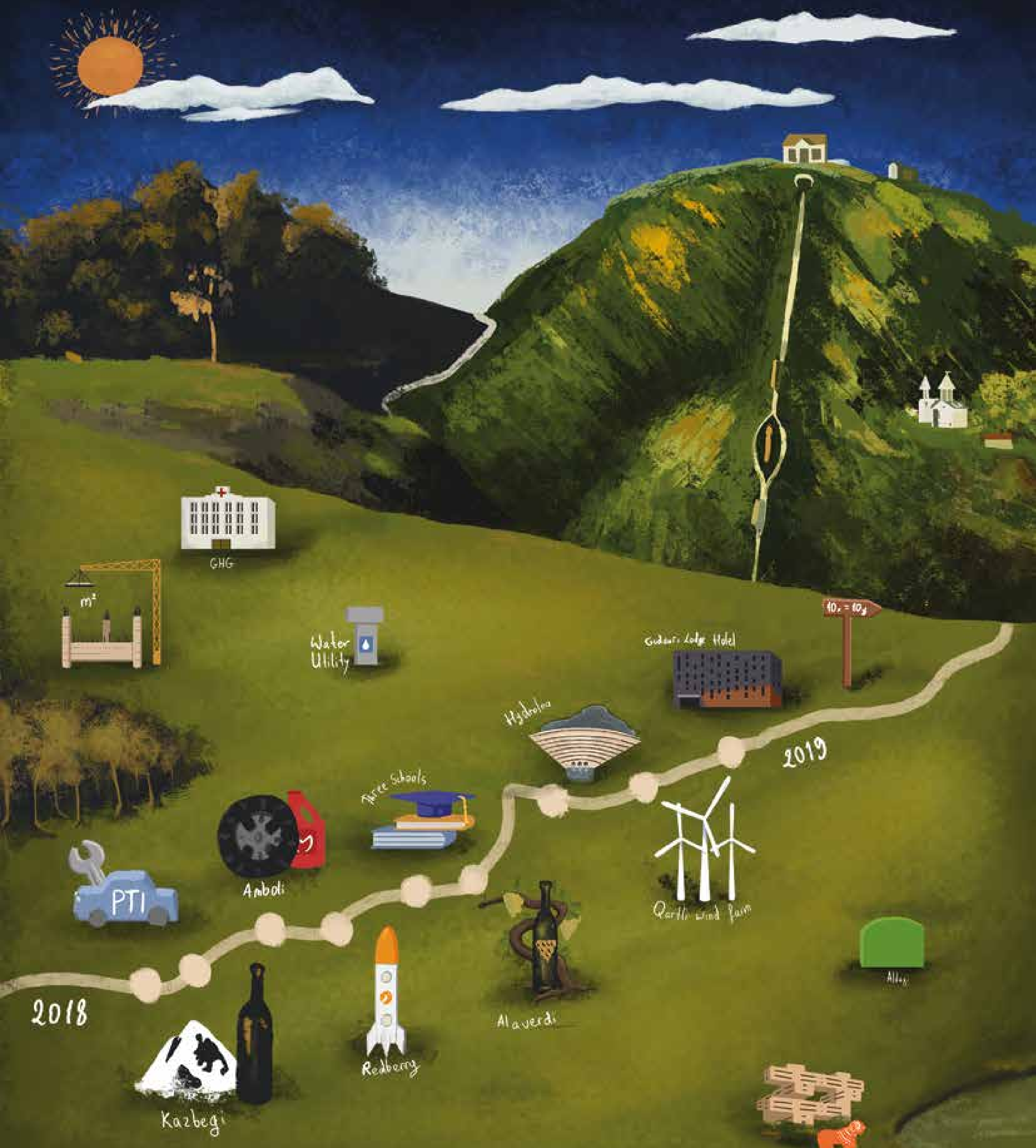

A GROUND FLOOR OPPORTUNITY

ANNUAL REPORT 2019

GEORGIA CAPITAL

Georgia Capital PLC

Photo Evening view of Tbilisi, Georgia.

GEORGIA CAPITAL

YOUR GROUND FLOOR INVESTMENT OPPORTUNITY IN GEORGIA

Georgia Capital PLC ("Georgia Capital" or "the Group" or "GCAP" – LSE: CGEO LN) is a platform for buying, building, developing and selling businesses in Georgia.

The Group's primary business is to develop or buy businesses, help them institutionalise their management and grow them into mature businesses that can further develop largely on their own, either with continued oversight or independently. The Group's focus is typically on smaller or early stage businesses in sectors capable of rapid development and consolidation, while also considering more developed sectors, where a strong market position can be achieved through an acquisition or larger greenfield project. Georgia Capital manages its portfolio companies individually and does not focus on achieving intergroup synergies. Georgia Capital will normally seek to monetise its investment over a 5-10 year period from initial investment. 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.

CHAIRMAN AND CEO STATEMENT

Read our **Chairman and CEO Statement** on page 14

STRATEGY

Read about **Georgia Capital Strategy** on page 18

PORTFOLIO

Read about our **Portfolio Companies** on page 36

For more information on Georgia Capital visit:

georgiacapital.ge

STRATEGIC REVIEW

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Strategic Review Overview

PERFORMANCE HIGHLIGHTS

GEORGIA CAPITAL PERFORMANCE (MANAGEMENT ACCOUNTS)

Total portfolio value creation (GEL millions)
134.4 NMF

of which, listed business (GEL millions)
(33.9) -94.7%

of which, private businesses (GEL millions)
168.3 NMF

Dividend income[3] (GEL millions)
122.2 +68.8%

Investments (GEL millions)
357.6 NMF

Share buybacks (GEL millions)
124.8 +42.7%

Net income
71.6 NMF

Management fee expense ratio[1]
1.8% +0.8ppt

PERFORMANCE HIGHLIGHTS (IFRS)

Group consolidated operating cash flow[2] (GEL millions)
228.5 +39.8%

Group consolidated revenue (GEL millions)
1,473.4 +14.8%

Group consolidated gross profit (GEL millions)
590.4 +19.7%

1 LTM GCAP management fee expenses expressed as a percentage of average market capitalisation during the last twelve months. Total LTM operating expenses including fund type expenses at 2.4% in FY19. FY18 expense ratio is not comparable due to incomplete year of operations for GCAP since its demerger on 29-May-18.
2 Consolidated IFRS cash flow from operating activities adjusted to exclude IFRS 16 impact.
3 Dividend income from portfolio companies.

Georgia Capital PLC Annual Report 2019

GEORGIA CAPITAL NAV OVERVIEW

NAV per share (GEL)
46.84 +5.7%

NAV per share (GBP)
12.46 -4.5%

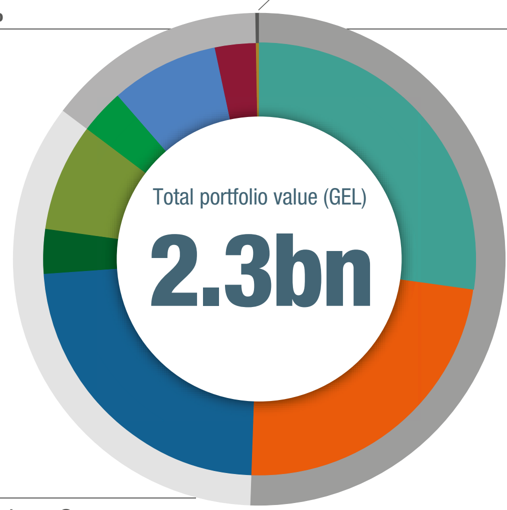
Net Asset Value (NAV) (GEL billions)
1.8 +3.9%

Total portfolio value (GEL billions)
2.3 +19.6%

Liquid assets and loans issued (GEL millions)
363.8 -39.9%

Net debt (GEL millions)
493.6 NMF

PORTFOLIO VALUE (GEL MILLIONS)



Listed	**1,027.8**
Georgia Healthcare Group	430.1
Bank of Georgia Group	597.7
Private	**1,225.3**
Private Late Stage	**692.7**
Water Utility	484.0
Housing Development	43.9
P&C Insurance	164.9
Private Early Stage	**439.5**
Renewable Energy	106.8
Hospitality and Commercial Real Estate	245.6
Beverages	87.1
Pipeline	**93.0**
Education	56.4
Auto Service	25.8
Digital Services	8.8
Other	2.1

Read more on our results in our **Financial Review** on page 97

Certain financial measures presented in the 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 90, and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 93 to 94.

Strategic Review Overview

VALUE CREATION

	PORTFOLIO VALUE	VALUE CREATION IN 2019	MULTIPLE OF INVESTED CAPITAL (MOIC) UNREALISED	OWNERSHIP		VALUATION METHODOLOGY	EXIT STRATEGY
LISTED INVESTMENTS	GEL millions 1,028 +5.1%	GEL millions (34)	4.2x	GHG	**70.6%**	Public markets	
				BoG	**19.9%**		
PRIVATE LATE STAGE	GEL millions 693 +10.3%	GEL millions 157	3.0x	Water Utility	**100%**	8.8x LTM EV/EBITDA	Trade sale, IPO, Promote
				Housing Development	**100%**	DCF	Fund, Trade sale
				P&C Insurance	**100%**	9.0x LTM P/E	Trade sale
PRIVATE EARLY STAGE	GEL millions 439 +62.0%	GEL millions (5)	1.0x	Renewable Energy	**100%**[1]	At acquisition price	Trade sale, IPO, Fund
				Hospitality and Commercial Real Estate	**100%**	NAV	Fund, Trade sale
				Beverages	**87%**	10.0x LTM EV/EBITDA (wine)	Trade sale, Promote
						2.2x LTM EV/Sales (beer)	
PIPELINE	GEL millions 93 NMF	GEL millions 16	1.2x	Education	**70-90%**[2]	At acquisition price	Trade sale, IPO
				Auto Service	**80-100%**[3]	10.4x EV/EBITDA (PTI)	Trade sale
						At acquisition price (Amboli)	
				Digital Services	**60%**	At acquisition price	Trade sale

1 Following the buyout of the 34.4% minority shareholder in GRPC on 25 February 2020, Renewable Energy consists of wholly-owned hydro and wind power plants with 91MW installed capacity in aggregate. In addition, the business has a pipeline of 350MW renewable energy projects in the medium term.

2 Different ownership stakes across premium, mid-level and affordable school segments.

3 Auto Service – 80% ownership in Amboli and 100% in Periodic Technical Inspection business.

Photo Jvari Monastery is a 6th century Georgian orthodox monastery near Mtskheta, former capital of Georgia. Jvari Monastery is listed as a World Heritage Site by UNESCO.

GEORGIA CAPITAL AT A GLANCE

PLATFORM FOR BUYING, BUILDING, DEVELOPING AND SELLING 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 strong 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. Once Georgia Capital has successfully developed a business, the Group acts as an advisor for the management of mature companies and actively manages its portfolio to determine each company's optimal owner. Georgia Capital will normally seek to monetise its investment either through trade sale, initial public offering, fund structure or promoting interest over a 5–10 year period from initial investment.

Georgia Capital currently manages nine 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; (vi) a Beverages business; (vii) an Education business; (viii) an Auto Service business; and (ix) a Digital Services business; and two public investments (London Stock Exchange premium-listed Georgian companies): (i) Georgia Healthcare Group PLC (GHG), (70.6% 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 announced two new strategic priorities on its investor day on 27 June 2019: 1) To become a third-party money manager, targeting to raise c.US$ 200 million through upcoming funds; and 2) to reshape its balance sheet over the next five years and decrease share of listed assets to 20% in its portfolio (46% as of 31 December 2019).

GEORGIA CAPITAL — MANAGEMENT PLATFORM

LISTED PORTFOLIO GEL 1,028M

GEORGIA HEALTHCARE GROUP

GEORGIA HEALTHCARE GROUP

Georgia Healthcare Group
70.6%
GEL 430m[2]
Valued: LSE

BANK OF GEORGIA

BANK OF GEORGIA

Bank of Georgia[3]
19.9%
GEL 598m[2]
Valued: LSE

PRIVATE PORTFOLIO GEL 1,225M

LATE STAGE GEL 693M

WATER UTILITY
Managed by GGU
100%
GEL 484m
Valued: 8.8x LTM EV/EBITDA

HOUSING DEVELOPMENT
Managed by m²*
100%
GEL 44m
Valued: DCF

P&C INSURANCE
Managed by Aldagi
100%
GEL 165m
Valued: 9.0 LTM P/E

EARLY STAGE GEL 439M

RENEWABLE ENERGY
Managed by GGU
100%[4]
GEL 107m[2]
Valued: At acquisition price

HOSPITALITY AND COMMERCIAL REAL ESTATE
Managed by m²*
100%
GEL 246m
Valued: NAV

BEVERAGES
Managed by Georgia Beverages
87%
GEL 87m[2]
Valued: LTM EV/EBITDA – 10.0x (wine); LTM EV/Sales – 2.2x (beer)

PIPELINE GEL 93M[1]

EDUCATION
Valued: At acquisition price
GEL 56m

AUTO SERVICE
Valued: 10.4x EV/EBITDA (PTI); At acquisition price (Amboli)
GEL 26m

DIGITAL SERVICES
Valued: At acquisition price
GEL 9m

THIRD-PARTY MANAGED CAPITAL

UPCOMING FUNDS

Targeting to raise c.US$ 200m

GEORGIA CAPITAL ASPIRES TO DELIVER TOTAL SHAREHOLDER RETURNS OF 10 TIMES OVER 10 YEARS 10X=10Y

1 Total pipeline portfolio includes other pipeline projects with GEL 2 million value.
2 GCAP share as of 31 December 2019.
3 As long as Georgia Capital's stake is greater than 9.9%, it will exercise its voting rights in accordance with the votes cast by all other shareholders on all shareholder votes at any general meeting.
4 Following the buyout of the 34.4% minority shareholder in GRPC on 25 February 2020, Renewable Energy consists of wholly-owned hydro and wind power plants with 91MW installed capacity in aggregate.
* m² was renamed as Georgia Real Estate in 2019, we use m² and Georgia Real Estate interchangeably throughout the report.

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 market value of GEL 3.8 billion. GHG is comprised of five business lines: hospitals, clinics, pharmacy and distribution, medical insurance and diagnostics. GHG's shares are listed on the London Stock Exchange. GHG's Annual Report 2019 is available at: **http://ghg.com.ge/** [1]

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 and investment banking and wealth management operations; and c) banking operations in Belarus (BNB). The Group intends to benefit from superior growth of the Georgian economy through both its retail banking and corporate and investment banking services and aims to deliver on its strategy, which is based on at least 20% Return on Average Equity (ROAE) and c.15% growth of its loan book. BoG's Annual Report 2019 is available at: **https://bankofgeorgiagroup.com/** [1]

Private Late Stage Portfolio

Water Utility

Water Utility is a regulated 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.36,000 legal entities. Water Utility also operates hydro power plants with total installed capacity of 149MW. On average, half of generated power is used by the business for water supply purposes at regulated electricity tariff, while the excess amount is sold to third parties.

Housing Development

Housing Development is a leading real estate developer on the US$ 1.6 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. The business also started to develop a distressed asset management arm in 2019.

P&C Insurance

Property and Casualty Insurance (P&C Insurance) is a leading player in the local property and casualty insurance market with a 29% market share based on earned premiums, gross as of 30 September 2019. 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.

1 Provided for informational purposes only.

Private Early Stage Portfolio

Renewable Energy

Renewable Energy is a platform for development of hydro power plants and wind power plants across Georgia. Following the buyout of the 34.4% minority shareholder in GRPC on 25 February 2020, Georgia Capital's renewable energy business consists of its wholly-owned subsidiary GRPC (with 50MW Mestiachala HPPs) and wholly-owned Hydrolea HPPs and Qartli wind farm (with 41MW installed capacity in aggregate). In addition, the business has a pipeline of c.350MW renewable energy projects in the medium term.

Hospitality and Commercial Real Estate

Our hospitality and commercial real estate business is comprised of: a) rent-earning commercial assets with targeted 10% yield; and b) a hotel development business across Georgia with targeted more than 1,000 rooms. The hotel development business has confirmed 1,222 rooms, of which 273 are operational and 949 are in the pipeline. The targeted hotel portfolio comprises c.630 internationally branded hotel rooms and c.592 hotels rooms under the business's own brands developed by Amber Group.

Beverages

Beverages combines three business lines: a wine business, a beer business and a distribution business. Our wine business produces and sells wine locally and exports to 17 countries. Our beer business produces and sells beer and lemonade mainly locally and owns a 10-year exclusive license to produce and sell Heineken brands in Georgia.

Pipeline

Education

We see attractive opportunities in what is currently a very fragmented, private high school education market and expect to build a diversified business model combining premium, mid-level and affordable school segments. Our education business now combines three high quality school partnerships across premium, mid-level and affordable education segments that provide a clear pathway to approximately 11,180 learners, more than one-third of our targeted 30,000 learners by 2025.

Auto Service

Georgia Capital sees strong value creation opportunity in the auto services industry, which is currently a very fragmented market with approximately GEL 2.8 billion annual revenues. The Group aims to build a diversified business model with a digital platform combining different auto-related services: car services and parts, secondary car trading, car insurance and periodic technical inspection (PTI).

Digital Services

Georgia Capital has entered the high growth digital sector by acquiring a 60% equity stake in Redberry, a leading Georgian digital marketing agency. The acquisition of the attractive service business complements our existing portfolio as well as provides an opportunity to enhance digital capabilities across our portfolio businesses. The acquisition of Redberry enables us to have a platform for investments in the digital business.

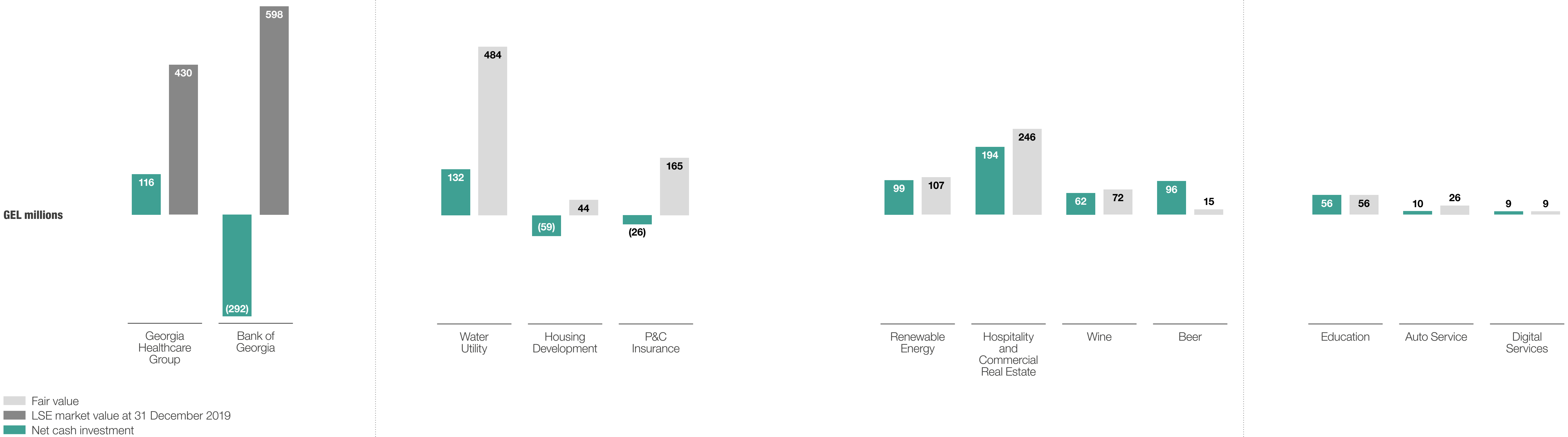
GEORGIA CAPITAL AT A GLANCE CONTINUED

Key portfolio highlights

One of the Group's key objectives is to buy assets at affordable prices and to have two potential liquidity events for each of its assets. Cash generation at both GCAP and portfolio company level is a key success factor for potential double exit routes, further discussed on page 27. Georgia Capital measures achievable money multiples with all acquisitions and analyses them in combination with the expected IRR during the investment process. As of 31 December 2019, net cash investment in listed and private late stage companies was GEL (129) million against the fair value of GEL 1.7 billion, putting Georgia Capital in a strong position on both cost multiples and IRR metrics, and, more importantly, creating optionality for ultimate exits given the existing cash generation in these businesses.

GROSS CASH INVESTED OF GEL 1.2 BILLION → NET CASH INVESTED OF GEL 398 MILLION → PORTFOLIO FAIR VALUE OF GEL 2.3 BILLION

	LSE LISTED		PRIVATE LATE STAGE			PRIVATE EARLY STAGE				PIPELINE		
	Georgia Healthcare Group	Bank of Georgia	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial Real Estate	Wine	Beer	Education	Auto Service	Digital Services
ORIGINAL INVESTMENT	252	129	214	92	10	99	194	62	96	56	10	9
MOIC	2.2	7.9	2.6	2.1	19.7	1.1	1.3	1.2	0.2	NMF	2.6	NMF



Strategic Review Overview

EXECUTIVE MANAGEMENT

Georgia Capital

Irakli Gilauri, Chairman and CEO

Irakli 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. Prior, he was an EBRD (European Bank for Reconstruction and Development) banker. Mr Gilauri has up to 20 years of experience in banking, investment and finance. Over the last decade, Irakli'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 wine. Holds an MS in banking from CASS Business School.

Avto Namicheishvili, Deputy CEO

From 28 January 2019, Mr Namicheishvili assumes 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. Avto also serves as a chairman of the Group's beverages business. 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 an 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. Holds a BBA from the European School of Management in Georgia. US Certified Public Accountant.

Ia Gabuania, Chief Exit Strategy Officer

Formerly Investment Director at Georgia Capital. Joined BGEO Group as an Investment Director in 2017. Ia has over 10 years of experience in banking and investment management. Prior to joining BGEO, Ia served as Head of Corporate Banking at Bank Republic, Societe Generale Group. Previously she held numerous executive positions in leading Georgian companies, among which are Investment Executive at Liberty Capital (the holding company of Liberty Bank) and Head of Investor Relations at Galt & Taggart Asset Management. Holds a BSc degree from the London School of Economics and Political Science, UK.

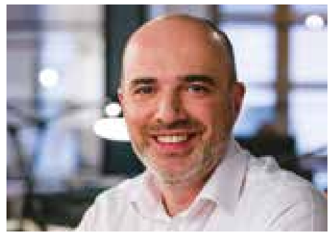
Listed Portfolio

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.

Bank of Georgia



Archil Gachechiladze, CEO, Bank of Georgia

Previously CEO at GGU, the Group's water utility and renewable energy businesses. Prior to that Archil was a Deputy CEO in charge of corporate banking at Bank of Georgia. He launched the Bank's industry and macro research, brokerage, and advisory businesses, as well as 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 an MBA with distinction from Cornell University and is a CFA charterholder.

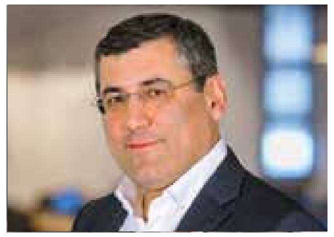
Private Portfolio

GGU

Avto Namicheishvili, Interim CEO, GGU

From 28 January 2019, Mr Namicheishvili assumes 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. Avto also serves as a chairman of the Group's beverages business. 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 an international business law from Central European University, Hungary.

Georgia Real Estate



Irakli Burdiladze, Co-CEO, Georgia Real Estate*

Joined as a CFO at the Bank of Georgia in 2006. Before taking leadership of the Group's 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.

* m^2 was renamed as Georgia Real Estate in 2019.

Georgia Real Estate

Shota Berekashvili, Co-CEO, Georgia Real Estate*

Joined JSC m^2 Real Estate in 2017. Before joining m^2, from 2009 to 2017, Shota was the founder and the CEO of BK Capital construction company. From 2003 to 2009, he worked in Moscow as CFO of BK Capital. From 1999 to 2003, he worked in investment banking sector in NY and London. In 1999, Shota graduated from Columbia University NY with a Bachelor's degree in Science and in 2002, Shota graduated from Cass Business School London with a Master's Degree in Corporate Finance and Risk Management.

* m^2 was renamed as Georgia Real Estate in 2019.

P&C Insurance

Giorgi Baratashvili, CEO, P&C Insurance

Joined as the Head of the Corporate Clients division of Aldagi in 2004. Before taking 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 a Master Diploma in International Law.

Wine

Temur Jankarashvili, CEO, Wine Business

CEO of the Group's wine business since November 2019, in addition to his CFO role at the beer business. Formerly CFO at Rustavi Azot JSC. He has extensive experience in finance. Previously, had worked for BGEO Group for 11 years, served as a VIP Director at Bank of Georgia, successfully leading the commercial lending team, covering structured financing, M&As, LBOs and project financing. Holds a BBA degree in Banking and Finance from Tbilisi State University.

Beer

Tornike Nikolaishvili, CEO, Beer Business

CEO of the Group's 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 at Cartu-Universal. Overall, he has 15 years' experience in the FMCG sector. Holds a BBA degree from the European School of Management.

CHAIRMAN AND CEO STATEMENT

Irakli Gilauri
Chairman and Chief Executive Officer

2019 WAS A SIGNIFICANT YEAR OF CAPITAL ALLOCATIONS AND PROGRESS FOR GEORGIA CAPITAL

Dear Fellow Shareholders,
In this my second letter to Georgia Capital shareholders, in what have recently become unprecedented times, it feels almost inappropriate to focus on the performance of our businesses by looking in the rear-view mirror. To the extent that this is our 2019 Annual Report I will do this in an abbreviated way, and then I will focus on our response to the challenges created by the potential economic impact of the global Coronavirus pandemic. Challenges that, as I write this letter, we know are likely to be significant but are evolving so rapidly that it is almost impossible right now to quantify them definitively.

Firstly, let me highlight the key issues for the Group in 2019.

2019 was a significant year of capital allocations and progress for Georgia Capital. We successfully converted active pipeline deals into 11 acquisitions, while our total portfolio value increased to GEL 2.3 billion. Our NAV per share increased 5.7% in 2019 on the back of strong value creation across our private portfolio companies and disciplined share buybacks. NAV per share allocated to private businesses grew by 20.9%, while NAV per share allocated to listed businesses decreased by 8.4%.

In terms of what we track as value creation, our private portfolio businesses generated GEL 168 million value (18.6% growth in value during 2019), which was partially offset by a GEL 34 million decrease in the market value of our listed assets reflecting the lower GHG share price. We increased our stake in GHG from 57% to 70.6% on 18 December 2019 following the completion of a share exchange facility, whereby GCAP issued 3.4 million new shares in exchange for a 13.6% equity stake in GHG. The number of outstanding GCAP shares decreased by 1.7% in 2019, driven by our share buyback programme and the subsequent cancellation of 2.7 million shares.

During 2019, dividend inflows from our portfolio businesses increased 69% y-o-y to GEL 122 million, which was supported by strong cash flow generation at late stage portfolio companies. GCAP's stand-alone FY19 cash inflow of GEL 113 million was supported by GEL 40 million interest income, while management expenses were managed below our targeted 2% level. Our resources available for deployment remained high at GEL 364 million at 31 December 2019.

On an IFRS basis, revenue (at GEL 1.5 billion) and gross profit (at GEL 590 million) were up 14.8% and 19.7%, respectively, in 2019, largely as a result of strong operating performances across our businesses, the launch of greenfield projects and a number of acquisitions. Consolidated EBITDA was up 21.4% y-o-y to GEL 272 million. Consolidated IFRS net profit was GEL 604.3 million in 2019 (up from GEL 26.2 million in 2018). Georgia Capital recorded a gain of GEL 589 million from a change in the accounting basis, which you can read more about on pages 98-99 of this report.

Listed businesses
A significant increase in the Bank of Georgia share price provided GEL 165 million value creation to Georgia Capital during 2019 on the back of more than 20% loan portfolio growth supported by a 26% return on equity and increased dividend payments. However, the Georgia Healthcare share price decreased by 40% during the year despite strong underlying business fundamentals. Following the completion of its three-year investment programme in 2018, the continued double-digit growth in EBITDA and operating cash flow enabled GHG to generate significant amounts of free cash flow totalling GEL 77 million in 2019, up from GEL 14 million in 2018.

Private businesses
Our private businesses delivered a healthy GEL 168 million value creation in 2019 driven by continued growth in operating performance, the first-time valuation of greenfield projects and enhancement of valuation multiples. I was delighted that the value creation, excluding multiple changes, was GEL 145 million across our private portfolio companies. There is significant information on the performance and strategies on all of our businesses later in this Annual Report.

Last year I identified three key principles for the acquisition and new business side of our business model: **Who before what**; **Think twice before buying**; and **Cash is, was and always will be King**. We made good progress on each of these key principles during 2019.

Who before what
Our team of people continues to be the main asset of Georgia Capital. Even in these difficult times our number one goal is not to do mass lay-offs and maintain the talent pool we have. Attracting and developing talent is not an easy task and obviously we want to continue to maintain our existing talent. We feel that all of our businesses are headed by great management teams and we believe that across the portfolio companies the depth of the management bench is solid. In addition, we came up with innovative partnership structures with local entreprenuers with good track records, where talented entrepreneurs are our minority partners in certain ventures and they continue to manage the company. At the same time they have our support in institutionalising the companies by introducing financial discipline, risk management and improved governance. This is obviously important in areas where companies are expected to grow rapidly. We are using these partnership structures in the education business. Where we bought majority equity interests in three schools, the former majority owners have remained our minority partners and continue to manage their respective businesses. At the same time, we are reinvesting together in the growth of the schools. These partnerships are extremely efficient as we do not need to maintain back office support for the education business as the schools have remained independently managed by our minority partners.

We have continued to develop talent internally and, at the Georgia Capital level, we have promoted Ia Gabunia to a newly created role of Chief Exit Strategy Officer. Ia became a key member of the top management team and will oversee the establishment of structured exit processes from our portfolio companies, as we are now starting to engage in the active price discovery of portfolio assets held. In addition, we have continued to support and develop talent internally and ensured that new portfolio acquisitions came with high quality management teams.

Think twice before buying
Our main goal remains to buy companies at affordable prices, with key investment criteria being MOICs combined with IRRs together with ROIC to ensure appropriate expected returns on the total invested capital in each portfolio company. During 2019, we particularly focused on acquisitions in the private school education market, and we were extremely successful in acquiring three high quality schools – British Georgian Academy; Buckswood International and Green School – at prices ranging between 5.6x - 6.4x 2020 EV/EBITDA. We also made significant progress in buying assets in the promising energy sector.

Cash is, was and always will be King
A key focus at the portfolio company level is the ability to grow operating cash, and generating and preserving cash is even more important during the global Coronavirus pandemic.

During 2019, we continued to make substantial investments in growing the business both operationally and via acquisitions, and this was supported by GEL 122 million of dividend income from a combination of our listed investments and our private portfolio companies. In a post-Coronavirus environment, we expect these dividend flows to reduce, and cash preservation will be our key priority in the near future, a theme I will discuss further later. At the end of 2019, the Group held GEL 364 million in cash, liquid funds and loans, which is a comfortable buffer in these turbulent times.

Capital allocations
We invested GEL 358 million in existing and new portfolio businesses in 2019, of which: GEL 113 million was for the non-cash acquisition of the 13.6% stake in GHG, GEL 68 million was used for pipeline and new business area acquisitions and was invested across our new education, auto service and digital services businesses. In addition, GEL 57 million was allocated for the development of pipeline hotels, and pipeline or bolt-on acquisitions in renewable energy projects and the beer business; GEL 49 million for commercial real estate properties valued at c.10% yield (in US$ terms) was allocated to the commercial real estate business, and GEL 2 million was allocated to the evaluation of new investment opportunities. Since 31 December 2019 we allocated a further GEL 38.7 million (US$ 13.8 million) capital for the buyout of the 34.4% minority shareholder in Renewable Energy. The buyout allows us

Strategic Review Overview

CHAIRMAN AND CEO STATEMENT CONTINUED

to become a 100% owner of the existing and pipeline high quality wind and hydro assets with strong dollar-linked cash flows.
In line with our 360-degree investment analysis, we spent GEL 125 million on share buybacks in 2019. Following the completion of the US$ 45 million share buyback programme, we cancelled 2.7 million shares and transferred 0.7 million shares to the management trust. Additionally, the management trust also spent US$ 17 million on its share purchase programme during 2019.

Perhaps the most significant of our new pipeline business investments was the GEL 49 million invested in high quality revenue, large and growing, but fragmented private school education market, where we secured three high quality partnerships with excellent management teams across premium, mid-level and affordable private schools. Through these carefully selected partnerships, we now have a clear pathway to approximately 11,000 learners and to more than 50% of our targeted GEL 70 million EBITDA by 2025.

Impact of the Coronavirus COVID-19 global pandemic

The full extent of the impact from the Coronavirus pandemic is currently difficult to assess and is unlikely to be fully understood for some time – at least until the severity and duration of the outbreak both in Georgia and worldwide become much clearer. The Georgian Government has initially responded rapidly and effectively, both in terms of managing the spread of the virus within Georgia, and in announcing a series of support measures designed to mitigate the potential economic impact in Georgia of the global spread of the virus.

Within our businesses we have implemented a series of contingency measures to ensure the protection of both our employees and our customers. This has been our immediate priority. Cash remains king, and we are now focusing on cash accumulation and preservation. I am writing this letter in the early stages of the Coronavirus impact, and we are currently reviewing all of our planned capital investment programmes in all of our portfolio companies. Each business is reviewing its cost profile and we will expect to deliver cost management efficiencies throughout the Group. Both of our listed investments, Bank of Georgia and Georgia Healthcare, have announced the deferment of any dividend decision until the full economic impact of the COVID-19 pandemic is better understood. These are extremely sensible decisions that, as investors in the businesses, we fully support.

In short, we are "battening down the hatches" until we better understand the short and medium-term economic impact, and we will accumulate cash, reduce our investment programme and rigorously review our cost base. I am sure investment opportunities will arise but, at this stage, that is for another day.

Macroeconomic environment

During 2019, the Georgian economy remained robust. GDP growth was 5.1% in 2019, up from 4.8% in 2018. As net exports continued to improve, the current account (CA) deficit shrank significantly to 5.1% of GDP in 2019, a major improvement compared to the 2016 highs of 12.5%. Tourism inflows showed resilience despite the air travel ban imposed by Russia, as we had 5.4% growth in 4Q19, while 2019 tourism revenues were up by 1.4% y-o-y. Average inflation was 4.9%, above the targeted level in 2019, leading the NBG to tighten its monetary policy by 250 bps to 9.0%. Georgia's strong progress was acknowledged by rating agencies as both Fitch and S&P upgraded ratings of Georgian sovereign bonds from BB- to BB with stable outlooks in 2019. Clearly this progress will now be significantly challenged for the remainder of 2020, as the country, and the world, come to terms with the full economic effect of the global pandemic. As I write this note, any clear picture as to exactly what that impact will be remains elusive, but we will monitor macroeconomic developments carefully, particularly given Georgia's reliance on tourism and tourism-related activities, and adapt our businesses appropriately.

Outlook

Over the last two years we have laid strong foundations for significant value creation across all our private businesses, which together with continued strong cash flow generation across our late stage businesses, have driven good NAV per share growth. I expect the Georgian economy to remain resilient to the economic challenges ahead, and I know our portfolio businesses are doing everything in their power to husband their resources to manage efficiently and effectively to ensure they remain very well positioned to withstand the challenges ahead.

This Strategic Report as set out on pages 2 to 123 was approved by the Board of Directors on 7 April 2020 and signed on behalf by Irakli Gilauri, Chairman and Chief Executive Officer.

Irakli Gilauri
Chairman and CEO
7 April 2020

Photo Breathtaking panoramic view of old Tbilisi – home to diverse cultural heritage of the city.

