31 December 2018

	31 December 2018
Property and equipment	83,758
Prepayment	(261)
Total assets	**83,497**
Lease liabilities	83,497
Total liabilities	**83,497**

Due to the adoption of IFRS 16, the Group's EBITDA will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IAS 23 Interpretation: Recognition of Borrowing Costs in Arrangements to Sell Properties Where the Property is Transferred Over Time
In March 2019, IFRS Interpretations Committee adopted the final agenda decision in relation to recognition of borrowing costs in arrangements to sell properties (units in a building) where the property is transferred over time under IFRS 15. According to the agenda decision, capitalisation of borrowing costs under to cost of sold or unsold units would not be appropriate under IAS 23. As the result of new interpretation arising from the IFRS Interpretations Committee decision, the Company considers changing its existing accounting policy in relation to borrowing costs capitalisation to cost of inventory property. The Group is currently estimating the effect of the expected change in accounting policy.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the Consolidated Financial Statements of the Group.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

3. Summary of Significant Accounting Policies continued
Standards Issued But Not Yet Effective continued
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments have no impact on the Consolidated Financial Statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments or settlements of the Group.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its Consolidated Financial Statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)
These improvements include:

- *IFRS 3 Business Combinations*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.
- *IFRS 11 Joint Arrangements*
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.
- *IAS 12 Income Taxes*
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its Consolidated Financial Statements.

3. Summary of Significant Accounting Policies continued
Standards Issued But Not Yet Effective continued
Annual Improvements 2015-2017 Cycle (issued in December 2017) continued
- *IAS 23 Borrowing Costs*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its Consolidated Financial Statements.

Reclassifications
As at 31 December 2018 the Group changed the presentation of its Consolidated Income Statement and aggregated all the revenue and cost of sales under two separate line items respectively.

The following reclassification was made to year ended 31 December 2017 Consolidated Income Statement to conform to the year ended 31 December 2018 presentation requirements.

	As previously reported*	Reclassification	As Reclassified
Utility and energy revenue	127,569	(127,569)	–
Cost of utility and energy	(39,198)	39,198	–
Gross utility and energy profit	88,371	(88,371)	**–**
Real estate revenue	121,862	(121,862)	–
Cost of real estate	(85,765)	85,765	–
Gross real estate profit	36,097	(36,097)	**–**
Net insurance premiums earned	102,329	(102,329)	–
Net insurance claims incurred	(60,251)	60,251	–
Gross insurance profit	42,078	(42,078)	**–**
Beverage revenue	55,441	(55,441)	–
Cost of beverage	(32,313)	32,313	–
Gross beverage profit	23,128	(23,128)	**–**
Healthcare and pharma revenue	691,971	(691,971)	–
Cost of healthcare and pharma services	(478,182)	478,182	–
Gross healthcare and pharma profit	213,789	(213,789)	**–**
Other income	27,998	(27,998)	–
Revenue	–	1,127,170	1,127,170
Cost of sales	–	(695,709)	(695,709)
Gross profit	431,461	–	431,461

* The numbers include Georgia Healthcare Group PLC, that was previously classified as disposal group held for sale as at 31 December 2017. Refer to Note 6.

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4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the Management Board use their judgement and make estimates in determining the amounts recognised in the Consolidated Financial Statements. The most significant judgements and estimates are as follows:

Measurement of Fair Value of Investment Properties and Property and Equipment

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

Infrastructure assets included in property and equipment are carried at fair value. For the years ended 31 December 2018 and 2017 the Group performed the analysis based on discounted cash flow method to ensure that the carrying value of infrastructure assets does not differ materially from their fair value.

The Group performs valuation of its investment properties and infrastructure assets included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in Notes 13 and 14, while valuation inputs and techniques are presented in Note 31. The Group's properties are specialised in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium-sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Impairment of insurance Premiums Receivable, Accounts Receivable and Other Assets

The impairment provision for insurance premiums receivable, accounts receivable and other assets is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is considered to be impaired. A key criterion for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of impairment. If the Group determines that objective evidence of impairment exists, the proper provision rate is applied. If the Group determines that no objective evidence of impairment exists, whether significant or not, it includes the trade and other receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes the management judgement 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 2018 was GEL 21,713 (31 December 2017: GEL 4,003). Refer to Note 27.

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2018 was GEL 8,285 (31 December 2017: GEL 4,243). Refer to Note 27.

Claims Liability Arising From Insurance Contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. Refer to Note 18.

Ownership and Recognition of Infrastructure Assets

The Group's property, plant and equipment includes certain specific items, such as like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction.

Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these Consolidated Financial Statements.

However, based on the provisions of privatisation agreement, management has applied judgement 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 judgement and to the extent that there was no litigation against the Group or disputes on ownership, management recognised infrastructure assets as the Group's property, plant and equipment.

4. Significant Accounting Judgements and Estimates continued

Impairment of Non-Financial Assets

The Group annually performs impairment testing for intangible assets with indefinite useful life, goodwill acquired in a business combination and any assets for which impairment indicators have been identified. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next four to five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in the Note 15.

As at 31 December 2018, the Group performed impairment test for the assets of its beer business (cash-generating unit or CGU), which plans to introduce several new beer brands in Georgia, commence local production of Heineken and rebrand existing lemonade production. The recoverable amount of the CGU was determined as its value in use based on a DCF model. The values assigned to the key assumptions represent management's assessment of the Company's future performance, competition analysis, macro-economic factors and trends in the beverages industry. The calculations use cash flow projections based on approved financial budgets covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated terminal growth rate.

The following table sets out the key assumptions for the beer CGU impairment test:

Assumption	Value
WACC	15.4%
Terminal growth rate	3.5%
Beer sales volume growth CAGR in four-year period	17.8%

Based on the above assumptions, assets of beer business are not impaired for the year ended 31 December 2018. The recoverable amount of GEL 100,145 thousands almost equals the carrying amount of the CGU adjusted for working capital. Sensitivity analysis for changes in key assumptions (lower forecast volumes, lower terminal period growth rates or higher discount rates) was performed. Any adverse movement in key estimates might result in impairment of CGU.

5. Business Combinations

Acquisitions During The Year Ended 31 December 2018

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.

Net assets of Genuine Brewing Company LLC at acquisition date comprised GEL 5,609. Consideration comprised of GEL 7,835.

The fair values of aggregate identifiable assets and liabilities of Genuine Brewing Company LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	129
Accounts receivable [1]	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
Purchase consideration	7,835

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5. Business Combinations continued
Acquisitions During The Year Ended 31 December 2018 continued
Acquisition of Genuine Brewing Company continued
The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(7,835)
Cash acquired with the subsidiary	129
Net cash outflow	**(7,706)**

The Group decided to increase its presence in the beverage market by acquiring Genuine Brewing Company LLC. Management considers that the purchase will have a positive impact on the value of the Group's beverage business.

Since the acquisition, Genuine Brewing Company LLC has recorded GEL 1,967 and GEL 2,183 of revenue and loss, respectively. Group's profit and revenue would not have been materially different if the acquisition had taken place at the beginning of the year.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

1 The fair value of the receivables amounted to GEL 214. The gross amount of receivables is GEL 214.

Kindzmarauli Marani LLC
On 26 April 2018 Georgia Capital acquired 60.5% of Kindzmarauli Marani LLC ("Kindzmarauli"), a producer of high-quality Georgian wines and spirits, which owns 350 hectares of vineyards in Georgia's Kakheti region, from individual investors. The acquisition was carried out through locally established special purpose vehicle (SPV). The control over Kindzmarauli is obtained without having direct equity interest, through loan and management agreements signed with SPV, which provide Georgia Capital with the power, exposure to variability of returns and the ability to use the power to affect the returns of Kindzmarauli.

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

	Fair value recognised on acquisition
Cash and cash equivalents	1,209
Accounts receivable [1]	1,899
Inventories	2,817
Property and equipment	26,299
Intangible assets	28
Prepayments	19
	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	3,136
Purchase consideration [2]	17,816

For the purposes of NCI calculation, net assets of Kindzmarauli are derived after deducting liability outstanding to Georgia Capital at acquisition date fair value.

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(17,816)
Cash acquired with the subsidiary	1,209
Net cash outflow	**(16,607)**

5. Business Combinations continued
Acquisitions During The Year Ended 31 December 2018 continued
Kindzmarauli Marani LLC continued
The Group decided to obtain ownership over 350 hectares of vineyards and wine production facilities in Georgia's Kakheti region as a step towards Georgia Capital's goal of owning 1,000 hectares of vineyards through the acquisition of Kindzmarauli. Management considers that the acquisition will have a positive impact on the value of the Group.

Since the acquisition, Kindzmarauli has recorded GEL 6,698 and GEL 1,207 of revenue and loss, respectively. Group's profit and revenue would not have been materially different if the acquisition had taken place at the beginning of the year.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

In August 2018 Group acquired additional 39.5% ownership interest in Kindzmarauli as a result of which Group became 100% shareholder of the Company. Group paid GEL 5,667 (of which GEL 651 is holdback outstanding as at 31 December 2018) total consideration for the acquisition and recorded GEL 7,022 unrealised loss from acquisition of non-controlling interest in existing subsidiary.

1 The fair value of the receivables amounted to GEL 1,899. The gross amount of receivables is GEL 1,899.
2 Purchase consideration comprises of GEL 6,143 cash payment for acquisition of equity stake in the company and GEL 11,673 paid to acquire a loan to the acquiree from its previous controlling shareholder.

JSC Vabaco
On 27 September 2018 Group's healthcare subsidiary JSC Georgia Healthcare Group acquired 67% of JSC Vabaco ("Vabaco") shares from individual investors. JSC Vabaco is a software service company in Georgia.

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

	Fair value recognised on acquisition
Cash and cash equivalents	22
Property and equipment	20
Intangible assets	1,992
Other assets	20
	2,054
Accounts payable	157
Accruals for employee compensation	201
Other liabilities	132
	490
Total identifiable net assets	1,564
Non-controlling interests	516
Goodwill arising on business combination	–
Purchase consideration [1]	1,048

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(1,048)
Cash acquired with the subsidiary	22
Net cash outflow	**1,026**

By acquiring Vabaco the Group's healthcare subsidiary gets full access to software and the unique software specific values that the acquisition creates to the Company. Management of GHG considers that the deal will have a positive impact on the value of the Company.

Since acquisition, Vabaco has recorded GEL 61 and GEL 12 of revenue and profit, respectively. For the year ended 31 December 2018 revenue and profit of the acquired entity were GEL 365 and GEL 42, respectively.

The Group has elected to measure the non-controlling interests in Vabaco at the non-controlling interests' proportionate share of Vabaco's identifiable net assets.

1 Consideration comprised GEL 1,048, which has been fully paid as at reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED (THOUSANDS OF GEORGIAN LARI)

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

At 31 December 2017, given the expectation, in line with Georgia Capital's strategy, Group intended reduction to Georgia Healthcare Group (GHG) stake to below 50% by the end of the year 2018. In line with IFRS 5 requirements, Georgia Capital classified GHG as a disposal group held for sale/discontinued operations in 2017 Consolidated Financial Statements. The Group classified GHG's results of operations under "discontinued operations" line as a single amount in the Consolidated Income Statement.

On 23 August 2018 Georgia Capital announced that it no longer expects to own less than 50% stake in GHG at the end of 2018. The Group concluded that current share price of GHG significantly undervalues its performance and it would not be in the best interests of the Group's shareholders to reduce ownership interest in GHG to below 50% during 2018 and, consequently, Georgia Capital PLC shall continue to hold over 50% of GHG until such time as the Group considers it to be in the best interests of shareholders to do otherwise.

As the sell down of GHG shares to below 50% within one year from classification as held for sale is no longer probable (i.e. the Board withdrew the plan to sell at current share price), investment in GHG stopped meeting IFRS 5 criteria for classification on 23 August, therefore Georgia Capital ceases to classify GHG as a disposal group held for sale in 2018 annual Consolidated Financial Statements.

IFRS 5 requires that financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary.

The results of operations and cash flows of GHG have been included in results from continuing operations for all periods presented. Comparative Consolidated Income Statement and Consolidated Statement of Cash Flows for the year 2017 have been re-presented accordingly. Comparative Consolidated Statement of Financial Position has not been represented; assets and liabilities of GHG continue to be presented separately as assets and liabilities of a disposal group held for sale as at 31 December 2017.

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

Below are re-presented Income Statement line items of the Group attributable to GHG for the year ended 2017:

	As previously reported	Reclassification	As Reclassified
Healthcare and pharma revenue	–	691,971	691,971
Cost of healthcare and pharma services	–	(478,182)	(478,182)
Gross healthcare and pharma profit	–	213,789	213,789
Utility and energy revenue	127,569	–	127,569
Cost of utility and energy	(39,198)	–	(39,198)
Gross utility and energy profit	88,371	–	88,371
Real estate revenue	121,133	729	121,862
Cost of real estate	(85,765)	–	(85,765)
Gross real estate profit	35,368	729	36,097
Net insurance premiums earned	52,147	50,182	102,329
Net insurance claims incurred	(25,098)	(35,153)	(60,251)
Gross insurance profit	27,049	15,029	42,078
Beverage revenue	55,441	–	55,441
Cost of beverage	(32,313)	–	(32,313)
Gross beverage profit	23,128	–	23,128
Other income	7,622	20,376	27,998
Gross profit	181,538	249,923	431,461
Salaries and other employee benefits	(31,783)	(75,429)	(107,212)
Administrative expenses	(35,578)	(50,121)	(85,699)
Other operating expenses	(1,892)	(10,945)	(12,837)
Expected credit loss/impairment charge on financial assets	(2,475)	(3,696)	(6,171)
Impairment charge on insurance premium receivables, other assets and provisions	(942)	(479)	(1,421)
	(72,670)	(140,670)	(213,340)
EBITDA	108,868	109,253	218,121
Share in profit of associates	–	376	376
Depreciation and amortisation	(28,237)	(25,794)	(54,031)
Net foreign currency loss	(830)	(5,907)	(6,737)
Interest income	6,847	2,062	8,909
Interest expense	(33,397)	(27,506)	(60,903)
Net operating income before non-recurring items	53,251	52,484	105,735
Net non-recurring items	(551)	(4,779)	(5,330)
Profit before income tax expense from continuing operations	52,700	47,705	100,405
Income tax expense	(5,749)	(387)	(6,136)
Profit for the year from continuing operations	46,951	47,318	94,269
Profit from discontinued operations	47,318	(47,318)	–
Profit for the year	94,269	–	94,269

* The difference with profit from discontinued operations as previously reported is attributable to intra-Group eliminations in the net gain amount of GEL 1,468 for the year ended 31 December 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

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

Assets and liabilities of disposal group held for sale as at 31 December 2017 are presented below:

	31 December 2017
Cash and cash equivalents	48,840
Amounts due from credit institutions	14,768
Investment securities	1,263
Accounts receivable	123,388
Insurance premiums receivable	21,257
Inventories	118,811
Prepayments	30,354
Income tax assets	2,026
Property and equipment	626,476
Goodwill	114,798
Intangible assets	28,466
Other assets	19,313
Total assets**	1,149,760
Accounts payable	97,321
Insurance contracts liabilities	20,953
Income tax liabilities	72
Borrowings	267,010
Debt securities issued	93,493
Other liabilities	140,552
Total liabilities**	619,401
Net assets disposed	530,359

** The differences with assets and liabilities of disposal group held for sale presented in Consolidated Statement of Financial Position are attributable to intra-Group eliminations in amount of GEL 1,176 and GEL 372, respectively.

7. Segment Information

At 31 December 2018 the Group changed the composition, measurement and presentation of its reportable segments. In line with IFRS 8 requirements, the change was applied retrospectively for comparable periods. The change primarily related to the presentation of segments based on the industries instead of legal entities and measurement based on segments' stand-alone performance prior to adjusting for intra-Group transactions and balances instead of measurement after intra-Group adjustments.

The table below summarises the change in segment reporting:

Previously presented segment	New segment
GHG	• *Healthcare*
m²	• *Housing Development* • *Hospitality and Commercial*
Aldagi	• *P&C Insurance*
GGU	• *Water Utility* • *Renewable Energy*
Teliani	• *Beverage*
	• *Corporate Centre*

The Group believes that the revised composition and presentation of its reportable segments provides more relevant information to the Financial Statement users as it better aligns financial reporting with management's views of operations within the Group and decision-making about resource allocations.

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

Healthcare	– Georgia Healthcare Group – principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals.
Housing Development	– Principally developing, constructing and selling residential apartments and providing land development services to third parties.
Hospitality and Commercial	– Developing and leasing rent-earning commercial assets and developing hotels across Georgia.
Water Utility	– Principally supplying water and providing a wastewater service.
Renewable Energy	– Principally developing renewable energy power plants and supplying electricity.
P&C Insurance	– Principally providing wide-scale property and casualty insurance services to corporate and individual clients.
Beverage	– Principally producing and distributing wine, beer and soft beverages.
Other	– Comprises of early stage businesses and feasibility costs incurred on pipeline projects.
Corporate Centre	– Comprising of Georgia Capital PLC and JSC Georgia Capital.

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the Consolidated Financial Statements other than feasibility costs capitalised on pipeline projects, derecognition of interest accrued on loans issued to subsidiaries and foreign currency translation gain/(loss) incurred on preferred stocks owned.

Transactions between segments are accounted for at actual transaction prices.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during year ended 31 December 2018 and 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

7. Segment Information continued

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2018:

	Healthcare	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Other	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group Total
Revenue	861,337	149,128	137,772	59,271	–	38,461	76,499	–	–	(39,602)	1,282,866
Cost of sales	(574,866)	(36,920)	(117,311)	(25,748)	–	(4,085)	(46,980)	–	–	9,719	(796,191)
Gross profit	286,471	112,208	20,461	33,523	–	34,376	29,519	–	–	(29,883)	486,675
Operating expenses and impairment	(154,448)	(29,427)	(11,583)	(15,453)	(789)	(2,841)	(35,734)	(1,395)	(18,253)	939	(268,984)
EBITDA	132,023	82,781	8,878	18,070	(789)	31,535	(6,215)	(1,395)	(18,253)	(28,944)	217,691
Profit from associates	247	–	–	–	–	–	–	–	–	–	247
Dividend income*	–	–	–	–	–	–	–	–	23,875	–	23,875
Depreciation and amortisation	(33,883)	(25,392)	(867)	(1,023)	(352)	(105)	(11,820)	–	(84)	(629)	(74,155)
Net foreign currency (loss)/gain	(4,175)	(4,970)	(487)	138	(401)	(1,084)	(1,864)	88	(22,897)	(1,894)	(37,546)
Interest income	1,139	568	320	3,539	149	197	132	–	39,587	(22,356)	23,275
Interest expense	(39,314)	(14,321)	(1,401)	–	–	(2,815)	(7,263)	(42)	(44,711)	18,248	(91,619)
Net operating income/(loss) before non-recurring items	56,037	38,666	6,443	20,724	(1,393)	27,728	(27,030)	(1,349)	(22,483)	(35,575)	61,768
Net non-recurring items	(2,186)	(6,121)	(6,224)	(652)	577	(1,333)	(1,886)	23	(23,449)	–	(41,251)
Profit/(Loss) before income tax	53,851	32,545	219	20,072	(816)	26,395	(28,916)	(1,326)	(45,932)	(35,575)	20,517
Income tax expense	(616)	–	–	(2,990)	–	–	–	–	–	–	(3,606)
Profit/(Loss) for the year	53,235	32,545	219	17,082	(816)	26,395	(28,916)	(1,326)	(45,932)	(35,575)	16,911
Revenue	861,337	149,128	137,772	59,271	–	38,461	76,498	–	–	(39,601)	1,282,866
Assets and liabilities											
Cash and cash equivalents	36,154	13,713	8,830	11,104	8,388	26,275	9,953	229	142,284	–	256,930
Amounts due from credit institutions	11,808	936	1,633	23,456	–	2,341	125	–	–	–	40,299
Debt investment securities	1,285	–	–	4,408	–	–	–	–	157,364	(91,233)	71,824
Equity investments at fair value	–	–	512	–	–	45	–	–	457,495	(557)	457,495
Total assets	1,239,104	646,974	249,737	145,866	169,304	294,834	205,277	48,654	1,088,079	(365,983)	3,721,846
Borrowings	296,817	290,266	59,312	–	70,711	113,933	118,147	38,095	–	(222,926)	764,355
Debt securities issued	93,573	29,980	67,697	–	–	19,609	–	–	802,045	(96,503)	916,401
Total liabilities	665,490	376,488	182,952	89,632	75,144	134,994	149,107	42,721	804,960	(330,462)	2,191,026
Total equity attributable to shareholders of the Group	295,689	270,486	66,785	56,234	61,181	149,079	44,082	5,933	283,119	(30,773)	1,201,815

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7. Segment Information continued

The following tables present Income Statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	Healthcare	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial	Beverages	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group Total
Revenue	763,443	135,099	116,577	54,815	(26)	4,732	55,687	–	(3,157)	1,127,170
Cost of sales	(514,337)	(39,198)	(85,208)	(25,098)	–	(556)	(32,314)	–	1,002	(695,709)
Gross profit	249,106	95,901	31,369	29,717	(26)	4,176	23,373	–	(2,155)	431,461
Operating expenses and impairment	(141,332)	(23,849)	(7,661)	(12,760)	(329)	(859)	(22,188)	(8,556)	4,194	(213,340)
EBITDA	107,774	72,052	23,708	16,957	(355)	3,317	1,185	(8,556)	2,039	218,121
Profit from associates	376	–	–	–	–	–	–	–	–	376
Net gains from disposal of investment businesses	–	–	–	–	–	–	–	90,275	(90,275)	–
Depreciation and amortisation	(25,795)	(20,116)	(490)	(855)	(216)	(18)	(6,541)	–	–	(54,031)
Net foreign currency (loss)/gain	(5,907)	(482)	40	208	(966)	–	(7,144)	7,514	–	(6,737)
Interest income	2,111	1,637	794	2,965	93	24	189	1,379	(283)	8,909
Interest expense	(27,543)	(13,483)	(364)	–	–	(185)	(3,345)	(16,266)	283	(60,903)
Net operating income/(Loss) before non-recurring items	51,016	39,608	23,688	19,275	(1,444)	3,138	(15,656)	74,346	(88,236)	105,735
Net non-recurring items	(4,779)	(1,136)	(126)	–	14	(3)	700	–	–	(5,330)
Profit/(Loss) before income tax	46,237	38,472	23,562	19,275	(1,430)	3,135	(14,956)	74,346	(88,236)	100,405
Income tax expense	(387)	(934)	(1,508)	(2,975)	–	(47)	(285)	–	–	(6,136)
Profit/(Loss) for the year	45,850	37,538	22,054	16,300	(1,430)	3,088	(15,241)	74,346	(88,236)	94,269
Revenue	763,443	135,099	116,577	54,815	(26)	4,732	55,687	–	(3,157)	1,127,170
Assets and liabilities										
Cash and cash equivalents	–	61,961	19,945	4,186	8,298	14,998	17,454	219,399	–	346,241
Amounts due from credit institutions	–	7,658	114	25,968	–	–	4,401	–	–	38,141
Debt investment securities	–	–	–	4,180	–	–	–	45,147	(17,420)	31,907
Equity investments at fair value		–	3,204	–	–	124	–	–	(2,175)	1,153
Total assets	1,166,357	569,474	244,600	135,325	96,552	130,440	167,974	297,313	(91,687)	2,716,348
Borrowings	–	217,405	44,244	–	64,848	39,000	71,430	272,279	(58,472)	650,734
Debt securities issued	–	30,009	65,925	–	–	–	–	–	(18,099)	77,835
Total liabilities	619,398	301,551	168,991	86,473	69,920	41,880	92,813	273,506	(80,412)	1,574,120
Total equity attributable to shareholders of the Group	282,505	267,923	75,609	48,852	17,290	78,142	57,509	23,801	(6,968)	844,663