GEORGIA CAPITAL STRATEGY

GEORGIA CAPITAL – YOUR GROUND FLOOR INVESTMENT OPPORTUNITY IN GEORGIA

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

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
- Seventh in "Ease of Doing Business" (2020).
- Top eight in Europe region by Economic Freedom Index (Heritage Foundation, 2020) and #12 internationally.
- Low corruption and bribery risk (Transparency International, 2019 and Trace International, 2019).

Investment-led GDP growth – 5.1% growth in 2019
- Fast-growing 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 the 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 trade sale, IPO, fund structure or promoting interest in five to ten years.
- Disciplined when investing by buying at reasonable prices.
- 360-degree analysis to be performed when evaluating capital returns, new investment opportunities or divestments.
- 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.
- Exit options are set prior to making an investment decision.

Managing portfolio companies
- 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.

#3

THREE FUNDAMENTAL ENABLERS

Superior access to capital[1]
- 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:
  - 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.).
- Targeting to raise third-party managed capital over the next five years.

Access to good management
- Reputation among talented managers as the "best group to work for".
- Attracted talents have demonstrated solid track record of successful delivery.
- Proven DNA in turning around companies and growing them efficiently.
- Platform for entrepreneurs to build institutions (entrepreneurship culture):
  - If we do not have the right people then we do not invest, no matter the attractiveness of the opportunity.

Commitment to the highest level of corporate governance
- Strong Board comprised mainly of independent directors with extensive international experience.
- Outstanding track record in institutionalising businesses, creating independently run/managed institutions.
- Approximately 35 employees at the holding company level.
- Highly experienced management team in each portfolio company with a strong measure of independence.
- Aligned shareholders' and management's interests by share compensation.
- High level of transparent reporting.

1 Figures and statements in this section include the track record of our predecessor company BGEO, prior to the 2018 demerger.

Photo Kazbegi mountains in early winter in the North of the country.

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 growing and trade integration has strengthened. These, coupled with a business-friendly environment and policies aimed at further diversifying the economy, support investments and boosting growth.

IN 2020, WORLD BANK RANKED GEORGIA:

2nd
in "Starting a Business"

5th
in "Registering Property"

7th
in "Protecting Minority Investors"

7th
in "Ease of Doing Business"

Up from 16th to 9th in 2017 and from 9th to 7th in 2019, ahead of 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
Turkey	BB-	Negative
Ukraine	B	Positive

Reform-driven success

Georgia has carried out genuine economic and structural improvements. As a result, corruption has decreased, productivity has been enhanced and the economy has been diversified – enabling the country to withstand the global financial crisis and recent external shocks.

The key sovereign ratings have improved during 2019: in February 2019, Fitch upgraded the sovereign credit rating of Georgia from "BB-" to "BB" and maintained a stable outlook; in September 2019, Moody's reaffirmed the "Ba2" rating and stable outlook; and in October 2019, Standard & Poor's upgraded the rating 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 upgrades.

Georgia is consistently ranked as a top performer in governance and doing business indicators. Georgia, with a ranking of seventh in "Ease of Doing Business", has implemented a total of 47 reforms in the past 15 years and is characterised as a top-performing economy in the region in which to start a business. Furthermore, Georgia is ranked 12th out of 180 countries by the Index of Economic Freedom, measured by the Heritage Foundation in 2020, and 27th out of 200 countries in Trace International's 2019 Matrix of Business Bribery Risk. Georgia is on par with the European Union (EU) member states and ranked top in the Eastern Europe and Central Asia Region Corruption Perception Index by Transparency International in 2019.

The Economic Liberty Act, effective since January 2014, ensures the continuation of a credible fiscal and monetary framework for Georgia, by capping the fiscal deficit at 3% of Gross Domestic Product (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 only applicable to distributed profits; undistributed profits, which are reinvested or retained, are exempted. Georgia has one of the friendliest tax regimes according to World Bank's Doing Business 2020 publication, having slashed the number of taxes from 21 in 2004 to just six currently.

2nd

Georgia is ranked the second easiest country in the world to start a business in

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, laid 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. Closer economic ties with the EU and trust in prudent policy making are also expected to attract foreign investments to Georgia. Visa-free travel to the EU, granted to Georgian passport holders in March 2017, is another major success of the Georgian foreign policy.

The FTA with China, effective from January 2018, and the FTA with Hong Kong, effective from February 2019, increase opportunities to further accelerate exporting markets and attract investors by offering a business-friendly environment, high governance and access to a market of 2.8 billion customers. In 2019, 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, while cumulative investment in the corridor could reach US$ 1 trillion over the next ten years, according to the International Monetary Fund (IMF).

While remaining committed to EU integration, Georgia has also managed to stabilise relations with Russia, as the latter lifted its embargo on Georgian products in 2013. However, Russia temporarily banned direct flights to Georgia from 8 July 2019 amid rising political tensions after a Russian MP chaired an assembly in the Parliament of Georgia. The flight ban slowed down, but did not reverse, the booming trend of the tourism industry in Georgia, supported by a 20% growth in tourism revenues from the EU.

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 the 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 (2019–2021) 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 raising 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, advancing privatisation schemes and increasing capital expenditure efficiency. Within the responsible lending framework, the National Bank of Georgia (NBG) took macroprudential measures in order to decrease household indebtedness and enhance financial stability, as well as strengthening regulation supporting the financial system resilience to currency fluctuations and FX-induced credit risks.

Potential to become a regional hub

A business-friendly environment, recognised as having the best governance in the region; well-developed infrastructure; stable energy supply; flexible labour legislation; a 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 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). Most recently, in November 2019, the Georgian PM, alongside the Turkish and Azerbaijani presidents, opened the Trans-Anatolian Pipeline (TANAP), allowing natural gas from Azerbaijan to be exported to Europe through Georgia.

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. 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. In 2019, according to preliminary data, total FDI amounted to US$ 1.3 billion, up 0.2% year-on-year (y-o-y). The slower FDI growth was compensated by a substantial increase in portfolio investments, totalling US$ 726 million in 2019, 3.5 times higher y-o-y. Major sectors attracting FDI in 2019 were finance (20.6% of the total), energy (15.3%) and hotels and restaurants (12.4%). Importantly, the share of reinvestment by foreign companies in total FDI increased to 48.3% in 2019, compared to 34.6% in 2018. 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 FTAs and a business friendly environment will further support FDI inflows.

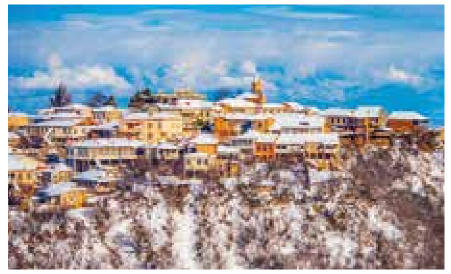
IN 2020, ECONOMIC FREEDOM INDEX RANKED GEORGIA:

12th

Up from 16th in 2019, ahead of Iceland, Netherlands and United States

Source: Heritage Foundation

Read more on **Our Strategy** on page 18



GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

7.7 million international visitors

Up 7.3% y-o-y in 2019

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. The number of international travellers to Georgia increased on average 15% from 2012 to 2019. Despite the tensions and economic slowdown in our major trading countries, number of international visitors increased significantly to 7.7 million and brought in nearly US$ 3.3 billion in 2019. The outlook for the sector in 2020 is not attractive due to the novel coronavirus outbreak, travel restrictions and countries' lockdowns. But after the COVID-19 related healthcare crisis is addressed and travel restrictions ease, we believe that tourism revenue will start to recover from its low base.

2.8bn

Access to a market population of 2.8 billion without customs duties

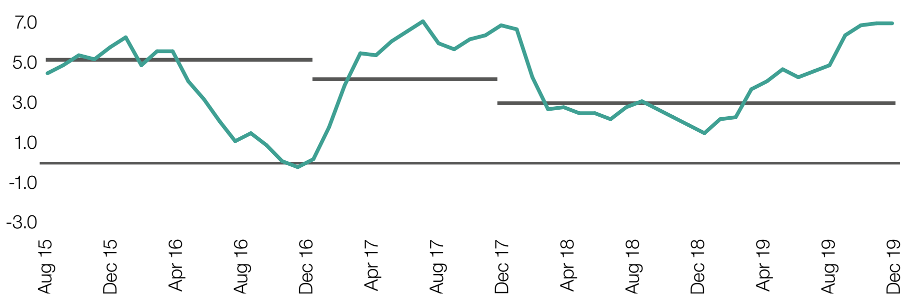
Free trade agreements

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 reopened 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, as well as an agreement with Israel, imminently offers significant upside potential for Georgia's exports.

5.1% growth rate

Georgian economy growth is expected to be robust in the medium term

Inflation vs Inflation Target



One of the fastest growing economies in the region

Georgia continued to deliver positive results in 2019. It is ranked second in "Starting a Business" and seventh in "Ease of Doing Business", according to the latest World Bank Doing Business publication. Based on preliminary data from the National Statistics Office of Georgia (Geostat), the economy grew by 5.1% in 2019, with net exports playing a crucial role in strong performance which was also supported by domestic demand from both the private and public sector. Merchandise exports increased by more than 12% y-o-y in 2019, while imports were cut by 1%. Following the second-ever positive current account balance in 3Q19 (after 3Q18), the CA deficit shrank to a historic low of 5.1% of GDP in 2019.

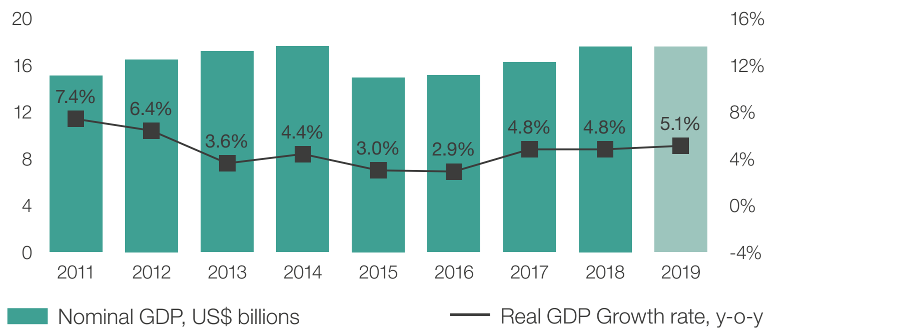
The consolidated budget overall balance is expected to be around -2.5% in 2019, in line with the fiscal rule. Government savings, i.e. the consolidated budget operating balance, remained almost unchanged in 2019 at GEL 2.1 billion, while capital expenditures, i.e. acquisition of non-financial assets, reached a historic high of GEL 3.6 billion, a 32% growth.

With the revenue side taking a hit due to the COVID-19 related slowdown, and a stimulus package to be unveiled on the expenditure side, the deficit is expected to be higher in 2020. NBG sold further US$ 60 million in March 2020, since the beginning of the COVID-19 shock, in order to ease pressure on GEL in the short run. In November 2019, Geostat introduced the SNA 2008 methodology, which revised the national accounts data. This reflected both methodological changes and improved sources, leading to an 8.6% increase in 2018 nominal GDP and an average 6.2% increase in 2010–2018. According to new data, the contribution of services in real GDP growth is even higher, making it by far the largest component. Average inflation in 2019 was 4.9%, above the 3% target. This was mainly caused by inflationary expectations due to sustained nominal effective exchange rate (NEER) depreciation that fed into inflation through the exchange rate channel, following a one-off increase in the excise tax rate that also contributed to higher inflation. NBG responded by hiking the monetary policy rate by 250 basis points to 9% in September–December, and declared that the policy stance will continue to be tightened until inflationary expectations are alleviated. As the COVID-19 shock hit the economy, inflation in 2020 will be determined by the relative strength of transmission from the exchange rate and demand channels. We expect NBG to further tighten the policy if the depreciation trend persists, while the policy can be loosened if demand side deflationary pressures are stronger. NEER was down by 8% y-o-y and the real effective exchange rate (REER) was down by 5% y-o-y at the end of 2019. Official reserve assets amounted to US$ 3.5 billion at the end of December 2019, up 6.6% y-o-y. August 2019 marked the first

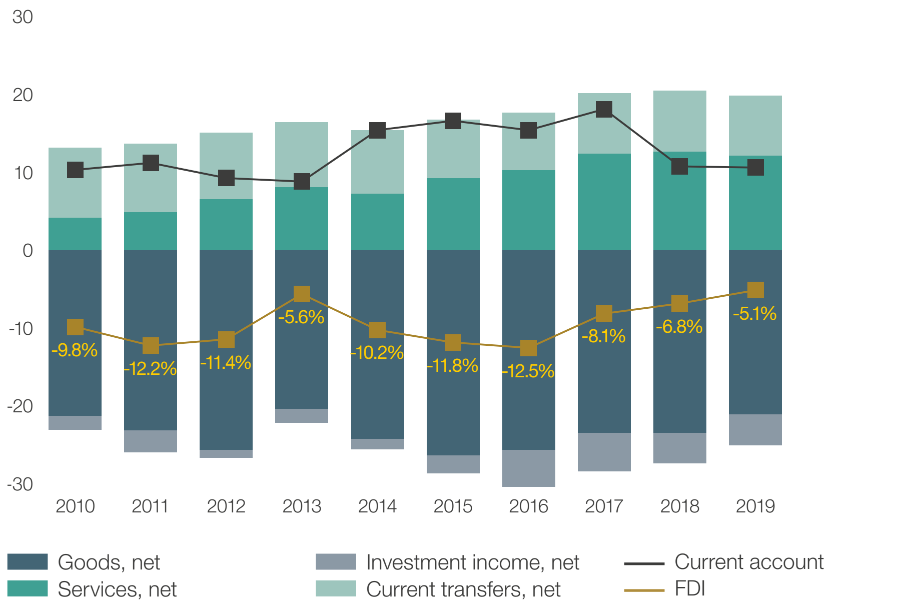
For a discussion of risks faced by the Georgian Economy, including those relating to the coronavirus pandemic, see Principal risks and uncertainties on page 75.

Read more on **Principal risks and uncertainties** on page 75

Real GDP Growth



Current account balance (% of nominal GDP)



GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

BUSINESS BRIBERY RISK IN 2019

27th

Source: Trace International

OPEN BUDGET INDEX IN 2017

5th

Up from 16th in 2015

Source: International Budget Partnership

time since 2016 when NBG sold US dollars on FX auctions, followed by two other occasions in September and November, with a total value of US$ 92.8 million to curb depreciation expectations driven by the travel ban.

Growth in 2020 will be hit by the coronavirus related shock, with both external and domestic demand shrinking significantly. We expect fiscal expansion coupled with accommodative monetary policy stance as long as inflationary pressures from the exchange rate do not turn prevalent, also aided by macroprudential measures.

The outlook for the different sectors reviewed below reflect the state of affairs before the coronavirus outbreak. For a discussion of the risks to the economy and anticipated effects in certain of these sectors, see principal risks and uncertainties on page 75.

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% (10-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 75% of total assets at the end of 2019. 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 19.5% (regulatory capital to risk-weighted assets, Basel III), non-performing loans (NPL) stood at 1.9%, the Liquidity Coverage Ratio was 133.3% and the sector's profitability remained robust at 20.3% return on equity at the end of 2019.

Within the responsible lending framework, NBG tightened regulations for loans issued to individuals. Since September 2018, effective interest rate on loans have been capped at 50%. Since January 2019, loan-to-value (LTV) and payment-to-income (PTI) ratios have been subject to maximum norms. In line with de-dollarisation mechanisms, mortgage loans below GEL 200,000 are only allowed in national currency (the cap was previously GEL 100,000).

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 the private sector. The Georgian healthcare market has shown solid growth in recent years. Value added of the health and social work sector increased by 15.2% y-o-y to GEL 1.9 billion (System on National Accounts (SNA) 2008), with over 71,000 people employed and average salary growing 13.1% in 2019. 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 help domestic consumption to increase. Growth of overnight visitors, in line with significant improvement in healthcare service quality, support Georgia to become a medical tourism hub in the Caucasus region and to further boost the service export growth.

On 5 November, 2019, the Georgian Government introduced changes to the UHC reimbursement mechanism, effective from 21 November 2019. The changes mainly cover the Tbilisi and Kutaisi regions, which have recently developed an oversupply of beds as a result of the addition of a number of small hospitals in recent years. According to the new initiative, the Government has reduced certain tariffs on intensive care and cardiac services to equate them with tariffs set for the rest of the regions.

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 put up in measured doses is a significant source of income. Imports of medicaments was the fourth largest commodity group, amounting to US$ 355 million (3.9% of total imports), while re-export of medicaments was the fifth largest export commodity group, amounting to US$ 172 million (4.6% of total exports) in 2019.

Energy

Georgia has a developed, stable and competitively-priced energy sector. The country has overcome 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. The energy sector was the second highest contributor to FDI in 2019, with a share of 15.3% (12.7% in 2007–2019).

Water Supply and Sanitation (WSS)

Georgia is a country rich in hydro resources, however, approximately 34% of the country's population still has no proper access to centralised WSS services. The Georgian Government is 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 fair 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 incentivises companies to invest in the sector. In 2019, the sector value added was GEL 327 million, up by 11.6% y-o-y, just under 1% of GDP (SNA 2008). 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), the 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 the establishment of a free electricity market. In 2014, 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. In the next phase of deregulation, effective from May 2019, big industrial customers with monthly electricity consumption of at least 5GWh were required to register as direct customers, increasing the deregulated market share of total electricity demand from c.6% to c.20%. On the back of gradual market deregulation, 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 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 being taken towards diversification of electricity supply mix, with the emphasis on development of wind and solar photovoltaic systems (PV).

Property and Casualty Insurance (P&C)

The Georgian property and casualty insurance sector has more than doubled in size between 2009 and 2018. According to the Insurance State Supervision Service of Georgia, the total value of attracted premiums on non-life insurance increased by 15% y-o-y to GEL 579 million in 2019. Net profits were GEL 25.2 million, down 40% y-o-y. Health insurance remained the largest sector, with a premium of GEL 234 million, up 8% y-o-y. The Georgian insurance industry has significant potential for further growth. Low rates of insurance penetration compared to peer countries, supportive Government policies (expected introduction of compulsory local third-party liability motor vehicle insurance) 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 2019, real estate activities accounted for 11.5% of GDP, amounting to GEL 5 billion, up 12.9% y-o-y (SNA 2008).

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 the mortgage market. In 2019, following new lending regulations that led to bringing demand forward last year, the number of new mortgage contracts was approximately 34,300, down 12.5% y-o-y. The value of these mortgages was GEL 2.4 billion, down 26% y-o-y. Higher housing size, Georgian's attitude towards home ownership, ongoing urbanisation and increasing disposable income support this sector to continue solid growth in the coming years.

Commercial Property

Trade has the highest share in the country's GDP (14.4%). The gross value added of the wholesale and retail trade sector increased by 15.5% y-o-y to GEL 6.2 billion in 2019 (SNA 2008). According to Galt & Taggart, office real estate is almost entirely concentrated in Tbilisi, with around one million sq.m. in 2019, and is almost equally distributed between owner-occupied and leasable offices. Leasable space further combines traditional (28%) and modern office stock (22%). Modern office stock GLA was estimated at 215,000 sq.m. in 2019. As a result of lack of modern office stock, Tbilisi has one of the highest prime office rents among the CEE cities. Prime yield in Tbilisi stands at 11.7% vs a 7.1% average in peer cities.

Hotels

The number of overnight visitors was 5.1 million, up 6.8% y-o-y, with tourism revenues totalling US$ 3.3 billion, up 1.4% y-o-y, in 2019. The accommodation and food service sector contributed to GDP with GEL 2.1 billion in 2019, up over 15% y-o-y (SNA 2008). Tbilisi is the most popular destination for tourists in Georgia. Based on Galt & Taggart's research, accommodation in Tbilisi has almost doubled during 2015-9M19, reaching over 10,000 rooms. The hotel market is dominated by international chains, accounting for 24% of the capital's room stock, with international upscale and midscale chains enjoying similar occupancy rates and prices to Western European cities. Average daily rate (ADR) was US$ 153 in international upscale brands in 2019, with occupancy reaching 62%. As for international midscale brands, ADR was US$ 108 and occupancy totalled 65%. Meanwhile, our hospitality business is targeting to tap into unpenetrated markets in Georgian regions. The coronavirus significantly challenges the 2020 outlook, but we believe sector will continue to grow in the medium term.

GEORGIA CAPITAL STRATEGY – MARKET AND INDUSTRY OVERVIEW CONTINUED

Beverages

Wine Production and Distribution

The oldest wine was found in 8,000 historic jars in Georgia, defining the country as the first wine producer in the world. Registered wine producers focus mostly on export. In 2019, up to 93 million bottles of wine (0.75 litres) were exported into 53 countries, up 9% y-o-y, with export bottles sold reaching a 14-year high. In terms of value, wine exports totalled US$ 238 million, up 17% y-o-y. Wine exports increased in markets of strategic importance: Poland (17%), USA (48%) and UK (60%). After the Russian embargo in 2006, Georgia started to diversify its export markets. 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 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 2019, the size of Georgia's beer market was over 107.5 million litres, up 11% y-o-y. Based on 2018 population data, per capita beer consumption was 29 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 and new export market opportunities in the medium term.

Education

Education is a key sector for boosting long-term potential output. In order to decrease skills mismatch and boost labour productivity, the Georgian Government plans to reform general, higher and vocational education and is committed to adopt a 6% of GDP floor on education spending effective from 2022. Currently, the Government's share in the sector is high and only c.10% of primary schools are private. Even though Government spending has been increasing y-o-y for more than 10 years, it is still low compared to developed countries. Georgia has a 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 that the quality of education in the country is low. Sector outlook is positive, as there is room for consolidation and for increasing education quality through higher private sector participation, utilising economies of scale.

Auto Service

The auto service industry is a significant part of Georgian economy that posted impressive growth of 14.8% CAGR over 2010–2018, reaching around GEL 2.9 billion in 2018. The industry covers the following sub-sectors: vehicle sales – sale of local secondary, imported secondary and imported new vehicles; automobile consumables and spare parts; automobile servicing and repair; periodic technical inspection services; and auto insurance. Sale of automobiles is the largest sub-sector by turnover, accounting for 61% of the total market in 2018, followed by auto parts (30%), auto insurance (4%), auto servicing (3%) and periodic technical inspection (2%). Cars are the second largest export and import product in Georgia.

Imports have been growing on average by 5% (CAGR for 2010-2018)[2]. The US is the largest shopping market for Georgia (67% in terms of quantity of 63,000 units in 2018 and 47% of total US$ 597 million). The average price of imported cars almost doubled in 2018 to US$ 9.5 thousands from US$ 5.4 thousands in 2016. It is a highly fragmented market, car importers being represented by two large companies, many small companies, as well as individuals, (54% market share by quantity). Local car trade of secondary vehicles is a completely unorganised p2p market.

The auto parts and service industry is also a highly fragmented market, where the leading player controls approximately 28% of the market. The rest of the market is dominated by small, owner-operated lower-end service shops on bazaar that conduct a large proportion of informal activity, distorting official business sector statistics. Both consumable & spare parts and maintenance & repair markets are feeders of each other and have common drivers of disposable income and number of vehicles. Average spending per vehicle has been growing at 11% CAGR, reaching around GEL 1,000 per capita in 2018[3].

As part of the Georgia-EU Association Agreement, Georgia has implemented a mandatory technical inspection programme in several phases starting from 2018. Prices are set at GEL 60 and GEL 100 for light and heavy vehicles respectively and the market is closed for the next 10 years. There are 41 players on the market servicing vehicles all around the country.

Georgia's auto park continues to grow steadily, reaching 1.4 million vehicles in 2019, up 4.1% y-o-y on the back of increased passenger cars[4]. However, the fleet is very outdated, with more than 81% of the total vehicles older than 12 years. Georgia lags behind developed countries by number of private passenger cars per capita (only 279 on a per 1,000 capita basis), showing room for further growth. With environmental, safety issues and auto park renewal in mind, the Georgian Government carried out various initiatives in 2017 and 2018, including increasing excise taxes on cars and fuel in 2017, and rolling out a mandatory vehicle inspection programme. Outlook for the industry is positive, due to rising household income and mandatory technical inspection gradually forcing drivers to move to newer cars while simultaneously raising demand for auto parts and repair services.

Data referenced in this section was collated from the following sources:

1 Source: Geostat, Insurance State Supervision Service of Georgia
2 Source: Galt & Taggart Auto business overview research
3 Source: Geostat
4 Source: MIA

CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES

OUR CAPITAL ALLOCATION PRINCIPLES

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 aspires to deliver total shareholder returns of 10-times over 10 years since the demerger from BGEO Group on 29 May 2018.

Highly-disciplined entry approach

The Georgian economy entered into a period of significant development and growth approximately 15 years ago and different sectors and businesses are therefore at an early stage of formation. Access to capital and management personnel is limited 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. The Group believes that in the long-run Georgia will become the service hub of the region.

Georgia Capital is under no time pressure to invest and as such, it takes a selective and opportunistic approach to new acquisitions.

Georgia Capital remains disciplined for its capital allocation decisions. The Group's key principle is to buy assets at affordable prices and to remain very disciplined in this regard. To evaluate new acquisition opportunities Georgia Capital has developed a 360-degree analysis framework, discussed in further detail below. Another core principle of the Group's investment philosophy is to be very mindful about the size of the potential investments in new industries. Georgia Capital typically starts with a small ticket size and tests and develops a management track record before stepping up the investment size.

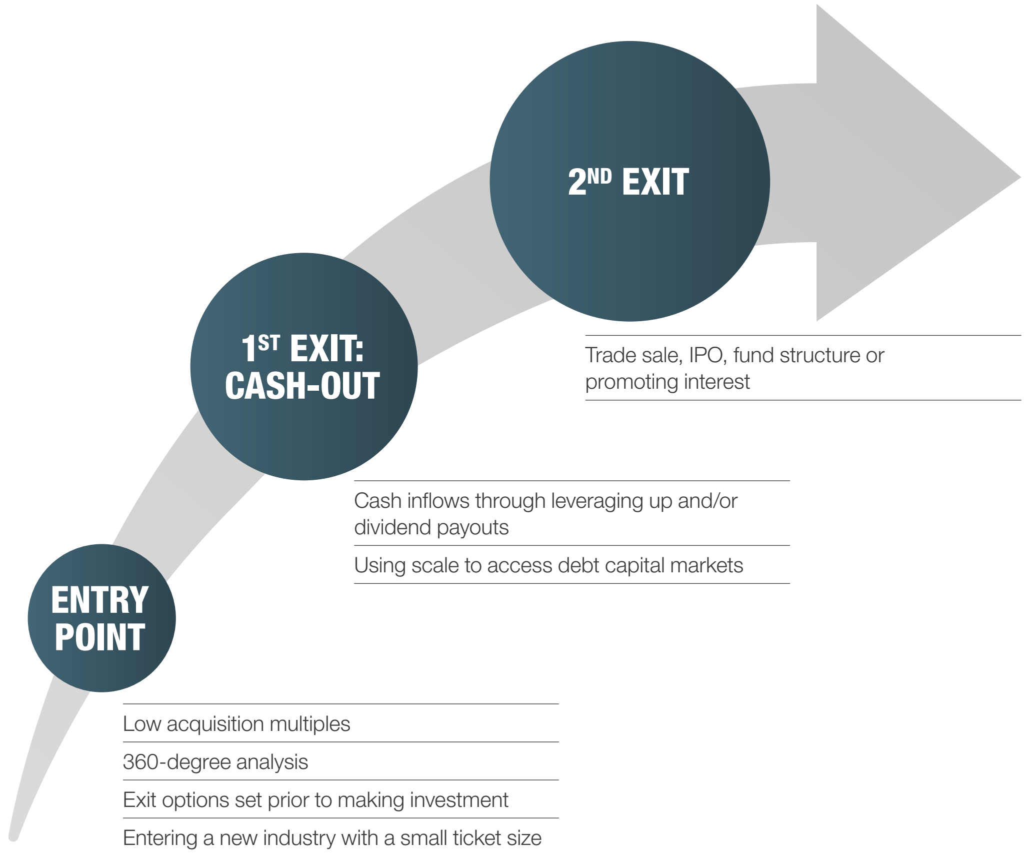
The ROIC, MOIC and IRR combination is the key decision-making matrix used in the investment decision making process.

- MOIC and IRR are determined at GCAP level, as the Group evaluates achievable money multiples with all acquisitions and analyses them in combination with the expected IRR.
- ROIC is evaluated for financing projects and reinvestment at each portfolio company level. Different yields are appropriate for different industries.

Exit options are set prior to making an investment decision. A low investment entry point becomes even more important in a small frontier economy, with limited exit opportunities. The Group targets to have two potential liquidity events for each of its assets.

1st exit: cash out. When entering a new industry Georgia Capital intends to develop and grow portfolio companies. The Group's key focus areas at the portfolio company level are the ability to grow operating cash and to make efficient capex investments by targeting an appropriate level of ROIC. Once the business reaches its late stage of development, the Group expects to pursue its first exit route with leverage, which ensures dividend flows for GCAP.

2nd exit. As businesses mature, Georgia Capital will normally seek to monetise its investment either through initial public offering, trade sale, fund, promote structure or other appropriate exit option, typically within five to 10 years from initial investment.



10x = 10y

Cash generation at both GCAP and portfolio company level is a key success factor for Georgia Capital

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CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED

CLEAR EXIT PATHS

A highly-disciplined approach to unlock value through investments.

	Trade sale	IPO	Fund	Promote
Water Utility	✱	✱		✱
P&C Insurance	✱			
Housing Development	✱		✱	
Renewable Energy	✱	✱	✱	
Hospitality and Commercial Real Estate	✱		✱	
Beverages	✱			✱
Education	✱	✱		
Auto Service	✱			
Digital Services	✱			

Exit options set prior to making an investment decision

The table summarises potential exit options for the second exit routes, described on page 27 in this report.

TWO NEW STRATEGIC PRIORITIES

OVER TIME GEORGIA CAPITAL WILL:

1. Decrease share of listed assets to 20%
2. Manage third-party money

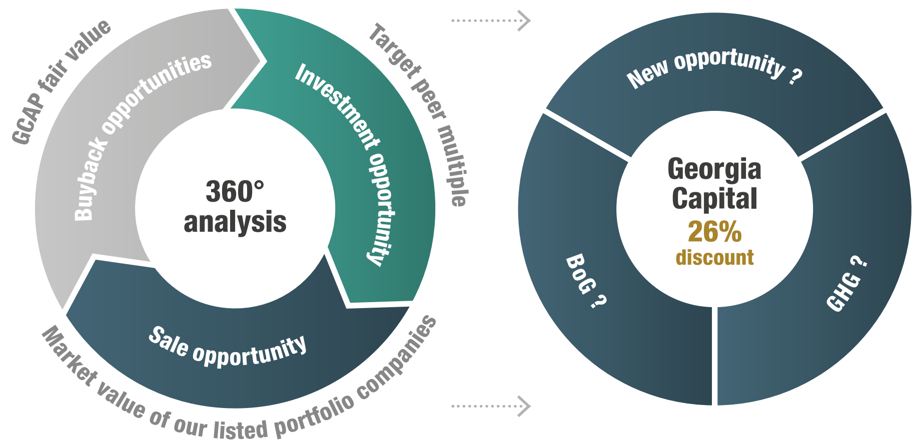
360-DEGREE ANALYSIS – A STRONG FOUNDATION FOR VALUE CREATION

360-degree analysis when evaluating capital returns, new acquisitions opportunities or divestments. 360-degree analysis is a framework to estimate the optimal price for any target acquisition. Before investing, Georgia Capital assesses the following discounts: a) the level of discount GCAP buys an asset/company in relation to listed peers; b) the level of discount GCAP is trading to its NAV; and c) the level of discount GCAP's listed portfolio companies are trading to their fair value. The Group intends to buy assets/companies at a higher discount to their listed peers than GCAP's fair value discount.

Buybacks are actively considered as an investment opportunity subject to rigorous analyses. The US$ 45 million share buyback programme, commenced in June 2018, was completed in August 2019. 3,336,843 shares were bought back, of which 2,650,375 shares were cancelled and 686,468 shares were transferred to the management trust. In addition, in August 2019, Georgia Capital initiated a US$ 20 million share purchase programme for the management trust. 1,550,084 shares were repurchased under the management trust programme as at 7 April 2020. Georgia Capital allocates capital such that it does not depend on premature sales of listed investments.

Targeting to buy assets at a higher discount to their listed peers than GCAP's fair value discount

Discounts at 31 December 2019



Georgia Capital's buyback programme highlights as of 7 April 2020

Georgia Capital share buyback value
US$ 81.9m
Of which programme
US$ 45.0m
Of which management trust
US$ 36.9m

Number of Georgia Capital shares bought back
6.1m
Of which programme
3.3m
Of which management trust
2.8m

Number of Georgia Capital shares cancelled
2.7 million

Strategic Review Our Business

CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED

MANAGING PORTFOLIO COMPANIES

DEVELOPMENT STAGES AND MANAGEMENT OF 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 applies a hands-on management approach to the private portfolio companies at early stages of their development and acts as an advisor for the management of the more mature companies.

INVESTMENT STAGE	PIPELINE	ACQUISITION/ ENTRANCE	EARLY	LATE	TARGET TO EXIT	LISTED	POSSIBLE COMPLETION OF EXIT	INVESTMENT STAGE
	DISCOVERY		YOUNG PORTFOLIO COMPANIES	LARGE PORTFOLIO COMPANIES		MATURE PORTFOLIO COMPANIES		
SECTOR	Digital Services; Education; Auto Service		Renewable Energy; Hospitality and Commercial Real Estate; Beverages	Housing Development; P&C Insurance; Water Utility		Georgia Healthcare Group; Bank of Georgia Group		SECTOR
PORTFOLIO COMPANY DEVELOPMENT FOCUS	Discovery stage		Hands-on management approach Rapid growth organically and through M&A Active investment stage	Strategic guidance/advisory approach Focus on efficiency improvements Diversification of revenue streams Introduction of dividend discipline		Sustainable shareholder value creation and dividend distributions		PORTFOLIO COMPANY DEVELOPMENT FOCUS
INSTITUTIONALISATION/ INDEPENDENCE	LOW					HIGH		INSTITUTIONALISATION/ INDEPENDENCE

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CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED
INVESTMENT ACTIVITIES IN 2019 (VALUE-CREATING ACTIVITIES)

FEBRUARY 2019
KEMPINSKI HOTEL

- Buyout of the remaining **40% equity stake**
- Located on Mtatsminda hill – a neighbourhood with spectacular panoramic views of Tbilisi
- Adding **c.100 hotel rooms**
- Total consideration of **US$ 5.2 million**

MARCH 2019
KAZBEGI BRAND ACQUISITION

- Georgia's oldest beer brand – **Kazbegi, brewed since 1881**
- In the top five Georgian beer brands, with more than **7% market share**
- Total cash consideration of **US$ 3.65 million**

JUNE 2019
BRITISH-GEORGIAN ACADEMY

- The leading school in the **premium segment**
- Purchase of **70% equity stake**
- Valued at **6.4x EV/EBITDA 2020**
- Aiming to increase the capacity from current 800 learners to approximately **3,200 learners by 2021-2022**
- Total capital allocation from GCAP of **GEL 75 million**[1]

FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | OCTOBER | NOVEMBER | DECEMBER

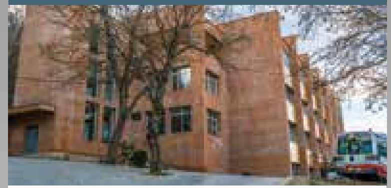
APRIL 2019
AMBOLI

- **Second largest** player in Georgian auto service industry
- **GEL 3.4 million** cash consideration to acquire **80% equity stake**
- Valued at **0.7x EV/Sales 2018**
- Additional equity capital injection of **GEL 1.6 million**

REDBERRY

MAY 2019
REDBERRY

- The leading Georgian digital marketing agency
- **US$ 0.4 million** cash consideration to acquire **60% equity stake**
- **US$ 2.8 million** new capital injected for digital start-up development



JULY 2019
BUCKSWOOD INTERNATIONAL

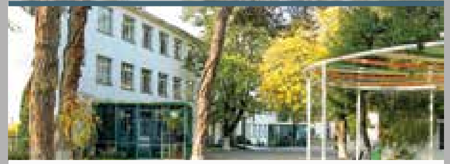
- The leading school in the **mid-level segment**
- Purchase of **80% equity stake**
- Valued at **6.4x EV/EBITDA 2020**
- Aiming to increase the capacity from current 760 learners to approximately **3,000 learners by 2022**
- Total capital allocation from GCAP of **GEL 24 million**[1]

OCTOBER 2019
HYDROLEA

- Purchase of **100% equity stake**
- Three operating HPPs with **21MW** installed capacity
- Greenfield HPP project with **19MW** targeted capacity
- All Hydrolea HPPs have high gross capacity factors – averaging **58%** – making the investment per annual GWh generation an attractive alternative to a construction option
- Approximately **US$ 1 million** to **US$ 1.5 million** annual dividends expected from the three operational HPPs from 2021 onwards

DECEMBER 2019
FOUR FAMOUS GEORGIAN RESTAURANTS

- The Group's hospitality business partnered (50% ownership) with the Georgian chef and celebrity, **Tekuna Gachechiladze**, owner of four top Georgian restaurants
- The hospitality business focuses on unique Georgian culinary in its upcoming in-house branded hotels
- Total cash consideration of **GEL 1.3 million**



JULY 2019
GREEN SCHOOL

- The leading player in the **affordable segment**
- Purchase of **80-90%**[2] **equity stake**
- Valued at **5.6x EV/EBITDA**[3]
- Aiming to increase the capacity from current 1,250 learners to approximately **5,000 learners by 2024**
- Total capital allocation from GCAP of **GEL 21 million**[1]

AUGUST 2019
ALAVERDI WINERY

- Purchase of **100% equity stake**
- Alaverdi owns **244 hectares** of vineyards and **135 hectares** of free land in the Kakheti region
- The acquisition **tripled the Wine Business's annual production capacity** to 28.4 million wine bottles per annum

NOVEMBER 2019
QARTLI WIND FARM

- Purchase of **100% equity stake**
- Valued at **7.2x EV/EBITDA 2020**
- **21MW** installed capacity
- **US$ 4 million EBITDA in 2018**
- **US$ 14.4 million** cash consideration
- US$ 17.4 million gross debt

Qartli wind farm deal was closed in December 2019.