* Net gains from disposal of investment business of Corporate Centre comprises of gain from sale of GHG as accounted in JSC Georgia Capital's separate Income Statement, related increase in consolidated equity is presented as sale of interests in existing subsidiaries in Consolidated Statement of Changes in Equity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

8. Cash and Cash Equivalents

	31 December 2018	31 December 2017
Cash on hand	**2,577**	627
Current accounts with financial institutions	**227,541**	345,614
Time deposits with financial institutions with maturities of up to 90 days	**26,813**	–
Cash and cash equivalents, gross	**256,931**	346,241
Allowance (Note 27)	**(1)**	–
Cash and cash equivalents, net	**256,930**	346,241

9. Amounts Due from Credit Institutions

	31 December 2018	31 December 2017
Time deposits with maturities of more than 90 days	**35,924**	30,485
Deposits pledged as security for open commitments	**4,375**	7,656
Amounts due from credit institutions, gross	**40,299**	38,141
Allowance (Note 27)	**–**	–
Amounts due from credit institutions, net	**40,299**	38,141

10. Debt Securities Owned and Equity Investments at Fair Value

	31 December 2018	31 December 2017
Internationally listed debt securities	**67,933**	3,028
Locally listed debt securities	**3,891**	28,879
Debt securities owned	**71,824**	31,907

	31 December 2018	31 December 2017
Bank of Georgia Group PLC	**457,495**	–
Other	**–**	1,153
Equity investments at fair value	**457,495**	1,153

Equity investments at fair value include equity instruments designated at fair value through OCI representing 19.9% interest of Bank of Georgia Group PLC. This investment was irrevocably designated at fair value through OCI as the Group considers this investment to be strategic in nature, in addition, the Group does not hold the shares for the purpose of short-term capital appreciation. In 2018 the Group recognised dividend income in the amount of GEL 23,875 from this investment.

11. Accounts Receivable

	31 December 2018	31 December 2017
Healthcare services	**115,150**	–
Water supply services	**23,965**	20,396
Sales of pharmaceuticals	**21,024**	–
Beverage sales	**18,235**	14,497
Connection services	**4,317**	1,605
Electric power sales	**700**	1,267
Installation of water meters	**94**	220
Other receivables	**8,456**	1,355
Accounts receivable, gross	**191,941**	39,340
Allowance (Note 27)	**(21,713)**	(4,003)
Accounts receivable, net	**170,228**	35,337

Accounts receivable balance includes contract assets from sales to customers GEL 2,586 (2017: GEL 1,008). For more details, please refer to Note 25.

12. Inventories

	31 December 2018	31 December 2017
Healthcare and pharma inventory	**146,164**	–
Real estate inventory	**99,364**	58,830
Other inventory	**33,087**	21,280
Inventory	**278,615**	80,110

The Group performed inventory net realisable value test and charged impairment in the amount of GEL 179 (2017: GEL 323, was charged to profit or loss).

13. Investment Properties

	31 December 2018	31 December 2017
At 1 January	**159,989**	134,990
Additions*	**27,626**	17,199
Disposals	**(2,461)**	(402)
Net gains from revaluation of investment property	**6,895**	24,685
Transfers from/(to) property and equipment and other assets**	**(48,971)**	(19,590)
Currency translation differences	**8,154**	3,107
At 31 December	**151,232**	159,989

* Non-cash additions comprised GEL 1,145 as at 31 December 2018 (2017: nil).
** Comprised of GEL 8,930 transfer to property and equipment (2017: transfers to property and equipment GEL 18,432), GEL 40,041 transfer to inventories (2017: transfer to other assets – inventories GEL 1,158).

Investment properties are stated at fair value except for those investment properties under construction for which fair value is not reliably measurable (with carrying value of GEL 43,676 as at 31 December 2018 (2017: GEL 35,000)). Fair value represents the price that would be received in exchange for an asset in an arm's length transaction between market participants at the measurement date. As at 31 December 2018 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 31 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 2018 was GEL 1,132 (2017: GEL 113,598).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

14. Property and Equipment

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings	Hotels	Hospitals and clinics	Assets under construction	Infrastructure assets	Factory and equipment	Computers and equipment	Other	Total
Cost or revalued amount									
31 December 2017	136,784	–	–	142,801	275,669	91,023	13,949	41,614	701,840
Additions	10,213	2,991	22,209	274,458	12,206	5,726	62,174	20,659	410,636
Business combinations, Note 5	6,639	–	–	–	–	15,303	5,632	4,042	31,616
Disposals	(833)	–	–	(29)	(198)	(70)	(297)	(382)	(1,809)
Transfers	19,107	–	(6,624)	(153,774)	142,218	(10,866)	(1,170)	11,109	–
Transfers (to)/from investment properties	8,572	19,837	–	(19,840)	–	–	–	–	8,569
Transfer from assets of disposal group held for sale	14,939	–	417,574	325	–	–	198,315	37,297	668,450
Currency translation differences	9	1,532	–	4,601	–	–	63	300	6,505
At 31 December 2018	195,653	24,360	433,159	248,770	429,895	101,116	278,838	114,639	1,826,430
Accumulated impairment									
31 December 2017	390	–	–	–	–	–	23	1	414
Reversal	(15)	–	–	–	–	–	–	–	(15)
Disposals	–	–	–	–	–	–	–	(8)	(8)
Transfer from assets of disposal group held for sale	–	–	(4)	–	–	–	–	–	(4)
Transfers to investment properties	(271)	–	–	–	–	–	–	–	(271)
Currency translation differences	1	–	–	–	–	–	–	–	1
At 31 December 2018	105	–	(4)	–	–	–	23	(7)	117
Accumulated depreciation									
31 December 2017	5,249	–	–	–	23,084	3,887	6,314	5,257	43,791
Depreciation charge	1,460	162	5,192	–	20,426	7,490	23,674	10,684	69,088
Currency translation differences	(229)	–	–	–	64	47	191	29	102
Transfers	(70)	–	–	–	(5)	(613)	352	336	–
Transfers to investment properties	(90)	–	–	–	–	–	–	–	(90)
Transfer from assets of disposal group held for sale	327	–	5,561	–	–	–	29,771	6,316	41,975
Write off									
Disposals	(184)	–	–	–	(73)	(6)	(178)	(29)	(470)
At 31 December 2018	6,463	162	10,753	–	43,496	10,805	60,124	22,593	154,396
Net book value:									
31 December 2017	131,145	–	–	142,801	252,585	87,136	7,612	36,356	657,635
At 31 December 2018	189,085	24,198	422,410	248,770	386,399	90,311	218,691	92,053	1,671,917

14. Property and Equipment continued

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings	Hospitals and Clinics	Assets under construction	Infrastructure Assets	Factory and equipment	Computers and equipment	Other	Total
Cost or revalued amount								
31 December 2016	137,313	388,803	86,905	199,304	–	160,086	43,670	1,016,081
Additions	1,876	27,708	176,567	12,621	31,986	51,782	13,739	316,279
Business combinations	359	7,909	20,364	–	–	3,714	5,424	37,770
Disposals	(542)	(440)	(4,038)	(1,976)	(18)	(173)	(657)	(7,844)
Transfers	2,498	(456)	(141,903)	65,720	59,055	(1,515)	16,601	–
Transfers from/(to) investment properties	10,164	–	8,268	–	–	–	–	18,432
Transfers to other assets	–	–	(9)	–	–	–	–	(9)
Transfer to assets of disposal group held for sale	(14,939)	(423,524)	(325)	–	–	(198,774)	(37,298)	(674,860)
Write off	–	–	–	–	–	(1,321)	–	(1,321)
Currency translation differences	55	–	(3,028)	–	–	150	135	(2,688)
31 December 2017	136,784	–	142,801	275,669	91,023	13,949	41,614	701,840
Accumulated impairment								
31 December 2016	417	–	–	–	–	–	1	418
Currency translation differences	(27)	–	–	–	–	23	-	(4)
31 December 2017	390	–	–	–	–	23	1	414
Accumulated depreciation								
31 December 2016	3,858	8,554	–	5,738	–	19,157	5,631	42,938
Depreciation charge	1,340	3,700	–	16,507	4,171	18,178	6,099	49,995
Currency translation differences	391	–	–	999	(284)	(1,071)	83	118
Transfer to assets of disposal group held for sale	(327)	(11,970)	–	–	–	(29,771)	(6,316)	(48,384)
Disposals	(13)	(284)	–	(160)	–	(179)	(240)	(876)
31 December 2017	5,249	–	–	23,084	3,887	6,314	5,257	43,791
Net book value:								
31 December 2016	133,038	380,249	86,905	193,566	–	140,929	38,038	972,725
31 December 2017	131,145	–	142,801	252,585	87,136	7,612	36,356	657,635

The Group assessed that carrying value of infrastructure assets approximates their fair value as at 31 December 2018 and 2017.

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property as at 31 December 2018 was GEL 662,034 (31 December 2017: GEL 93,818, excluding that of disposal group held for sale).

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15. Goodwill and Intangible Assets

Movements in goodwill during the years ended 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
Cost		
1 January	**26,627**	78,335
Business combinations	**5,362**	60,138
Transfer from/to assets of disposal group held for sale	**114,798**	(111,846)
At 31 December	**146,787**	26,627
Accumulated impairment		
1 January	**4,692**	4,692
At 31 December	**4,692**	4,692
Net book value:		
1 January	**21,935**	73,643
At 31 December	**142,095**	21,935

Impairment Test for Goodwill

Goodwill acquired through business combinations have been allocated to five individual cash-generating units, for impairment testing: Property and Casualty Insurance, Beverages, Pharmacy, Healthcare and Health Insurance.

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

	31 December 2018	31 December 2017
P&C Insurance	**15,454**	15,454
Beverages	**11,843**	6,481
Pharmacy	**77,755**	–
Healthcare	**33,581**	–
Health Insurance	**3,462**	–
Total	**142,095**	21,935

The recoverable amount of the healthcare services operating segment exceeds its carrying amount by GEL 253,595 using the discount rate of 12.7%. The discount rate that brings value in use of healthcare services segment equal to its carrying value is 15.21%.