1 Includes actual and projected future capital allocations.
2 80% equity stake in the current campus and 90% equity stake in three new schools that will be developed under the Green School brand.
3 An additional earn-out may apply subject to EBITDA target within the next three academic years. The cumulative EV paid will not exceed 5.6x EV/EBITDA of the respective year (including performance-related deferred consideration).

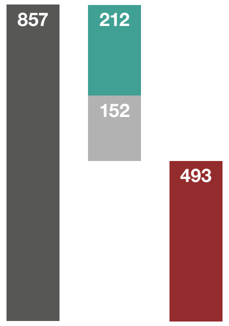
Strategic Review Our Business

CAPITAL ALLOCATION AND MANAGING PORTFOLIO COMPANIES CONTINUED
STRONG BALANCE SHEET & CASH MANAGEMENT AT GEORGIA CAPITAL

LIQUIDITY MANAGEMENT AT GEORGIA CAPITAL

Georgia Capital issued inaugural US$ 300 million international corporate bonds in March 2018

Net debt overview 31-Dec-2019
GEL millions



Net debt 31-Dec-2019 (GEL million)

493 million

- Gross debt
- Cash and liquid funds
- Loans issued
- Net debt

Portfolio over net debt

4.6x

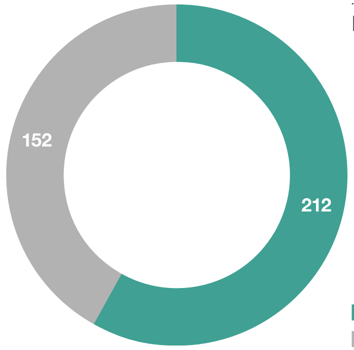
Listed assets over net debt

2.1x

LTV Ratio below its 30% target

28%[1]

Liquid assets and Loans issued 31-Dec-2019
GEL millions

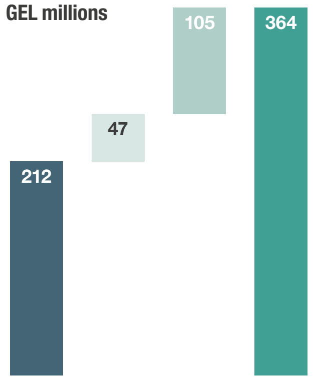


Liquid assets and Loans (GEL million)

364 million

- Cash and liquid funds
- Loans Issued

Cumulative maturity gap
GEL millions



- Cash and liquid funds at 31-Dec-19
- Up to 6 months
- Up to 1 year
- Total liquidity

1 Net debt divided by portfolio value. Loans to portfolio companies are included in portfolio value instead of net debt.

Photo Mesmerizing view of Ushba Mountain, known as the "Matterhorn of the Caucasus". Ushba is one of the most notable and thrilling peaks of the Caucasus Mountains, located in Svaneti Region of Georgia.

Strategic Review Our Business

PORTFOLIO COMPANIES
PUBLIC PORTFOLIO COMPANIES

The following snapshots of our portfolio companies include forward looking statements that have not been revised to take account of our companies' rapidly evolving responses to the coronavirus outbreak and its effects on their prospects. They should be read in conjunction with the discussion of the outbreak's possible consequences included in Principal risks and uncertainties on page 75.

HEALTHCARE SERVICES (GHG)

Overview

Georgia Healthcare Group PLC is the UK incorporated holding company of the largest and the only fully integrated healthcare services provider in the fast-growing, predominantly privately-owned Georgian healthcare ecosystem with an aggregate annual market value of c.GEL 3.8 billion. GHG comprises five business lines: hospitals, clinics, pharmacy and distribution, medical insurance and diagnostics. Each business line has its own chief operating officer reporting to the Group CEO, pursuing value creation through revenue growth, EPS growth and asset productivity (ROIC). GHG targets the population of the entire country and beyond through its vertically integrated network of 18 referral hospitals, 34 clinics, 296 pharmacies and the largest diagnostics laboratory in Georgia, as at 31 December 2019. GHG is the market leader in the country on each operating segment as at 31 December 2019: the largest healthcare services provider accounting for more than 23% of total hospital bed capacity; the largest pharmaceuticals retailer and wholesaler in terms of both, revenue (c.32% market share) and number of bills issued (28.8 million); the largest medical insurer with a 32% market share based on 3Q19 net insurance premiums and with c.236,000 insured individuals.

Following the completion of a significant three-year investment programme in 2018, GHG is now focusing on improving cash flow generation and return on invested capital through operating performance improvement across the Group. In 2019, GHG Board adopted a dividend policy with 20%-30% payout ratio, 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 distributed its first ever dividend, GEL 7.0 million (a payout of 20% of 2018 earnings), to shareholders on 12 July 2019. Until the full economic impact of the COVID-19 pandemic is better understood, at the 2020 AGM the GHG Board decided not to recommend any dividends to shareholders for 2019 year.

GHG will continue to focus 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 the main advantage of GHG's business model, managing customers on an 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. In addition to providing greater access to affordable high-quality healthcare, the Group is pursuing attractive new growth opportunities. It is building markets in areas such as medical tourism, outpatient services, the provision of dental services, aesthetics and laboratory diagnostics. When combined with the organic growth in its existing businesses, the higher utilisation of the hospitals and polyclinic network, and the expansion of its pharmacy and distribution business, GHG is targeting a double-digit compound annual growth rate in revenues over the next few years.

	HOSPITALS	CLINICS	PHARMACY AND DISTRIBUTION	MEDICAL INSURANCE
Medium to long term strategic targets by segment	• Double digit revenue CAGR • Gradually improving to 28-30% EBITDA margin	• Double digit revenue CAGR – 20%+ • Gradually improving to 25%+ EBITDA margin	• Double digit revenue CAGR • 9%+ EBITDA margin	• Increase contribution to the Group segments • Combined ratio <97%

GHG MEDIUM TO LONG TERM TARGETS

Double digit revenue CAGR next 5 years	Mid-teen EBITDA CAGR next 5 years	Gradually approaching ROIC c.15-17%

INVESTMENT RATIONALE

Very low base: healthcare services spending per capita only US$ 308 (EU average is US$ 3,211[1]).

Growing market: healthcare spending growth estimated at 8% CAGR 2020-2021.

OWNERSHIP

Georgia Capital owns 70.6% of GHG at 31 December 2019 (31 December 2018: 57.0%).

Our holdings of GHG equity shares increased from 57% to 70.6% on 18 December 2019 following the completion of share exchange facility, whereby GCAP exchanged one share in GHG for 0.192 shares in GCAP. Further details of the transaction are available at the following link: **https://georgiacapital.ge/ir/ghg-shares**.

1 Source: World Bank, 2016 data.
2 Provided for informational purposes only.

VALUE CREATION POTENTIAL

High-growth potential driven by opportunity to develop medical tourism, Polyclinics (outpatient clinics), the provision of dental services, aesthetics and laboratory diagnostics.

Only integrated player in the region with significant cost advantage in scale and synergies.

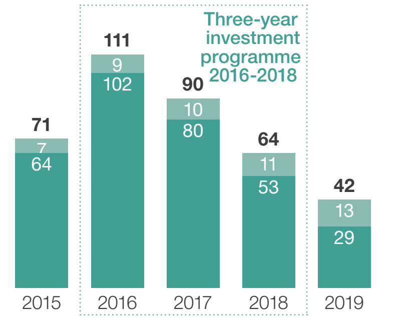
Well positioned to take advantage of the expected long-term macroeconomic and structural growth drivers.

ROIC enhancement and substantially increased free cash flow generation following the completion of a significant three-year investment programme in 2018.

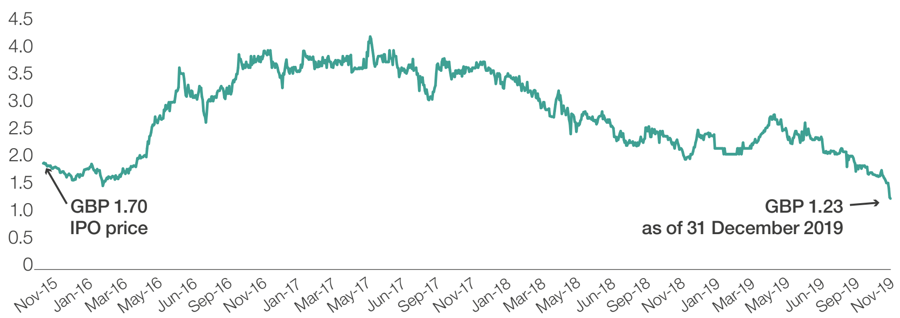
Since the spread of the COVID-19 epidemic, GHG announced readiness to support the Government of Georgia in its efforts to fight the spread of the virus in light of a spike in healthcare demand. GHG has put in place a respective action plan to mitigate the risks from COVID-19 as further described in detail in its Annual Report, available at: http://ghg.com.ge/ [2]

PERFORMANCE TRACK RECORD

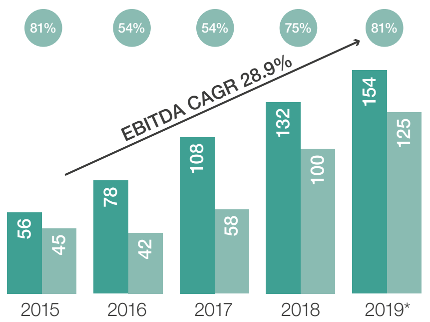
Capex evolution
Declared three-year investment programme at IPO in 2015



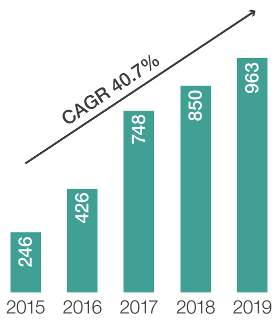
Stock price performance
GBP



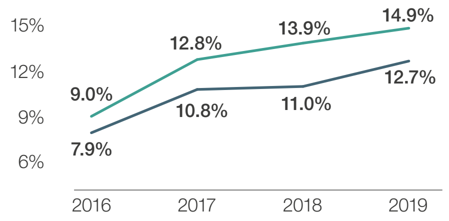
EBITDA and Operating cash flow
GEL millions
EBITDA to cash conversion ratio



Revenue
GEL millions



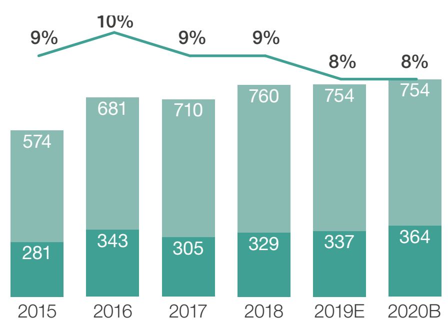
ROIC



1 Adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase.

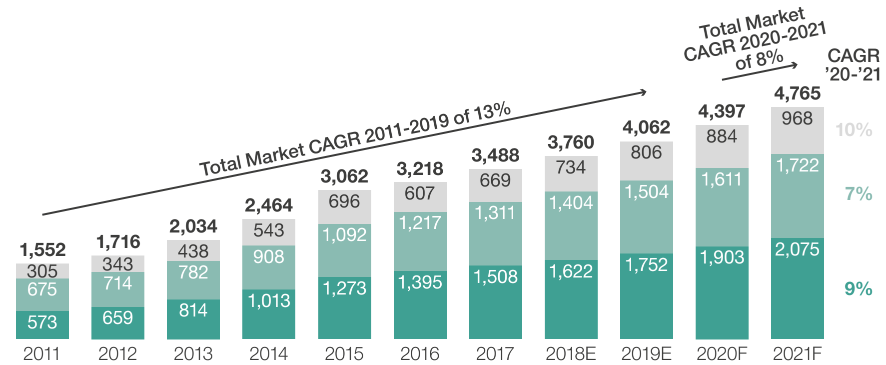
MARKET OPPORTUNITY

State healthcare budget is increasing in line with countries nominal GDP growth – State healthcare spending dynamics
GEL millions



Source: Ministry of Finance of Georgia

Growth in Healthcare Service Market Expected to Continue – Double digit growth on the back of favourable dynamics expected
GEL millions



Source: Frost & Sullivan analysis 2017

Hospitals market includes revenue of c.10% from speciality beds, which is non-addressable market for GHG. Polyclinics market excludes dental and aesthetic services.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PUBLIC PORTFOLIO COMPANIES CONTINUED

FINANCIAL METRICS

Revenue (GEL millions)
963.1 +13.3%

EBITDA excluding IFRS 16 (GEL millions)
154.2 +16.6%

Net Profit excluding IFRS 16 (GEL millions)
69.1 +29.8%

Operating cash flow excl. IFRS 16 (GEL millions)
125.2 +25.7%

Capex (GEL millions)
42.0 -40.1%

ROIC adjusted[1]
14.9% +1.0ppts

OPERATING METRICS

Number of hospitals and clinics
52 -1

Number of hospital beds
2,967 NMF

Hospitals bed occupancy rate[2]
57.1% +2.4ppts

Number of community clinics beds
353 NMF

Number of pharmacies
296 +26

Number of bills issued (millions)
28.8 +1.7

Number of individuals insured
c.236,000 +50.3%

Insurance claims retention rates within the Group
42.5% +3.1ppts

1 Adjusted to exclude newly launched hospitals and polyclinics that are in roll-out phase.
2 Excluding emergency beds.

BANKING

Overview
Bank of Georgia Group is a Georgia-focused banking business with an impressive track record of delivering superior returns and maximising shareholder value. Diversified revenue sources, a growing loan book, improved asset quality, efficient cost performance and fee income growth are the main drivers of the exceptional results in terms of Bank of Georgia Group profitability. JSC Bank of Georgia, the systemically important and leading universal Georgian bank, is the core entity of Bank of Georgia Group. It offers: a) retail banking and payment services (Retail Banking); b) corporate and investment banking and wealth management operations (Corporate and Investment Banking) in Georgia; and c) banking operations in Belarus (BNB). BoG is well positioned to benefit from the superior growth of Georgian economy through both its Retail Banking and Corporate and Investment Banking services and aims to deliver on its growth strategy with strong capital and liquidity positions. In March 2019, JSC Bank of Georgia successfully priced a US$ 100 million offering of Additional Tier 1 Capital notes (the first international offering of Additional Tier 1 Capital notes from Georgia and the South Caucasus region) to further improve its capital base. Bank of Georgia Group has two primary segments: Retail Banking and Corporate and Investment Banking.
In Retail Banking, the prominent component of the banking business, BoG runs a client-centric and solutions-based digital multi-brand offering with the aim to reach the entire spectrum of retail customers through its emerging, mass retail and affluent segments. In addition, BoG serves micro, small and medium-sized enterprises (MSME) through two respectively dedicated segments under the Retail Banking business. In Corporate and Investment Banking, given the scale, a rich portfolio of banking products and services, and industry and product expertise that is possesses, BoG is a universal bank of choice and top-of-mind advisor for Georgian corporates. Bank of Georgia Group has successfully achieved its risk deconcentration and loan portfolio repositioning targets by the end of 2017 and successfully continues its corporate loan book growth, as well as increasing the share of fee and commission income in the medium term. In wealth management, under the Corporate and Investment Banking business, 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.

Bank of Georgia Group's strategic priorities are:
- 20%+ ROAE.
- Loan book growth of c.15%.
- Robust capital management:
  - Capital Position: Aiming to maintain +200bps buffer for CET1 and Tier 1 capital ratios over minimum regulatory requirement in the medium term;
  - Maintenance of regular dividend payouts, aiming 25-40% dividend payout ratio; and
  - Track record of GEL 648 million+ cash dividend paid since 2013, within the targeted payout ratio range over past six years.

Given the current level of uncertainty with regard to the global impact of COVID-19, the Board of Directors of BoG are keeping under review the strategic targets based on at least 20% ROAE, and c.15% growth of its loan book. In the meantime, the BoG Board decided not to recommend a dividend to shareholders at the 2020 Annual General Meeting at this stage. When the full economic impact of the COVID-19 pandemic is better understood, the BoG Board will consider the appropriate level.

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 (36.3%), loans (34.9%), client deposits (36.3%) and equity (29.8%) as at 31 December 2019.

Growing market: The banking sector's assets growth rate at 16.2% (10-year CAGR).

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 2010-2018.

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 Group in accordance with the votes cast by all other shareholders on all shareholder votes at any general meeting.

VALUE CREATION POTENTIAL

Loan book growth c.15%.

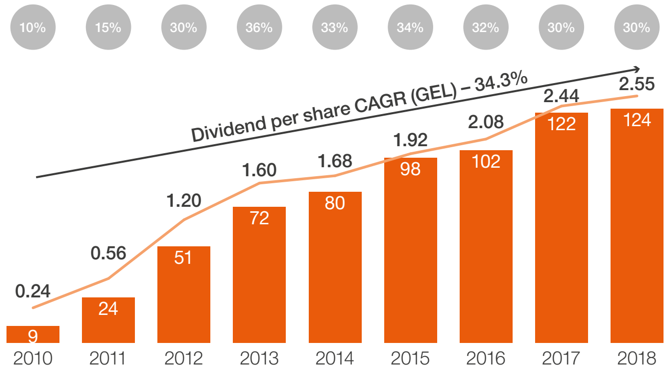
Maintenance of dividend pay-out ratio within 25-40%.

1 Market data based on standalone JSC Bank of Georgia accounts as of 31 December 2019 published by the National Bank of Georgia (NBG) www.nbg.gov.ge.

PORTFOLIO COMPANIES CONTINUED
PUBLIC PORTFOLIO COMPANIES CONTINUED

PERFORMANCE TRACK RECORD

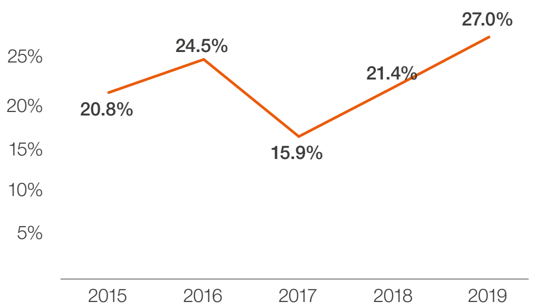
Dividend record[1]
GEL millions



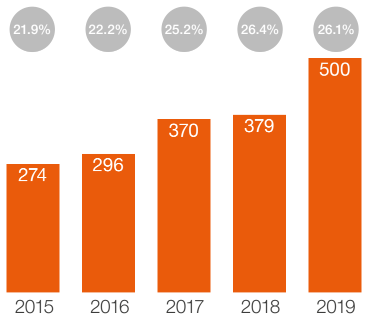
Total dividend paid for the year — Dividend per share ● Payout ratio

1 Actual dividend per share information for 2010-2016 years is adjusted for 19.9% BoG share issuance.

Loan book growth

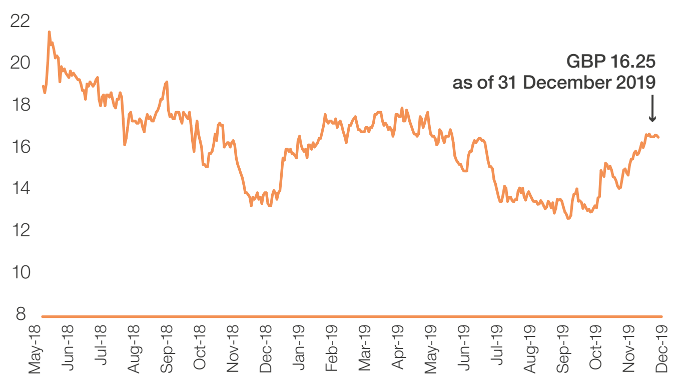


Profits & ROAE[2]
GEL millions



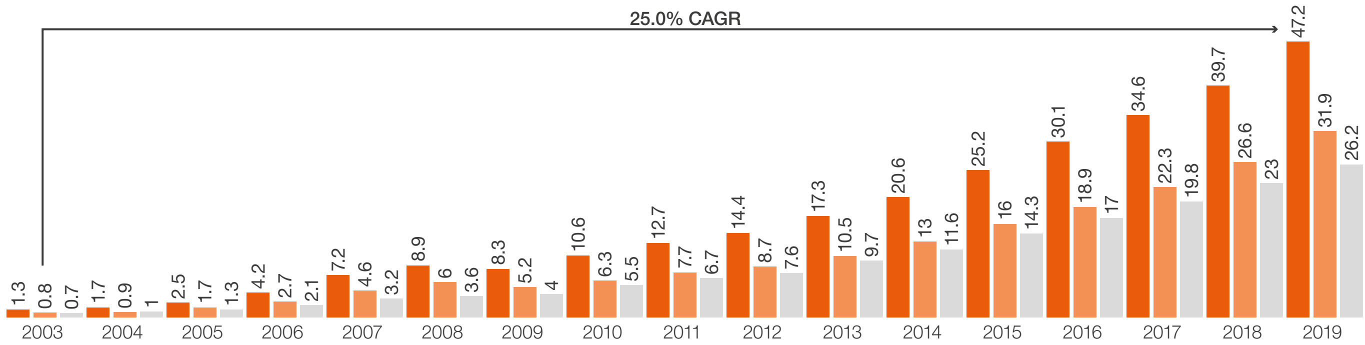
2 ROAE is adjusted for one-offs in 2018 and 2019 years.

Stock price performance
GBP



MARKET OPPORTUNITY

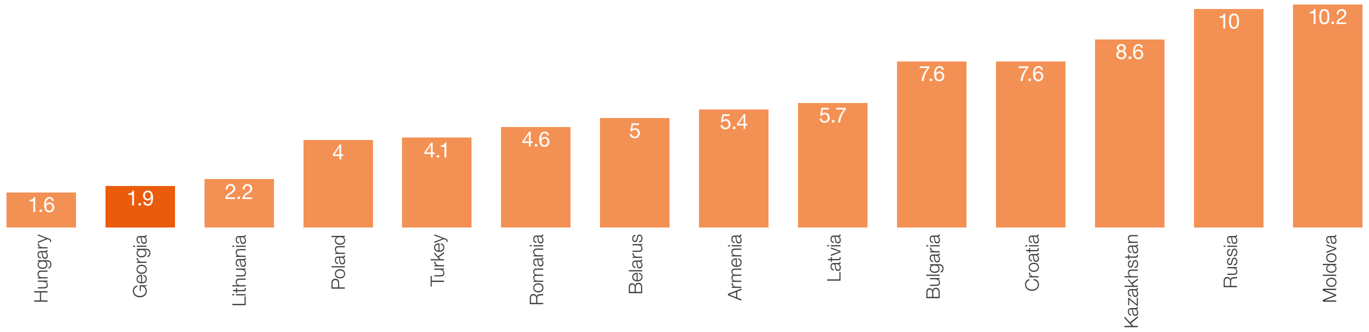
Banking sector assets, loans and deposits
GEL billions



Assets Loans Deposits

Source: NBG

One of the lowest levels of NPLS Worldwide, 2019
(Non-performing loans to total gross loans)



Source: IMF, NBG

FINANCIAL METRICS

ROAE[1]	NIM	NPL Coverage
26.1% -0.3ppts	**5.6%** -0.9ppts	**80.9%** -9.6ppts
Banking business loan book (GEL millions)	Cost/income[2]	Tier 1 capital adequacy ratio
11,931 +27.0%	**37.8%** +1.1ppts	**13.6%** +1.4ppts

1 2019 ROAE is adjusted for termination costs of former CEO and executive management, while 2018 ROAE is adjusted for demerger related expenses, one-off impact of re-measurement of deferred tax balance and termination costs of the former CEO.
2 The full year cost/income ratio adjusted for GEL 12.4 million one-off employee costs (gross of income tax) related to termination benefits of the former executive management.

OPERATING METRICS

Number of retail clients	Number of digital transactions (millions)
2,540,466 +4.1%	**181.2** +15.7%

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE PORTFOLIO COMPANIES

WATER UTILITY

Overview

The water utility business is a regulated monopoly in Tbilisi and the surrounding area, providing water and wastewater supply services to c.1.4 million residents and c.36,000 legal entities. Water Utility also operates hydro power plants with total installed capacity of 149MW. On average, half of the generated power is used by the business for water supply purposes at regulated electricity tariff, while the rest is sold to third parties. The business has a significant opportunity to increase its revenues and operational cash flow over the next few years through the fair return on extensive capital investments in the water utility network made during the last few years. The business reduces self-consumption of energy, hence freeing up energy for third-party sales. The efficiency, combined with the electricity market deregulation and respective increase in electricity market prices, is leading to increased revenues from electricity sales.

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. In the next phase of deregulation, effective from May 2019, big industrial customers with monthly electricity consumption of at least 5GWh were required to register as direct customers, increasing the deregulated market share of total electricity demand from c.6% to c.20%. On the back of gradual market deregulation, management expects direct consumers to constitute approximately 40-50% of the total demand, leading to further 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). 2017–2019 have been the most capital-intensive years for the business, which invested more than GEL 400 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.

The water tariffs are set by an independent regulatory body, GNERC, in line with international best practices. Current tariff and WACC were approved in 2017 for the 2018-2020 regulatory period, increasing the residential water tariffs by 23.8% in Tbilisi and regulated WACC from 13.54% to 15.99%. Tariffs for 2021-2023, together with the regulated WACC, will be set in 2020, on the back of increased capital expenditures and respective growth in regulated asset base. New tariffs provide fair return on investment, as well as compensating for eligible operating expenses.

In 2019, the water utility business signed a privatisation exit agreement with the Government of Georgia, whereby unconditional ownership title over its shareholdings and assets has been confirmed, which will allow the water utility business to further deliver on its strategic objectives and firmly follow its path towards successful value realisation over the next few years.

INVESTMENT RATIONALE

- Regulated monopoly in Tbilisi and surrounding districts with high entry barriers.
- Sectoral output increasing at a robust growth rate (on average 9.5% in the last 10 years).
- Stable regulatory environment with attractive return on investment.
- Stable cash collection rates.
- Diversified cash flow streams from water and electricity sales, the latter being linked to US dollars.

VALUE CREATION POTENTIAL

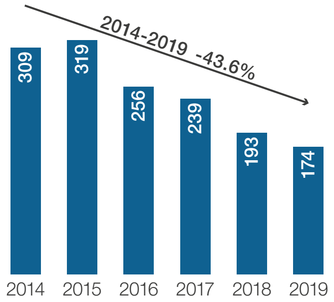
- EU harmonisation reforms in progress in utilities sector, expected to drive water tariffs up.
- High GDP growth combined with rapid tourism growth drives high demand from corporates.
- Energy market deregulation positively affecting electricity sales price.
- Upside opportunity from efficiency gains – continued decrease in self-consumption of energy, freeing up electricity for market sales.
- Stable dividend distribution capacity.

OWNERSHIP

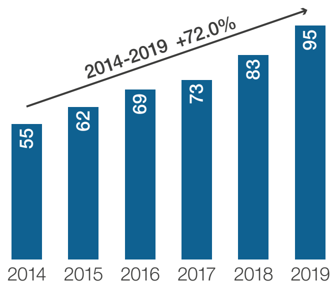
Water Utility is 100% owned through GGU.

PERFORMANCE TRACK RECORD

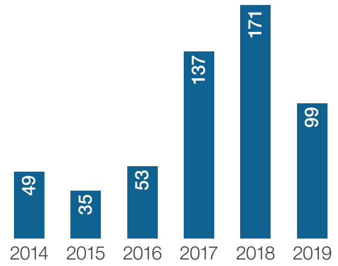
Self-produced Electricity Consumption
KWh millions



EBITDA Track Record
GEL millions

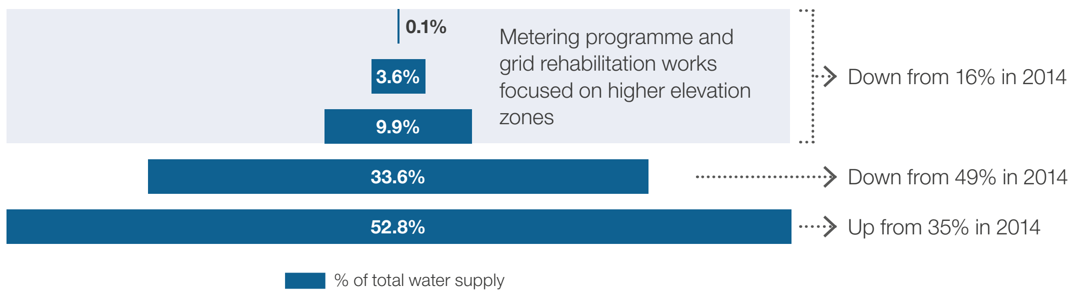


Capex (including VAT)
GEL million



Efficiency Gains 2019

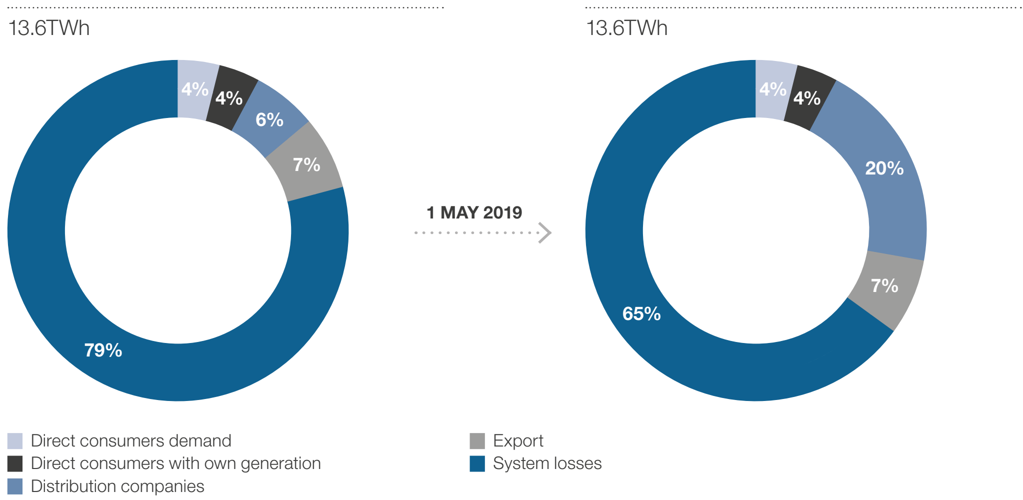
Elevation	KWh/m³
Level 4	2.3
Level 3	2.2
Level 2	0.8
Level 1	0.4
Level 0	0.0



MARKET OPPORTUNITY

Effect of new consumers on the market

Electricity market deregulation, effective from May 2019, enabled the company to immediately increase the selling price per KWh by at least 1.5x



Strategic Review Overview
Strategic Review Our Business
Strategic Review Discussion of Results
Governance
Financial Statements
Additional Information

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE PORTFOLIO COMPANIES CONTINUED

FINANCIAL METRICS

Total revenue (GEL millions)
163.5 +9.6%

Utility revenue (GEL millions)
133.3 +1.1%

Energy revenue (GEL millions)
20.2 NMF

EBITDA (GEL millions)
95.1 +14.0%

Operating cash flow (GEL millions)
99.0 +21.3%

Development Capex excl. VAT (GEL millions)
67.9 -49.2%

ROIC[1]
12.5% -1.2ppts

OPERATING METRICS

Water sales (m^3 thousands)
178,416 -0.8%

Number of new connections
5,439 +8.5%

Electricity generation (KWh thousands)
351,610 +8.6%

Self-produced electricity consumption (KWh thousands)
174,017 -9.9%

Energy sales (KWh thousands)
177,593 +35.9%

Average electricity sales price (Tetri/KWh)
11.3 +64.4%

VALUATION HIGHLIGHTS

Gel millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
LTM EBITDA	95	83	14.0%
Multiple applied	8.8	8.8	NMF
Enterprise value	837	738	13.5%
Net debt	(353)	(307)	15.1%
Equity fair value	484	431	12.3%
LTM ROIC[1]	12.5%	13.7%	-1.2ppts

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

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. 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. m^2 has sold 2,855 apartments with 358,000 sq.m. gross buildable area worth US$ 251 million since 2010 in 10 successfully completed projects. Over the last seven years, the business distributed US$ 55.1 million dividends, of which US$ 47.8 million represents commercial spaces (ground floors) in the completed residential projects. In addition to residential development, m^2 focuses on franchising its brand and uses its platform to develop third-party land plots. The business also started to develop a distressed asset management arm in 2019.

Developing remaining residential land bank. Digomi is the only on-going in-house project of Housing Development. The Digomi project, which will add around 2,200 apartments to Housing Development's portfolio, will be developed in three stages. The construction and development of c.132,000 sq.m. residential and c.35,000 sq.m. commercial spaces will be completed by the end of 2023. m^2 started apartment pre-sales from February 2019 for stage one and has pre-sold 16,980 sq.m. with US$ 17.9 million sales value as of 31 December 2019, representing approximately 77% of the total sellable area. Apartment pre-sales for the second stage of the Digomi project started in December 2019, further increasing its inventory levels by 47,167 sq.m. total sellable area.

m^2 plans to utilise its existing land plots within three to four years and, in parallel, start developing third-party land plots under franchise agreements. However, the business might also engage in opportunistic acquisitions of land.

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. m^2 will capitalise on its strong brand name, pricing power, experience in sales, excellent execution track record and access to finance. In 2019, a masterplan brief was approved for the largest franchise deal, where c.2,500 apartments are expected to be delivered in 5 years.

Construction management. 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 continues to fully utilise the benefits of this vertical integration and boost fee income generation from franchise deals and third-party constructions.

INVESTMENT RATIONALE

Due to the shortage of housing from the 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 level is expected to increase from the current low level.

OWNERSHIP

Housing Development is 100% owned through m^2, renamed as Georgia Real Estate in 2019. Both names are used interchangeably throughout the report.