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, Beverage, Pharmacy, Healthcare and Health Insurance:

	P&C Insurance		Beverage		Pharmacy		Healthcare		Health Insurance	
	2018, %	2017, %	2018, %	2017, %	2018, %	2017, %	2018, %	2017, %	2018, %	2017, %
Discount rate	**15.6%**	9.0%	**15.3%**	12.8%	**14.4%**	15.2%	**12.7%**	15.1%	**14.3%**	16.1%

Discount Rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital (WACC).

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

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

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 2018. Possible change was taken as +/-1% in discount rate and growth rate.

Increase in intangible assets during 2018 is mostly attributable to reclassifications from assets held for sale (Note 6) and acquisitions of intangible assets presented in the consolidated statement of cash flows.

16. Other Assets and Liabilities

Other assets comprise:

	31 December 2018	31 December 2017
Loans issued*	**150,300**	101
Pension fund assets**	**18,796**	18,536
Reinsurance assets	**18,240**	20,671
Operating tax assets	**38,028**	29,769
Call option	**16,969**	–
Investments in associates	**3,124**	–
Operating lease receivable	**742**	–
Other derivative financial assets	**661**	–
Other	**4,602**	793
Other assets	**251,462**	69,870

* Loans issued mainly consist of a loan granted to the former parent JSC BGEO Group and a loan granted to m² joint venture. For more details, please refer to Note 33.

Other liabilities comprise:

	31 December 2018	31 December 2017
Amounts payable for share acquisitions*	**92,126**	413
Accruals	**55,623**	17,133
Other taxes payable	**22,859**	11,058
Other insurance liabilities	**19,707**	11,008
Pension fund liabilities**	**18,932**	18,536
Finance lease liability	**8,746**	–
Dividends payable to non-controlling shareholders	**991**	–
Derivative financial liabilities	**715**	–
Provisions	**525**	3,103
Other	**15,547**	1,955
Other liabilities	**235,771**	63,206

* 2018 amount payable for share acquisitions comprise payables for healthcare and wine business acquisitions.
** Pension fund operated by Group's insurance subsidiary is mostly for third-party customers and does not represent a defined benefit plan.

17. Taxation

The corporate income tax (expense) credit comprises:

	2018	2017 (Represented)
Current income expense	**(3,924)**	(5,624)
Deferred income tax credit (expense)	**318**	(512)
Income tax (expense) credit	**(3,606)**	(6,136)
Deferred income tax credit (expense) in other comprehensive income (loss)	**–**	165

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2018 and 2017 was as follows:

	2018	2017 (Represented)
Currency translation differences	**–**	165
Income tax credit (expense) in other comprehensive income	**–**	165

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which varies from 15% to 19% for 2018 (2017: 15%).

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17. Taxation continued

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 2023). Under the new taxation regime, corporate income tax is paid on distributed, rather than earned profits. As the result, no deferred tax is recognised for the Group's entities operating under the new taxation regime as the applicable rate for undistributed profit is nil. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 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 2023, 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 2018 and 31 December 2017 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2018	2017 (Represented)
Profit before income tax expense	**20,517**	100,405
Average tax rate	**15%**	15%
Theoretical income tax expense at average tax rate	**(3,078)**	(15,061)
Non-taxable income	**1,756**	9,817
Correction of prior year declarations	**(20)**	–
Non-deductible expenses	**(2,183)**	(84)
Tax at the domestic rates applicable to profits in each country	**587**	(808)
Unrecognised deferred tax asset	**(668)**	–
Income tax (expense) benefit	**(3,606)**	(6,136)

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

As at 31 December 2018 and 31 December 2017 income tax assets and liabilities consist of the following:

	31 December 2018	31 December 2017
Current income tax assets	**1,078**	365
Deferred income tax assets	**1,327**	1,009
Income tax assets	**2,405**	1,374
Current income tax liabilities	**1,119**	860
Income tax liabilities	**1,119**	860

Deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Tax effect of deductible temporary differences:		
Tax credits carried forward	**21,048**	–
Investment properties	**–**	3
Insurance premiums receivables	**688**	487
Other assets and liabilities	**639**	556
Deferred tax assets	**22,375**	1,046
Tax effect of taxable temporary differences:		
Investments in subsidiaries	**21,048**	–
Other assets and liabilities	**–**	37
Deferred tax liabilities	**21,048**	37
Net deferred tax asset recognised in Consolidated Statement of Financial Position	**1,327**	1,009

18. Insurance Contract Liabilities and Reinsurance Assets

	2018			2017		
	Insurance contract liabilities	Reinsurance assets	Net	Insurance contract liabilities	Reinsurance assets	Net
	2018	2018	2018	2017	2017	2017
At 1 January	**46,403**	**(20,671)**	**25,732**	67,871	(13,161)	54,710
Premiums written during the year	**135,595**	**(29,252)**	**106,343**	124,628	(23,995)	100,633
Premiums earned during the year	**(133,965)**	**27,235**	**(106,730)**	(125,267)	22,938	(102,329)
Claims incurred during the year	**65,728**	**(7,195)**	**58,533**	75,806	(15,555)	60,251
Claims paid during the year	**(66,507)**	**11,643**	**(54,864)**	(75,682)	9,102	(66,580)
Transfer from/to assets and liabilities of disposal group held for sale	**20,953**	**–**	**20,953**	(20,953)	–	(20,953)
At 31 December	**68,207**	**(18,240)**	**49,967**	46,403	(20,671)	25,732

19. Borrowings

Borrowings comprise:

	31 December 2018	31 December 2017
Borrowings from local financial institutions	**306,340**	42,512
Borrowings from international financial institutions	**451,984**	335,943
Other borrowings*	**6,031**	272,279
Borrowings	**764,355**	650,734

* Other borrowings as at 31 December 2017 comprised of borrowing from JSC BGEO Group.

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants"). At 31 December 2018 and 31 December 2017 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

As at 31 December 2018, borrowings from local financial institutions are denominated in GEL, EUR and US$ (2017: GEL, EUR, US$), carry interest rates from 5% to 12% (2017: from 7% to 12.25%), with average remaining terms of maturity of four years (2017: five years).

As at 31 December 2018, borrowings from international financial institutions are denominated in GEL, EUR and US$ (2017: GEL, EUR, US$), carry interest rates from 1.63% to 12.25% (2017: from 1.63% to 12.25%), with average remaining terms of maturity of eight years (2017: ten years).

As at 31 December 2018, other borrowings are denominated in GEL and EUR (2017: GEL and US$), carry interest rated from 12% to 13% (2017: from 8% to 11.25%), with average remaining terms of maturity of three months (2017: six months).

During 2018 total amount of interest paid comprised GEL 96,312 (2017: GEL 71,036).

Material Non-Cash Transactions

In 2018 year the Group incurred borrowings costs with total amount GEL 27,201(2017: GEL 16,531) of which GEL 6,018 (2017: GEL 2,206) has been capitalised as a part of investment property, GEL 5,538 (2017: GEL 6,723) was capitalised as a part of inventory property, GEL 15,450 was capitalised as part of property and equipment (2017: 7,602) and GEL 195 was capitalised as part of intangible assets (2017: nil).

Changes in Liabilities Arising From Financing Activities

	Borrowings	Debt securities
Carrying amount at 31 December 2017	650,734	77,835
Foreign currency translation	(7,335)	63,497
Cash proceeds	247,574	747,184
Cash repayments	(393,981)	(80,747)
Transfer from/to liabilities of disposal group held for sale	267,010	93,493
Acquisition of subsidiaries	14,560	–
Other	(14,207)	15,139
Carrying amount at 31 December 2018	**764,355**	**916,401**

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20. Debt Securities Issued
Debt securities issued comprise:

	31 December 2018	31 December 2017
US$-denominated Eurobonds issued by Georgia Capital	**732,519**	–
US$-denominated local bonds issued by m²	**85,663**	64,445
GEL-denominated local bonds issued by GHG	**84,858**	–
GEL-denominated local bonds issued by GGU	**13,361**	13,390
Debt securities issued	**916,401**	77,835

In March 2018 JSC Georgia Capital issued US$300 million (GEL 734 million) 6.125% notes due in March 2024 denominated in US dollars which were admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market (the "Notes"). Notes were sold at the price of 98.770% of par value at the initial offering.

21. Deferred Income

	31 December 2018	31 December 2017
Advances received for connection services	**27,249**	21,202
Advances received for sale of apartments	**19,560**	46,195
Advances received for sale of pharmaceuticals	**4,867**	–
Other	**10,383**	5,669
Deferred income	**62,059**	73,066

22. Accounts Payable

	31 December 2018	31 December 2017
Trade payables	**139,879**	42,004
Other payables	**3,235**	983
	143,114	42,987

Most of trade payables represent amounts due to suppliers in healthcare, water utility, housing development, commercial and beverages segments. Trade payables are usually short-term, denominated mostly in GEL and US$ and do not carry interest.

23. 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.

As at 31 December 2018, Georgia Healthcare Group PLC, the Group's subsidiary operating in healthcare segment, had litigation with Social Service Agency (SSA) in relation to an aggregate amount of GEL 6,888 (31 December 2017: GEL 6,631). The litigation with SSA was mainly related to procedural violations in medical documentation as well as the billing and invoicing process.

Commitments and contingencies

As at 31 December 2018 and 31 December 2017 the Group's commitments and contingencies comprised the following:

	31 December 2018	31 December 2017
Operating lease commitments		
Not later than one year	**23,383**	4,313
Later than one year but not later than five years	**75,147**	6,998
Later than five years	**31,410**	1,691
	129,940	13,002
Capital expenditure commitments	**10,341**	–
Total commitments	**140,281**	9,899

Capital expenditure commitments represent the commitment for purchase of property and capital repairs GEL 9,624 (2017: nil) and software and other intangible assets GEL 717 (2017: nil).

24. Equity
Share Capital

As at 31 December 2018 issued share capital comprised 39,384,712 authorised common shares (31 December 2017: 10,000,000), of which 39,384,712 were fully paid (2017: 10,000,000). Each share has a nominal value of one British penny (2017: one Georgian Lari). Shares issued and outstanding as at 31 December 2018 are described below:

	Number of shares Ordinary	Amount
31 December 2016	8,481,719	8,482
Issue of share capital*	1,518,281	1,518
31 December 2017	10,000,000	10,000
Issue of share capital	1,526,000	1,526
Transfer of JSC Georgia Capital shares to new Parent Company	(11,526,000)	(11,526)
Incorporation of New Parent Company (Georgia Capital PLC)	39,384,712	1,644,011
Capital reduction (change in nominal value)	–	(1,642,718)
31 December 2018	**39,384,712**	**1,293**

Incorporation of New Parent Company

On 29 May 2018, Georgia Capital PLC issued and listed 39,384,712 ordinary shares on London stock exchange, premium listing segment. 11,526,000 shares of JSC Georgia Capital were transferred to new Parent Company (Georgia Capital PLC) as part of Demerger process of BGEO Group PLC (Note 1).

Nominal Value of shares issued by Georgia Capital PLC were GBP 12.7. The incorporation of the new Parent Company did not result in changes in the Group's net assets.

Capital Reduction

On 12 June 2018 the Georgia Capital PLC undertook a planned reduction of capital to create distributable reserves for the Company. Following the reduction of capital, the nominal value of the Company's shares was reduced to GBP 0.01. Reduction of the capital created a new reserve on the Statement of Financial Position (comprising the reduction of the original nominal value of ordinary shares from GBP 12.70 to GBP 0.01 per share), which became distributable to the shareholders and was fully reclassified to retained earnings.

Buyback Programme

On 14 June 2018 the Group announced commencement of a share buyback programme of up to US$45 million (GEL 110.3 million) (the "Programme"). The Company has entered into an agreement with its brokers Numis Securities Limited ("Numis") and Investec Bank PLC ("Investec") to enable Numis and Investec to use the maximum consideration of US$45 million to purchase the Group's shares ("shares") in accordance with the terms of the general authority to make market purchases of up to 3,938,471 of its shares. All repurchased shares will be held in the Group's treasury.

Treasury Shares

The number of treasury shares held by the Company as at 31 December 2018 was 3,567,765 (31 December 2017: nil). From which 1,251,829 shares were bought back within the Buyback Programme announced on 14 June 2018. The rest of the shares are kept by the Company for the purposes of its future employee share-based compensations.

Dividends

Shareholders are entitled to dividends in Georgian Lari.

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

Nature and Purpose of Other Reserves

Unrealised Gains (Losses) from Dilution or Sale/Acquisition of Shares in Existing Subsidiaries

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

Unrealised Gains (Losses) on Debt and Equity Investments at Fair Value

This reserve records fair value changes on debt and equity investments at fair value through other comprehensive income.

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 year ended 31 December 2018 and 31 December 2017 are presented in the Statements of Other Comprehensive Income.

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24. Equity continued
Nature and Purpose of Other Reserves continued

On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC Bank of Georgia Financial Group were transferred to Georgia Capital as an equity contribution from JSC BGEO Group in exchange for 1,516,000 (GEL 1,516) shares issued. In line with IFRS 9 requirements, Georgia Capital initially recognised financial asset (investment in equity instruments) at fair value of GEL 706,000 with corresponding increase in equity. On 29 May 2018, as a part of BGEO Group's demerger, 19.9% interest in banking business was exchanged for 19.9% stake in Bank of Georgia Group PLC at fair value of GEL 599,406 (calculated using LSE share price).

Transaction costs directly attributable to the contribution of 19.9% stake in the amount of GEL 2,298 were deducted from the equity.

Upon initial recognition, management irrevocably designated 19.9% equity interest in Banking Business and Bank of Georgia Group PLC at fair value through other comprehensive income (FVOCI). As a result, the difference between initially recorded fair value of GEL 706,000 and fair value of 19.9% stake at 31 December 2018 (GEL 457,495) in the amount of GEL 248,505 has been recognised in other comprehensive income. Subsequently, all changes in fair value of 19.9% equity stake will be recorded through other comprehensive income (OCI) and never reclassified to PL, not even upon disposal of the stake.

Non-Controlling Interest

Georgia Healthcare Group PLC (GHG) is the only significant subsidiary of the Group that has a material non-controlling interest of 43% as of 31 December 2018 (31 December 2017: 43%). The following table summarises key information before intra-Group eliminations relevant to Georgia Healthcare Group PLC.

	2018	2017
Total assets	**1,222,503**	1,149,760
Total liabilities	**665,487**	619,401
Non-controlling interest	**287,016**	270,830
Revenue	**861,337**	763,443
Profit for the year	**53,237**	45,817
Total comprehensive income for the year	**53,237**	45,817
Net decrease in cash and cash equivalents	**12,687**	25,602
Profit attributable to non-controlling interest	**33,142**	27,955

Earnings Per Share

	2018	2017
Basic and diluted (loss)/earnings per share		
(Loss)/Profit for the year attributable to ordinary shareholders of the Parent	**(9,496)**	70,125
Weighted average number of ordinary shares outstanding during the year*	**36,925,304**	29,996,344
(Loss)/Earnings per share	**(0.2572)**	2.3378

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

25. Gross Profit

	2018	2017
Healthcare revenue	**291,069**	253,612
Pharma revenue	**501,090**	438,359
Utility and energy revenue	**139,290**	127,569
Real estate revenue	**142,018**	121,862
Net insurance premiums earned	**106,730**	102,329
Beverage revenue	**76,358**	55,441
Other income	**26,311**	27,998
Revenue	**1,282,866**	1,127,170
Cost of utility and energy	**(36,274)**	(39,198)
Cost of real estate	**(113,900)**	(85,765)
Net insurance claims incurred	**(58,533)**	(60,251)
Cost of healthcare	**(154,452)**	(138,723)
Cost of pharma services	**(386,153)**	(339,459)
Cost of beverage	**(46,879)**	(32,313)
Cost of sales	**(796,191)**	(695,709)
Gross profit	**486,675**	431,461

25. Gross Profit continued
Gross Healthcare and Pharma Profit

	2018	2017
Revenue from Government programmes	**200,652**	176,908
Revenue from free flow (non-insured retail individuals)	**78,500**	64,748
Revenue from insurance companies	**11,917**	11,956
Healthcare revenue	**291,069**	253,612
Retail	**378,398**	329,733
Wholesale	**122,692**	108,626
Pharma revenue	**501,090**	438,359
Healthcare and pharma revenue	**792,159**	691,971
Direct salary expenses	**(105,440)**	(92,744)
Healthcare direct materials	**(34,012)**	(34,015)
Expenses on medical service providers	**(3,226)**	(1,854)
Other direct expenses	**(11,774)**	(10,110)
Cost of healthcare	**(154,452)**	(138,723)
Retail	**(275,887)**	(246,310)
Wholesale	**(110,266)**	(93,149)
Cost of pharma services	**(386,153)**	(339,459)
Cost of healthcare and pharma services	**(540,605)**	(478,182)
Gross healthcare and pharma profit	**251,554**	213,789

Gross Utility and Energy Profit

	2018	2017
Revenue from water supply	**130,238**	117,814
Revenue from electric power sales	**9,052**	9,755
Utility and energy revenue	**139,290**	127,569
Cost of water supply	**(33,663)**	(36,886)
Cost of electric power sales	**(2,611)**	(2,312)
Cost of utility and energy	**(36,274)**	(39,198)
Gross utility and energy profit	**103,016**	88,371

Gross Real Estate Profit

	2018	2017
Revenue from apartment sale	**95,923**	94,179
Revaluation of m^2 investment property	**6,626**	24,033
Income from operating leases	**6,454**	3,650
Revenue from hospitality services	**5,151**	–
Revenue from construction services	**27,864**	–
Real estate revenue	**142,018**	121,862
Cost of apartments sold	**(86,269)**	(85,208)
Cost of operating leases	**(879)**	(557)
Cost of hospitality services	**(3,115)**	–
Cost of construction services	**(23,637)**	–
Cost of real estate	**(113,900)**	(85,765)
Gross real estate profit	**28,118**	36,097

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25. Gross Profit continued
Gross Insurance Profit

	2018	2017
Gross health insurance premiums earned	**54,040**	50,182
Gross P&C Insurance premiums earned	**79,925**	75,085
Total gross premiums earned on insurance contracts	**133,965**	125,267
Reinsurers' share of gross earned premiums on health insurance contracts	**(3,020)**	–
Reinsurers' share of gross earned premiums on P&C Insurance contracts	**(24,215)**	(22,938)
Reinsurers' share of gross earned premiums on insurance contracts	**(27,235)**	(22,938)
Net insurance premiums earned	**106,730**	102,329
Gross health insurance claims incurred	**(37,096)**	(35,153)
Gross P&C Insurance claims incurred	**(28,632)**	(40,653)
Gross insurance claims incurred	**(65,728)**	(75,806)
Reinsurers' share of gross health insurance claims incurred	**4,311**	–
Reinsurers' share of gross P&C insurance claims incurred	**2,884**	15,555
Reinsurers' share of gross insurance claims incurred	**7,195**	15,555
Net insurance claims incurred	**(58,533)**	(60,251)
Gross insurance profit	**48,197**	42,078

Gross Beverages Profit

	2018	2017
Revenue from wine sales	**27,020**	22,156
Revenue from beer sales	**27,395**	16,406
Revenue from distribution of imported goods	**14,065**	12,910
Change in net realisable value of agricultural produce after harvest	**2,875**	253
Other beverage revenue	**5,003**	3,716
Beverages revenue	**76,358**	55,441
Cost of wine	**(15,188)**	(10,557)
Cost of beer	**(17,848)**	(8,676)
Cost of distribution	**(10,625)**	(10,814)
Cost of other beverage revenue	**(3,218)**	(2,266)
Cost of Beverages	**(46,879)**	(32,313)
Gross Beverages profit	**29,479**	23,128

Total revenue above includes the following revenue streams that are not in scope of IFRS 15 Revenue from Contracts with customers:

	2018	2017
Real estate revenue:		
Revaluation of m² investment property	**6,626**	24,033
Income from operating leases	**6,454**	3,650
	13,080	27,683
Beverage revenue:		
Change in net realisable value of agricultural produce after harvest	**2,875**	253
	2,875	253
Net insurance premiums earned	**106,730**	102,329
Other income		
Gain from call option	**6,863**	10,106
Payables derecognised	**3,881**	–
Litigation reserve reversal	**817**	–
Loss from sale of PPE and IP	**262**	–
Net gains (losses) from revaluation of investment property	**269**	652
Gain from lease derecognition	**–**	2,702
Gain from rent liability derecognition	**–**	514
Revenue from realised stationery	**–**	301
	134,777	144,540

25. Gross Profit continued
Salary and employee benefit expenses included in cost of sales comprised GEL 124,333 (2017: GEL 105,709). Inventory recognised as an expense during the period comprised GEL 185,512 (2017: GEL 153,100).

Contract Assets and Liabilities
The Group has recognised the following revenue-related contract assets and liabilities:

	31 December 2018	31 December 2017
Deferred income	**47,330**	71,322
Accounts receivable*	**134,815**	116,669
Contract assets**	**2,586**	1,008

* Includes GEL 82,169 as at 31 December 2017 presented in disposal group held for sale.
** Contract assets relate to our conditional right to consideration for our completed performance under the contract. Contract assets are included within Accounts receivable line in Consolidated Statement of Financial Position.

Accounts receivable are recognised when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as the Group performs under the contract.

Decrease in deferred revenue is mainly attributable to housing development segment, two residential projects which accounted for the large portion of deferred income as at 31 December 2017, were almost completed as at 31 December 2018, thus such contract liabilities were recognised in revenue in the current reporting period.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 54,935 revenue in the current reporting period (2017: GEL 51,273) that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction Price Allocated to the Remaining Performance Obligations
The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2019	In the year ending 31 December 2020	In the year ending 31 December 2021	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognised on active contracts with customers	32,452	6,622	4,457	6,121	6,325	55,977

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Operating Lease Commitments – Group as a Lessor
The Group's future minimum lease payments receivable under non-cancellable operating leases amounted to:

	31 December 2018	31 December 2017
Not later than one year	**5,243**	4,616
Later than one year but not later than five years	**11,531**	11,088
Later than five years	**9,090**	9,663
Total	**25,864**	25,367

Most of the Company's leases are prices in US$ and have lease term varying from three months to ten years (average term: four years).