VALUE CREATION POTENTIAL

Unlock land value by developing housing projects.

Development of third-party land – franchise m^2 brand name. Undisputed market leading platform of at least 2,500[1] apartments to be delivered in five years.

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

1 2,500 apartments relate to the signed Tbilisi Airport Highway deal.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE PORTFOLIO COMPANIES CONTINUED

PERFORMANCE TRACK RECORD

10 completed projects
(2,855 apartments developed with 100% sales progress and US$ 251 million sales value)

358,000 sq.m.
Gross Buildable Area on completed projects

US$ 41.9m
land value unlocked

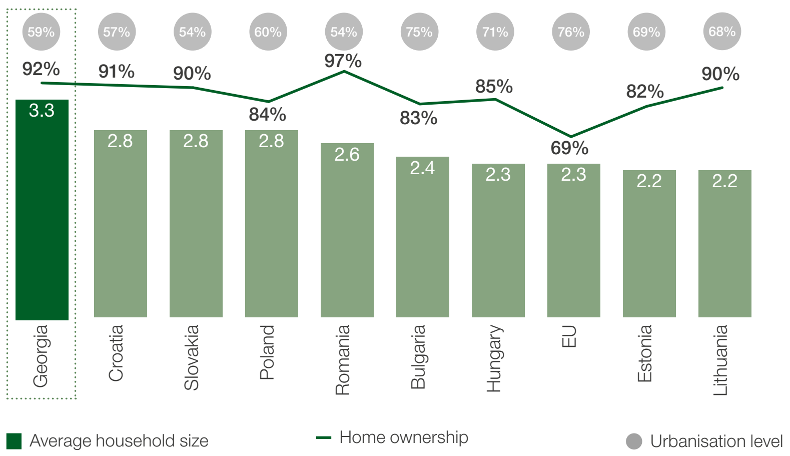
3,225 apartments sold
(82.2% as a % of total with sales value of **US$ 276m**)

2 on-going projects
(with 1,067 apartments under development)

US$ 55.1m dividends distributed over 7 years

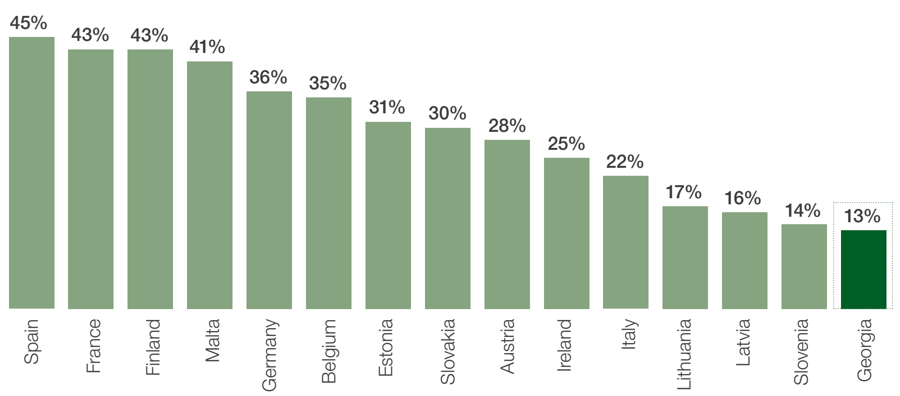
MARKET OPPORTUNITY

Household size driving demand for housing market
Average household size and home ownership, latest available data



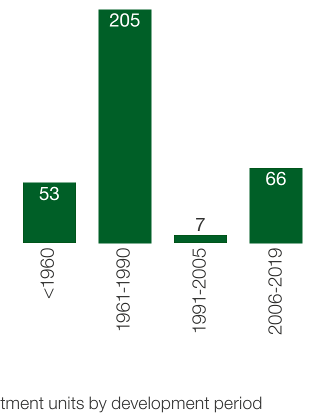
Source: Eurostat, TBC Capital, World Bank, National statistics office of Georgia

Significant room for further growth in mortgages
Mortgage loans to GDP %



Source: IMF, Central banks

Most of the housing stock needs replacement
Around 205,000 units (62%) of the apartments were built between 1961 and 1990 and are out of their usable lifecycle



Source: Galt & Taggart

FINANCIAL METRICS[1]

Apartments sales revenue (GEL millions)
55.4 -41.7%

Construction revenue (GEL millions)
60.1 +65.2%

EBITDA (GEL millions)
(3.5) NMF

OPERATING METRICS – DIGOMI PROJECT (STAGE I)

Price per square meter (US$)
1,053

Number of apartments sold
301

Square meter of apartments sold
16,980

Total sales value (US$ millions)
17.9

Cash received (US$ millions)
7.5

IFRS revenue recognition[2] (%)
32%

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
Enterprise value	205	174	17.7%
Net debt	(161)	(107)	50.0%
Equity fair value	44	67	-34.3%

1 The housing development business' functional currency is US dollars.
2 Revenue from apartment sales is recognised over time based on the IFRS construction progress (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 the apartment selling price to recognise revenue from apartment sales.

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE PORTFOLIO COMPANIES CONTINUED

P&C INSURANCE

Overview

Over nearly three decades in the Georgian property and casualty 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, achieved a ROAE of 30.4% and consistently distributed dividends over the last three years within 60% payout ratio. Based on the latest available market data as at 30 September 2019, Aldagi continues to be the most profitable insurance company in the local market with 45% share of the insurance industry profit and a market share of 29% based on gross premiums earned.

The current low level of insurance market penetration in Georgia (1.2%, of which 0.6% relates to property and casualty 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 P&C 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 7% of registered cars are insured on the local market. Moreover, compulsory Border Motor Third Party Liability (MTPL) insurance has become effective from March 2018. Furthermore, a new law requiring a mandatory local MTPL for all vehicles registered in Georgia is expected to kick in and significantly boost retail market penetration. 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 (SME) 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. Aldagi's MSME revenues have grown by 93% in 2019 (from GEL 0.7 million to GEL 1.3 million).
- **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.

INVESTMENT RATIONALE

Significantly underpenetrated insurance market in Georgia (0.6% penetration in property and casualty insurance market).

Market leader with a powerful distribution network of point of sale and sales agents.

OWNERSHIP

P&C Insurance is 100% owned through Aldagi.

VALUE CREATION POTENTIAL

Compulsory border MTPL effective from 1 March 2018.

Local MTPL expected to kick in and provide access to untapped retail CASCO insurance market with only 4% existing penetration.

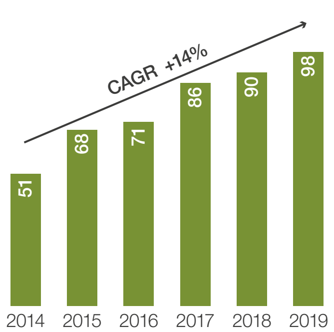
Increasing footprint in untapped MSME sector, where Aldagi's revenues have grown by 93% in 2019 (from GEL 0.7 million to GEL 1.3 million).

Developing and introducing new digital channels to simplify purchase of insurance products.

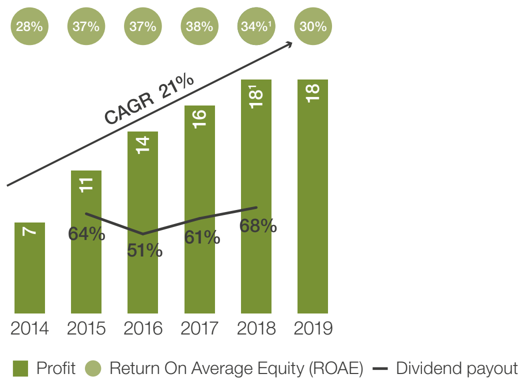
Undisputed leader in providing insurance solutions to corporate clients.

PERFORMANCE TRACK RECORD

Revenue
GEL millions



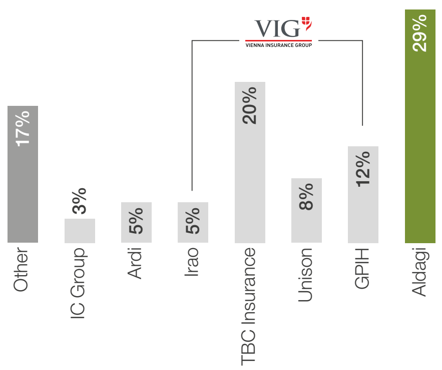
Profit and dividend payout ratio
GEL millions
ROAE



1 Adjusted for non-recurring items.

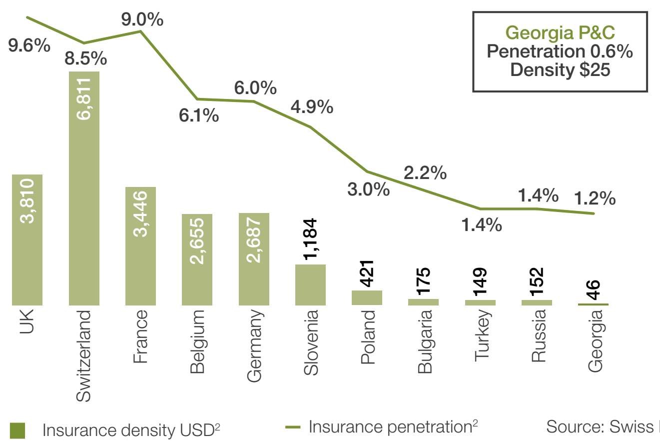
MARKET OPPORTUNITY

Market share, YTD Sep-19
Earned premiums, gross



Source: Insurance State Supervision Service of Georgia

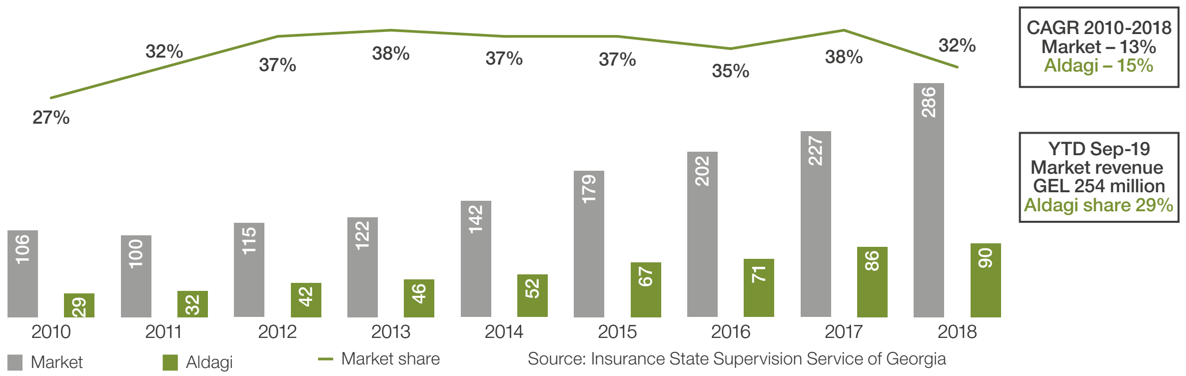
Insurance penetration and density



Source: Swiss Re Institute

2 Including healthcare insurance.

Market and Aldagi Revenue
GEL millions



Source: Insurance State Supervision Service of Georgia

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE LATE STAGE PORTFOLIO COMPANIES CONTINUED

FINANCIAL METRICS

Earned premiums gross (GEL millions)
98.4 +8.8%

Net income (GEL millions)
18.3 +7.3%

ROAE
30.4% -4.0ppts

Combined ratio
82.1% +6.6ppts

OPERATING METRICS

Active corporate clients
3,517 +13.1%

Active retails clients
104,664 +8.5%

Retail insurance policies written
171,509 +14.2%

Corporate insurance policies written[1]
91,361 +51.7%

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
LTM net income	18	18[2]	3.3%
Multiple applied	9.0	7.4	22.3%
Equity fair value	165	131	26.4%
LTM ROAE	30.4%	34.4%[2]	-4.0ppts

1 Excluding credit life insurance.
2 Adjusted for non-recurring items.

PRIVATE EARLY STAGE PORTFOLIO COMPANIES

RENEWABLE ENERGY

Overview
Our renewable energy business continues to progress towards achieving its medium-term goal to become a dominant player in the fast-growing Georgian electricity market, which has benefited from recent market deregulation. Georgia has gradually become a net electricity importer over the last two years, with a record high 1.6TWh internal electricity deficit in 2019, which is expected to grow significantly in the coming years.

During 2019, Renewable Energy continued to develop its pipeline hydro and wind projects. In April 2019, the renewable energy business successfully commissioned the first phase (30MW) of Mestiachala hydro power plant, followed by commissioning of the remaining phase (20MW) in June 2019. In late July 2019, the hydro power plans (HPPs) were damaged by rock avalanche resulting from the collapse of part of a distant mountain. The event, which has been characterised as a one in 5,000 year occurrence, interrupted the operation of the cascade of HPPs. The first phase (30MW) of Mestiachala HPPs returned online in December 2019, while the second phase (20MW) is expected to be re-launched in 1H21. The insurance company has confirmed the business interruption reimbursement for the year 2019 for both HPPs and is in process of remitting the funds to the business. In November 2019, construction works commenced on 46MW Zoti HPPs, located in the Western part of Georgia, with expected net generation of 170GWh, where around half of the generation is covered by a 15-year Government PPA.

The business also made two successful acquisitions in parallel with developing greenfield renewable projects. In October 2019, Georgia Capital acquired 100% equity stake in Hydrolea through its wholly-owned subsidiary. Hydrolea operates three HPPs with an aggregate 20.6MW installed capacity and has a greenfield HPP project with a 19MW targeted installed capacity. All Hydrolea HPPs have high gross capacity factors – averaging 58% – making the investment per annual GWh generation an attractive alternative to a construction option. In November 2019, Georgia Capital successfully participated in a public auction for a 100% equity stake in Qartli Wind Farm and acquired the only operational wind farm in Georgia at 7.2x EV/EBITDA 2020 through its wholly-owned subsidiary. Qartli Wind Farm operates a 20.7MW installed capacity with a very high – 47% – average capacity factor. All of the acquired hydro and wind farms benefit from guaranteed prices via their Power Purchase Agreements (PPA) with the Government of Georgia for the next 4-10 years.

Currently, the renewable energy business has 91MW installed capacity and a pipeline of c.350MW capacity in the medium term. On this basis, the business aims to establish a renewable energy platform with strong cash flow generation and profitability in US dollars, expected to enable it to sponsor steadily increasing dividend payouts to shareholders.

INVESTMENT RATIONALE

Growing electricity market as supply lags behind the increasing demand, creating opportunities.

Underutilised energy resources resulting in high availability of economically feasible hydro and wind projects.

Cheap to develop – up to US$ 1.5 million for 1MW hydro and up to US$ 1.4 million for wind development on average, with 1.5x higher capacity factors compared to Europe over the last decade.

OWNERSHIP

Following the buyout of the 34.4% minority shareholder in GRPC on 25 February 2020, Georgia Capital's renewable energy business consists of its wholly-owned subsidiary GRPC (with 50MW Mestiachala HPPs) and wholly-owned Hydrolea HPPs and Qartli Wind Farm (with 41MW installed capacity in aggregate). In addition, the business has a pipeline of 350MW renewable energy projects in the medium term.

VALUE CREATION POTENTIAL

Opportunity to establish a renewable energy platform with up to 440MW operating capacity over the medium term, targeting to capture approximately one-third of deregulated electricity market.

Energy consumption has grown at 5.3% CAGR in last 10 years and is expected to further grow by at least CAGR 5% over the next 10-15 years on the back of the following key drivers:

- Rapid tourism growth combined with high GDP growth, with pronounced growth in electricity-heavy sectors.
- Increasing penetration of domestic appliances, with accelerating imports of electricity-intensive conventional domestic devices.
- Increasing number of installed residential and industrial air conditioning systems on the back of decreasing unit prices, expected to result in at least 5x growth in penetration level over the next decade.

Stable dividend provider capacity in the medium term.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

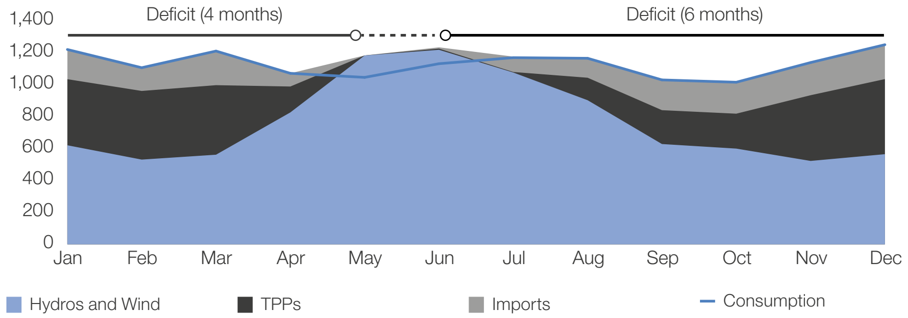
RENEWABLE ENERGY PROJECTS OVERVIEW

Targeting to earn on average c.12% US dollar ROICs from renewable energy projects

Project	MWs	Project cost, US$ million	Target commissioning date[1]	Gross generation (GWh)[2]	Gross capacity factor	PPA[3] expiration	PPA tariff, Usc/KWh	Current stage
Mestiachala HPPs	50	62	1H19	174	39.8%	1H34	5.5	Operational[4]
Zoti HPPs	46	61	2H21	173	43.0%	2H36	5.1	Under construction
Bakhvi 2 HPP	36	47	1H22	130	41.2%	1H37	5.5	Feasibility
Racha HPPs	38	59	1H23	168	50.5%	–	–	Feasibility
Wind Tbilisi	54	67	2H22	172	36.3%	2H31	6.5	Development
Wind Kaspi	54	76	2H22	211	44.6%	2H31	6.5	Development
Wind (other)	99	137	TBD	340	39.2%	1H33	6.5	Feasibility
Recent acquisitions								
Hydrolea HPPs	21	38	2H19	105	58.3%	1H22-2H28	5.6	Operational
Darchi HPP	19	27	2H22	89	53.3%	1H32	5.6	Feasibility
Qartli Wind Farm	21	27	2H19	85	47.0%	1H30	6.5	Operational
Total	**438**	**605**		**1,647**				

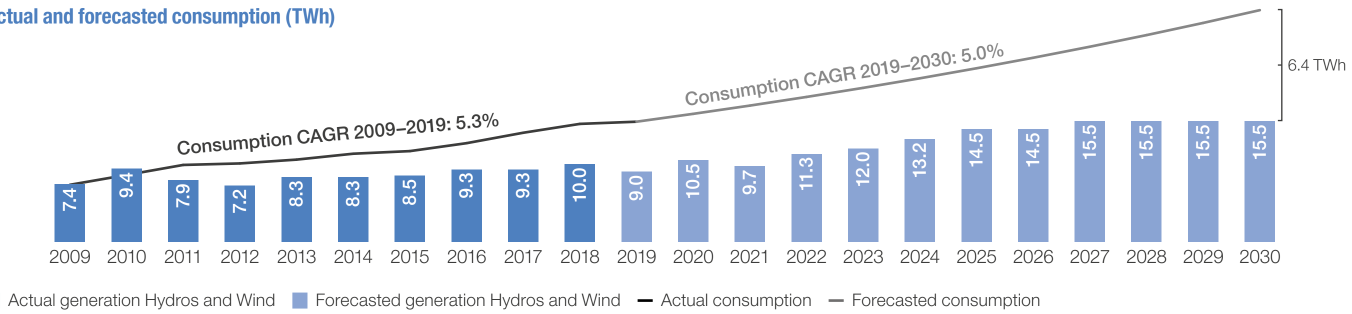
MARKET OPPORTUNITY

Electricity supply and consumption, 2019



- Electricity deficit during July-April.
- 22% of total consumption produced by gas-fired TPPs, 13% – imported.

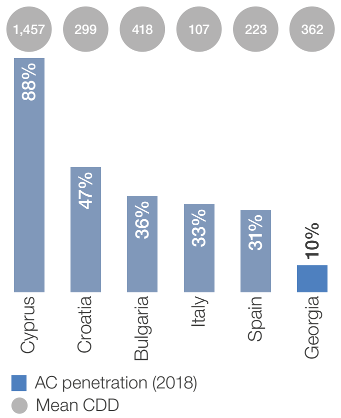
Actual and forecasted consumption (TWh)



- Growth of internal consumption: 7.7% in 2017, 6.1% in 2018 and 1.5% in 2019.
- Consumption growth forecasted at minimum 5.0% CAGR in coming 15 years.
- Anticipated deficit of at least 6.4TWh by 2030.

1 In case of own projects target commissioning dates are indicative and subject to regulatory procedures. In case of acquisition projects, the date shows acquisition period.
2 Generation capacity refers to target gross annual generation.
3 Power Purchase Agreement.
4 The first phase (30MW) was launched on 8 April 2019, followed by the second phase (20MW) on 4 June 2019. Mestiachala HPP was flooded in late July 2019 and taken offline. The first phase (30MW) of Mestiachala HPPs returned online in December 2019, while second phase (20MW) is expected to become operational in 1H21.

Low base and high CDD[1] point towards 5x increase in AC penetration by 2030



Source: World Bank's World Development indicators; Geostat, Galt & Taggart, Eurostat

1 Cooling degree day.

FINANCIAL METRICS

Revenue (GEL millions)
16.2 NMF

EBITDA (GEL millions)
13.1 NMF

Development capex (GEL millions)
32.9 -51.8%

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
At acquisition price (GCAP share)	107	61	74.6%

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

HOSPITALITY AND COMMERCIAL REAL ESTATE

Overview

Hospitality business. 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, the hospitality business plans to increase its presence in the hospitality sector and reach the total combined room count of more than 1,000 rooms. The hospitality business aims to have a geographically well diversified, mostly 3-star and 4-star hotel portfolio, to tap unpenetrated markets in Georgian regions. The business currently has one operational and two pipeline hotels in the capital city, and one operational and seven pipeline hotels are located across the different regions of Georgia. The targeted hotel portfolio comprises c.630 internationally branded hotel rooms and c.592 hotels rooms under the business's own brands, developed by Amber Group.

Our hospitality business launched its first 3-star Ramada Encore hotel in Tbilisi in March 2018 under a development agreement with Wyndham. The hospitality business launched its second operational hotel in Gudauri, the leading ski resort of the Caucasus region, on 13 December 2019 and added 121 luxury rooms to the operating hotel room portfolio under the "GUDAURI LODGE" brand. The business has five hotel projects under construction with an expected 460 rooms on combined basis. Additionally, there are four hotels in design stage with an expected 489 rooms in aggregate.

The total capital needed to complete the construction and development of the hotels in the current pipeline is estimated at US$ 76.9 million. The hospitality business targets 70%:30% debt to equity leverage ratio at hotels after hotel opening and 50%:50% during construction stage. The business targets to earn on average c.14% US dollar ROIC.

Commercial Real Estate. m² manages a commercial real estate asset portfolio, which it accumulated through its developments under the housing development business, as well as opportunistic investments. m² will continue growing its commercial asset portfolio through enhancing the income-generating assets 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. The business targets 10% yield and 90% occupancy on rent-earning commercial assets. The business earned annual gross yield of 9.5% on US$ 44.9 million commercial assets portfolio with 87.1% occupancy rate during 2019.

INVESTMENT RATIONALE

Increased number of tourists visiting Georgia every year: 5.1 million visitors in 2019, up 6.8% y-o-y, 9.9% CAGR over the last six years.

Tourism inflows up 1.4% y-o-y from US$ 3.2 billion to US$ 3.3 billion in 2019; 11.5% CAGR over the last six years.

OWNERSHIP

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

VALUE CREATION POTENTIAL

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

Reach more than 1,000 hotel rooms. Currently approximately c.1,222 rooms are confirmed, of which 273 are operational and 949 are in the pipeline.

Targeting mostly 3-star and 4-star hotels, tapping into unpenetrated markets in Georgian regions.

HOSPITALITY PROJECTS OVERVIEW

Targeting to earn on average c.14% US dollar ROICs[1] from hotels

Hotel	Rooms	Construction start date	Target opening date[2]	Current Stage
Ramada Encore Kazbegi, Tbilisi	152		Q1-2018	Operational
GUDAURI LODGE	121		Q4-2019	Operational
Ramada Melikishvili, Tbilisi	125		Q2-2020	Construction
Kempinski, Tbilisi	99		Q4-2020	Construction
Seti Square in Mestia, Svaneti	52		Q1-2021	Construction
Ramada Kutaisi	124		Q1-2021	Construction
Kakheti Wine & Spa	60		Q2-2022	Construction
Shovi, Racha	109	Q2-2020	Q2-2022	Design
Mestia, Svaneti	140	Q4-2020	Q1-2023	Design
Telavi	110	Q2-2020	Q4-2022	Design
Zugdidi	130	Q1-2021	Q3-2023	Design
Total	**1,222**			

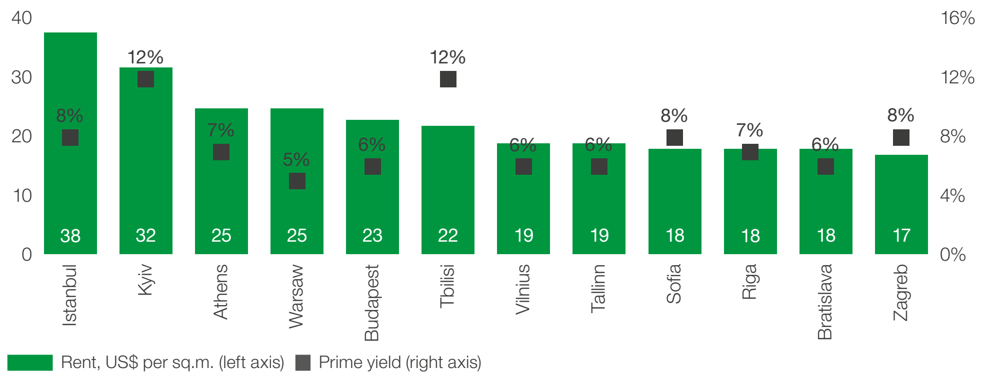
1 Target return on invested capital is calculated based on average stabilised EBITDA divided by total invested capital.
2 Target opening dates remain subject to adjustment following passing of the design stage.

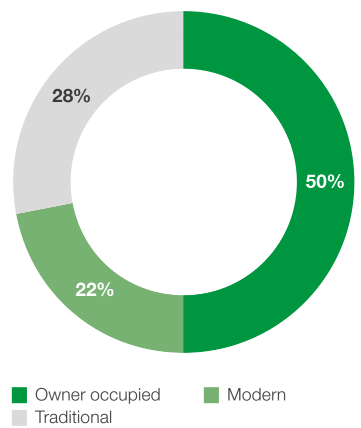
MARKET OPPORTUNITY

Leasable modern office stock has high rent and yield among the peer cities

A significant portion of Georgian office stock is non-refurbished, soviet-era stock (traditional). Tbilisi has one of the highest prime office rents among the Central and Eastern European (CEE) cities. Prime yield in Tbilisi stands at 11.7% vs a 7.1% average in peer cities.

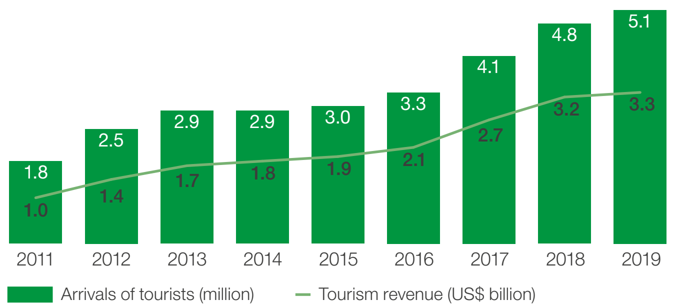
Peer comparison: prime office rents and yields in 2018





Source: Galt & Taggart

Arrivals of tourists and tourism revenue – Georgia



Source: Georgian National Tourism Administration; the National Bank of Georgia

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

FINANCIAL METRICS[1]

NOI from operating leases (GEL millions)
6.5 +40.8%

NOI from hospitality services (GEL millions)
1.8 -6.1%

Revaluation gain (GEL millions)
21.7 -21.5%

Commercial Real Estate portfolio (GEL millions)
128.8 +90.3%

OPERATING METRICS

Commercial Real Estate

Gross yield (leased portfolio)
9.5% -0.4ppts

Occupancy rate
87.1% -3.0ppts

Leased area (sq.m.)
34,212 +53.2%

Hospitality – Ramada Encore performance

RevPAR (US$)
33.3 +0.5%

ADR (US$)
62.0 -17.0%

Occupancy
53.7% +9.3ppts

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
NAV[3]	246	149	64.7%
LTM ROIC[2]	6.5%	16.0%	-9.5ppts

1 The hospitality and commercial real estate business' functional currency is US dollar.
2 ROIC is calculated as net operating income divided by aggregate amount of total equity and borrowed funds. The y-o-y decrease in ROIC is mainly driven by lower revaluation gain recorded in 2019 (down by GEL 6 million y-o-y) and also reflects business being in a ramp-up phase.
3 NAV for the hospitality and commercial real estate business refers to IFRS 13 fair value measurement methodology.

WINE BUSINESS

Overview
Our wine business owns three top class wineries across Kakheti's three wine-making regions and is in the top five wine producers by vineyard base in Georgia. The vast majority of our wine business's vineyards grow Georgia's flagship red wine grapes, Saperavi. The wine business sells around 5.9 million bottles of wine annually, with about 78% of sales coming from exports and holds c.4.8% of Georgian wine export market. In the medium term the 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. In 2019 and beyond, the wine business is progressing against its strategic priorities to enter untapped strategic export markets, diversify its product mix by portfolio premiumisation and optimise costs through increased production capacity.

Diversification of exports. The wine business intends to access a bigger share of export markets, by benefiting from favourable export dynamics of Georgian wine, improving positions in traditional markets and entering untapped strategic markets. The business is re-branding and optimising its wine portfolio to better focus on EU, US and Asian markets. The business, in partnership with Georgia's artisan winemakers, intends to introduce a limited collection of unique wines to Georgia and the world. The business will be mostly focusing on big markets like US and China, where it has already grown wine bottle sales by 61% and 44% in 2019 from a very low base, with significant growth potential in future.

Cost optimisation. The wine business aims to cultivate and purchase vineyards to minimise reliance on purchased grapes and have a significant cost advantage to produce wine with mostly self-harvested grapes. The vineyards have c.5-7 years payback period with expected c.25%-30% return on invested capital. Further, the business also aims to enhance own storage and production capacity. During 2018-2019 the business acquired two wineries in line with its cost optimisation strategy. Following the acquisition of Kindzmarauli Marani in May 2018, and acquisition of Alaverdi winery in August 2019, the wine business's vineyard base increased from 86 hectares of vineyards to its current 704 hectares of vineyards. The business also has an additional 135 hectares of free land available for immediate vineyard development. The acquisition of Alaverdi also tripled the wine business's production capacity from 9.4 million wine bottles to 28.4 million wine bottles per annum, providing substantial relief in planned capital expenditures for the next few years.

INVESTMENT RATIONALE

Georgia is considered the "cradle of wine" with a rich, 8,000-year history of wine-making and home to over 500 unique grape varieties.

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

Growing urbanisation and tourism inflows are raising demand for bottled wine locally.

Approximately 27% of the tourism inflows is spent on food and beverages.

OWNERSHIP

Georgia Capital owns 87% of the wine business.

VALUE CREATION POTENTIAL

Best-in-class distribution network platform.

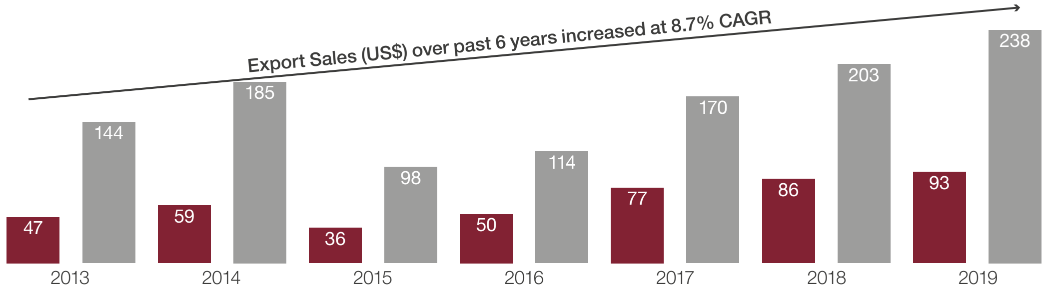
Grow vineyard base to 1,000 hectares, from current 704 hectares.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

MARKET OPPORTUNITY

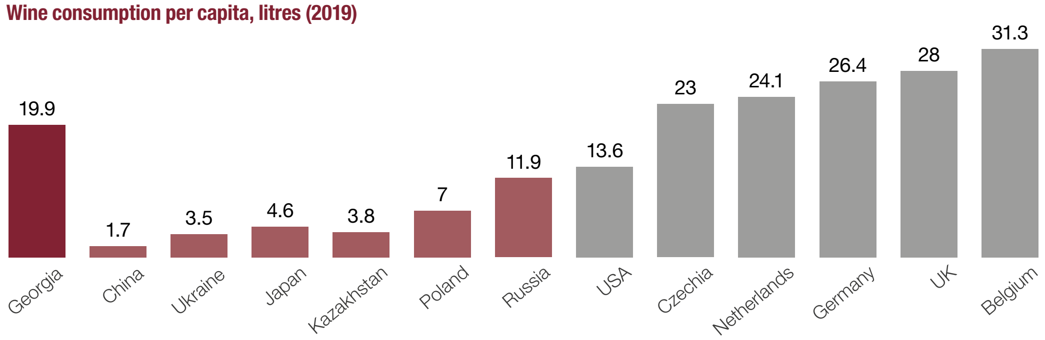
Georgian wine exports



Wine exports (bottles) Wine exports (US$ millions)

Source: LEPL Georgian National wine agency

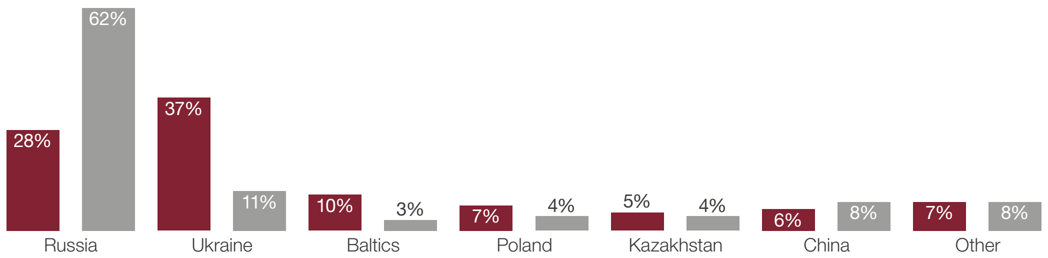
Wine consumption per capita, litres (2019)



Primarily established export markets Target and emerging export markets

Source: TBC Capital

Georgian wine bottle sales, by export countries



Country share in TV&KM Export Portfolio Country share in Georgian Wine Export

Source: National statistics office of Georgia

FINANCIAL METRICS

Revenue (GEL millions)
42.2 +43.6%

EBITDA (GEL millions)
8.7 +22.1%

Operating cash flow (GEL millions)
2.8 NMF

OPERATING METRICS

Wine bottle sales
5,865 +35.0%

of which export sales
4,544 +46.5%

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
LTM EBITDA[1]	10	5	89.1%
Multiple applied	10.0	9.1	9.9%
Enterprise value	95	46	NMF
Net debt	(31)	(7)	NMF
Kindzmarauli at acquisition price	–	26	NMF
Alaverdi at acquisition price	16	–	NMF
Equity fair value	72	57	26.9%
LTM ROIC[2]	6.2%	12.1%	-5.9ppts

1 LTM EBITDA includes distribution business. LTM EBITDA is stated excluding Kindzmarauli and Alaverdi, valued at acquisition price in 2018 and 2019, respectively.
2 ROIC is calculated as EBITDA less depreciation, divided by average amount of total equity and borrowed fund. The continued investment in export market diversification together with integration costs of the Kindzmarauli and Alaverdi acquisitions drove the decrease in ROIC.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

BEER BUSINESS

Overview
The beer business produces beer and lemonade and owns a 10-year exclusive license from Heineken to produce and sell Heineken beer brands in Georgia. The local beer market consists of four major players with the first two having 59% of beer market share. Our beer business has a 20% market share (as of 31 December 2019) and has the leading beer portfolio in terms of brand equity, led by local champions and Heineken-licensed brands.