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

	2018	2017 (Represented)
Salaries and bonuses	**(121,537)**	(95,435)
Equity compensation plan costs	**(14,618)**	(10,751)
Pension costs	**(913)**	(1,026)
Salaries and other employee benefits	**(137,068)**	(107,212)

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26. Salaries and Other Employee Benefits, and General and Administrative Expenses continued
General and Administrative Expenses

	2018	2017 (Represented)
Occupancy and rent	(23,160)	(22,186)
Marketing and advertising	(17,278)	(16,970)
Legal and other professional services	(14,227)	(8,638)
Operating taxes	(10,275)	(7,649)
Office supplies	(7,800)	(6,063)
Repair and maintenance	(4,974)	(4,408)
Utility expenses	(3,824)	(2,337)
Communication	(2,866)	(2,429)
Banking services	(2,843)	(2,430)
Corporate hospitality and entertainment	(2,576)	(2,308)
Travel expenses	(2,430)	(1,830)
Personnel training and recruitment	(1,829)	(557)
Customer service fee	(1,710)	(1,735)
Security	(1,348)	(1,164)
Other	(10,386)	(4,995)
General and administrative expenses	**(107,526)**	(85,699)

Auditor's remuneration
Auditors' remuneration is included within legal and other professional services expenses above and comprises:

Auditor's remuneration	2018
Fees payable for the audit of the Company's current year Annual Report	371
Fees payable for other services:	
Audit of the Company's subsidiaries	2,238
Total audit fees	2,609
Audit-related assurance services	
Review of the Company's and subsidiaries' interim accounts	675
Other assurance services	15
Total audit-related fees	690
Non-audit services	
Tax compliance services	–
Tax advisory services	–
Corporate finance services	2,048
Other non-audit services	36
Total other services fees	2,084
Total fees	5,383

The figures shown in the above table relate to fees paid to Ernst & Young LLP and its associates. Fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were nil and in respect of other services of the Group were GEL 142.

Fees related to corporate finance services are included in non-recurring expenses under demerger fees. Please refer to Note 28.

27. Impairment of Insurance Premiums Receivable, Accounts Receivable, Other Assets and Provisions
The movements in the allowance for insurance premiums receivables and other receivables are as follows:

	Insurance premiums receivable 2018	Other assets 2018	Provisions 2018	Total 2018
At 1 January	4,243	22	3,103	7,368
Charge	1,898	464	231	2,593
Transfer from assets of disposal group held for sale	1,787	–	–	1,787
Recoveries	242	–	(1,302)	(1,060)
Reversal	–	–	(1,353)	(1,353)
Write-offs	8	(72)	(154)	(218)
Currency translation differences	107	–	–	107
At 31 December	8,285	414	525	9,224

27. Impairment of Insurance Premiums Receivable, Accounts Receivable, Other Assets and Provisions continued
The movements in the allowance for financial assets according to IFRS 9 are as follows:

	Cash and cash equivalents 2018	Amounts due from credit institutions 2018	Debt securities owned 2018	Accounts receivable 2018	Total 2018
At 31 December	–	–	–	4,003	4,003
IFRS 9 Effect	2	–	192	13,830	14,024
At 1 January	2	–	192	17,833	18,027
(Reversal)/Charge	(1)	–	117	10,080	10,196
Write-offs	–	–	–	(9,479)	(9,479)
Transfer from assets of disposal group held for sale	–	–	–	3,415	3,415
Currency translation difference	–	–	–	(136)	(136)
At 31 December	1	–	309	21,713	22,023

For contract assets and accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. For other debt financial assets, the ECL is based on the 12-month ECL since there has not been a significant increase in credit risk since origination.

The movements in the allowance for insurance premiums receivables and accounts receivables other receivables for the year ended 31 December 2017 are as follows:

	Insurance premiums receivable 2017	Accounts receivable 2017	Other assets 2017	Provisions 2017	Total 2017
At 1 January	8,762	2,292	–	706	11,760
Charge	1,110	6,171	311	2,686	10,278
Transfer to assets of disposal group held for sale	(1,787)	(3,415)	–	–	(5,202)
Utilised	–	–	–	(289)	(289)
Write-offs	(3,227)	(1,211)	–	–	(4,438)
Currency translation differences	(615)	166	(289)	–	(738)
At 31 December	4,243	4,003	22	3,103	11,371

Increase in impairment charge in 2018 is mainly attributable to the increased gross balance of receivables of the healthcare and water utility businesses.

28. Net Non-Recurring Items
Net non-recurring expense for the year ended 31 December 2018 comprised:

	2018
Share-based payment acceleration effect	(20,303)
Demerger fees	(12,845)
Reorganisation costs	(2,070)
College construction	(2,422)
Loan prepayment fee and derecognition losses	(1,325)
Charity expenses	(783)
Other	(1,503)
Net non-recurring items	**(41,251)**

Net non-recurring expense for the year ended 31 December 2017 comprised:

	2017 (Represented)
Loss from one-off dismissal compensations to employees	(1,577)
Loss from loan write-off	(1,940)
Other	(1,813)
	(5,330)

Portion of the demerger transaction expenses, GEL 15,143, was allocated to Georgia Capital. Majority of such fees are recognised by Georgia Capital as non-recurring expenses, while 15% of fees is recorded as reduction to equity since they are directly attributable to contribution of 19.9% Bank of Georgia Group PLC equity stake in Georgia Capital. Refer to Note 24.

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28. Net Non-Recurring Items continued

For executive managers who continued employment in Georgia Capital, service contracts with Bank of Georgia or BGEO were terminated and new contracts were entered into with Georgia Capital after demerger. All outstanding unvested share awards under old service agreements were converted into one Georgia Capital PLC share vesting according to original schedule and one BOG PLC share vesting immediately per each BGEO share. The related share-based payment expense that has not been recognised in Income Statement as of the termination date (that otherwise would have been recognised for services received over the remainder of the vesting period) was accelerated and immediately expensed.

29. Share-Based Payments

Executives' Equity Compensation Plan

Prior to demerger, senior executives of BGEO Group, providing services to Georgia Capital, were compensated with shares of BGEO. Upon demerger, old service contracts with BGEO were terminated and new contracts were signed with Georgia Capital. Any share-based payment expense related to BGEO's share plan was accelerated and recognised in the Income Statement as of the termination date of service agreements as non-recurring expense. For more details refer to Note 28.

In 2018, Georgia Capital introduced Group's Executives' Equity Compensation Plan (EECP). Under the EECP, shares of the Parent are granted to senior executives of the Parent and subsidiaries. In July 2018, the executives signed new five-year fixed contingent share-based compensation agreements with a total of 1,750,000 ordinary shares of Georgia Capital. The total amount of shares fixed to each executive will be awarded in five equal instalments during the five consecutive years starting January 2019, of which each award will be subject to a six-year vesting period subject to continued employment within the Group during such vesting period. The fair value of the shares is determined at the grant date using available market quotations.

In 2018 the Group set up Executive Equity Compensation Trustee – Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan (EECP). In 2018 the Trustee has repurchased 1,191,127 shares.

There were no cancellations or modifications to the awards in 2018 or 2017 except for BGEO share awards described above.

In addition to Executives' Equity Compensation Plan, the Group grants shares of the Parent to the employees of the Group.

The following table illustrates the number and weighted average prices of, and movements in, shares awards during the year:

	2018	2017
Shares outstanding at 1 January	**–**	–
Granted during the year	**2,394,556**	–
Forfeited during the year	**–**	–
Vested during the year	**–**	–
Shares outstanding at 31 December	**2,394,556**	–

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 5.4 years. The weighted average fair value of shares granted during the year was GEL 33.4.

GHG's Senior Executive Plan

In 2015, the executives signed five-year fixed contingent share-based compensation agreements with a total of 1,670,000 ordinary shares of GHG. The total amount of shares fixed to each executive will be awarded in five equal instalments during the five consecutive years starting January 2017, of which each award will be subject to a four-year vesting period subject to continued employment within the Group during such vesting period. In addition to the above award, executives are awarded discretionary number of GHG shares with a three-year vesting period, with continuous employment being the only vesting condition.

The following table illustrates the number and weighted average prices of, and movements in, shares awards during the year:

	2018	2017
Shares outstanding at 1 January	**1,427,175**	988,968
Granted during the year	**826,529**	816,641
Forfeited during the year	**(14,213)**	(26,901)
Vested during the year	**(579,215)**	(351,534)
Shares outstanding at 31 December	**1,660,276**	1,427,175

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 was 1.89 years. The weighted average fair value of shares granted during the year was GEL 12.54.

29. Share-Based Payments continued

Executives' Equity Compensation Plan continued

Expense Recognition:

The expense recognised for employee services received during the year and the respective increase in equity arising from equity-settled share-based payments is shown in the following table:

	2018	2017
Increase in equity arising from equity-settled share-based payments	**38,621**	12,697
Expense arising from equity-settled transactions	**34,921**	10,751

Expense arising from equity-settled transactions in the amount of GEL 20,303 was recognised in net non-recurring expenses related to demerger of the Group.

30. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing 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 investment risk, 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.

Risk Management Structure

Audit Committee

The Audit Committee of Georgia Capital 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.

Investment Committee

The Investment Committee ensures a centralised process-led approach to investment; and the overriding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns. It oversights each step of the investment lifecycle, approves all investment, divestment and material portfolio decisions and ensures that investments are in line with Group's investment policy and risk appetite.

Management Board

The Management Board of Georgia Capital has overall responsibility for the Group's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Board of Directors delegate individual risk management functions to each of the various decision-making and execution bodies within the Group.

Internal Audit

The Internal Audit department of Georgia Capital 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 and countries. 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.

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.

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30. Risk Management continued

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 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.

Trade Receivables and Contract Assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. 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.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type, etc.). The calculation reflects reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in different geographical areas and industries.

Liquid Financial Instruments

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Group invests only on quoted debt securities with low credit risk. The Group's debt instruments at fair value through OCI comprised solely of quoted bonds. The Group recognised provision for expected credit losses on its debt instruments at fair value through OCI in the amount of GEL 117 in 2018.

The table below demonstrates the Group's financial assets credit risk profile by external rating grades:

	31 December 2018			31 December 2017*		
	BB+ to BB-	B+ to B-	Not graded	BB+ to BB-	B+ to B-	Not graded
Cash and cash equivalents	**229,842**	**23,940**	**3,148**	321,814	23,863	564
Amounts due from credit institutions	**24,776**	**15,354**	**169**	35,159	2,982	–
Debt securities owned	**70,668**	**1,156**	**–**	31,556	351	–
Total	**325,286**	**40,450**	**3,317**	388,529	27,196	564

* Excluding GHG.

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 2018	Notes	Neither past due nor impaired	Past due or impaired	Total
Amounts due from credit institutions	9	**40,299**	**–**	**40,299**
Accounts receivable	11	**127,682**	**42,546**	**170,228**
Insurance premiums receivable		**56,955**	**846**	**57,801**
Debt securities	10	**71,824**	**–**	**71,824**
Total		**296,760**	**43,392**	**340,152**

31 December 2017	Notes	Neither past due nor impaired	Past due or impaired	Total
Amounts due from credit institutions	9	38,141	–	38,141
Accounts receivable	11	27,501	7,836	35,337
Insurance premiums receivable		28,947	1,908	30,855
Debt investment securities available-for-sale	10	31,907	–	31,907
Total		126,496	9,744	136,040

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.

30. Risk Management continued

Credit Risk continued

Credit Quality Per Class of Financial Assets continued

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.