During 2017, when the business was launched, it actively invested in beer facilities to accommodate the production of beer and lemonade. However, the launch of key Heineken brands was delayed, thereby negatively impacting the 2018 performance. By the end of 2018, Beverages strengthened its beer business with new C-level management, which was a starting point for a turnaround path in the beer business in 2019.

In the beginning of 2019, the beer portfolio included only three brands: ICY – flagship mainstream beer brand, imported Heineken – undisputed leader in premium segment, and Black Lion – the leading Georgian craft beer producer, acquired in 2018. During the first five months of 2019, the beer business launched new brands and focused on producing quality beverages.

In March, the business acquired a prominent Georgian beverages brand – Kazbegi, followed by a relaunch of Kazbegi mainstream beer and lemonade brands in April. Later, the business acquired licenses from Heineken to produce Amstel and a full range of Krusovice beer. The business also had a successful launch of its local light beer – Kayaki – the first local light beer in the upper mainstream segment. As a result, the business added three upper-mainstream segment beer brands by the end of May 2019. Finally, after numerous successful consecutive trial brews of Heineken, the business received the license to brew commercial batches of Heineken. Locally brewed Heineken beer is available in stores from August 2019.

Starting from 2H19, the beer business benefited from its full scale launch of new brands and improved product mix, which allowed the business to achieve a break-even EBITDA in 2H19. The strong portfolio allowed the business to increase its beer market share from 14% in 2018 to 20% in 2019. Meanwhile the business also started to tap the international markets, by exporting its mainstream beer and lemonade brands. Currently the business has the strongest portfolio in terms of brand equity, which is its key competitive advantage and value creation driver. With a strong management team with a proven track record, the beer business aims to capture growth opportunities in both the local and export beverages markets through premiumisation strategy.

INVESTMENT RATIONALE

Georgia falls behind beer consumption per capita against EU.

53% CAGR growth in soft drinks export over 2015-2018.

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

OWNERSHIP

Georgia Capital owns 87% of the beer business.

VALUE CREATION POTENTIAL

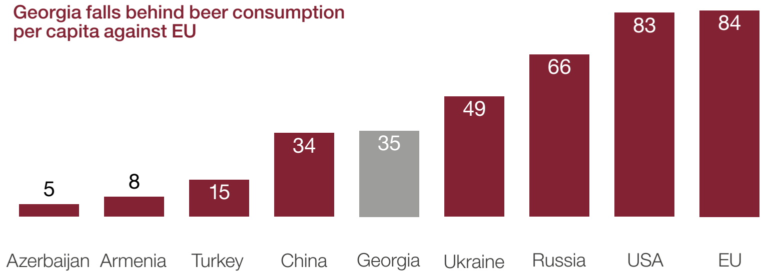
Best-in-class distribution network platform.

10-year exclusivity from Heineken to produce and sell beer in Georgia.

One of the strongest brand equities across the Georgian beer market.

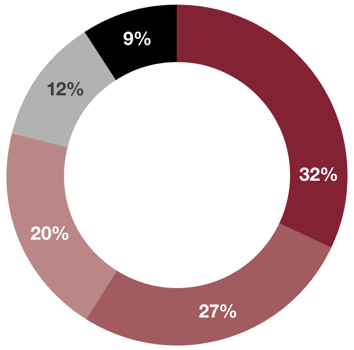
MARKET OPPORTUNITY

Per capita beer consumption implies room for growth
Annual beer consumption (litre per capita) in 2019



Source: TBC Capital

Domestic market share[1]



1 Management estimate at the end of 2019 year.

Strong export market for carbonated soft drinks

Growing market
- Export value of US$ 26.5 million (41.8 million litres) in 2018.
- 50%+ CAGR in 2015-2018 years; greater organic demand from CIS countries.

Export in more than 25 countries
- Recently, more countries have been importing Georgian CSD, showing its growing popularity.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PRIVATE EARLY STAGE PORTFOLIO COMPANIES CONTINUED

FINANCIAL METRICS

Revenue
(GEL millions)
43.6 +48.9%

EBITDA
(GEL millions)
(6.5) +53.1%

OPERATING METRICS

Beer sales (litres, thousands)
21,831 +58.1%

Lemonade sales (litres, thousands)
3,282 +51.0%

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
LTM Revenue[1]	47	28	67.9%
Multiple applied	2.2	2.2	NMF
Enterprise value	104	61	70.7%
Net debt	(86)	(64)	34.8%
Black Lion at acquisition price	–	7	NMF
Equity fair value	15	4	NMF
LTM ROIC[2]	-15.5%	-22.0%	+6.5ppts

1 Normalised for annualisation of revenues from newly launched brands. LTM revenue is stated excluding Black Lion in 2018, as Black Lion was valued at cost as of 31 December 2018.
2 ROIC is calculated as EBITDA less depreciation, divided by average amount of total equity and borrowed fund. The beer business performance was negatively affected by delays in launching Heineken brand, as described above, and the business had negative ROIC for two consecutive years.

PIPELINE PORTFOLIO

EDUCATION

INVESTMENT RATIONALE

- Highly fragmented private school market.
- Large and growing market.
- Efficiency upside.
- High trading multiples.
- Low base – 3.8% of GDP, compared to 4.6% of peers[1].

Overview
There are currently c.60,000 learners in private schools in Georgia, representing 10% of the total school education market. Georgia Capital expects that the private school market in Georgia will double in size over the next five years. The market is currently very fragmented, with no single player having more than 2% market share. Georgia Capital intends to create a diversified business model combining premium, mid-level and affordable school segments. The Group aims to implement a partnership model across all schools with the Group holding majority stakes. By 2025 the Group aims to generate GEL 70 million EBITDA with up to 30,000 learners and additional GEL 185 million gross capital allocation. In 2019, Georgia Capital acquired majority stakes in three leading schools, with strong brand names in the attractive private education business.

The first, British-Georgian Academy (70% stake) is the leading school in the premium segment of the market. The second, Buckswood International School (80% stake) is well-positioned in the mid-level segment. Both schools were acquired at a 6.4x EV/EBITDA 2020. The third school is Green School (80%-90% ownership[2]), a leading player in the affordable education segment, acquired at 5.6x EV/EBITDA multiple. Georgia Capital plans to increase maximum capacity of existing learners at all three schools by expanding the existing campuses and adding new ones in Tbilisi and surrounding areas.

The table below summarises the recent investments in the education business:

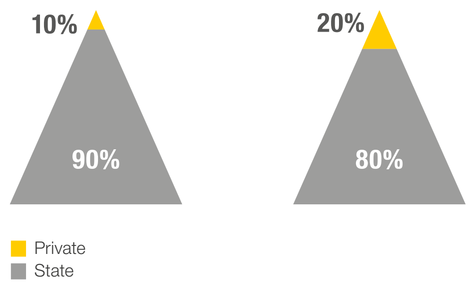
School	Segment	Deal close date	Total capital allocation from GCAP[3]	Debt/ Equity	GCAP ownership	Current capacity of learners	Targeted capacity of learners	Targeted cost per learner
BGA	Premium	23 July 2019	GEL 75 million	50%	70%	800	3,200	GEL 35,000-40,000
Buckswood	Mid-level	29 July 2019	GEL 24 million	50%	80%	760	2,980	GEL 13,000-18,000
Green School	Affordable	22 August 2019	GEL 21 million	50%	80%-90%[2]	1,250	5,000	GEL 6,500-8,500
Total			**GEL 120 million**			**2,810**	**11,180**	

1 2017 data. Source: World bank, Eurostat.
2 80% equity stake in the current campus and 90% equity stake in three new schools that will be developed under Green School brand.
3 Includes actual and projected future capital allocations.

MARKET OPPORTUNITY

Medium-term demand outlook for private high schools

Currently: 10% private | In five years: 20% private



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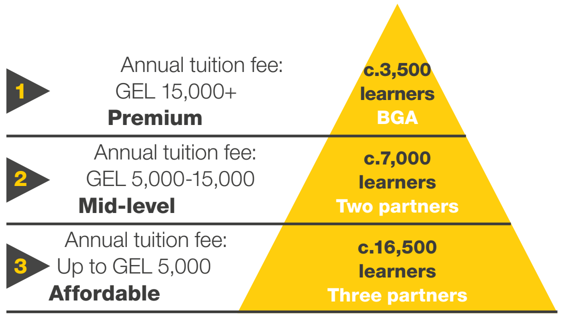
Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PIPELINE PORTFOLIO CONTINUED

EDUCATION BUSINESS STRATEGY

Diversified business model with strategy 1-2-3

Strong platform to facilitate growth and scale to become the leading integrated education player with up to 30,000 learners by 2025



- Partnership model, with 70-90% majority stakes.
- Education business holding company won't exist.
- GCAP involvement will be limited to: strategy setting, hiring a financial director, oversight of capex spending.

GEL 70 million+ EBITDA by 2025
GEL 185 million gross capital allocation from GCAP through 2025

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
At acquisition price (GCAP share)	56	7	NMF

AUTO SERVICE

Overview
Georgia Capital sees strong value creation opportunity in the auto services industry, which is currently a very fragmented market with approximately GEL 2.8 billion[1] annual revenues. The leading player controls c.16% of the market, while the rest of the market is dominated by small, owner-operated lower-end service shops. The number of vehicles has grown at 7% CAGR over the last seven years, while the vast majority of vehicles in the country remains largely outdated. The attractive growth rates combined with the expected increase in customer spending due to the stricter regulatory environment make the auto service business an attractive strategic opportunity. Georgia Capital aims to build a diversified business model with digital platform combining many different auto-related services: car services and parts, secondary car trading, car insurance and periodic technical inspection (PTI).

PTI business. The Group began constriction of PTI centres in 1H18 and launched the PTI business from March 2019 under the name of Greenway Georgia (GWG). As part of the Georgia-EU Association Agreement, Georgia started implementation of a mandatory vehicle inspection programme in several phases, starting from January 2018. In July 2018, GWG won state tender to launch and operate 51 periodic technical inspection lines across Georgia with a 10-year licence. Technical inspection prices are set at GEL 60 and GEL 100 for light vehicles and heavy vehicles, respectively. GWG is the only player on the market with support from an international partner, Applus+, a Spain-headquartered worldwide leader in testing, inspection and certification services with a market presence in more than 70 countries. GWG finalised construction of 26 centres (10 locations in the capital city and 16 locations in the regions) and became fully operational from March 2019. In November 2019, GWG became a member of CITA – international motor vehicle inspection association **https://citainsp.org/what-is-cita/**.

GWG serviced 342,275 cars (of which, 246,932 were primary checks) in 2019, capturing current market share of 36%. GWG invested GEL 48 million to commence its operations, of which, GEL 5 million was equity capital provided by Georgia Capital and the rest was financed by borrowings from a local financial institution.

Car services and parts. Georgia Capital acquired an 80% interest in Amboli, at the end of June 2019. Amboli is an importer, distributor, wholesaler and retailer of car consumables and spare parts and with approximately 1% market share, is the second largest player on the market. Georgia Capital paid GEL 3.4 million for the acquisition and also contributed GEL 1.6 million pro-rata capital into equity to fund the business growth. The transaction values Amboli at 0.7x EV/Sales.

Secondary car trading. By the end of 2019, Auto Service entered the car import market, where annually c.63,000 secondary vehicles are imported, increasing our addressable market by approximately GEL 1 billion. During 2019, the business imported 190 cars. There are approximately 1,700 entities (vast majority of them are dealers) importing vehicles in Georgia. All of the importers are offering only buying and transportation services, while the auto service business is targeting to offer all necessary car services, making car buying experience exceptional for the clients.

Georgia Capital will continue to create a car ecosystem combining different car-related services. By combining several areas of expertise and exploiting synergies between the businesses, Georgia Capital will be able to offer a full range of car services through a digital platform. The auto service business will be mostly financed through debt, with limited equity capital allocation from Georgia Capital.

INVESTMENT RATIONALE

Georgia's auto park continues to grow steadily, with 7% CAGR during the years 2012-2019.

Georgia lags behind developed countries by number of private passenger cars per capita, showing room for further growth[3].

Vehicles older than 10 years represent 90% of total auto park.

OWNERSHIP[2]

Georgia Capital owns 80-100% of the auto service business.

VALUE CREATION POTENTIAL

Room for growth in the highly fragmented auto service market in Georgia with approximately GEL 2.8 billion[1] annual revenues.

Aiming to build a diversified business model with digital platform combining many different auto-related services: car services and parts, car insurance, secondary car trading, periodic technical inspection (PTI).

In July 2018, the PTI business (Greenway Georgia or GWG) won state tender to launch and operate 51 periodic technical inspection lines across Georgia with a 10-year license.

GWG is the only player on the market with support from an international partner, Applus+, a Spain-headquartered worldwide leader in testing, inspection and certification services, with a market presence in more than 70 countries.

1 The auto service business started selling imported secondary cars, increasing total addressable market by GEL 1 billion.
2 80% ownership in Amboli and 100% in the PTI business.
3 Source: Galt & Taggart.

Strategic Review Our Business

PORTFOLIO COMPANIES CONTINUED
PIPELINE PORTFOLIO CONTINUED

FINANCIAL METRICS – PERIODIC TECHNICAL INSPECTION BUSINESS

Revenue (GEL millions)	EBITDA (GEL millions)	Gross margin	EBITDA margin
12.9	3.3	66.0%	25.3%

OPERATING METRICS – PERIODIC TECHNICAL INSPECTION BUSINESS

Total number of cars serviced
342,275

of which, primary
246,932

of which, secondary
95,343

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	30-Jun-19	Change
EBITDA[1]	7	7	NMF
Multiple applied	10.4	10.1	2.8%
Enterprise value	70	68	2.8%
Net debt	(49)	(49)	1.0%
Acquisitions at acquisition price	5	5	NMF
Equity fair value	26	24	5.7%

1 Combination of the last six months and the next six months earnings.

DIGITAL SERVICES

Overview
On 8 May 2019, Georgia Capital acquired a 60% equity stake in Redberry, a leading Georgian digital marketing agency. Redberry was fully-owned and managed by two young Georgian entrepreneurs who will remain with the business. The total cash consideration for the acquisition was US$ 3.2 million, of which, US$ 0.4 million was used to acquire the equity stake from the existing shareholders and US$ 2.8 million capital was injected to fund business growth. To capitalise on the high growth digital sector, the Group plans to further focus on digital start-up developments through the recent acquisition by: 1) creating digital start-ups focused on Georgia, with small investment sizes of c.US$ 100 thousand per each start-up; and 2) developing digital sales channels/business lines for Georgian corporates through joint venture partnerships models.

Acquisition of Redberry enables us to have a platform for investments in the digital business

About Redberry
- One of the most successful Georgian digital marketing agencies.
- Providing tech-based marketing solutions to large Georgian corporates and government agencies.
- US$ 0.4 million cash consideration to acquire 60% equity stake.

US$ 2.8 million new capital injected for digital start-up development

1. Joint ventures with corporates – partnership model with minority stake of c.20%.
2. Creating digital start-ups focused and applicable to Georgia (c.US$ 0.1 million per start-up).

Redberry has developed the app **"Lunchoba"**, engaged in delivering ready-made food to the offices.

VALUATION HIGHLIGHTS

GEL millions, unless otherwise noted	31-Dec-19	31-Dec-18	Change
At acquisition price (GCAP share)	9	–	NMF

S172 STATEMENT

Statement by the Directors in performance of their statutory duties in accordance with Section 172(1) Companies Act 2006

The Directors must act in accordance with a set of general duties. These duties are detailed in the UK Companies Act 2006 and include a duty to promote the success of the Company, which is summarised below. As part of their induction, the Directors are briefed on their duties and they can access professional advice on these – either through the Company or, if they consider it necessary, independently.

In summary, under Section 172 of the UK Companies Act 2006, a director of a company must act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
  interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment; and
- company's reputation for high standards of business conduct and need to act fairly as between members of the company.

These matters are discussed in more depth in the stakeholder engagement section on pages 133 to 135.

The Board of Directors consider that they, both as a whole and individually, have acted in a way that they consider, in good faith would be most likely to promote the success of Georgia Capital plc for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172 (1) (a-f) of the Companies Act 2006.

How the Board is kept informed with stakeholder views

Stakeholder	Read more
Our employees	Page 135
Our community	Page 135
Our investors	Page 134
Our shareholders	Page 133

Examples of how our stakeholder considerations influenced Board decision making are outlined on pages 134-135 in our Stakeholder Engagement table.

Steps the Board takes to meet its Section 172 responsibilities

- The Board agenda has been revised in 2019 to include further information for Directors on each of the provisions of Section 172 within the Act.
- As detailed above, the Board has focused in 2019 upon long-term value generation opportunities, taking into account likely macroeconomic changes and their impact on stakeholder considerations.
- The Board has actively engaged, both as a whole and on an individual basis, with employees across each business of the Group, with a view to further understanding their views. Kim Bradley began his work as the designated Non-Executive Director to engage with the workforce this year. You can read about all of this in more detail in the Directors Governance Statement on page 124.
- The Board continues to reflect regularly on the quality of Board and Committee meeting materials, and will continue to consider whether further information is required within such materials on stakeholder considerations. In addition, management have been instructed to ensure that proposals to the Board and Investment Committee specifically highlight those matters which Directors are required to consider in order to discharge their responsibilities under Section 172 so that each of our stakeholder groups are considered.

Photo Bridge of Peace – a bow-shaped pedestrian bridge over the Mtkvari River in downtown Tbilisi, capital of Georgia. Steel and glass construction illuminated at night, creates a contemporary design feature connecting Old Tbilisi with the new district.

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 Valuation and Investment Committees and executive management, is ultimately responsible for the Group's risk management and internal controls with a view to maintaining ongoing sustainability.

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 Group'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 – a diversified, resilient, fast-growing economy across the last decade.
- Sector focus: investing mostly in fragmented and underdeveloped markets, particularly targeting high-multiple service industries.
- Return target: the ROIC, MOIC and IRR combination is the key decision making matrix used in the investment decision making process.
  - MOIC and IRR are determined at GCAP level, as the Group evaluates achievable money multiples with all acquisitions and analyses them in combination with the expected IRR. Returns are individually assessed, subject to a minimum 25% IRR at exit.
  - ROIC is evaluated for financing projects and reinvestment at each portfolio company level. Different yields are appropriate for different industries.
- Georgia Capital also aspires to become a third-party money manager and earn management fees which will further increase the Group's capital returns and diversify its cash flow streams.

New investments made by Georgia Capital need to be consistent with our aspiration 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 and Valuation Committee which focuses on upholding standards of integrity, financial reporting and valuation framework, risk management systems, going concern, internal control and assurance frameworks. The Audit and Valuation Committee's activities are discussed further on pages 140 to 144. 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 138 to 139.

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 Valuation and Investment Committees, as appropriate, as well as the Board.

A description of emerging and principal risks and uncertainties, including recent trends and outlook, as well as mitigation efforts, can be found on pages 75 to 79 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 and Valuation 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 portfolio companies.
- Provides oversight and challenge of underlying assumptions on the valuation of the private portfolio companies 54.4% of net assets at 31 December 2019. Over the next five years Georgia Capital targets to increase share of private assets to 80% in its portfolio.
- Direct engagement with the external auditor, who involve their specialist valuations team.

Investment Committee

- Principal Committee for managing the Group's portfolio companies 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.

Remuneration Committee

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.

Nomination Committee

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.

Strategic Review Our Business

RISK MANAGEMENT CONTINUED

Bodies implementing the risk management system
As mentioned on page 70, 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 Valuation 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.

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 and Valuation 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 and Valuation 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 and proper manner.

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 and Valuation 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: liquidity management thresholds; limits on possible losses from the foreign currency risks; tax legislation; and all financial 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, 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 actively monitors performance of portfolio companies on a regular basis and delivers daily NAV development reports, weekly liquidity reports and 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 group
The IFRS technical accounting group, part of the Finance department, is responsible for monitoring the Group's compliance with relevant International Financial Reporting Standards. The IFRS technical accounting group 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 group delivers training on new IFRS standards, issues Group accounting policies, produces general guidance memos on application of IFRS and memoranda on complex, one-off transactions and also prepares quarterly RADAR reports to the Audit and Valuation Committee summarising material transactions across the Group, including its portfolio companies with respective financial impact.

Valuation workgroup
The Group has established a valuation workgroup, consisting of members of the Finance and Investment departments, which is responsible for the fair value assessment of the Group's private portfolio companies at each reporting date. The workgroup reports to the Management Board and estimates fair value of investments by applying an appropriate valuation technique in compliance with IFRS 13. In order to ensure compliance with IFRS 13 requirements, increase the transparency of valuation and to ensure that consistent approach is applied in similar facts and circumstances, the workgroup developed a valuation policy and monitors compliance across all investments. The applied valuation methodology makes maximum use of market-based information, is consistent with models generally used by market participants and is applied consistently from period to period, except where a change would result in a better estimation of fair value. The workgroup recommends fair values of private portfolio investments at each reporting date and prepares quarterly valuation reports for the Management Board and Audit and Valuation Committee describing valuation techniques applied and inputs used, with particular focus on the assumptions supporting the unquoted investments, any valuation uncertainties and the proposed disclosure in the financial statements. The valuation workgroup applies care in exercising judgement and making necessary estimates due to uncertainties inherent in estimating fair value for private companies. The valuation workgroup may also involve third-party professionals in assessing fair value of investments in exceptional circumstances.

Internal Control
Georgia Capital's internal control over the financial reporting is focused primarily on ensuring efficient and reliable control of valuation of private portfolio companies as well as the Group's consolidation process. With respect to Internal Control over financial reporting, our financial procedures include a range of system, transactional and management oversight controls. The board and management of each private portfolio company is responsible for ensuring the efficiency of the private portfolio company's internal control structures, risk management and financial reporting. The private portfolio companies' boards ensure that Georgia Capital's Board receives information on any issues that could affect Georgia Capital's business or financial reporting. 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 department discuss financial reporting, valuations and associated internal controls with the Audit and Valuation Committee, which reports significant findings to the Board. The Audit and Valuation 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 and Valuation Committee meeting and the Audit and Valuation 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 123. The Director's considered that the Company has sufficient cash and liquid funds to cover the liabilities when they fall due. 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 Company 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 Company's value. Georgia Capital runs an in-depth annual business planning process, involving both the management of portfolio companies 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 2020, 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 Group.

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 18 to 35;
- the Group's principal and emerging risks and uncertainties, principally those related to regional instability, portfolio company strategic and execution risk, investment risk, adverse economic conditions, implications of novel coronavirus, the depreciation of the Lari, lack of liquidity and how these risks and uncertainties are managed, as set out on pages 75 to 79;
- the effectiveness of our risk management framework and internal control processes; and
- stress testing, as described below.

Strategic Review Our Business

RISK MANAGEMENT CONTINUED

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 portfolio companies' 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, currency and macroeconomic environment related risks, including those relating to the recent worldwide COVID-19 outbreak. Further, the Group has identified climate change related risks as emerging 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 a single reasonable 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 economic consequences of COVID-19, GEL depreciation against the US dollar, market competition, operational underperformance, inability to timely receive construction permits (for our housing development business) and project cost overruns for the water utility, hospitality and renewable energy businesses. Given COVID-19 related developments and contingency plans announced by GHG PLC and BOG PLC, the Group's scenario also excludes dividend inflows from Listed assets. The Group identified the following mitigating actions: suspension of share buybacks and suspension of capital allocations together with optimization of cash operating expenses.

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 March 2020, Georgia Capital holds GEL 304 million assets across cash, marketable debt securities and loans issued to portfolio companies. Additionally, the Group also holds GEL 660 million equity securities of London Stock Exchange listed GHG PLC and BoG PLC as at 31 March 2020. Therefore, in a worst-case scenario, with risks modelled to materialise simultaneously and for a sustained period of time, the likelihood of the Group having insufficient resources to meet its financial obligations is very low. 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 2020 to 31 December 2022.

RISK OVERVIEW

Understanding our risks
We continuously monitor our internal and external environment to ensure that any new principal or emerging risk is identified in a timely manner and responded to appropriately. The Directors have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. We define our principal risks as those that have the potential to impact the delivery of our strategic objectives materially. We also monitor risks which includes new and emerging risks which may have the potential to become principal risks but are not yet considered to be so. Emerging risks usually have large uncertain outcomes which may become certain in the longer term (beyond one year) and which could have a material effect on the business strategy if it were to occur.

Principal risks and uncertainties
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. The order in which the principal risks and uncertainties appear does not denote their order of priority. 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.

NOVEL CORONAVIRUS (COVID-19) RISK	
PRINCIPAL RISK/ UNCERTAINTY	As of this writing, the coronavirus (COVID-19) outbreak in Georgia is not, or at least not yet, as severe as in many other countries. The Georgian Government has taken significant actions early, including flight bans, school and business closings and tele-working recommendations. Most Georgians have taken the recommendations seriously and modified their behaviours accordingly. In a population of about 3.7 million, there have been 148 confirmed cases, 27 recovery cases and zero deaths as of 3 April 2020. Most cases remain traceable and there is still some hope that community spread can be more limited than elsewhere. The full extent of the damage from the coronavirus pandemic is very difficult to assess and will not be known until the severity and duration of the outbreak, both in Georgia and worldwide, are clear. Nevertheless, the governmental measures already implemented, and the related behavioural shifts, (both in Georgia and elsewhere) mean that the Georgian economy and our businesses are already being negatively impacted. In our listed assets, the banking sector will be particularly vulnerable to an economic downturn. Our healthcare business may experience some upside but will also be affected by treatment (especially elective treatment) postponements, the potential for falling footfall and discretionary spending in the pharmacies and increased health insurance costs. It will also face operational challenges if the outbreak is so severe as to put a strain on its facilities or seriously affect its caregiving personnel. Both BoG and GHG have suspended dividend payments. In our private portfolio, tourism is a significant component of the Georgian economy and the hospitality business is affected directly by the travel restrictions and fear of contagion. Restaurants are closed. Both of our operating hotels are closed and bookings are way down. Significant reduction of domestic and external demand will depress the housing development and commercial real estate businesses and other businesses offering ordinary goods and services, like beverages and auto services.
KEY DRIVERS/TRENDS	The coronavirus clearly presents quite difficult to assess near- and medium-term risks to the Georgian economy, especially to tourism, and will prove to be a major challenge for the economy. The outbreak presents both supply and demand side shocks and will have multiple repercussions through various channels, depending on severity and duration. As a small open economy (external merchandise trade around 74% of GDP), Georgia is highly dependent on foreign currency inflows to finance its current account deficit, so material deterioration in tourism revenues or a substantial fall in foreign investment sentiment will significantly impact growth prospects. The global spread of downside risks will contract foreign demand and thus exports, as well as reduce remittance inflows. Measures preventing the virus from spreading and increased uncertainty will significantly affect domestic sentiment and demand, negatively impacting consumption and domestic absorption as a whole.
MITIGATION	A large part of Georgia Capital's portfolio is concentrated across defensive countercyclical sectors: the water utility and healthcare and pharmacy distribution businesses. Georgia Capital has a strong liquidity position, with GEL 304 million liquid assets and loans issued at 31 March 2020 (GEL 364 million at 31 December 2019). We are also satisfied that Georgia Capital's liquidity forecast is adequate considering the novel coronavirus risk, as described in the viability statement on pages 73-74. Further, Georgia Capital does not have capital commitments or a primary mandate to deploy funds or divest assets within a specific time frame. Therefore, capital allocations to portfolio companies may be suspended, if needed. As described in viability statement on page 74, the Group identified the following mitigating actions: suspension of share buybacks and suspension of capital allocations together with optimization of cash operating expenses. From the macroeconomic perspective, the fundamentals remain strong, as the preliminary current account deficit reached a historic low in 2019, public debt is far below its capped level, reserve coverage remains adequate and there is policy space for support. Both fiscal and monetary authorities have announced coordinated measures to mitigate the negative impact of the shock, with the scale of stimulus depending on the severity of the pandemic.

RISK OVERVIEW CONTINUED

REGIONAL INSTABILITY RISK	
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 continuation 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, our financial position and valuations of our listed and private portfolio companies.
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 2016, and the European Parliament's approval of a proposal on visa liberalisation for Georgia in 2017, can potentially intensify tensions between the countries. Russia banned direct flights on July 8, 2019 and recommended to stop selling holiday packages to Georgia. The decision was made in response to anti-Putin protests in Tbilisi, which started after a member of the Russian parliament addressed the Georgian parliament in Russian from the speaker's chair. The ongoing conflict between Russia and Ukraine, and Russia's and Turkey's worsening relations with the US and between themselves, also 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 the Georgian Government's response thereto. It also develops responsive strategies and action plans of its own. The Georgian export market shifted significantly away from the Russian market after Russia's 2006 embargo, and the Group participated in that shift. The Government's ongoing action plan to further diversify tourism revenues will serve well to reduce exposure on Russia, with tourism revenues from the EU increasing by 20% y-o-y in 2019 – and again the Group is playing a role in this. While financial market turbulences and geopolitical tensions affect regional trading partners, Georgia's preferential trading regimes, including DCFTA with the EU and FTA with China, support the country to enhance resilience to regional external shocks.

REGULATORY RISK	
PRINCIPAL RISK/ UNCERTAINTY	The Group owns businesses operating across a wide range of industries: banking, healthcare services, pharmacy and distribution, property and casualty insurance, real estate, water utility and electric power generation, hydro power, wine and beverages, education, auto service and digital services. Many of these industries are highly regulated. The regulatory environment continues to evolve, and we 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 banking, 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 where possible in constructive dialogue with regulatory bodies and seek external advice on potential changes to legislation. We then develop appropriate policies, procedures and controls as required to fulfil our compliance obligations. Our compliance framework, at all levels, is subject to regular review by Internal Audit and external assurance providers.

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 poor performance. Investment risks include inadequate research and due diligence of new acquisitions and bad timing of the execution of both acquisition and divestment decisions. The valuation of investments can be volatile in line with the market developments.
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 (consisting of the full Board) for approval. The Committee reviews and approves or rejects proposals for development, acquisition and sale of investments and decides on all major new business initiatives, especially those requiring a significant capital allocation. The Investment Committee focuses on both investment strategy and exit processes, while also actively managing exit strategies in light of the prevailing market conditions.

LIQUIDITY RISK	
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, from suspension of dividends from portfolio companies, 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 from suspended dividend inflows from the Group's portfolio companies; or excessive investments in long-term assets and a resulting mismatch in the availability of funding to meet liabilities, or failure to comply with the creditor covenants causing Event of Default or Default.
MITIGATION	The liquidity management process is a regular process, where the framework is approved by the Board and is monitored by senior management and 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 senior management 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. JSC Georgia Capital successfully issued 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 dividend inflows from its portfolio companies and on its ability to realise its listed securities on the public markets. 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); and • the market value leverage (Net Debt divided by 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.

RISK OVERVIEW CONTINUED

PORTFOLIO COMPANY STRATEGIC AND EXECUTION RISKS	
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. The Group will normally seek to monetise its investments, including through initial public offering, strategic sale or other appropriate exit, typically within five to 10 years from acquisition and we face market and execution risk in connection with exits at reasonable prices.
KEY DRIVERS/TRENDS	Each of our private portfolio companies (Water Utility; Renewable Energy; Housing Development; Hospitality and Commercial Real Estate; P&C Insurance; Beverages; Education; Auto Service; and Digital Services) and our listed assets (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 at reasonable prices. It may not be possible or desirable to divest, including because suitable buyers cannot be found at the appropriate times, or because of difficulties in obtaining favourable terms or prices, or because the Group has failed to act at the appropriate time.
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. We carry our private portfolio companies at fair value in our NAV Statement. After the switch to IFRS 10 on 31 December 2019 the valuations are audited, increasing the credibility of fair valuation and limiting the risk of mispricing the asset. 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 in 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 RISKS	
PRINCIPAL RISK/ UNCERTAINTY	Unfavourable dynamics of major 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. The Lari floats freely against major currencies. Lari depreciation against the US dollar was 7.1% y-o-y at the end of 2019. The Lari depreciation was likely mainly driven by negative expectations caused by air travel ban, political tensions and protests. NBG responded by hiking the monetary policy rate by 250 basis points to 9% and declared that the policy stance will continue to be tightened until inflationary expectations are alleviated. COVID-19 outbreak, fear of recession and dropping oil prices caused significant capital outflows from our region, leading yields to widen and currencies to depreciate. GEL followed the trend and depreciated by 9% YTD as of 3 April 2020. NBG sold US$ 60 million on FX auctions in March, kept tightened policy and committed to use all available instruments, if necessary, to ease the pressure on the prices. 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, consequently, deteriorates its operating solvency in a specific currency or group of currencies due to the fluctuation of exchange rates. The risk is mainly 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 regional turbulences and global slowdown risks, Georgian economic growth remains robust, inflation is managed and resilience to external shocks improves. A strong external performance supported a higher than expected 5.1% real GDP growth in 2019, while average annual inflation was 4.9%, a result of depreciation-driven inflationary expectations and one-off factors like increase in excise tax. The current account deficit reached a historic low of 5.1% of GDP in 2019. The tight monetary policy stance is appropriate to the current macroeconomic environment, while the fiscal stance is expected to be expansionary. Official reserve assets continued to increase and amounted to US$ 3.5 billion at the end of 2019, providing the necessary buffer for the economy. In 2019, Fitch and S&P upgraded the 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 major drivers for the reduced risk premium of the country.
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. The 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. Senior management 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.

Emerging risks

The Group's risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors, and is designed to consider and capture the following risks: current risks which have not yet fully crystallised and do not have previous known experience against which they can be assessed and risks which are expected to crystallise in future periods, typically beyond one year.

In 2019, the Group has identified climate change as an emerging risk. Since the Group's businesses are very much dependent on such climate elements as precipitation, wind speed and air temperature, the Group's development will be affected definitely by climate change. This is critical to protecting and enhancing the value of our assets and we monitor our governance and risk management framework to ensure that sustainability-related risks in our portfolio remain an important part of our agenda and are treated as a priority by our portfolio company management teams. Our portfolio companies' approach and the procedures to climate risk is discussed further under resources and responsibilities section on pages 80 to 89.

RESOURCES AND RESPONSIBILITIES

SUSTAINABILITY LIES AT THE HEART OF OUR BUSINESS

WE ARE COMMITTED 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, anti-corruption and anti-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 have board representation in our private portfolio companies and use it to maintain close relationships with the management of those companies as described within the strategy section on pages 18 to 35. As a consequence of our involved investment style, we manage our portfolio companies in the best interests of our shareholders and other stakeholders, as well as striving to contribute to wider society. We continue to meet with our shareholders and listen to any concerns they may have. With a portfolio of GEL 2.3 billion 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, fostering continuous employees' development 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.

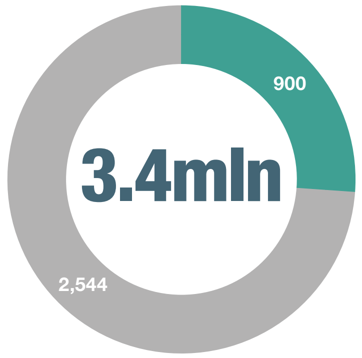
Non-Financial Information Statement
The EU Non-Financial Reporting Directive requires us to disclose certain information on the way we operate and manage social and environmental challenges. The following table summarises where you can find further information on each of the key areas of disclosure that the directive requires. Further information on our policies can be found here: **https://georgiacapital.ge/governance/cgf/policies**.