In addition, Group at all times holds US$50 million liquid asset buffer at Georgian Parent Company-level, where liquid assets are defined as marketable debt securities, cash at bank and short-term and long-term deposits with financial institutions.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

Financial liabilities As at 31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	**54,945**	**149,118**	**519,690**	**274,900**	**998,653**
Debt securities issued	**5,358**	**122,556**	**333,500**	**757,335**	**1,218,749**
Accounts payable	**129,028**	**3,734**	**10,351**	**–**	**143,113**
Other financial liabilities	**66,788**	**17,756**	**94,384**	**–**	**178,928**
Total undiscounted financial liabilities	**256,119**	**293,164**	**957,925**	**1,032,235**	**2,539,443**

Financial liabilities* As at 31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	276,941	47,331	225,361	242,372	792,005
Debt securities issued	400	6,034	87,898	–	94,332
Accounts payable	27,425	–	15,562	–	42,987
Other financial liabilities	1,577	13,464	21,041	–	36,082
Total undiscounted financial liabilities	306,343	66,829	349,862	242,372	965,406

* Excluding GHG.

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 the US dollar.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2018 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 12 months. A negative amount in the table reflects a potential net reduction in the Income Statement or equity, while a positive amount reflects a net potential increase.

	2018		2017	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	**9.9%**	**(23,283)**	12.0%	(15,569)
GBP	**10.8%**	**151**	12.6%	94
US$	**7.1%**	**(23,409)**	8.9%	4,996

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30. Risk Management continued

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of Internal Audit.

Operating Environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Insurance Risk

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

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

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

	P&C Insurance		Health Insurance	
	2018, %	2017, %	2018, %	2017, %
Loss ratio	**38%**	40%	**77%**	84%
Combined ratio	**75%**	75%	**94%**	103%

The Group's concentration of general technical provisions by type of contract as of 31 December 2018 is as follows: healthcare GEL 19,154, motor GEL 17,417 (2017: GEL 16,616), property GEL 5,830 (2017: GEL 2,754), liability GEL 2,625 (2017: GEL 2,549), cargo GEL 1,142 (2017: GEL 804), life GEL 1,625 (2017: GEL 1,231) and other GEL 2,174 (2017: GEL 1,778). 2017 comparative figures are excluding GHG.

Capital Management

Management monitors the Group's capital on a regular basis based on the Statement of Net Asset Value (NAV) prepared under the adjusted IFRS methodologies. The NAV Statement, which breaks down NAV into its components, including management estimated fair values for the private businesses and follows changes therein, providing management with a snapshot of the Group's financial position at any given time. The NAV Statement provides a value of Georgia Capital that management uses as a tool for measuring its investment performance. Management closely monitors NAV in connection with capital allocation decisions.

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;
- to manage capital needs such that Group does not depend on potentially premature liquidation of its listed investments;
- 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 shareholders requirements.

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.

30. Risk Management continued

Capital Management continued

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 minimise the risk of default and insolvency and to meet unforeseen liabilities as they arise. During the year ended 31 December 2018 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

31. 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 2018	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	**–**	**–**	**151,232**	**151,232**
Land	**–**	**–**	**49,128**	**49,128**
Residential properties	**–**	**–**	**14,196**	**14,196**
Non-residential properties	**–**	**–**	**87,908**	**87,908**
Debt securities owned	**27,010**	**44,814**	**–**	**71,824**
Equity investments at fair value	**457,495**	**–**	**–**	**457,495**
Total revalued property	**–**	**–**	**386,399**	**386,399**
Infrastructure assets	**–**	**–**	**386,399**	**386,399**
Other assets	**–**	**–**	**18,668**	**18,668**
Loans issued	**–**	**–**	**1,038**	**1,038**
Other derivative financial assets	**–**	**–**	**661**	**661**
Call option	**–**	**–**	**16,969**	**16,969**
Assets for which fair values are disclosed				
Cash and cash equivalents	**–**	**256,930**	**–**	**256,930**
Amounts due from credit institutions	**–**	**40,299**	**–**	**40,299**
Accounts receivable	**–**	**–**	**170,228**	**170,228**
Other assets	**–**	**–**	**162,862**	**162,862**
Loans issued	**–**	**–**	**162,862**	**162,862**
Liabilities measured at fair value				
Other liabilities	**–**	**–**	**715**	**715**
Derivative financial liabilities	**–**	**–**	**715**	**715**
Liabilities for which fair values are disclosed				
Borrowings	**–**	**506,711**	**254,056**	**760,767**
Debt securities issued	**–**	**678,973**	**184,551**	**863,524**

31 December 2017	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	–	–	159,989	159,989
Land	–	–	84,016	84,016
Residential properties	–	–	2,168	2,168
Non-residential properties	–	–	73,805	73,805
Debt securities owned	–	31,907	–	31,907
Equity investments at fair value	–	–	1,153	1,153
Total revalued property	–	–	252,585	252,585
Infrastructure assets	–	–	252,585	252,585
Assets for which fair values are disclosed				
Cash and cash equivalents	–	346,241	–	346,241
Amounts due from credit institutions	–	38,141	–	38,141
Accounts receivable	–	–	35,337	35,337
Other assets	–	–	101	101
Loans issued	–	–	101	101
Liabilities for which fair values are disclosed				
Borrowings	–	77,972	572,762	650,734
Debt securities issued	–	–	81,312	81,312

Carrying value of assets and liabilities carried at amortised cost approximate their fair value due to their short-term nature. Carrying value of loans issued and derivative financial instruments mandatorily measured at fair value through profit or loss was GEL 167,215 and GEL 101 as of 31 December 2018 and 2017 (with gains recognised in Income Statement in the amount of GEL 5,205 and GEL 5,548, which was fully unrealised).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
(THOUSANDS OF GEORGIAN LARI)

31. Fair Value Measurements continued
Fair Value Hierarchy continued
The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative Financial Instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The Group applies the binomial model for option valuation.

Derivative financial instruments include call option representing an option on acquisition of remaining 33% equity interest in JSC GEPHA from non-controlling interests in 2022 based on pre-determined EBITDA multiple (6.0 times EBITDA) of JSC Gepha. The Group has applied binomial model for option valuation. Major unobservable input for call option valuation represents volatility of price of the underlying 33% minority share of equity, which was estimated based on actual volatility of the Parent Company's market capitalisation from 1 January 2013 till 31 December 2017 period, which equalled 34.7%. If the volatility was 10% higher, fair value of call option would increase by GEL 2,533 (2017: GEL 1,989) if volatility was 10% lower call option value would decrease by GEL 2,770 (2017: GEL 1,940). The Group recognised GEL 6,863 (2017: GEL 10,106) unrealised gains on the call option during the year ended 31 December 2018 within other income, included in revenue in Consolidated Income Statement.

Investment Securities
Fair value of quoted debt and equity investments measured at fair value through other comprehensive income is derived from quoted market prices in active markets at the reporting date. The fair value of unquoted instruments is estimated by discounting future cash flows using rates currently available for debt with similar terms, credit risk and remaining maturities.

Movements in Level 3 Financial Instruments Measured at Fair Value
The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	1 January 2017	Purchase of securities	At 31 December 2017	Reclassification of securities	Transfer from AHS	Gain on revaluation	At 31 December 2018
Level 3 financial assets							
Equity securities at FVOCI (2017: available-for-sale)	1,145	8	1,153	(1,153)	–	–	**–**
Call option	–	–	–	–	10,106	6,863	**16,969**

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

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:

	2018		2017	
	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets				
Equity securities at FVOCI (2017: available-for-sale)	**–**	**+/ – 0**	1,153	+/ – 213
Other derivative, call option	**16,969**	**+2,533/ – 2,770**	–	–

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.

31. 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:

	2018	Valuation technique	Significant unobservable inputs	Range (weighted average)*
Investment property	**151,232**			
Land	**49,128**	Market approach	Price per square metre	14-3,127 (1,162)
Residential properties	**14,196**	Market approach	Price per square metre	1,496-6,077 (4,413)
Non-residential properties	**87,908**			
	32,461	Market approach	Price per square metre	165-27,883 (5,089)
	55,447	Income approach	Capitalisation rate	8-10% (9%)
			Occupancy rate	80-90% (85%)

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average)*
Investment property	159,989			
Land	84,016			
	70,513	Market approach	Price per square metre	12-2,705 (465)
	13,503	Cost approach	Price per square metre	56-83(56)
Residential properties	2,168	Market approach	Price per square metre	1,892-3,194 (2,623)
Non-residential properties	73,805			
	52,260	Market approach	Price per square metre	12-8,756 (4,618)
	21,545	Income approach	Capitalisation rate	8-10% (9%)
			Occupancy rate	80-90% (85%)

All other parameters held constant, increase (decrease) in the rent rate per square meter, price per square meter and occupancy rate or decrease (increase) in the capitalisation rate would result in increase (decrease) in 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 consolidated historical financial information. The table does not include the fair values of non-financial assets and non-financial liabilities, or fair values of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2018	Fair value 2018	Unrecognised gain (loss) 2018	Carrying value 2017	Fair value 2017	Unrecognised gain (loss) 2017
Financial assets						
Cash and cash equivalents	**256,930**	**256,930**	**–**	346,241	346,241	–
Amounts due from credit institutions	**40,299**	**40,299**	**–**	38,141	38,141	–
Loans Issued	**150,300**	**163,900**	**13,600**	101	101	–
Financial liabilities						
Borrowings	**764,355**	**760,767**	**3,588**	650,734	650,734	–
Debt securities issued	**916,401**	**863,524**	**52,877**	77,835	81,312	(3,477)
Total unrecognised change in unrealised fair value			**70,065**			(3,477)

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 historical financial information.

Assets for Which Fair Value Approximates Carrying Value
For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed Rate Financial Instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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32. 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 2018		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	**256,930**	**–**	**256,930**
Amounts due from credit institutions	**29,884**	**10,415**	**40,299**
Debt securities owned*	**71,824**	**–**	**71,824**
Equity investments at fair value*	**457,495**	**–**	**457,495**
Accounts receivable	**153,106**	**17,122**	**170,228**
Insurance premiums receivable	**57,801**	**–**	**57,801**
Inventories	**214,253**	**64,362**	**278,615**
Investment properties	**–**	**151,232**	**151,232**
Prepayments	**62,424**	**55,485**	**117,909**
Income tax assets	**1,021**	**1,384**	**2,405**
Property and equipment	**–**	**1,671,917**	**1,671,917**
Goodwill	**–**	**142,095**	**142,095**
Intangible assets	**–**	**51,634**	**51,634**
Other assets	**80,507**	**170,955**	**251,462**
Total assets	**1,385,245**	**2,336,601**	**3,721,846**
Accounts payable	**135,826**	**7,288**	**143,114**
Insurance contracts liabilities	**60,555**	**7,652**	**68,207**
Income tax liabilities	**1,119**	**–**	**1,119**
Deferred income	**34,877**	**27,182**	**62,059**
Borrowings	**157,629**	**606,726**	**764,355**
Debt securities issued	**86,089**	**830,312**	**916,401**
Other liabilities	**128,635**	**107,136**	**235,771**
Total liabilities	**604,730**	**1,586,296**	**2,191,026**
Net	**780,515**	**750,305**	**1,530,820**

* Internationally listed debt and equity investments are allocated to "less than one year" rather than based on contractual maturity.

	31 December 2017		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	346,241	–	346,241
Amounts due from credit institutions	36,382	1,759	38,141
Debt securities owned	1,619	30,288	31,907
Equity investments at fair value	–	1,153	1,153
Accounts receivable	35,203	134	35,337
Insurance premiums receivable	30,818	37	30,855
Inventories	72,074	8,036	80,110
Investment properties	–	159,989	159,989
Prepayments	79,246	8,514	87,760
Income tax assets	186	1,188	1,374
Property and equipment	–	657,635	657,635
Goodwill	–	21,935	21,935
Intangible assets	–	5,457	5,457
Other assets	44,716	25,154	69,870
Assets of disposal group held for sale	1,148,584	–	1,148,584
Total assets	1,795,069	921,279	2,716,348
Accounts payable	32,231	10,756	42,987
Insurance contracts liabilities	39,443	6,960	46,403
Income tax liabilities	860	–	860
Deferred income	49,863	23,203	73,066
Borrowings	299,762	350,972	650,734
Debt securities issued	1,350	76,485	77,835
Other liabilities	44,065	19,141	63,206
Liabilities of disposal group held for sale	619,029	–	619,029
Total liabilities	1,086,603	487,517	1,574,120
Net	708,466	433,762	1,142,228

33. 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 period/year end, and related expenses and income for the period are as follows:

	31 December 2018		31 December 2017	
	Management***	Entities under common control**	Management***	Entities under common control**
Assets				
Cash and cash equivalents	**–**	**–**	–	308,645
Amounts due from credit institutions	**–**	**–**	–	18,450
Debt securities owned	**–**	**–**	–	31,721
Insurance premiums receivable	**–**	**–**	–	281
Prepayments	**–**	**–**	–	32
Loans issued*	**–**	**–**	–	–
Other assets	**–**	**–**	–	12,435
	–	**–**	–	371,564
Liabilities				
Derivative financial liabilities	**–**	**–**	–	1,091
Borrowings	**–**	**–**	–	50,970
Debt securities issued	**2,596**	**–**	389	53,209
Deferred income	**–**	**–**	1,740	–
Other liabilities	**–**	**–**	–	74
	2,596	**–**	2,129	105,344

	2018		2017 (Represented)	
	Management***	Entities under common control**	Management***	Entities under common control**
Income and expenses				
Gross profit****	**–**	**1,998**	1,924	4,082
Salaries and other employee benefits	**–**	**(428)**	–	(943)
Administrative expenses	**–**	**(527)**	–	(598)
Net foreign currency (loss)	**–**	**(675)**	–	(6,954)
Interest income	**–**	**4,482**	–	5,005
Interest expense	**–**	**(5,038)**	–	(9,215)
	–	**(188)**	1,924	(8,623)

* During the year ended 31 December 2018 and prior to demerger, JSC Georgia Capital issued a loan to the former parent JSC BGEO Group in the amount of GEL 133,830, presented in other assets in the Consolidated Statement of Financial Position. Since as at 31 December 2018 (post-demerger) JSC BGEO Group does not represent a related party, this loan is not disclosed in the above table. As at 31 December 2018, one of the Group's subsidiaries, JSC m^2 Real Estate has a loan issued to a joint venture JSC Isani Park in the amount of GEL 1,038. Interest income on loan issued to JSC Isani Park is GEL 73 as of 31 December 2018.

** Entities under common control comprise of BGEO Group PLC's Banking Business subsidiaries.

*** Management of Georgia Capital PLC consist of five executives and six members of Board of Directors.

**** The amount represent gross real estate profit received from key management personnel as a result of sale of apartments.

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33. Related Party Disclosures continued

Compensation of key management personnel comprised the following:

	2018	2017 (Represented)
Salaries and other benefits	**2,605**	1,812
Share-based payments compensation	**18,131**	12,450
Long-term benefits	**–**	2,243
Total key management compensation	**20,736**	16,505

Key management personnel do not receive cash-settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 29). The number of key management personnel at 31 December 2018 was 11 (31 December 2017: 16).

34. Events after the Reporting Period

Development of Hospitality and Commercial Business

On 6 February 2019 Group's Hospitality & Commercial Business, owned through m^2 Real Estate (m2), acquired remaining 40% equity stake in Kass 1 LLC. Following its initial acquisition in December 2017, m2 held a 60% stake in the Company owning an under-construction hotel located in Tbilisi. The total consideration for the buyout was US$5.2 million (GEL 13.9 million), where US$0.3 million (GEL 0.8 million) was paid in cash and US$4.9 million (GEL 13.1 million) was settled through bonds issued by the Commercial Real Estate Business.

Acquisition of Georgian beverages brand

On 25 March 2019 Group's Beverages business, owned though Teliani Valley acquired the brand name and commercial assets of Georgian beer and lemonade producer Kazbegi. Total cash consideration for the acquisition amounted to US$3.65 million (GEL 9.77 million) excluding VAT.

Additional Information

ABBREVIATIONS AND REFERENCES

ADR	Average Daily Rate
AFS	Available-for-sale
AGM	Annual General Meeting
APM	Alternative Performance Measure
BoG or BoGG	Bank of Georgia Group PLC
CAGR	Compounded annual growth rate
DCFTA	Deep and Comprehensive Free Trade Agreement
DEG	Deutsche Investitions- und Entwicklungsgesellschaft – German Investment and Development Corporation
DFI	Development Financial Institutions
EBITDA	Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation
EECP	Executives' Equity Compensation Plan
EFSE	European Fund for Southeast Europe
EFTA	European Free Trade Association
EIB	European Investment Bank
EPS	Earnings per share
ESMS	Environmental and Social Risk Management Procedures
EUR	Euro
EV	Enterprise Value
EY	Ernst & Young
FCF	Free Cash Flow
FDI	Foreign direct investment
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
FRC	Financial Reporting Council
FTA	Free Trade Agreement
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GEL	Georgian Lari or Lari, national currency of Georgia
GGU	Georgian Global Utilities
GHG	Georgia Healthcare Group
HPP	Hydro Power Plant
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial Public Offering
IRR	Internal Rate of Return
JSC	Joint stock company
KfW	Kreditanstalt für Wiederaufbau
KPIs	Key performance indicators
LSE	London Stock Exchange
LTIP	Long-term Incentive Plan
LTM	Last 12 months
MOIC	Multiple of Invested Capital
MoU	Memorandum of Understanding
MTPL	Mandatory Third-party Liability Insurance
MW	Megawatt
NAV	Net Asset Value
NBG	National Bank of Georgia
NGO	Non-governmental organisation
NIM	Net Interest Margin
NMF	Not meaningful to present
NOI	Net Operating Income
NPLs	Non-performing loans
NSA	Net Sellable Area
OECD	Organisation for Economic Co-operation and Development
P&C	Property and Casualty
PLC	Public limited company
PPA	Power Purchase Agreement
RAB	Regulatory Asset Base

Additional Information

ABBREVIATIONS AND REFERENCES CONTINUED

REIT	Real Estate Investment Trust
ROAA	Return on Average Assets
ROAC	Return on Allocated Capital
ROAE	Return on average total equity
ROI	Return on Net Investment
ROIC	Return on Invested Capital
SMEs	Small and medium-size enterprises
TBD	To be determined
TPL	Third-party Liability Insurance
TSR	Total Shareholder Return
UK	United Kingdom
US$	Dollar, national currency of the United States
WACC	Weighted Average Cost of Capital

REFERENCES

Georgia Capital and "the Group"	Georgia Capital PLC and its portfolio companies as a whole
GCAP	The aggregation of stand-alone Georgia Capital PLC and stand-alone JSC Georgia Capital accounts
BGEO Group PLC	Former parent company of Georgia Capital PLC prior to demerger
The Board	The Board of Directors of Georgia Capital PLC
The Code	The UK Corporate Governance Code published in 2016
The Directors	Members of Georgia Capital PLC Board of Directors
We / Our / Us	References to "we", "our" or "us" are primarily references to the Group throughout this Report. However, the Group comprises of and operates through its subsidiaries which are legal entities with their own relevant management and governance structure (as set out in relevant parts of this Report).

GLOSSARY

Alternative performance measures (APMs) In this Annual Report management uses various APMs, which they believe provide additional useful information for understanding the financial performance of the Group. These APMs are not defined by International Financial Reporting Standards, and also may not be directly comparable with other companies who use similar measures. Management believes that these APMs provide the best representation of our financial performance as these measures are used by management to evaluate our operating performance and make day-to-day operating decisions.

Combined Ratio Equals sum of the loss ratio and the expense ratio.

Demerger Georgia Capital PLC emerged as a separately listed company after demerger from its former Parent Company BGEO Group on 29 May, 2018 (the "Demerger").

EBITDA Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation; the Group has presented these figures in this document because management uses EBITDA as a tool to measure the Group's operational performance and the profitability of its operations. The Company considers EBITDA to be an important indicator of its representative recurring operations.

Expense Ratio Equals sum of acquisition costs and operating expenses divided by net earned premiums.

IRR IRR for listed investments is calculated based on: a) historical contributions to the listed investment; b) dividends received; and c) market value of the investment as at 31 December 2018.

Loss Ratio Equals net insurance claims expense divided by net earned premiums.

NAV Net Asset Value, represents the net value of an entity and is calculated as the total value of the entity's assets minus the total value of its liabilities.

Net investment Gross investments less capital returns.

ROAC An annualised return on allocated capital as of 31 December 2018 and calculated at each private investment level. Inputs into the ROAC calculation are as follows: (i) the numerator is the annualised attributable income of the private portfolio company, less allocated GCAP interest expense; and (ii) the denominator is the management estimated fair value, as included in the NAV statement, less allocated gross debt of GCAP.

ROAE Return on average total equity equals profit for the period attributable to shareholders of the P&C insurance business divided by monthly average equity attributable to shareholders of P&C for the same period for BoGG and P&C insurance.

ROI For private investments ROI is an annualised return on net investment (gross investments less capital returns) calculated at each investment level. Inputs into the ROI calculation are as follows: (i) the numerator is the annualised attributable income of the private portfolio company less allocated GCAP interest expense; and (ii) the denominator is the net investment less allocated gross debt of GCAP.

ROIC Return on invested capital is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.

Additional Information

SHAREHOLDER INFORMATION

Our Website
All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors, key financial information, regulatory news, share and dividend data, AGM documentation and other significant information about Georgia Capital at: **https://georgiacapital.ge/**.

Our Registered Address
Georgia Capital PLC
84 Brook Street
London W1K 5EH
United Kingdom

Annual General Meeting
The Annual General Meeting of Georgia Capital PLC (the "AGM") will be held at 11:00 am (London time) on 22 May 2019 at the offices of Baker & McKenzie LLP, 100 New Bridge Street, London EC4V 6JA. Details of the date, time and business to be conducted at the AGM is contained in the Notice of AGM, which will be mailed to shareholders who have elected to receive hard copies of shareholder information and will be available on the Company's website: **https://georgiacapital.ge/**.

Shareholder Enquiries
Georgia Capital PLC's share register is maintained by Computershare Investor Services PLC.

Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website: **www.investorcentre.co.uk** or by calling the Shareholder Helpline on: +44 (0)370 702 0176.

Computershare Investor Services PLC
The Pavilions, Bridgwater Road
Bristol BS13 8AE
United Kingdom
+44 (0370) 702 0176

Forward-Looking Statements
Certain statements in this Annual Report and Accounts contain forward-looking statements, including, but not limited to, statements concerning expectations, projections, objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development. Although Georgia Capital PLC believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. By their nature, these forward-looking statements are subject to a number of known and unknown risks, uncertainties and contingencies, and actual results and events could differ materially from those currently being anticipated as reflected in such statements. Important factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, certain of which are beyond our control, include, among other things, those described in "Principal Risks and Uncertainties" included in this Annual Report and Accounts, see pages 70 to 72. No part of this document constitutes, or shall be taken to constitute, an invitation or inducement to invest in Georgia Capital PLC or any other entity, and must not be relied upon in any way in connection with any investment decision. Georgia Capital PLC and other entities undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Nothing in this document should be construed as a profit forecast.

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