Reporting Requirement		Annual Report Page Reference
Social matters	Sponsorship and Charity	Page 81
	Access to Education	Pages 81-82
	Healthy lifestyle	Page 82
	Supporting People with Disabilities	Page 82
	Energy	Page 82
	Tourism	Pages 82-83
	Education	Page 83
	Affordable Housing	Page 83
Employee matters	Talent Attraction	Page 84
	Training and Development	Pages 84-85
	Gender Diversity	Page 86
	Occupational Health and Safety	Page 86
Environmental matters	Environment and Social Policy	Page 86
	Energy Efficient Buildings	Page 86
	Renewable Energy Businesses	Pages 86-88
	Sustainable Water Management	Pages 86-88
	Environmental and Social Action Plan (ESAP)	Page 87
	Specialised Medical and Biological Waste Disposal	Page 88
Human Rights	Human Resources and Human Rights Policy	Page 85
Anti-Corruption and Anti-Bribery	Code of Ethics	Pages 85-86
	Anti-Bribery and Anti-Corruption Policy	Pages 85-86

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.

Sponsorship and charity
As part of 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 2019, the Group spent a total of GEL 3.4 million to finance different sponsorship and charitable activities, some of which are listed below.

Total sponsorship and charitable expenditure of the Group, 2019 (GEL thousands)



Georgia Capital and GHG support the Caucasus Nature Fund (CNF), as we are involved in the Project of Maintenance of Caucasus Natural and Cultural Heritage. The fund helps to support the effective long-term management of the protected territories of Armenia, Azerbaijan and Georgia. Georgia Capital and GHG donated US$ 10,000 and GEL c.44,800 to the project, respectively.

Georgia Capital was a founding Partner of UK Season in Georgia 2019. Within the programme the UK Embassy delivered more than 60 events across the country that captured the best of friendship between Georgia and UK. Georgia Capital donated GBP 50,000.

Georgia Capital participated in the selection of the Fulbright Program Scholar and sponsored selected candidate with GEL 138,862.

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 purpose 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.

In 2019, the renewable energy business continued to implement several social projects to support education, tourism and sports in Mestia, Svaneti region. In 2019, the business fully upgraded the libraries at all schools in Mestia. The aim of the project is to promote youth education and create more opportunities for young people. GGU supported several important ski competitions for Svaneti region tourism development. In 2019, the renewable energy business also started implementing social projects in Zoti, Guria region. Social projects are mainly focused on education and sports. In 2019, GGU also participated in a planting trees programme in Tbilisi to support the creation of environmental and green spaces in the city.

The healthcare services of GHG cover more than 75% of the Georgian population with clinics, located across the country providing access to high-quality medical care, even to those living in remote mountain regions. In 2019, GHG carried out 28 different free screening programmes in total for up to 72,000 patients. Furthermore, in 2019, GHG's hospitals business carried out 24 different free-of-charge medical check-ups, benefiting up to 2,830 patients. Such free-of-charge medical check-up and screening programmes include managing tuberculosis, cancer screenings, hepatitis C screening and antenatal programmes. As in other parts of the world, diabetes in Georgia is on the rise, with the incidence rate per 100,000 citizens now reaching 506. To address the disease's increasing prevalence, GHG offers a 50% discount on test strips to patients with diabetes. Apart from this, during the year GHG spent up to GEL 2 million to provide free medical services to the socially and economically disadvantaged groups of the population. In cooperation with other healthcare institutions, GHG arranges free blood donations for its patients. In 2019, GHG introduced GPC laboratory in its pharmacies and has already opened eight blood collection points and plans to continue the process to arrive at c.50 blood collection points in the coming years. GHG traditionally participates in the Government subsidised Children's Oncology Programme and offers cancer treatment to children with different oncology disorders (leukemia, 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 2019, more than 672 patients with different types of cancer received treatment at Iashvili's onco haematological department.

Promoting and enhancing access to education
In November 2018, m² 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 offers 11 short-term vocational courses to more than 600 construction specialists/workers annually.

GGU has been involved in vocational programmes to promote and raise the awareness about the company and specific professions of water supply and sewerage systems among the younger generation. GGU trained future employees (10 students) with relevant knowledge of water supply and sewerage systems. Together with local and international partners, GGU has successfully implemented several vocational programmes, among which were programmes for welders, locksmiths and plumbers.

RESOURCES AND RESPONSIBILITIES CONTINUED

The water utility business opened the Training Centre in 2017, aiming to prepare 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 GGU to develop engineering and other technical qualifications in line with today's technological development and innovations. At this time up to 3,000 employees have been trained/retrained in the Training Centre.

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.

In 2019, GHG's clinics business launched the Student's Programme. GHG signed a Memoranda of Understanding (MoU) with 22 universities, in which c.20,000 students were involved. Within this programme, GHG offered students an extended coverage under UHC and additional discounts on various medical and dental services. During the year, the healthcare business spent GEL 100,000 on these activities. Within the framework of MoUs, successful students were also offered a six-month scholarship and employment in different administrative positions at GHG's clinics. In 2019, GHG sponsored medical conferences (GIMPHA, Laparoscopic Surgery Conference, Emory Conference, Reproductive Health Conference, etc.) and workshops, which brought together medical scholars and healthcare practitioners from Europe, Asia, the US and Georgia to share knowledge and experience that influence and shape healthcare delivery. Total financial support of the conferences amounted to GEL 297,427 in 2019 (GEL 531,544 in 2018).

Promoting and enhancing healthy lifestyle

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

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

The Beverages business is part of a charity programme that supplies books for children without parental care and from large families, as well as for the rural school libraries.

As part of its initiative to promote a healthy lifestyle, m^2 became the general sponsor of the Georgian Rugby Union. m^2 and "Rugby Union of Georgia" signed a Memorandum of Cooperation in 2019. m^2 has been funding the rugby club "Lelo" for several years, as well as the regional football in Telavi and Zugdidi.

Aldagi started promoting safe driving with a project that offered safe drivers a chance to receive up to 30% price discount on their car insurance policy premiums.

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. In 2019, GEL 167,800 was spent on financing these TV programmes (GEL 120,300 in 2018).

To promote a healthy lifestyle among children, in 2019, GHG entered into MoUs with 10 kindergartens and is in the process of negotiation with a further 35 kindergartens and schools. The business provides free medical support and screening programmes for different diseases to the pupils and teachers of the participating entities.

Supporting people with disabilities

In 2019, m^2 funded the rehabilitation course for children with autistic spectrum disorders in Kutaisi with GEL 100,000.

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 framework of Protection of Children with Disabilities – a project carried out by the Ministry of Labor, 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 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.

Socially-oriented products and services

Georgia Capital realises significance of its investment activities across Georgia for the Georgian emerging economy. The Group is actively investing in industries with strategic importance to the development of the country.

Energy

The average growth of electricity consumption in Georgia has been 5.3% over the last 10 years. The Group is investing in renewable energy to respond to growing demand by developing hydro and wind power plants across Georgia. As of 31 December 2019, the renewable energy business operates HPPs and wind farms of 91MW installed capacity and, in addition, has a pipeline of up to 350MW capacity hydro and wind power plants. The Group's involvement in the renewable energy business supports the country's sustainable growth.

Tourism

Georgia's tourism industry has achieved remarkable growth over the past decade, hitting record numbers of tourists arrivals of 7.7 million in 2019, with a 11.5% CAGR since 2011. Tourism represents the largest component of service exports in Georgia's Balance of Payments (BoP), accounting for 72%, up from under 40% a decade ago. Georgia has the potential to place itself on the world map as a prominent tourist destination due to its unique nature and cultural heritage, its tradition of hospitality and by focusing on niche areas, for example, wine, 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 have a portfolio of more than 1,000 operational hotel rooms. The first 152-room Ramada Encore hotel, located on Kazbegi Avenue, Tbilisi, has been operational since March 2018. m^2 is also developing a 4-star Ramada hotel in Kutaisi (under construction, 121 rooms), where the international airport serves low-cost airlines, making the city popular with tourists visiting Georgia. In 2019, m^2 signed a management agreement with Kempinski to manage the only luxury hotel in its portfolio. Following initial acquisition in December 2017, m^2 held a 60% stake in Kempinski hotel and the business announced the buyout of the remaining 40% equity stake in February 2019. The business expects to position Kempinski hotel as a culinary hub, both for locals and tourists. The facilities will include a range of exclusive gastronomic experiences. Built into the neighbouring mountain, the hotel will invite guests to taste the best Georgian wines, as well as explore spectacular views of Tbilisi old town. The business has two more internationally branded hotels in the pipeline: a 4-star business-class hotel, Ramada Melikishvili (under construction, 125 rooms) and Zugdidi hotel (at design stage, 130 rooms).

In 2019, m^2 created a new brand name, Amber Group, under which the business will develop the following hotels: Seti Square Mestia (under construction, 52 rooms), Kakheti Wine & Spa (under construction, 60 rooms), Gudauri (operational, 121 rooms), Telavi (at design stage, 110 rooms), Shovi (at design stage, 109 rooms), Mestia Svaneti (at design stage, 140 rooms). Amber Group will focus on the unique Georgian culinary and the traditional Georgian winemaking, and will promote Georgia internationally.

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, which is very fragmented and unaffordable for most of the population, making room for private sector development. 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. By 2025, the Group aims to have up to 30,000 learners, with GEL 185 million gross capital allocation. In 2019, Georgia Capital acquired majority stakes in three leading schools in the attractive private education market. 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.

Green School represents affordable private school within Georgia Capital's education portfolio. The school offers affordable tuition to the emerging middle-class in Georgia and is regarded as one of the best value for money mass schools in the country. According to the plan, the school will add two new campuses and increase number of learners to c.2,000 by 2021. Green School acknowledges its social responsibilities and tries to make its input in different ways. The school provides free education for 170 socially vulnerable children.

Affordable housing

Over the last 10 years, the Georgian real estate market has experienced a significant increase in demand. One of the factors driving the demand of the housing market is a decrease in the average household size, which has already dropped from 3.7 individuals in 2008 to 3.3 in 2018, in Georgia. This figure is expected to move closer to the EU average of 2.3, however, the family size in Tbilisi has been shrinking steadily. Based on the social development pattern in comparable countries, the overall trend is expected to be continued, which will generate additional demand for housing. Also, around 35% of housing units in Tbilisi were built more than 40 years ago and are reaching the end of their usable life cycle. 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.

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 10 projects so far, and has delivered them to its customers within, and frequently ahead, of the agreed deadlines.

m^2 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 in its buildings, which in turn translates into lower utility expenses incurred by the tenants. The level of energy savings in m^2 buildings is significantly above the average residential property in Tbilisi.

m^2 started the construction of a completely new district, m^3 Saburtalo, which provides mixed-used real estate development project, aggregating residential, commercial, and entertainment buildings in a single neighbourhood. m^3 Saburtalo will be a new district in Tbilisi with a modern architecture. The district was designed with a multifunctional infrastructure and distinctive landscape design. The central part of the district will be occupied by a park. In June 2017, m^2 acquired BK construction LLC, a real estate construction company, which has reduced m^2's construction cost and improved the design management process through vertical integration, giving m^2 the ability to reach the lower-end segment.

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 companies.

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;
- grievances;
- retrenchment; and
- anti-nepotism.

We are committed to employee engagement and we believe that effective communication is key. We strive to provide our employees with a continuous flow of information, which includes 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 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 the 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.

RESOURCES AND RESPONSIBILITIES CONTINUED

Talent attraction
Sustained development of the Group's businesses requires the strengthening of the teams, 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 2019, an intern from Limerick University spent two months working in the Finance department at the Georgia Capital office in Tbilisi. In 2019, 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 2018 were promoted to managerial positions Group-wide.

In 2019, GHG participated in 29 job fairs in different universities and colleges and recruited more than 192 students. Also under the Student Internship Programme, 500 students had internships in GHG facilities, 106 of which were hired by GHG. GHG has signed MoUs with 15 nursing colleges in all regions of Georgia. GHG has an exclusive partnership agreement with the pharmacy college Orientiri. GHG offers grants to its employees who have no pharmaceutical education. After two years of college, they can graduate with a pharmacy degree and start a career in one of GHG's pharmacies. GHG finances 50% of the total tuition fee. 14 participants are already enrolled and are expected to graduate in 2020, and three of them are already working with GHG. The main goal of the project is to address the shortage of qualified pharmacists.

Training and development
To manage our employees in a way that best supports our business strategy and employees growth professionally, 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 2019, Georgia Capital conducted training in giving and receiving feedback in the Deliberately Developmental Organization and continued coaching for its employees at all levels. Training provides an individual approach towards developing leadership skills. Employees involved in training developed their skills and gained 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 story in the company and explain their values and approaches.

In order to maximise staff potential, the P&C insurance business promotes lifelong professional and personal development. Internal professional education is comprised of a wide range of internal and external training sessions, specifically designed to meet the needs of the front and back office employees. 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. Selected mid-level and senior-level employees are given the opportunity to receive external education in well-known universities abroad.

In 2019, GGU continued implementing a 360-degree assessment for the entire management team, 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 more than 35 employees.

GGU continues to concentrate on staff development as one of the key pillars for sustainable growth of the business. In 2019, career development plans have been developed across each function within the company at the level of individual employees. The development plans include professional, hard and soft skill training, along with personal transformation programme, leadership and coaching.

Along with GGU's engineering manual, Construction and Exploitation of Water Pipes and Sewage Systems, in 2019, GGU finalised two engineering manuals – Regulations of Water Supply Emergency Works and Water Supply Network Exploitation Rules. The aim of these manuals is to increase the qualification level of employees and to standardise the processes. Several company-wide projects, executed in 2019, are worthy of attention as well. One of them includes providing certified first aid training for its employees as mandatory, along with the health and safety training. More than 150 employees have been certified in first aid. Also, for the first time in 2019, service standards and the code of conduct were developed and documented into manuals for more than 20 positions responsible for daily communication with customers, third parties, Government, police, etc. More than 500 employees have been retrained with the new standards and the code of conduct.

The GHG Leadership Programme is one of the pillars of GHG Human Capital Strategy. The programme is designed for 250 middle-level managers to further develop and improve their managerial and leadership skills. 179 managers have already taken the five-month, 180-hour General Management Course since 2017. GHG balances gender composition in their Leadership Programme, where 67% of the participants are female and 33% are male. GHG has also developed a Personal Development Programme, which further builds leadership competencies through effective performance feedback and coaching sessions. In 2018 and 2019, 106 middle-managers used the 360-degree feedback tool and developed their personal plans and 75 of them also took part in individual coaching sessions.

In 2019, GHG invested GEL 4 million in training and development courses for medical and administrative staff. GHG offers continuous medical education through the EVEX Learning Centre. In 2019, the EVEX Learning Centre trained a total of 3,208 nurses (both employees and candidates), 2,623 physicians and 450 back office employees and managers. In 2019, EVEX Learning Centre conducted a six-month, 108-hour Basic Nursing Course for students and nursing professionals willing to start a job in GHG hospitals. 132 of them were offered jobs at GHG healthcare facilities. In 2019, GHG's hospitals business developed and implemented the E-Testing module to make the staff attestation process more efficient. 745 nurses participated in the e-testing attestation process. Professional development of GHG's pharmacy and distribution business employees is led by the GEPHA Training Centre trainers. In 2019, the GEPHA Training Centre trained a total of 4,000 participants. Among them, 186 students took a preparation course for pharmacists and 35 of them were offered a job. GHG launched a new 27-hour, four-day Basic Sales Skills training programme for pharmacists. The programme started in November 2019 and plans to train all front office staff by the end of 2020 (2,100 trainees in total).

GHG's medical insurance business also operates its own Imedi L Academy, offering specialised vocational training programmes and courses to its employees. Imedi L Academy trained 1,442 participants in 2019. In May 2019, GHG opened GHG Library "The Exploration Centre" in its head office. The library contains more than 600 books about professional, business, leadership and other fields. In line with GHG's strategy to develop a new generation of doctors in Georgia, GHG operates a postgraduate residency programme in a number of fields since 2015. Currently, GHG has 237 talented residents involved in 29 specialities; 14 of them have received a 100% grant and 37 an 80% grant, while 32 residents have obtained student loans. In 2019, 44 residents completed the programme.

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, a commitment to eliminating 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 2019, Georgia Capital had a total of 21,446 employees across the Group, of which 14,374 are females and 7,072 are males.

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. m^2 systematised its approach to gender equality and executed specific goals throughout the year. In addition, according to the new administrative law, every agreement concluded in the company is reviewed to ensure none of them are discriminative to women. m^2 has an established internal grievance mechanism for employees to file complaints on gender-based discrimination, and 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 as yet.

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.

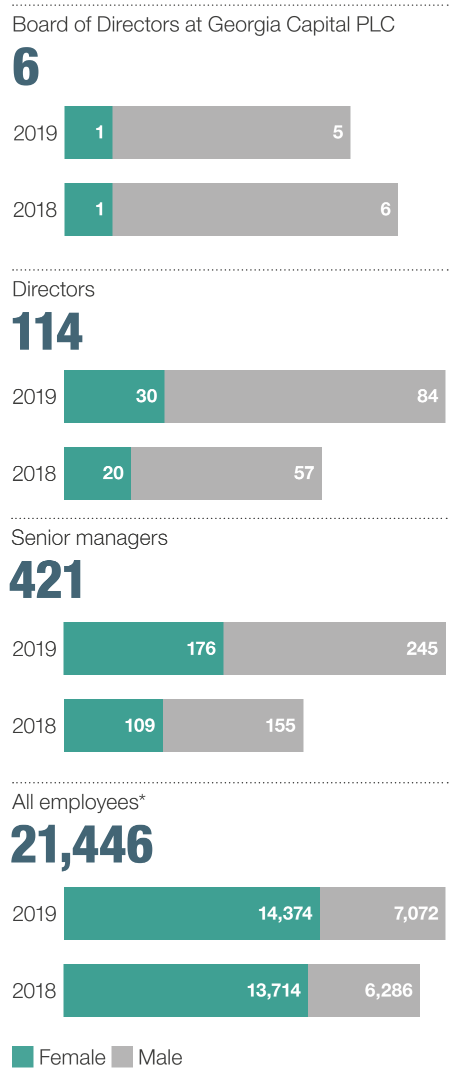
Human Rights Policy
The Human Resources Policy is an integral part of the employee on-boarding package at each business level. It is available for employees and the updates are communicated electronically. The Human Rights Policy is part of the Human Resources Policy and covers the following:
- equal 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. This Policy applies to all employees and includes procedures in relation to employment processes, training and development, procedures on recruitment and on the continuity of employment of employees who become disabled during the course of their employment.

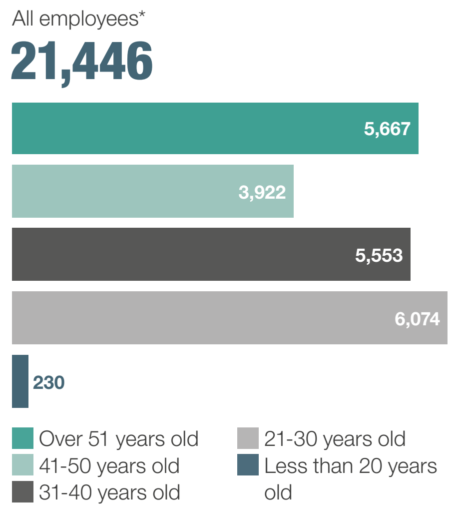
Code of Ethics and Anti-Bribery and Anti-Corruption Policy
The Group has a Code of Ethics, as well as Anti-Bribery and Anti-Corruption Policy, which are also applicable to the Group companies.

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 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 anticorruption clauses are incorporated in the agreements with customers and third parties;
- ensuring that anti-bribery and anticorruption matters are included in contractual agreements with partners/counterparties; and

Gender diversity at 31 December 2019



Age diversity at 31 December 2019



* Excluding temporary employees.

RESOURCES AND RESPONSIBILITIES CONTINUED

- 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 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 the Deputy CEO 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 and Anti-Corruption Policy during 2019.

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 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 training and educational seminars for employees and contractors. In 2019, the number of health and safety training hours amounted to approximately 120. 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.

Environmental matters
The Group recognises that its operations have both direct and indirect impact on the environment. An Environment and Social Policy has been established which sets out the Company's approach on this matter. 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, Hospitality and Commercial Real Estate, Water Utility and Renewable Energy businesses.

Environmental consideration is an integral part of our Housing Development business, managed by m^2. m^2 delivers environmentally conscious products whilst being aware of the 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 the use of electricity.

Aiming at increasing the efficient use of energy, water and materials, m^2 installs energy-efficient lighting systems and uses low emission window glass and other modern insulation materials to cover the façade of the buildings. 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 the 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. m^2 develops more green spaces providing universal access to safe, green and public spaces in all projects.

In 2019, m^2, together with the Tbilisi City Hall Environmental Protection Service, planted about 500 trees on the right and left banks of the river Mtkvari in the frame of the landscaping campaign. The participants in the campaign landscaped an additional territory of 1 hectare in the city.

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. 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. EV chargers will be gradually installed in each residential complex and gifted to the residents.

Water utility and renewable energy businesses, managed by GGU, are in 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 that 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's urban water management includes the production and treatment 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 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, GGU has successfully managed to decrease the self-consumed electricity consumption throughout last several years and from consumption level of 239 million KWh in 2017, GGU reached 174 million KWh in 2019. GGU intends to maintain self-produced electricity consumption in the range of 170-175KWh 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 business 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, an environmental and social audit of the GGU was performed. The environmental and social audit report covered the environmental topics, 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 business 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 for all companies under the GGU.

Currently, ESMS is fully introduced at GGU. This strongly supports the organisation to enhance its environmental performance, and also to manage its environmental responsibilities in a systematic manner. In January 2020, the water utility business was certified as meeting the requirement and scope of registration – ISO14001: 2015. Similar certification process for obtaining ISO14001: 2015 for Gardabani WWTP started in February 2020.

It is recommended, that each company within the GGU group achieves the mentioned standard. Besides, the perfection of environmental performance, ISO14001:2015 will support GGU's sustainable financing. In line with the EU classification system for environmentally sustainable economic activities (Taxonomy), in regard to the EU Green Bond Standard (EU GBS), the company will need to be Taxonomy-aligned in order to be qualified as an eligible issuer of the bond. According to the Taxonomy Technical Report, a minimum requirement is the implementation and adherence to a recognised environmental management system (ISO 14001, EMAS, or equivalent).

The water utility business understands well the complexity of water management issues, which are separated into distinct topics such as Economics, Water Quality, and the Environment. In order to effectively manage drinking water security, the business invested in comprehensive researches for the development of the Integrated Water Management Plan for the Tbilisi Reservoir. In April 2019, the first part of Integrated Water Management Plan for the Tbilisi Reservoir was published. The document was developed by Kocks Consult GmbH with co-financing from KFW/DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH). Active collaboration with the Tbilisi City Hall, the Tbilisi City Council and other stakeholders around the Tbilisi Reservoir management is on-going. As a result, a final "Integrated Water Management Plan" will be elaborated as a policy document, which will ensure high quality drinking water and sustainable use of the reservoir in general.

GGU'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.

In October 2019, Early Warning System (EWS) for Zhinvali HPP was successfully tested and launched. The area under the responsibility of the water utility business corresponds to the 15km downstream in the Zhinvali Dam. In order to protect population and environment, the EWS was implemented in this area. Other than drinking water supply and power generation, Zhinvali Dam plays a key role in controlling floods and other geo-hazards. It is built as a safe structure, complying with strict standards. Zhinvali HPP EWS consists of: a) high accuracy hydrological and meteorological data monitoring system, b) the warning system, covering the area that gets flooded by a warning signal within a relevant time, and c) the notification system, informing the first responders of an emergency via voice and text message.

In order to respect all the rules and instruction, and to perform regular testing and continuous maintenance of the equipment, special training for EWS management team was conducted. Zhinvali HPP EWS enables the water utility business to leverage best practices, innovative methodologies and existing assets to share actionable early warnings and build sustainability for water and climate information.

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 business elaborates Environmental and Social Impact Assessment (ESIA) documentation, which also includes a scoping report and, if needed, a Resettlement Policy Framework (RFP) and a respective Resettlement Action Plans (RAP).

The renewable energy business'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 group of companies at GGU 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.

Strategic Review Our Business

RESOURCES AND RESPONSIBILITIES CONTINUED

Since the GGU's business is very much dependent on such climate elements as precipitation, wind speed and air temperature, the business's development will be 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.
GGU 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 recordkeeping standards remain in line with national legislative requirements. 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 conducts internal trainings on waste management procedures. 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, GHG clinics collect and dispose of medical and biological waste through a specialised outsourced service.

For waste collection, GHG uses plastic bags or containers that have sufficient strength and are secured with staples. 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 examines monthly reports and imposes penalties if necessary. In total, GHG hospitals generated 682 tonnes of medical waste in 2019, compared to 600 tonnes in 2018.

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 has responsibly reduced these implications:

- by constructing a CO_2 recovery plant, which captures the carbon dioxide released during the beer production process;
- by constructing a wastewater treatment plant, that cleans wastewater chemically, biologically and physically to obtain ecologically safe wastewater.

As for direct environmental impact, we believe that the impact of the insurance businesses is not significant. Nevertheless, there are a number of measures in place within the business to reduce electricity, paper, water and fuel consumption.

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 179 to 252. 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 2019 (Tonnes of CO_2e)

	2019	2018
Scope 1 (emissions fuel combustion and facility operations)	23,845	18,199
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	39,409	40,266
Scope 3 (emissions from air travel and ground transportation)	13,579	13,525
Total greenhouse gas emissions	**76,833**	**71,990**
FTEs	22,706	21,309
Total greenhouse gas emissions per FTE*	**3.38**	**3.38**

* FTE is stated including temporary employees.

ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measures (APMs) 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. 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.

Under an exception to the usual principles of IFRS 10 that require consolidation of subsidiaries, entities that meet the definition of an "investment entity" instead measure their investments in their subsidiaries at fair value. Georgia Capital meets investment entity definition under IFRS from 31 December 2019 and, as a result, the accounting basis was changed from consolidation to fair value measurement effective on that date. For some time and increasingly, management has been viewing itself as an investment entity and has been providing alternative performance measures (APMs) based on its statement of net asset value (NAV Statement) and a Management Income Statement. The final step which triggered the adoption of the investment entity exception was the creation of the valuation process enshrined in the terms of reference of the new Audit and Valuation Committee and the creation of that Committee on 31 December 2019. The application of this exception brings Georgia Capital's IFRS financial statements more into line with the NAV Statement and Management Income Statement, described below. Net asset value disclosed under the NAV Statement immaterially differs from IFRS equity value as at 31 December 2019. The Management Income Statement is prepared under the adjusted IFRS methodology in 2019 and represents an APM, which has not been audited.

Net Asset Value (NAV) Statement

The Group makes investments in portfolio companies indirectly, held through intermediate Georgian holding company, JSC Georgia Capital, which is the principal subsidiary of Georgia Capital PLC. The application of IFRS 10 requires us to fair value the intermediate holding company JSC Georgia Capital, which was previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our equity capital investments and associated transactions occurring in the intermediate holding company. The financial effect from the valuation of the underlying portfolio companies are aggregated into a single value. The breakdown of the value of JSC Georgia Capital is presented in Note 31 within the IFRS financial statements. To maintain transparency in our report and aid understanding we present a NAV Statement, which is closely aligned with the presentation of the JSC Georgia Capital Balance Sheet in Note 31 of the IFRS financial statements. Net asset value disclosed under the NAV Statement immaterially differs from IFRS equity value as at 31 December 2019. The opening NAV was not audited. However, the year-end 2018 NAV is reported in the NAV Statement under the same methodology as closing year-end 2019 NAV. The NAV Statement is simply a "look through" of the IFRS 10 Balance Sheet to present the underlying performance.

The NAV Statement breaks down NAV into its components and provides rollforward of the related changes between the reporting periods, including a snapshot of the Group's financial position at the opening and closing dates. 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 on page 95.
  - NAV per share represents total NAV divided by the number of outstanding shares at the end of the period, i.e. the number of issued shares at the end of the period less unawarded shares in management trust.

Management Income Statement

The Management Profit and Loss Statement is an aggregation of GCAP's stand-alone Profit and Loss Statement and fair value change of portfolio companies during the reporting period. The following methodology underlies the preparation of Management Income Statement.

- The top part of the income statement (GCAP Net 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 distributed or declared annual dividend proceeds from portfolio companies during the reporting period, b) interest income on liquid funds and loans issued, c) interest expenses on debt incurred at GCAP level (which consists of the bonds issued) and d) expenses incurred at GCAP level.
- Fair value change of portfolio companies (Total Investment Return) represents fair value changes in the value of portfolio companies during the reporting period, as valued in the period-end NAV Statement. A detailed valuation methodology is described on page 95. We view fair value changes of portfolio companies as a metric to measure the total investment return of Georgia Capital's holdings, which itself reflects value creation for a shareholder.
- Following the aggregation of GCAP Net Operating Income and Total Investment Return, we arrive at management income before foreign exchange movements for the period.
- Below the income before foreign exchange movements line, to arrive at management net income, we present GCAP gains or losses from foreign exchange movements.

In line with the change to disclose private businesses at fair value instead of book value in the NAV Statement from the FY18 results announcement, Georgia Capital is presenting the performance of each portfolio company in its Management Income Statement on fair value basis starting from the 1H19 results announcement.

Before the transition date of 31 December 2019, Georgia Capital consolidated the results of its investments in its IFRS income statement. As a result of reflecting the change in the status of the business to an investment entity, a cumulative transition gain of GEL 588.8 million was recognised on 31 December 2019. Therefore, the FY19 profit for the year within the IFRS consolidated income statement was GEL 604.3 million compared to the net income under management accounts of GEL 71.6 million. A gain from the change to investment entity status represents the difference between: a) the previous carrying amount of the subsidiaries and b) the fair value of the subsidiaries disclosed in NAV Statement. Starting from 2020, the net income under the IFRS income statement is expected to be closely aligned to the net income under Management Income Statement.

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 99 to 107, 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 90 to 94 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 **97 to 122**.

Read more on about the **use of APMs** in the **Financial Review** on pages **90 to 94**.

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 plus net other assets/liabilities 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, based on a valuation technique believed to be most appropriate to that investment as described in the valuation methodology on page 95.	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, i.e. issued shares at the end of the period less unawarded shares in management trust.	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 paid or declared annual dividend proceeds from portfolio companies to be collected during the year; b) interest income on liquid funds 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 interest income on own bonds held in treasury and research and feasibility expenses, which are capitalised for management account purposes.
Total investment return	A metric to measure the value creation power of Georgia Capital from its investments.	Fair value change of portfolio companies (Total Investment Return) represents fair value changes in the value of portfolio companies during the reporting period, as valued in the period-end NAV Statement.	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 value creation power of Georgia Capital during the period.	Aggregation of GCAP net operating income and total investment return less GCAP gains or losses from foreign exchange movements.	The equivalent balance under IFRS and respective reconciliation are shown in the Reconciliation of the Consolidated Income Statement.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APM	Purpose	Calculation	Reconciliation to IFRS
EBITDA	Management uses EBITDA as a tool to measure the portfolio companies' operational performance and the profitability of those companies' operations. The Company considers EBITDA to be an important indicator of 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
Multiple of Invested Capital (MOIC)	A measure to evaluate Georgia Capital's efficiency in allocating capital.	MOIC is calculated as follows: a) the numerator is the cash and non-cash inflows from dividends and sell-downs plus fair value of investment at reporting date; and b) the denominator is the gross investment amount.	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
Value creation/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 the adjusted to remove capital injections (if any) to arrive at the total value creation/investment return.	N/A
Liquid funds	A measure to evaluate the Company's liquidity.	Includes marketable debt securities and issued short-term loans.	

RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES

Reconciliation of adjusted IFRS measures to consolidated IFRS figures

	Income Statement reconciliation for FY19											
GEL thousands, unless otherwise noted	GHG	BOG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial Real Estate	Beverages	Pipeline businesses	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group total
Total investment return	(203,109)	140,240	52,953	(23,630)	34,399	–	9,918	(15,017)	16,397	81,348	–	93,499
Net foreign currency loss	–	–	–	–	–	–	–	–	–	(21,948)	–	(21,948)
Net income per management accounts	**(203,109)**	**140,240**	**52,953**	**(23,630)**	**34,399**	**–**	**9,918**	**(15,017)**	**16,397**	**59,400**	**–**	**71,551**
Difference between Shareholder return and IFRS profit of portfolio companies	226,430	(140,240)	(17,483)	6,834	(16,119)	2,796	5,932	(10,884)	(20,803)	–	–	36,463
Profit attributable to non-controlling shareholders	38,229	–	–	–	–	833	(28)	(4,782)	752	–	–	35,004
Gain on change in Investment entity status	–	–	–	–	–	–	–	–	–	588,830	–	588,830
Reversal of intragroup dividend income	–	–	–	–	–	–	–	–	–	–	(97,268)	(97,268)
Reversal of hotel revaluation gains for Group consolidation purposes	–	–	–	–	–	–	–	–		–	(16,517)	(16,517)
Reversal of fair valuation of debt securities measured at FVOCI	–	–	–	–	–	–	–	–	–	–	(6,231)	(6,231)
Reversal of gains on intragroup sale of assets	–	–	–	–	–	–	–	–	–	–	(3,425)	(3,425)
Other	–	–	–	–	–	–	–	–		–	(4,141)	(4,141)
Profit for the period (IFRS Consolidated)	**61,550**	**–**	**35,470**	**(16,796)**	**18,280**	**3,629**	**15,822**	**(30,683)**	**(3,654)**	**648,230**	**(127,582)**	**604,266**

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RECONCILIATION OF ADJUSTED IFRS MEASURES TO IFRS FIGURES CONTINUED

	Balance sheet reconciliation at 31 December 2019											
GEL thousands, unless otherwise noted	GHG	BoG	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial Real Estate	Beverages	Pipeline Businesses	Corporate Centre	Inter-Business Eliminations/ Consolidations	Group total
Fair Value FS	430,079	597,735	483,970	43,853	164,923	106,800	245,558	87,119	93,046	(499,215)	–	1,753,868
Transfer of market value of 19.9% in BoG to Corporate Center	–	(597,735)	–	–	–	–	–	–		597,735	–	–
Other	–	–	–	–	–	–	–	–	–	–	(1,846)	(1,846)
Total equity attributable to shareholders of Georgia Capital (IFRS)	**430,079**	**–**	**483,970**	**43,853**	**164,923**	**106,800**	**245,558**	**87,119**	**93,046**	**98,520**	**(1,847)**	**1,752,021**

VALUATION METHODOLOGY

Equity investments in Georgia Capital's portfolio companies are measured at fair values at each reporting date in accordance with IFRS 13, Fair Value Measurement. Fair value, as defined in IFRS, 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 listed portfolio companies
Equity instruments listed on an active market are valued at the price within the bid/ask spread, that is most representative of fair value at the reporting date, which usually represents the closing bid price.

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.

The value of an unquoted equity investment is generally crystallised through the sale or flotation of the entire business. Therefore, the estimation of fair value is based on the assumed realisation of the entire enterprise at the reporting date. Recognition is given to the uncertainties inherent in estimating the fair value of unquoted companies and appropriate caution is applied in exercising judgements and in making the necessary estimates.

Fair value of equity investment is usually determined using one of the valuation methods 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 the company 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. Some peer-group companies' multiples may be more heavily weighted during valuation if their characteristics are closer to those of the company being valued than others.

As a rule of thumb, last 12-month earnings will be used for the purposes of valuation. Earnings are adjusted where appropriate for exceptional, one-off or otherwise adjustable items.

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/adjusted EBITDA for the last 12 months (LTM EBITDA). In exceptional cases, where EBITDA is negative, peer EV/Sales (enterprise value to sales) multiple may be applied to last 12-month recurring/adjusted 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 (assuming 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 be determined using the 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 allocated between Georgia Capital and other shareholders of the portfolio company, if any.

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

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VALUATION METHODOLOGY CONTINUED

Discounted cash flow
Under the discounted cash flow (DCF) valuation method, fair value is estimated by deriving the present value of the business using reasonable assumptions of expected future cash flows and the terminal value, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the business. The discount rate is estimated with reference to the market risk-free rate, a risk adjusted premium and information specific to the business or market sector. DCF is mostly used to estimate fair values of project-based cash-flow driven businesses.

Net Asset Value
The net assets methodology (NAV) involves estimating fair value of equity investment in a private portfolio company based on its book value at reporting date. This method is appropriate for businesses whose value derives mainly from the underlying value of its assets and where such assets are already carried at their fair values (fair values determined by professional third-party valuation companies) on the balance sheet.

Validation
Fair value of investments estimated using one of the valuation methods described above is cross-checked 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 depending on the industry of the company. The company develops fair value range based on these techniques and analyses whether the 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. Based on DCF, the company might make the upward or downward adjustment to the value of the valuation target as derived from the primary valuation method. If fair value estimated using discounted cash flow analysis significantly differs from the fair value estimate derived using the primary valuation method, the difference is examined thoroughly, and judgement is applied in estimating fair value at the measurement date.

Valuation of equity investments in private portfolio companies
The table below summarises fair valuation of equity investments in our private portfolio companies as at 31 December 2019:

GEL thousands, unless otherwise noted	Valuation method	Multiple applied	Fair value
Late stage portfolio			**692,746**
Water Utility	EV/EBITDA (LTM)	8.8	483,970
Housing Development	Discounted Cash Flow	n/a	43,853
P&C Insurance	P/E (LTM)	9.0	164,923
Early stage portfolio			**439,477**
Renewable Energy	At acquisition price	n/a	106,800
Hospitality and Commercial Real Estate	NAV	n/a	245,558
Beverages – wine	EV/EBITDA (LTM)	10.0	72,042
Beverages – beer	EV/Sales (LTM)	2.2	15,077
Pipeline			**93,046**
Education	At acquisition price	n/a	56,350
Auto Service	EV/EBITDA[1]	10.4	25,757
Digital Services	At acquisition price	n/a	8,790
Other	At cost	n/a	2,149
Total			**1,225,269**

1 Combination of the last six months and the next six months earnings.

FINANCIAL REVIEW

The financial review includes forward looking statements that have not been revised to take account of our companies' rapidly evolving responses to the coronavirus outbreak and its effects on their prospects. They should be read in conjunction with the discussion of the outbreak's possible consequences included in Principal risks and uncertainties on page 75.

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.

The Group operates as a holding company of a diversified group of companies focused on acquiring and developing businesses in Georgia, and its strategy is to exit portfolio companies over a five to 10 year time horizon – it is not in the business of managing or owning portfolio companies indefinitely. As such, and in order to present 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 a holding company basis (management accounts). Our Group level discussion therefore focuses more on the management accounts, whereas, at the portfolio company level we present IFRS financial statements for each company and our discussion focuses on IFRS results.

Georgia Capital meets investment entity definition under IFRS from 31 December 2019 and as a result, the accounting basis was changed from consolidation to fair value measurement effective on that date. The application of this exception brings Georgia Capital's IFRS financial statements more into line with the management accounts. For details on the change in accounting basis please refer to pages 90 to 91. To provide full transparency and appropriate balance between our management account and IFRS discussion, a full reconciliation of our holding company basis management accounts to the IFRS statements is provided on pages 93-94. The management accounts are an alternative performance measure (APM); the basis for their preparation is described on pages 90 to 92.

Performance Highlights (IFRS)

GEL thousands, unless otherwise noted	FY19	FY18	Change
Group consolidated			
Revenue[1]	1,473,437	1,282,995	14.8%
Gross profit[1]	590,413	493,111	19.7%
Cash flow from operating activities excluding IFRS 16[1]	228,539	163,502	39.8%
GHG			
Revenue	960,558	846,306	13.5%
EBITDA excl. IFRS 16	*154,220*	*132,274*	*16.6%*
Private, late stage			
Revenue, Water Utility	163,454	149,127	9.6%
EBITDA[2], Water Utility	*95,075*	*83,376*	*14.0%*
Gross real estate profit, Housing Development	15,794	21,373	-26.1%
EBITDA[2], Housing Development	*(3,466)*	*15,994*	*NMF*
Earned premiums, net, P&C Insurance	75,339	67,488	11.6%
Net income, P&C Insurance	*18,325*	*17,082*	*7.3%*
Private, early stage			
Revenue, Renewable Energy	16,171	–	NMF
Revenue, Hospitality and Commercial Real Estate	37,588	38,467	-2.3%
Revenue, Beverages[3]	124,705	76,214	63.6%
Private, pipeline			
Revenue, periodic technical inspection (PTI)[4]	12,917	–	NMF

1 Consolidated IFRS numbers include GHG results. Please refer to GHG's public announcement on FY19 performance, available at **http://ghg.com.ge/financial-results**.
2 EBITDA is an alternative performance measure (APM) and is defined on page 255 in the glossary.
3 Includes revenue from distribution business.
4 The PTI business is presented within Auto Service segments results.

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FINANCIAL REVIEW CONTINUED

Consolidated IFRS Income Statement

GEL thousands, unless otherwise noted	FY19	FY18	Change
Revenue	1,473,437	1,282,995	14.8%
Cost of sales	(883,024)	(789,884)	11.8%
Gross profit	**590,413**	**493,111**	**19.7%**
Operating expenses	(317,927)	(268,608)	18.4%
EBITDA	**272,486**	**224,503**	**21.4%**
Share in profit of associates	357	247	44.5%
Dividend income	24,953	23,875	4.5%
Depreciation and amortisation	(110,075)	(66,449)	65.7%
Net foreign currency (loss)/gain	(41,663)	(37,546)	11.0%
Net realised gains from investment securities measured at FVPL	1,654	–	NMF
Net realised gains from investment securities measured at FVOCI	1,187	–	NMF
Interest income	30,672	23,275	31.8%
Interest expense	(150,370)	(96,895)	55.2%
Net operating income before non-recurring items	**29,201**	**71,010**	**-58.9%**
Net non-recurring items	(9,130)	(41,251)	-77.9%
Gain from change in investment entity status	588,828	–	NMF
Profit before income tax expense	**608,899**	**29,759**	**NMF**
Income tax expense	(4,633)	(3,606)	28.5%
Profit for the period	**604,266**	**26,153**	**NMF**
Total profit/(loss) attributable to:			
– shareholders of Georgia Capital PLC	569,262	(254)	NMF
– non-controlling interests	35,004	26,407	32.6%
– basic earnings per share	16.45	(0.01)	NMF
– diluted earnings per share	16.09	(0.01)	NMF

As a result of strong operating performance across the businesses, launch of greenfield projects and acquisitions, Georgia Capital generated consolidated gross profit of GEL 590.4 million in 2019 (up 19.7% y-o-y). The increase was driven by the following factors:

a) The healthcare and pharmacy business gross profit was up by 13.0% to GEL 284.3 million, as GHG started to capture benefits following the completion of significant three-year investment programme in 2018. The y-o-y increase in gross profit from healthcare services was largely driven by a successful ramp-up of the newly-launched hospitals. The double-digit growth in gross profit in the pharmacy and distribution business reflects both the business expansion by 26 new pharmacies and organic sales growth.
b) The beverages business gross profit was up 50.7% y-o-y to GEL 44.4 million on the back of increased export wine sales and increased revenues following the successful launch of new beer brands.
c) The water utility business gross profit was up by 12.4% to GEL 115.8 million mainly on the back of increased electricity sales revenue following the electricity market deregulation, effective from May 2019.
d) The renewable energy business recorded GEL 16.1 million gross profit, reflecting the launch of Mestiachala hydro power plants in mid-2019 and acquisition of Hydrolea HPPs end of October 2019.
e) Acquisitions of three top schools in 2019 contributed GEL 11.4 million to the consolidated gross profit.
f) The launch of the periodic vehicle inspection business in 2019 added GEL 8.5 million of the gross profit for the Group.
g) The gross profit from Housing Development was down by 52.1% to GEL 7.6 million, negatively affected by a delay in receiving the construction permit from Tbilisi City Municipality for Digomi project.

Operating expenses were up 18.4% y-o-y in 2019, where the most material y-o-y impact was driven by the increased holding company costs due to incomplete 2018 year of operations for GCAP since its demerger on 29 May 2018. Further, the increased operating expenses reflect acquisitions, launch of periodic technical inspection business operations and greenfield renewable and hotel projects. The operating expenses were also up due to upfront costs for the new residential projects in the housing development business, while anticipating to launch the residential and construction projects in the pipeline. As a result, consolidated EBITDA was up by 21.4% y-o-y to GEL 272.5 million in 2019.

The Group recorded net operating income before non-recurring items of GEL 29.2 million (down 58.9% y-o-y) reflecting increased depreciation and amortisation expenses, net interest expenses and unfavourable impact from foreign exchange movements:

- Net Interest expense amounted to GEL 119.7 million (up 62.6% y-o-y), mainly reflecting impact from IFRS 16 on GHG and the increased holding company net interest expenses due to incomplete 2018 year of operations for GCAP since its demerger on 29 May 2018. Further, the net interest expenses were up in the water utility and in the beverages businesses in line with increased leverage to finance capital expenditures for water supply infrastructure and to support the working capital needs of the beer business, respectively.
- Foreign exchange loss amounted to 41.7 million, more than half of which 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$ 192 million (GEL 550 million) at 31 December 2019. The remaining foreign currency loss is mainly attributable to the pharmacy and distribution and water utility businesses. About 70% of inventory purchases in the pharmacy and distribution business are denominated in foreign currency and Water Utility's borrowings are mainly denominated in EUR. Overall, in 2019 the local currency devalued by 7.1% against USD and 4.5% against EUR.
- Depreciation and amortisation increased to GEL 110.1 million (up 65.7% y-o-y) reflecting a) IFRS 16 impact, mainly on GHG; b) launch of the PTI business; c) acquisition of three top schools and Hydrolea HPPs; and d) construction completion of greenfield renewable and hotel projects.

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.

Under an exception to the usual principles of IFRS 10 that require consolidation of subsidiaries, entities that meet the definition of an "investment entity" instead measure their investments in their subsidiaries at fair value. Georgia Capital meets investment entity definition under IFRS from 31 December 2019 and, as a result, the accounting basis was changed from consolidation to fair value measurement effective on that date. Georgia Capital recorded a gain from the change to investment entity status of GEL 589 million in the FY19 IFRS income statement, representing the difference between: a) the previous carrying amount of the subsidiaries, and b) the fair value of the subsidiaries disclosed in NAV Statement below.

As a result of the movements described above, consolidated IFRS net profit was GEL 604.3 million in 2019 (up from GEL 26.2 million in 2018). 2019 diluted and basic EPS were GEL 16.09 and GEL 16.45, respectively, up from GEL (0.01) in 2018.

Georgia Capital highlights – Management Accounts[1] (GEL thousands except for per share information)

Georgia Capital NAV overview[2]	Dec-19	Dec-18	Change
NAV per share, GEL[3]	46.84	44.32	5.7%
Net Asset Value (NAV)	1,753,868	1,688,221	3.9%
Total portfolio value	2,253,083	1,883,374	19.6%
Liquid assets & loans issued	363,773	605,130	-39.9%
Net debt	(493,565)	(196,915)	NMF

Georgia Capital performance[2]	FY19	FY18	Change
Total portfolio value creation	134,371	(683,209)	NMF
of which, listed businesses	*(33,937)*	*(637,780)*	*-94.7%*
of which, private businesses	*168,308*	*(45,429)*	*NMF*
Investments	*357,557*	*84,785*	*NMF*
Share buybacks	124,781	87,414	42.7%
Dividend income	122,219	72,504	68.6%
Management fee expense ratio[4]	1.8%	1.0%	0.8ppt
Net income/(loss)	71,551	(766,131)	NMF

1 Please see the pages 90 to 92 where we describe the methodology for management accounts and where we define each highlight presented in the table above.
2 Please see the NAV rollforward on page 101 in NAV Statement, where we present the drivers of change in NAV and portfolio value.
3 We calculate NAV per share in both years as NAV divided by the number of issued shares at the end of the period less unawarded shares in management trust. This represents a change from adopted approach in 2018 Annual Report, when bought back shares and unvested management shares were also deducted for calculation.
4 LTM GCAP management fee expenses expressed as a percentage of average market capitalisation during the last twelve months. Total LTM operating expenses including fund type expenses at 2.4% in FY19. FY18 expense ratio is not comparable due to incomplete year of operations for GCAP since its demerger on 29 May 2018.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Key points

- NAV per share up 5.7% to GEL 46.84 on the back of 3.9% growth in NAV and 1.7% decrease in number of shares outstanding.
  - The private businesses led to 10.1% growth in NAV per share, which was offset by 4.4% negative impact from listed businesses.
  - GEL 165 million value creation from BoG, offset by GEL 199 million decrease in the value of our holding in GHG.
  - GEL 168 million value creation in private portfolio (18.6% growth in private portfolio value), of which, value creation excluding multiple change was GEL 145 million.
  - Increase of our shareholding in GHG by 13.6% to 70.6% in exchange for 3.4 million CGEO share issuance.
  - 3.5 million CGEO shares worth GEL 125 million bought back in 2019, while 2.7 million shares were cancelled.
- Disciplined investments amounting to GEL 358 million across our portfolio lay grounds for future value creation, of which:
  - GEL 113 million capital allocation for acquisition of 13.6% equity stake in GHG.
  - GEL 40 million investment in securing high quality partnerships with three top schools with excellent management teams.
  - GEL 46 million investment in acquisition of high-quality wind and hydro assets, increasing installed capacity by 42MW to 91MW.
  - GEL 37 million invested in the development of pipeline hotels in line with the strategy to develop more than 1,000 rooms.
  - Alaverdi acquisition for GEL 16 million tripled existing wine production capacity and added 244 hectares of vineyards.
  - GEL 10 million allocation for acquisition of the second largest auto service industry player, Amboli, and successful launch of PTI.
  - Kazbegi brand acquisition for GEL 10 million, which added the top Georgian beverages brand to our beer business portfolio.
  - Entered the high growth digital services industry by acquiring the leading digital marketing agency, Redberry, for GEL 9 million.
- GEL 122 million dividends were collected from our listed and private late stage assets (GEL 72.5 million in 2018)[1].
- Consolidated IFRS cash flow from operating activities, excluding IFRS 16 impact, up 39.8% y-o-y to GEL 229 million in 2019.

1 Dividends received by Georgia Capital, referred throughout this document, were collected through JSC Georgia Capital, Georgian holding company of the Group.

Net Asset Value (NAV) Statement

Our NAV Statement breaks down NAV into its components and provides rollforward of the related changes between the reporting periods, including a snapshot of the Group's financial position at the opening and closing dates. For the detailed valuation methodology of the investments, please refer to page 95. Net asset value disclosed under the NAV Statement immaterially differs from IFRS equity value as at 31 December 2019. The methodology underlying the presentation of the NAV Statement is included on page 90.

NAV Statement

GEL thousands, unless otherwise noted	Dec-18	1. Value creation[1]	2a. Investments	2b. Buybacks	2c. Dividends	3. Operating expenses	4. Liquidity/ FX/Other	Dec-19	Change %
Listed portfolio companies									
GHG	520,332	(199,127)	112,856	–	(3,982)	–	–	430,079	-17.3%
BoG	457,495	165,190	–	–	(24,950)	–	–	597,735	30.7%
Total listed portfolio value	**977,827**	**(33,937)**	**112,856**	**–**	**(28,932)**	**–**	**–**	**1,027,814**	**5.1%**
Listed portfolio value change %		***-3.5%***	***11.5%***	***–***	***-3.0%***	***–***	***–***	***5.1%***	
Private portfolio companies									
Late stage	**628,326**	**157,009**	**698**	**–**	**(93,287)**	**–**	**–**	**692,746**	**10.3%**
Water Utility	431,017	74,953	–	–	(22,000)	–	–	483,970	12.3%
Housing Development	66,785	35,624	698	–	(59,254)	–	–	43,853	-34.3%
P&C Insurance	130,524	46,432	–	–	(12,033)	–	–	164,923	26.4%
Early stage	**271,288**	**(5,098)**	**173,287**	**–**	**–**	**–**	**–**	**439,477**	**62.0%**
Renewable Energy	61,182	–	45,618	–	–	–	–	106,800	74.6%
Hospitality and Commercial Real Estate	149,079	9,918	86,561	–	–	–	–	245,558	64.7%
Beverages	61,027	(15,016)	41,108	–	–	–	–	87,119	42.8%
Of which, wine	*56,771*	*(1,098)*	*16,369*	–	–	–	–	*72,042*	*26.9%*
Of which, beer	*4,256*	*(13,918)*	*24,739*	–	–	–	–	*15,077*	*NMF*
Pipeline	**5,933**	**16,397**	**70,716**	**–**	**–**	**–**	**–**	**93,046**	**NMF**
Education	7,071	–	49,279	–	–	–	–	56,350	NMF
Auto Service	(1,326)	17,056	10,027	–	–	–	–	25,757	NMF
Digital Services	–	–	8,790	–	–	–	–	8,790	NMF
Other	188	(659)	2,620	–	–	–	–	2,149	NMF
Total private portfolio value	**905,547**	**168,308**	**244,701**	**–**	**(93,287)**	**–**	**–**	**1,225,269**	**35.3%**
Private portfolio value change %		***18.6%***	***27.0%***	***–***	***-10.3%***	***–***	***–***	***35.3%***	
Total portfolio value (1)	**1,883,374**	**134,371**	**357,557**	**–**	**(122,219)**	**–**	**–**	**2,253,083**	**19.6%**
Total portfolio value change %		***7.1%***	***19.0%***	***–***	***-6.5%***	***–***	***–***	***19.6%***	
Net debt (2)	**(196,915)**	**–**	**(193,482)**	**(124,781)**	**72,875**	**(19,869)**	**(31,393)**	**(493,565)**	**NMF**
of which, cash and liquid funds	299,650	–	(188,842)	(124,781)	72,875	(19,869)	172,856	211,889	-29.3%
of which, loans issued	305,480	–	(4,640)	–	–	–	(148,956)	151,884	-50.3%
of which, gross debt	(802,045)	–	–	–	–	–	(55,293)	(857,338)	6.9%
Net other assets/(liabilities) (3)	1,762	–	(51,219)	–	49,344	(14,522)	8,985	(5,650)	NMF
of which, share-based compensation	–	–	–	–	–	*(14,522)*	*14,522*	–	*NMF*
Net Asset Value (1)+(2)+(3)	**1,688,221**	**134,371**	**112,856**	**(124,781)**	**–**	**(34,391)**	**(22,408)**	**1,753,868**	**3.9%**
NAV change %		***8.0%***	***6.7%***	***-7.4%***	***0.0%***	***-2.0%***	***-1.3%***	***3.9%***	
Shares outstanding	38,089,558	–	3,435,438	(4,083,025)	–	–	–	37,441,971	-1.7%
Net Asset Value per share[2]	**44.32**	**3.53**	**(0.95)**	**1.43**	**–**	**(0.90)**	**(0.59)**	**46.84**	**5.7%**
NAV per share change %		***8.0%***	***-2.1%***	***3.2%***	***0.0%***	***-2.0%***	***-1.3%***	***5.7%***	
NAV per share, listed portfolio[3]	**23.01**							**21.07**	**-8.4%**
NAV per share, private portfolio[3]	**21.31**							**25.77**	**20.9%**

NAV per share increased by 5.7% during 2019 on the back of value creation across our portfolio companies and share buybacks. The value creation and buybacks contributed by 8.0% and 3.2% to the NAV per share growth, respectively, which was partially offset by: a) 3.4 million GCAP share issuance for the acquisition of 13.6% stake in GHG (-2.1% impact); b) management platform related costs (-2.0% impact); and c) net interest expense and FX movements (-1.3% impact).

1 Please see definition in glossary.
2 Please see Note 3 on page 99.
3 NAV per share allocation across listed and private assets is calculated based on respective share in total portfolio value. 3.4 million shares issued for GHG acquisition is fully allocated to listed portfolio.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Portfolio overview

Our portfolio value was up by 19.6% to GEL 2.3 billion in 2019, reflecting 5.1% and 35.3% growth in listed and private businesses, respectively. The value of our investment in listed assets increased by GEL 50 million during 2019 on the back of: a) GEL 140 million market value increase of our investment in BoG; b) GEL 113 million investment in GHG to increase equity stake from 57% to 70.6%; c) GEL 203 million market value decrease in our 70.6% holding in GHG, and d) GEL 29 million dividends from BoG and GHG. The value of our private portfolio companies increased by GEL 320 million in 2019 reflecting GEL 168 million value creation and GEL 151 million net capital allocation from Georgia Capital.

1) Value creation

The private portfolio businesses generated GEL 168 million value for the Group in 2019 *(10% growth in NAV per share)*, as a result of the strong operating performances and uplifts in valuations from changes in the peer group multiples. However, this was partially offset by GEL 34 million negative value creation from listed assets *(-2.0% impact on NAV per share)*. BoG share price recovery during 2019 strongly supported NAV per share growth with GEL 165 million value creation *(9.8% growth in NAV per share)*. However, we had a GEL 199 million negative value creation on our investment in GHG *(-11.8% impact on NAV per share)*, as GHG share price decreased from 2.04 on 31 December 2018 to 1.23 on 31 December 2019. Our holdings of GHG equity shares increased from 57% to 70.6% on 18 December 2019 following the completion of a share exchange facility (Share Exchange Facility), whereby GCAP exchanged one share in GHG for 0.192 shares in GCAP. Further details of the transaction are available at the following link: **https://georgiacapital.ge/ir/ghg-shares**. Following the completion of the Share Exchange Facility, GCAP issued 3.4 million new shares valued at GEL 113 million for the acquisition of 13.6% equity stake in GHG.

The table below summarises value creation drivers in our businesses in 2019:

Portfolio businesses *GEL thousands*	Operating performance (1)	Greenfields (2)	Multiple change and FX (3)	Value creation (1)+(2)+(3)
Listed				(33,937)
GHG				(199,127)
BoG				165,190
Private	**109,745**	**34,961**	**23,602**	**168,308**
Late stage	**136,926**	**–**	**20,083**	**157,009**
Water Utility	78,954	–	(4,001)	74,953
Housing Development	35,624	–	–	35,624
P&C Insurance	22,348	–	24,084	46,432
Early stage	**(27,181)**	**18,564**	**3,519**	**(5,098)**
Renewable Energy	–	–	–	–
Hospitality and Commercial Real Estate	(8,646)	18,564	–	9,918
Beverages	(18,535)	–	3,519	(15,016)
of which, wine	*(4,617)*	–	*3,519*	*(1,098)*
of which, beer	*(13,918)*	–	–	*(13,918)*
Pipeline	**–**	**16,397**	**–**	**16,397**
Education	–	–	–	–
Auto Service	–	17,056	–	17,056
Digital Services	–	–	–	–
Other	–	(659)	–	(659)
Total portfolio	**109,745**	**34,961**	**23,602**	**134,371**

Listed businesses

GHG continued to deliver a strong operating performance in 2019 with EBITDA increasing 16.6%[1] y-o-y in 2019. GHG improved its adjusted return on invested capital, from 13.9% to 14.9%, and posted 25.7% y-o-y growth[2] in operating cash flow generation in 2019. A substantially reduced investment programme was reflected in a positive free cash flow generation of GEL 77 million in 2019 (up from GEL 14 million in 2018). Georgia Capital received a GEL 4.0 million dividend payment from GHG on 12 July 2019. The strong operating performance was not reflected in GHG's share price, which retreated from GBP 2.04 at 31 December 2018 to GBP 1.23 at 31 December 2019. As a result, we had a GEL 199 million negative value creation on our investment in GHG. GHG's public announcement on FY19 performance is available at **http://ghg.com.ge/financial-results**.

BoG's share price recovered during 2019 by 18.0% to GBP 16.25 at 31 December 2019 leading to GEL 140 million increase in the market value of the Group's equity stake in BoG. In June 2019, we received GEL 25.0 million dividend payment from BoG. As a result, aggregate value creation from BoG investment was GEL 165 million in 2019. BoG's public announcement on FY19 performance is available at **https://bankofgeorgiagroup.com/results/earnings**.

1 Excluding IFRS 16 impact.
2 Water supply and sanitation.

Private late stage businesses

The 14.0% increase in **Water Utility's** LTM EBITDA contributed to approximately GEL 99.3 million growth in Enterprise Value (EV), which was partially offset by GEL 46.3 million net debt widening. Strong cash flow generation and operating performance enabled business to pay GEL 22.0 million dividend in 2019, which was reduced y-o-y. While the recent investment in infrastructure and water supply network modernization are expected to positively affect the tariff-setting process. The scheduled WSS1 tariff revision for the upcoming 3-year regulatory period effective from 1 January 2021 dictated prudence in setting the dividend. The valuation was slightly affected by a negative GEL 4 million effect from the multiple decrease from 8.84 at 31 December 2018 to 8.80 at 31 December 2019. As a result, GEL 75.0 million equity value was created in 2019.

Housing Development is valued at GEL 43.9 million using discounted cash flow method. Following the receipt of construction permit for its largest residential project, Digomi, together with the strong project pipeline, expected cash inflows were increased, leading to GEL 35.6 million in value creation. Construction works commenced on 1 July 2019 and the business already reached 76.9% sales progress in the first stage of Digomi project. Completion of earlier projects and strong sales allowed the business to make a GEL 59.3 million dividend distribution in 2019, up from GEL 10 million last year.

The 7.3% increase in **P&C Insurance's** LTM net income resulted in GEL 12 million increase in fair value, while the multiple increase from 7.4 to 9.0 generated GEL 24.1 million in value. Multiples improved significantly across all peer group companies during 2019. P&C Insurance paid a dividend of GEL 12.0 million in 2019 on the back of strong cash flow generation and stable operating performance. As a result, GEL 46.4 million value was created in 2019.

Private early stage businesses

Renewable Energy has successfully commissioned its first hydro power plant in 1H19, which is still carried at cost in the NAV Statement. The 50MW Mestiachala HPPs posted GEL 12.6 million EBITDA since the launch in April 2019, of which, GEL 10.0 million represents the expected insurance reimbursement for business interruption due to flood damage discussed on page 115. We expect that value creation from Mestiachala HPPs will be reflected in the NAV over the coming quarters, as the hydro demonstrates stabilised performance and cash flow generation following the full recovery from the flood damage.

Hospitality and Commercial Real Estate created GEL 9.9 million value during 2019. The business recorded GEL 18.6 million revaluation gain from the first-time revaluation of greenfield hotels and commercial assets, which was partly offset by GEL 8.6 million decrease in NAV due to the increased operating expenses for development of pipeline hotels. Our new hotel in the ski and mountain resort Gudauri was opened on 13 December 2019, and the business is working on two new Tbilisi hotels: we plan to open the Ramada Melikishvili in 1H20 and follow with the Kempinski hotel in 2H20. The December 31, 2019 NAV growth also reflects a GEL 49.3 million addition of commercial space (ground floors in completed residential projects) allocated to Hospitality and Commercial Real Estate from Housing Development. The properties were valued at c.10% yield in USD terms.

The **wine** business continued to progress in line with its strategic priorities, delivering a 44% topline growth. However, the continued investment in export market diversification together with integration costs of the Kindzmarauli and Alaverdi acquisitions drove GEL 4.6 million negative impact from operating performance. The multiple increase from 9.1 to 10.0 added GEL 3.5 million value and as a result, value creation was negative GEL 1.1 million in 2019. The business expects to continue extracting synergies from Kindzmarauli and Alaverdi and to benefit from export market diversification in the coming quarters. The Alaverdi winery, which added 244 hectares of vineyards and tripled the business's production capacity, is carried at its acquisition price.

The **beer** business performance was negatively affected by delays in launching Heineken brands, and had a negative GEL 13.9 million impact on value creation. The 67.9% increase in LTM normalised[2] revenue drove GEL 43.0 million increase in Enterprise Value, which was offset by GEL 22.3 million net debt widening and GEL 14.6 million capital allocation from Georgia Capital to finance working capital needs. Operating performance began to improve significantly in 2H19, while all Heineken brands have been launched from July, and the beer EBITDA was at break-even level in 2H19.

Pipeline businesses

Auto Service combines our vehicle technical inspection business valued at GEL 20.7 million and our Amboli auto service business valued at its acquisition price of GEL 5.0 million at 31 December 2019. Periodic technical inspection became mandatory in Georgia in 2H18 and the business successfully launched 26 PTI centres in March 2019, while managing to generate GEL 3.3 million EBITDA in 2019. At 31 December 2019, the periodic technical inspection business was valued using EBITDA earnings of GEL 6.7 million[3] and an EV/EBITDA multiple of 10.4, resulting in the GEL 20.7 million valuation. As the greenfield business has demonstrated stable performance, a GEL 17.1 million value was created from the revaluation in 2019 on top of the GEL 5.0 million capital allocated from Georgia Capital.

The **Education** business and the **Digital Services** business are carried at acquisition prices at 31 December 2019. We expect that value creation from recent acquisitions will be reflected in NAV Statement over the coming quarters.

We continued the research and evaluation of new investment opportunities, while GEL 0.7 million feasibility costs were expensed during 2019, representing a negative value creation on **Other** pipeline projects.

1 Water supply and sanitation.
2 Normalised for annualisation of revenues from newly launched brands.
3 Combination of the last six months and the next six months earnings.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

2) Investments

During 2019, we invested GEL 358 million across our portfolio, of which, GEL 113 million was invested in listed businesses, GEL 173 million was invested in early stage portfolio companies and GEL 71 million in the pipeline businesses. The following capital allocation decisions were made during 2019:

- GEL 113 million capital was used for the acquisition of 13.6% holding in **GHG** as part of Share Exchange Facility.
- GEL 45.6 million was allocated to **Renewable Energy** in 2019 for the acquisition of Hydrolea HPPs (GEL 29.5 million) and Qartli WPPs (GEL 12.6 million), while GEL 3.5 million was allocated for the development of pipeline HPPs and WPPs.
- GEL 37.3 million cash capital was allocated to **Hospitality and Commercial Real Estate** for development of pipeline hotels, while we also allocated finished commercial properties of GEL 49.3 million valued at c.10% yield in USD terms.
- GEL 16.4 million was allocated to **Wine** for the acquisition of Alaverdi winery.
- GEL 10.1 million was invested in **Beer** for the acquisition of prominent beverages brand Kazbegi. We also allocated GEL 14.6 million to finance working capital needs.
- GEL 49.3 million was allocated to **Education** in 2019. GEL 39.7 million was invested in securing high quality partnerships with three top schools with excellent management teams. GEL 1.3 million was allocated for the existing land development, GEL 2.3 million was used to acquire new land for a premium school development and GEL 5.2 million was used to acquire new land for a mid-level school development.
- GEL 10 million was allocated to **Auto Service**, of which GEL 5 million was for the launch of PTI business. In addition, GEL 3.4 million was used to acquire an 80% equity stake in Amboli and GEL 1.6 million was an additional pro-rata equity capital injection into Amboli to fund the growth of the business.
- GEL 9 million was allocated to **Digital Services**, of which, GEL 1.2 million was for the acquisition of Redberry and GEL 7.6 million was an additional equity capital injection to fund the business growth.
- GEL 2 million capital was invested in the research and evaluation of new investment opportunities.

3) Dividends

Georgia Capital recorded GEL 122 million dividends in 2019, of which, GEL 29 million were from listed assets and GEL 93 from late stage businesses: BoG – GEL 25.0 million, GHG – GEL 4.0 million, P&C Insurance – GEL 12 million, Water Utility – GEL 22.0 million and Housing Development – GEL 59.3 million.

Valuations of our holdings in portfolio companies reflecting value creation and capital allocation activities discussed above are summarised in the following table. The table also shows multiples applied at year-end 2019 and 2018:

GEL thousands, unless otherwise noted	Valuation method	Fair value 31-Dec-19	Fair value 31-Dec-18	Change	Change %	Multiple[1] 31-Dec-19	Multiple[1] 31-Dec-18
Listed portfolio *(1)*		**1,027,814**	**977,827**	**49,987**	**5.1%**		
GHG	Public markets	430,079	520,332	(90,253)	-17.3%	–	–
BoG	Public markets	597,735	457,495	140,240	30.7%	–	–
Private portfolio *(2)=(a)+(b)+(c)*		**1,225,269**	**905,547**	**319,722**	**35.3%**		
Private late stage portfolio *(a)*		**692,746**	**628,326**	**64,420**	**10.3%**		
Water Utility	EV/EBITDA LTM[2]	483,970	431,017	52,953	12.3%	8.8	8.8
Housing Development	Discounted Cash Flows	43,853	66,785	(22,932)	-34.3%	N/A	N/A
P&C Insurance	P/E (LTM)	164,923	130,524	34,399	26.4%	9.0	7.4
Private early stage portfolio *(b)*		**439,477**	**271,288**	**168,189**	**62.0%**		
Renewable Energy	At acquisition price	106,800	61,182	45,618	74.6%	N/A	N/A
Hospitality and Commercial Real Estate	NAV[3]	245,558	149,079	96,479	64.7%	N/A	N/A
Beverages – wine[4]	EV/EBITDA (LTM)	72,042	56,771	15,271	26.9%	10.0	9.1
Beverages – beer	EV/Sales (LTM)	15,077	4,256	10,821	NMF	2.2	2.2
Private pipeline *(c)*		**93,046**	**5,933**	**87,113**	**NMF**		
Education	At acquisition price	56,350	7,071	49,279	NMF	N/A	N/A
Auto Service	EV/EBITDA[5,6]	25,757	(1,326)	27,083	NMF	10.4	N/A
Digital Services	At acquisition price	8,790	–	8,790	NMF	N/A	N/A
Other	At cost	2,149	188	1,961	NMF	N/A	N/A
Total portfolio value *(3)=(1)+(2)*		**2,253,083**	**1,883,374**	**369,709**	**19.6%**		

1 Multiples are rounded to one decimal points.
2 LTM refers to Last Twelve Months, NTM refers to Next Twelve Months.
3 NAV for the hospitality and commercial real estate business refers to IFRS 13 FV measurement methodology.
4 LTM EBITDA used for wine business valuation includes distribution business.
5 Combination of the last six months and the next six months earnings.
6 Amboli, a recently acquired auto service industry player, is stated at acquisition price.

Net debt overview

Net debt increased by GEL 297 million to GEL 494 million in 2019, where the increase was driven primarily by GEL 125 million share buybacks and by net GEL 121 million cash investments. GCAP cash operating expenses of GEL 20 million, foreign exchange loss of GEL 21 million and Share Exchange Facility transaction costs of GEL 6 million also contributed to the widening of Net Debt.

1) Investments and dividends

During 2019, GEL 358 capital was invested across our portfolio companies, of which GEL 194 million was cash capital allocation, GEL 113 million was share capital allocation and GEL 49 million was commercial real estate spaces allocation to the commercial real estate business, as described earlier in this report. Further, GEL 73 million cash dividends were collected from our portfolio companies. As a result, net increase in net debt from net cash investments was GEL 121 million.

2) Buybacks

During 2019, 3.5 million shares were bought back for total cash consideration of GEL 125 million (US$ 43.8 million), of which, 2.1 million shares were bought under the share buyback programme and 1.4 million shares for the management trust. GCAP cancelled 2.7 million shares bought back under the completed US$ 45 million share buyback programme, transferred 0.7 million shares from treasury to the management trust and issued 0.7 million shares for share compensation awards in respect of FY18 services. The buyback and cancellation *(3.2% growth in NAV per share)* together with issuance of 3.4 million shares *(-2.1% impact on NAV per share)* drove a 1.7% decrease in the number of outstanding shares during 2019. Please see the detailed rollforward of changes in the number of outstanding shares on page 122.

Below we describe the components of net debt as at 31 December 2019 and at 31 December 2018:

GEL thousands, unless otherwise noted	31-Dec-19	31-Dec-18	Change
Cash at banks	118,458	142,284	-16.7%
Internationally listed debt securities	69,712	129,295	-46.1%
Locally listed debt securities	23,719	28,071	-15.5%
Loans issued	151,884	305,480	-50.3%
Total Cash and liquid funds (a)	**363,773**	**605,130**	**-39.9%**
Gross Debt (b)	**(857,338)**	**(802,045)**	**6.9%**
Net debt (a)+(b)	**(493,565)**	**(196,915)**	**NMF**

Cash and Liquid Funds

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 2019, cash and liquid funds were allocated in internationally and locally listed debt securities. Internationally listed debt securities include Eurobonds issued by Georgian corporates. Locally listed debt securities are local bonds issued by Georgian corporates, which are listed and traded on the Georgian Stock Exchange.

At 31 December 2019, loans issued primarily refer to the following facilities: (i) a GEL 49.7 million (US$ 17.3 million) to the housing development business; (ii) a GEL 28.8 million (US$ 10.0 million) loan to the hospitality and commercial real estate business; (iii) a GEL 35.7 million (US$ 12.4 million) loan to the renewable energy business and (iii) a GEL 34.4 million (US$ 12.0 million) loan issued to the BoG holding company as part of the demerger, maturing in March 2020. During 2019 we collected GEL 199 million net cash from the repayment of our high quality loans issued to portfolio companies, leading to a 50% decrease in issued loan balance.

Gross Debt

At 31 December 2019, the outstanding balance of US$ 300 million six-year Eurobonds due in March 2024 was GEL 857 million, reflecting foreign exchange loss of GEL 57 million from GEL depreciation against USD during 2019[1]. Gross debt balance further increased by GEL 55 million coupon accrual[1], which was offset by GEL 57 million coupon payment[1] in 2019.

1 FX, coupon payment and coupon accrual are included in Liquidity Management/FX/Other column in NAV Statement.

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Income statement (Management Accounts)

The management P&L is an aggregation of: a) GCAP's stand-alone P&L and b) fair value change in the value of portfolio companies during the reporting period. For details on the methodology underlying the preparation of management account income statement, please refer to page 90 in this report.

Income statement

GEL thousands, unless otherwise noted	FY19	FY18[1]	Change
Dividend income	122,219	72,504	68.6%
Interest income	39,044	35,282	10.7%
Realised/unrealised (loss)/gain on liquid funds	9,547	(5,984)	NMF
Interest expense	(55,071)	(44,711)	23.2%
Gross operating income	**115,739**	**57,091**	**NMF**
Operating expenses	(34,391)	(18,689)	84.0%
GCAP net operating income	**81,348**	**38,402**	**NMF**
Fair value changes of portfolio companies			
Listed portfolio companies	**(62,869)**	**(661,655)**	**-90.5%**
Of which, Georgia Healthcare Group PLC	(203,109)	(413,148)	-50.8%
Of which, Bank of Georgia Group PLC	140,240	(248,507)	NMF
Private portfolio companies	**75,021**	**(94,058)**	**NMF**
Late stage	**63,722**	**(86,944)**	**NMF**
Of which, Water Utility	52,953	(67,164)	NMF
Of which, Housing Development	(23,630)	(8,824)	NMF
Of which, P&C Insurance	34,399	(10,956)	NMF
Early stage	**(5,098)**	**(6,682)**	**-23.7%**
Of which, Renewable energy	–	4,700	NMF
Of which, Hospitality and Commercial Real Estate	9,918	40,515	-75.5%
Of which, Beverages	(15,016)	(51,897)	-71.1%
Pipeline businesses	**16,397**	**(432)**	**NMF**
Of which, Auto Service	17,056	(1,326)	NMF
Of which, other	(659)	894	NMF
Total investment return	**12,152**	**(755,713)**	**NMF**
Income before foreign exchange movements and non-recurring expenses	**93,500**	**(717,311)**	**NMF**
Net foreign currency loss	(20,967)	(25,371)	-17.4%
Non-recurring expenses	(982)	(23,449)	NMF
Net income	**71,551**	**(766,131)**	**NMF**

1 In line with the change to disclose private businesses at fair value instead of book value in the NAV Statement from FY18 results announcement, Georgia Capital is presenting the performance of each portfolio company in its management income statement on fair value basis starting from 1H19 results announcement. y-o-y performance has not been discussed in details, as management believes that FY18 is not directly comparable and the y-o-y comparison is not useful for users.

Georgia Capital generated *Gross operating income* of GEL 115.7 million in 2019 on the back of strong dividend inflows, as discussed above in this report. Georgia Capital earned an average yield of 7.6% on the liquid assets and issued loans in 2019, of which 9.6% was earned on the loans issued and 5.4% on the liquid funds. The coupon on the US$ 300 million bond, issued in March 2018, is 6.125%. As a result, GEL 6.5 million of *net interest expense* was recorded during 2019 at GCAP level. The table below summarises net interest expense components for 2019 and 2018:

GEL thousands, unless otherwise noted	FY19	FY18	Change
Interest income	39,044	35,282	10.7%
Of which, interest income on loans issued	*23,611*	*20,300*	*16.3%*
Of which, interest income on liquid funds	*15,433*	*14,982*	*3.0%*
Realised/Unrealised gains on liquid funds	9,547	(5,984)	NMF
Interest expense	(55,071)	(44,711)	23.2%
Net interest expense	**(6,480)**	**(15,413)**	**-58.0%**

GCAP management fee expenses have a targeted cap of 2% of Georgia Capital's market capitalisation. LTM management fee expense ratio was 1.8% at 31 December 2019. Total LTM operating expense ratio including fund type expenses was 2.4% in 2019. FY18 expense ratio is not comparable due to incomplete year of operations for GCAP since its demerger on 29 May 2018. The components of GCAP's operating expenses are presented in the table below:

GEL thousands, unless otherwise noted	FY19	FY18	Change
Administrative expenses[1]	(11,542)	(5,717)	NMF
Management expenses – cash-based[2]	(8,327)	(5,331)	56.2%
Management expenses – share-based[3]	(14,522)	(7,641)	90.1%
Total operating expenses	**(34,391)**	**(18,689)**	**84.0%**
Of which, fund type expense4	*(8,488)*	*(4,337)*	*95.7%*
Of which, management fee	*(25,903)*	*(14,352)*	*80.5%*

Total investment return represents the increase/(decrease) in the fair value of our portfolio. Total investment return of GEL 12 million and dividend income of GEL 122 million together led to GEL 134 million value creation in 2019 as presented in the NAV Statement. Investment return in 2018 was negatively impacted by adverse global market conditions at year-end and amounted to negative GEL 756 million. The reconciliation of FY19 value creation with NAV Statement is provided on page 122. We discuss valuation drivers for each business on pages 102 to 104 and the performance of private businesses is discussed on pages 108 to 121.

The Group's *net income* is then driven by net foreign currency loss during 2019. GCAP incurred a net foreign currency loss of GEL 20.9 million in 2019 from GEL devaluation against US dollar due to its net foreign currency liability balance amounting to c.US$ 192 million (GEL 550 million) at 31 December 2019, i.e. difference between foreign currency denominated financial assets and financial liabilities. As a result of the movements described above, *net income* was GEL 71.6 million in 2019.

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 and staff.
4 Fund type expenses include expenses such as audit fees, fees for legal advisors, Board compensation and corporate secretary costs.

FINANCIAL REVIEW CONTINUED

IFRS RESULTS/BUSINESS DEVELOPMENT – INDIVIDUAL BUSINESS UNITS/SEGMENTS

The following sections present the IFRS results and business development derived from our IFRS accounts for each of the late stage and early stage portfolio companies. For the pipeline companies we present information on the investments and where available business development.

Water Utility

INCOME STATEMENT HIGHLIGHTS[1] *(GEL thousands, unless otherwise noted)*	FY19	FY18	Change
Revenue	**163,454**	**149,127**	**9.6%**
Water supply	133,284	131,814	1.1%
Energy	20,216	9,052	NMF
Other	9,954	8,261	20.5%
Operating expenses	**(61,054)**	**(60,718)**	**0.6%**
Provision for doubtful trade receivables	(7,325)	(5,033)	45.5%
EBITDA	**95,075**	**83,376**	**14.0%**
EBITDA margin	*58.2%*	*55.9%*	*2.3ppts*
Depreciation and amortisation	(31,188)	(23,681)	31.7%
Net interest expense	(24,184)	(14,086)	71.7%
Net non-recurring expenses	1,104	(6,121)	NMF
Foreign exchange (loss)/gain	(7,586)	(4,970)	52.6%
Net profit	**33,221**	**34,518**	**-3.8%**

CASH FLOW HIGHLIGHTS[1]	FY19	FY18	Change
Cash flow from operating activities before maintenance capex	**98,973**	**81,586**	**21.3%**
Maintenance capex	(22,580)	(22,541)	0.2%
Cash flow from operating activities	**76,393**	**59,045**	**29.4%**
Cash flow used in investing activities	**(59,559)**	**(125,091)**	**-52.4%**
Of which, development capex (net of VAT)	*(67,910)*	*(133,652)*	*-49.2%*
Free cash flow[2]	**16,834**	**(66,044)**	**NMF**
Cash flow from financing activities	**(3,314)**	**19,303**	**NMF**
Net Proceeds from borrowings	*48,659*	*70,890*	*-31.4%*
Dividends paid out	*(22,000)*	*(28,840)*	*-23.7%*
Cash ending balance	**26,581**	**13,713**	**93.8%**

BALANCE SHEET HIGHLIGHTS[1]	FY19	FY18	Change
Total assets	**591,036**	**514,418**	**14.9%**
Property, plant and equipment	522,702	461,385	13.3%
Trades and other receivables	22,357	19,657	13.7%
Cash balance	26,581	13,713	93.8%
Total liabilities	**432,741**	**368,781**	**17.3%**
Long-term borrowings	353,021	300,076	17.6%
Total equity	**158,295**	**145,637**	**8.7%**

Key Highlights *(GEL millions, unless otherwise noted)*	FY19	FY18	change
Revenue	163.5	149.1	9.6%
EBITDA	95.1	83.4	14.0%
Development capex	67.9	133.7	-49.2%
Maintenance capex[3]	22.6	22.5	0.2%
FCF	16.8	(66.0)	NMF
Cash from operations	99.0	81.6	21.3%
Net debt	352.4	306.5	15.0%

Key performance metrics *(GEL millions, unless otherwise noted)*	31 December 2019
Net investment	131.5
2019 dividend	22.0
ROIC[4]	12.5%
MOIC[4]	2.6x
IRR[4]	30.7%

1 Prior period financial statements were restated due to transition to cost model.
2 Free cash flow is calculated as follows: cash flow from operating activities less cash used in investing activities.
3 Capex figures are stated including VAT.
4 Please see definitions on page 255.

Key points

- 9.6% growth in FY19 revenues primarily driven by increased electricity sales.
- FY19 energy revenue more than doubled y-o-y, reflecting 64.4% increase in the average electricity sales price.
- Positive operating leverage of 9.0 ppts in 2019 drove 14.0% growth in EBITDA.
- Outstanding collection rates and positive operating leverage drive FY19 operating cash flow up 21.3%.
- Development capex down significantly by 49.2% and FCF was positive at GEL 16.8 million in 2019.

Income statement highlights

The 9.6% growth in FY19 water utility revenues was primarily driven by increased electricity sales, which more than doubled y-o-y and amounted to GEL 20.2 million. The solid growth in electricity sales reflects significant improvements in average electricity sales price (up from 6.9 Tetri/KWh to 11.3 Tetri/KWh) and continued savings in Water Utility's self-produced electricity consumption. Over the last four years the business reduced self-produced electricity consumption by 45.5% from 319 million KWh in 2015 to 174 million KWh in 2019 (down by 9.9% y-o-y in 2019). Electricity market deregulation, effective from May 2019, had an immediate impact on electricity sales prices and is anticipated to positively affect revenue streams from electricity sales going forward. Growth in top-line was also supported by increased water supply revenues (up 1.1% y-o-y) mainly on the back of strong business activity across various industries. Continued efficiency improvements were reflected in positive operating leverage of 9.0 ppts in 2019, leading to 14.0% y-o-y growth of FY19 EBITDA to GEL 95.1 million.

Net interest expense was up 71.7% y-o-y in 2019 in line with increased leverage during 2H18 to finance capital expenditures. The average balance of borrowings increased from GEL 284 million in 2018 to GEL 348 million in 2019. Foreign exchange losses of GEL 7.6 million in 2019 reflect the currency translation impact of GEL depreciation against the Euro. GGU recorded losses on its unhedged position of GEL 126.4 million in Euros at 31 December 2019. As a result, Water Utility profit was GEL 33.2 million in 2019 (down by 3.8% y-o-y).

Balance sheet highlights

The 13.3% increase in property, plant and equipment in 2019, was primarily due to development works on water utility infrastructure carried out during the year in order to upgrade the network. Such efficiency programmes have a dual effect of reducing own electricity consumption and increasing third party electricity sales. Additionally, regulated capex is included in the Regulated Asset Base, used by the regulator to calculate fair return on investment. Development capex substantially decreased during the year by 49.2%, following the completion of privatisation obligations in 1H19. The increase in total liabilities is due to increased borrowings obtained from financial institutions to support capital expenditures.

Water Utility switched from fair value measurement of its property plant and equipment to cost model based on international best practices, in order to better align IFRS treatment of PPE with regulatory accounting principles. Comparative periods were also retrospectively restated.

Cash flow highlights

FY19 operating cash flow was up by 21.3% to GEL 99.0 million on the back of stronger EBITDA and outstanding water supply receivable collection rates. During 2019, the collection rates for legal entities and households were 99% and 94%, respectively. On top of improved operating cash, the development capex almost halved and free cash flow was positive GEL 16.8 million in 2019 (up from negative GEL 66.0 million in 2018). In 2019 Water Utility distributed dividends in amount of GEL 22.0 million.

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Housing Development

INCOME STATEMENT HIGHLIGHTS *(GEL thousands, unless otherwise noted)*	FY19	FY18[2]	Change
Gross profit from apartments sale[3]	7,611	15,882	-52.1%
Gross profit from construction services	7,601	5,334	42.5%
Gross real estate profit	**15,794**	**21,373**	**-26.1%**
Revaluation of commercial property	–	5,524	NMF
Operating expenses	**(19,260)**	**(10,903)**	**76.6%**
EBITDA	**(3,466)**	**15,994**	**NMF**
Profit/(loss)	**(16,796)**	**2,167**	**NMF**

CASH FLOW HIGHLIGHTS			
Net cash flows from operating activities	(8,948)	(10,154)	11.9%
Net cash flows used in investing activities	(12,439)	(13,691)	-9.1%
Net cash flows from financing activities	27,197	16,595	63.9%
Net proceeds from borrowings & debt securities issued	*57,647*	*(850)*	*NMF*
Cash, ending balance	**15,602**	**10,467**	**49.1%**

BALANCE SHEET HIGHLIGHTS	Dec-19	Dec-18[2]	Change
Total assets	**223,735**	**248,609**	**-10.0%**
Land bank	1,552	8,722	-82.2%
Inventories	97,075	102,923	-5.7%
Total liabilities	**228,392**	**183,236**	**24.6%**
Deferred income	27,792	23,295	19.3%
Total equity	**(4,657)**	**65,373**	**NMF**

Key highlights *(GEL millions, unless otherwise noted)*	2019	2018[3]	Change
Revenue	117.7	132.4	-11.1%
Gross real estate profit	15.8	21.4	-26.1%
EBITDA	(3.5)	16.0	NMF
Development capex	17.2	13.7	25.5%
Maintenance capex	–	–	NMF
FCF	(21.4)	(23.8)	10.1%
Cash from operations	(8.9)	(10.2)	11.9%
Net debt	160.8	107.2	50.0%

Key performance metrics *(GEL millions, unless otherwise noted)*	31 December 2019
Net investment	(59.4)
2019 dividend	59.3
MOIC[1]	2.1x
IRR[1]	16.3%

1 Please see definition on page 255.
2 In line with new requirements under IFRS, starting from 2019 the Group ceased capitalisation of borrowing costs to cost of inventory (represented by residential apartments) from the moment when such properties become available for sale. Comparative periods were respectively restated.
3 Revenue from apartment sales is recognised over time based on the IFRS construction progress (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 the apartment selling price to recognise revenue from apartment sales.

Key points

- The largest in-house residential project Digomi is gaining momentum.
  - Construction permit received at the end of June 2019, driving significant growth in 2H19 gross profit.
  - Sales progress on the first stage reached 77% of total saleable area.
  - Apartment pre-sales for the second stage started in December 2019.
- GEL 59.3 million dividend was distributed in 2019.
- A masterplan brief was approved for the largest franchise deal – c.2,500 apartments to be delivered in 5 years.

Income statement highlights

The Housing Development gross profit from apartment sales fluctuates with the cycle of projects and strength of demand in the market for affordable housing.

Housing Development successfully completed one residential project in 2019, reaching in total 10 completed projects and 2,855 completed apartments with 100% sales progress. For most of 2019, and in the medium term, however, the largest driver of the cycle of our projects was and will be the Digomi project, which is currently our only ongoing housing project. Digomi is our largest ever in-house residential project, with an aggregate c.132,000 sq.m. in residential space, and also includes 35,000 sq.m. in commercial space. The project is being developed in three stages. Stage I involves 22,089 sq.m. of residential space. Stage II will add 47,167 sq.m. in residential space to Housing Development's inventory. Stage III is the largest, with more than 63,014 sq.m. in residential space. A delay in receiving the construction permit from Tbilisi City Municipality delayed the project's launch by several months and slowed the planned momentum of our project cycle. Construction works for Stage I finally commenced in July 2019. The project is expected to be completed in 2023.

With the permit finally approved at the end of June 2019, continued healthy market conditions meant that the Digomi project contributed to the significant growth in 2H19 gross profit (more than doubled h-o-h and up by 8.4% y-o-y to GEL 11.0 million). The Digomi project's sales progress reached 77% of total sellable area in Stage I where 16,980 sq.m., with US$ 18 million value has been sold in 2019. However, the business recognised only US$ 5.0 million sales revenue, in line with the IFRS construction progress of the project. In December 2019, Housing Development started apartment pre-sales for the second stage of Digomi which adds an estimated US$ 53 million sales value to the Housing Development's inventory. The pre-sales for Stage III (the largest), are expected to kick in from 4Q20.

FY19 gross real estate profit was strongly supported by the construction segment, which generated gross profit of GEL 7.6 million in 2019, up 42.5% y-o-y. Construction fees were mainly driven by six on-going hotel projects during the year in the hospitality business and by two third-party 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.

FY19 operating expenses increased by 76.6% y-o-y to GEL 19.3 million and resulted in negative FY19 EBITDA of GEL 3.5 million. The operating expenses include upfront costs for the new projects. The increase reflects continued growth of the company, while anticipating to launch the residential and construction projects in the pipeline.

Balance sheet highlights

Total assets decreased by 10.0% in 2019, mainly reflecting GEL 59.3 million dividend distribution to Georgia Capital.

Cash flow highlights

Following commencement of construction the Digomi project, Housing Development generated GEL 7.8 million operating cash flow in 2H19. However, FY19 operating cash flow was negative GEL 8.9 million due to low levels of inventory in 1H19. In November 2019, Housing Development has successfully placed US$ 35 million of a 3-year bonds into the local market with an annual coupon rate of 7.5%. The proceeds from placement were used to refinance existing US$ 25 million local bonds issued in 2016. The remaining proceeds were earmarked to finance the development of Digomi project, where cash collection was lower than expected at 42%, negatively impacted by construction permit delay.

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Property & Casualty Insurance

INCOME STATEMENT HIGHLIGHTS *(GEL thousands, unless otherwise noted)*	FY19	FY18	Change
Earned premiums, net	75,339	67,488	11.6%
Insurance claims expenses, net	(31,310)	(25,748)	21.6%
Acquisition costs, net	(12,212)	(9,520)	28.3%
Net underwriting profit	**31,817**	**32,220**	**-1.3%**
Net investment profit	7,769	3,988	94.8%
Operating profit	**21,242**	**20,586**	**3.2%**
Net non-recurring items	–	(652)	NMF
Pre-tax profit	**20,995**	**20,072**	**4.6%**
Income tax expense	(2,670)	(2,990)	-10.7%
Net profit	**18,325**	**17,082**	**7.3%**
CASH FLOW HIGHLIGHTS			
Net cash flows from operating activities	19,521	20,940	-6.8%
Net cash flows used in investing activities	(12,719)	(3,907)	NMF
Net cash flows from financing activities	(14,430)	(10,000)	44.3%
Cash, ending balance	**3,421**	**11,103**	**-69.2%**
BALANCE SHEET HIGHLIGHTS	Dec-19	Dec-18	Change
Cash and liquid funds	43,105	38,967	10.6%
Insurance premiums receivable, net	36,730	31,442	16.8%
Pension fund assets	4,868	18,931	-74.3%
Total assets	**200,274**	**145,710**	**37.4%**
Gross technical provision	100,886	45,664	NMF
Pension benefit obligations	4,868	18,932	-74.3%
Total liabilities	**137,663**	**89,572**	**53.7%**
Total equity	**62,611**	**56,138**	**11.5%**

Key highlights *(GEL millions, unless otherwise noted)*	2019	2018	Change
Earned premiums, net	75.3	67.5	11.6%
Net income	18.3	17.1	7.3%
Development capex	–	–	NMF
Maintenance capex	–	–	NMF
FCF	17.5	18.5	-5.4%
Cash from operations	19.5	20.9	-6.8%
Net debt	–	–	NMF

Key performance metrics *(GEL millions, unless otherwise noted)*	31 December 2019
Net investment	(25.9)
2019 Dividend	12.0
ROAE[1]	30.4%
MOIC[1]	19.7x

1 Please see definition on page 255.

Key points

- Border third-party liability insurance and organic business growth drive revenue up 11.6% y-o-y.
- GEL 12 million dividend was paid out on the back of strong operating cash flow generation.

Income statement highlights

The FY19 P&C insurance business revenues increased by 11.6% y-o-y as a result of growth in earned premiums from: (i) compulsory border third-party liability insurance, introduced in March 2018 (up GEL 1.5 million y-o-y); (ii) organic growth in credit life insurance (up 23.0% y-o-y); (iii) credit unemployment and property insurance (up GEL 2.3 million y-o-y); (iv) agro insurance (up GEL 0.6 million y-o-y); and (v) compulsory personal accident insurance, effective from 1 January 2019 (up GEL 0.5 million y-o-y on the back of 26,328 policies written in 2019). P&C Insurance's key performance ratios remained healthy during 2019 as noted below:

Key ratios	FY19	FY18	Change
Combined ratio	82.1%	75.5%	6.6ppts
Expense ratio	40.6%	37.3%	3.3ppts
Loss ratio	41.6%	38.2%	3.4ppts

The 6.6 percentage point y-o-y increase in the FY19 combined ratio was mostly due to increased loss ratio and higher commission rates on credit life, property and compulsory insurance. The 3.4 percentage point y-o-y increase in the FY19 loss ratio was due to increased net claim expenses, predominantly in the credit life insurance portfolio. Additionally, unusually high claims were incurred on several large contracts in motor and property insurance, among them losses caused by natural disasters. As a result, Aldagi's net income was up 7.3% y-o-y, resulting in 30.4% ROAE in 2019 (34.4% in 2018). Over the next several years, the P&C insurance business expects to build a healthier retail client portfolio in motor insurance, which is a largely untapped market with only 4% existing penetration providing significant room for growth.

Balance sheet highlights

At 31 December 2019, total assets stood at GEL 200.3 million, up 37.4% from 31 December 2018. The growth was driven by 10.6% increase in cash and liquid funds. The decrease in pension assets and pension liabilities resulted fully from new state pension regulation that came into effect from 1 January 2019. P&C Insurance's solvency ratio stood at 119% at 31 December 2019, above the required minimum of 100%.

Cash flow highlights

Operating cash flow was down 6.8% y-o-y in 2019, due to a settlement of large claim in 2H19, for which the reinsurers' share was received in prior periods. P&C Insurance paid a GEL 12 million dividend in 2019, up 20% from GEL 10 million in 2018.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Renewable Energy

INCOME STATEMENT HIGHLIGHTS (GEL thousands, unless otherwise noted)	FY19	FY18	Change
Revenue	**16,171**	**–**	**NMF**
Operating expenses	(3,081)	(769)	NMF
EBITDA	**13,090**	**(769)**	**NMF**

CASH FLOW HIGHLIGHTS			
Cash flow from operating activities	**2,784**	**(696)**	**NMF**
Cash flow used in investing activities	**(117,526)**	**(62,295)**	**88.7%**
Of which, acquisition of subsidiaries	*(88,015)*	*–*	*NMF*
Cash flow from financing activities	**140,205**	**63,228**	**NMF**
Proceeds from borrowings	*171,767*	*55,495*	*NMF*
Cash ending balance	**35,254**	**8,388**	**NMF**

BALANCE SHEET HIGHLIGHTS	Dec-19	Dec-18	Change
Total assets	**441,484**	**169,304**	**NMF**
Property, plant and equipment	340,035	114,645	NMF
Cash balance	35,254	8,388	NMF
Total liabilities	**291,987**	**75,145**	**NMF**
Total debt	274,322	70,711	NMF
Total equity	**149,497**	**94,159**	**58.8%**
Total equity attributable to GCAP	**113,000**	**61,203**	**84.6%**

Key highlights (GEL millions, unless otherwise noted)	FY19	FY18	Change
Revenue	16.2	–	NMF
EBITDA	13.1	(0.8)	NMF
Capex	117.4	62.3	88.4%
FCF	(114.7)	(63.0)	-82.1%
Cash from operations	2.8	(0.7)	NMF
Net debt	239.1	62.3	NMF

Key performance metrics (GEL millions, unless otherwise noted)	31 December 2019
Net investment	98.9
2019 dividend	–
ROIC[1]	4.3%
MOIC[1]	1.1x
IRR[1]	5.2%

1 Please see definition on page 255.

Key points

- A year of significant growth – increasing installed capacity to 91MW and progressing on the 350MW pipeline.
  - The first hydro power plants (HPP), Mestiachala HPPs launched in 1H19 on time and within budget before suffering flood damage.
  - Acquisition of Hydrolea HPPs with an aggregate 20.6MW installed capacity.
  - Acquisition of 20.7MW Qartli wind farm, the only operational wind farm in Georgia.
  - Construction works commenced on 46MW Zoti HPPs in 4Q19, expected to be operational in 2H21.
  - The Government approved the concept of 108MW wind power plant (WPP) projects, expected to be commissioned in 2H22.
- FY19 EBITDA at GEL 13.1 million with 80.9% EBITDA margin.

Income statement highlights

The Renewable Energy's FY19 revenues of GEL 16.2 million includes revenue from electricity sales of GEL 6.1 million, of which GEL 4.7 million was contributed by Mestiachala HPPs with 54.1GWh generation. The annual net generation capacity of Mestiachala HPPs is projected at approximately 171GWh on stabilised basis. Hydrolea HPPs added GEL 1.4 million to FY19 revenues on the back of 8.6GWh generation since acquisition on 29 October 2019. The remaining GEL 10.0 million revenue represents expected business interruption (BI) reimbursement by insurance company for foregone electricity sales revenues from Mestiachala HPPs during August-December. The insurance company has confirmed the amount of BI reimbursement for the year 2019 for both HPPs and is in process of remitting the funds to the business. The first phase (30MW) of Mestiachala HPPs was launched on 8 April 2019, followed by the second phase (20MW) on 4 June 2019. Total project cost was US$ 62.0 million, in line with budgeted US$ 1.2 million per MW. The HPPs were affected by flooding resulting from a rock avalanche and were taken offline in late July 2019. Operations successfully resumed at the first phase (30MW) within the expected timeline and at the originally planned generation level in December 2019. Based on the updated schedule the second phase (20MW HPP) is expected to return online in 1H21 following the comprehensive assessment of remaining restoration works. As a result, FY19 EBITDA amounted to GEL 13.1 million with 80.9% EBITDA margin.

Balance sheet highlights

In 2019, Georgia Capital continued to invest in the renewable energy business, successfully acquiring 100% equity stakes in high quality assets: Hydrolea HPPs (total consideration of GEL 66.5 million, of which GEL 29.5 million is GCAP equity) on 29 October 2019 and Qartli wind farm (total consideration of GEL 41.3 million, of which GEL 12.7 million is GCAP equity) on 15 November 2019. Hydrolea operates three HPPs with an aggregate 20.6MW installed capacity and has a greenfield 19MW HPP project, expected to be operational by the end of 2022. All of the acquired hydro and wind assets have high gross capacity factors (58% for hydro and 47% for wind on average) and benefit from guaranteed prices via Power Purchase Agreements (PPA) with the Government of Georgia for the next 8-10 years. The wind PPA has US$ 65/MWh tariff and hydro PPA prices range from 55.4 US¢/MWh to 56.6 US¢/MWh.

The 58.8% y-o-y increase in total equity is mainly driven by capital allocation from GCAP for recent acquisitions. Overall the energy business is financing the projects with up to c.30% equity contribution. In addition to recent acquisitions, the increase in total assets also reflects finalisation of construction works on Mestiachala HPPs.

Renewable Energy continues to develop its pipeline projects with targeted 350MW installed capacity in the medium term. The concept approval of Tbilisi and Kaspi WPPs represents significant milestone in the process of obtaining PPAs, expected to be finalised in the near future.

The table below summarises the indicative pipeline of the upcoming energy projects, with targeted blended ROIC of 12%:

Project	MWs	Target cost per MW, US$ millions	Target Commissioning	Gross generation capacity (GWh)	Current stage
Zoti HPPs	46	1.3	2H21	173	Under construction
Bakhvi 2 HPP	36	1.3	1H22	130	Feasibility
Racha HPPs	38	1.5	1H23	168	Feasibility
Darchi HPP	19	1.4	2H22	89	Feasibility
Wind Tbilisi	54	1.2	2H22	172	Development
Wind Kaspi	54	1.4	2H22	211	Development
Wind (other)	99	1.4	TBD	340	Feasibility
Total	**346**			**1,283**	

FINANCIAL REVIEW CONTINUED

Hospitality and Commercial Real Estate

INCOME STATEMENT HIGHLIGHTS *(GEL thousands, unless otherwise noted)*	FY19	FY18	Change
Gross profit from operating leases	6,458	4,588	40.8%
Gross profit from hospitality services	1,827	1,945	-6.1%
Gross real estate profit	**8,285**	**6,761**	**22.5%**
Revaluation of commercial property	21,676	27,621	-21.5%
Operating expenses	**(5,216)**	**(3,520)**	**48.2%**
Net operating income (NOI)	**24,745**	**30,862**	**-19.8%**
Profit	**15,823**	**25,717**	**-38.5%**
CASH FLOW HIGHLIGHTS			
Net cash flows from operating activities	3,256	5,670	-42.6%
Net cash flows used in investing activities	(100,261)	(79,444)	26.2%
Net cash flows from financing activities	87,790	87,735	0.1%
Net Proceeds from borrowings & debt securities issued	*63,243*	*96,006*	*-34.1%*
Cash, ending balance	**19,245**	**28,616**	**-32.7%**
BALANCE SHEET HIGHLIGHTS	Dec-19	Dec-18	Change
Investment property	401,216	225,343	78.0%
Land bank	*69,693*	*37,459*	*86.1%*
Commercial real estate	*331,523*	*187,884*	*76.5%*
Total assets	**462,284**	**294,833**	**56.8%**
Borrowings & debt securities issued	196,408	124,166	58.2%
Total equity	**248,497**	**159,839**	**55.5%**

Key highlights *(GEL millions, unless otherwise noted)*	2019	2018	Change
Revenue	37.6	38.5	-2.3%
Of which, revaluation	*21.7*	*27.6*	*-21.5%*
NOI	24.7	30.9	-19.8%
Development capex	100.7	72.4	39.1%
Maintenance capex	–	–	NMF
FCF	(97.0)	(73.8)	-31.4%
Cash from operations	3.3	5.7	-42.6%
Net debt	177.2	91.7	93.2%

Key performance metrics *(GEL millions, unless otherwise noted)*	31 December 2019
Net investment	193.6
2019 Dividend	–
ROIC[1]	6.5%
MOIC[1]	1.3x
IRR[1]	12.2%

1 Please see definition on page 255.

Key points

- GEL 22 million revaluation gain recorded on hotels and commercial assets.
- Progressing in line with the strategy to develop more than 1,000 hotel rooms across Georgia:
  - Gudauri Lodge Hotel was opened in December 2019 – the first in-house branded hotel, adding 121 rooms.
  - Kutaisi hotel construction commenced in 1Q19.
  - Acquired land in Zugdidi to develop a midscale internationally branded hotel with c.130 rooms by 2023.
  - Acquired land in Shovi to develop a 109-room hotel under Amber group brand by 2022.
- Expansion of the commercial real estate portfolio drives gross profit from operating leases up 40.8%.

Income statement highlights

Gross profit from operating leases increased by 40.8% y-o-y in FY19 primarily due to the expansion of the commercial real estate portfolio, supported by high occupancy levels. Georgia Capital allocated GEL 49.3 million commercial space in the completed residential projects valued at c.10% yield in USD terms. The commercial portfolio increased by 76.5% to US$ 44.9 million in 2019 (US$ 25.3 million in 2018), while occupancy level and gross income yield stood at 87.1% (90.1% in 2018) and 9.5% (9.9% in 2018), respectively. New additions to the portfolio will reach stabilised occupancy and income yield in 2020. Nearly 80% of the total commercial assets portfolio represents office and retail areas and another 20% residential and industrial spaces.

Within the hospitality business, the hotel room utilisation picked up from 44% in 2018 to 54% in 2019 in Ramada Encore hotel, our first hotel launched in March 2018. In December 2019, Amber Group opened the first in-house branded hotel "Gudauri Lodge Hotel", which added 121 operational rooms to the hospitality business portfolio. Amber Group's investment in the hotel, including the land value, totalls US$ 16.0 million.

In 2019, the business booked revaluation gain of GEL 22 million on hotels and commercial assets (valued at c.10% yield), of which GEL 8 million represents revaluation gain on under construction Kempinski hotel, expected to open in 4Q20. 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 Dec 2019, total assets amounted to GEL 462.3 million (up 56.8% from 31 December 2018) and was largely concentrated in investment property. Commercial real estate increased by 76.5% in 2019, mainly due to the allocation of finished commercial properties from Georgia Capital and construction works performed for hotels under construction. The business continued to build ground for its 1,222 hotel rooms portfolio by acquiring: an 8,964 sq.m. land plot for a total cash consideration of GEL 7.3 million in Zugdidi, a historical region in western Georgia and 7,500 sq.m. land plot for a total cash consideration of US$ 0.9 million located in Shovi, Racha – a health resort in the greater Caucasus mountain region.
The business is on track to commission two under construction hotels in 2020: Melikishvili Ramada Hotel in 2Q20 and Kempinski Hotel in 4Q20.
In 2019, Hospitality and Commercial Real Estate issued a 3-year US$ 30 million bonds into the local market with a 7.5% annual coupon rate.
The bonds are backed by rental income stream from commercial properties and the proceeds are used for on-going hotel developments.

Cash flow highlights

The first operational Ramada Encore hotel added GEL 1.9 million to FY19 operating cash flow, while contribution from rent-generating assets was GEL 6.1 million. The y-o-y decrease in FY19 operating cashflow reflects increased operating expenses due to the expected roll-out of the under-construction hotels. In 2019, the business spent GEL 101 million on capital expenditures and acquisitions of land plots for further hotel development. Amber group targets 70%:30% debt to equity leverage ratio at hotels after hotel opening and 50%:50% during construction stage.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Beverages

Wine business

INCOME STATEMENT HIGHLIGHTS *(GEL thousands, unless otherwise noted)*	FY19	FY18	Change
Revenue	42,150	29,352	43.6%
Gross profit	18,795	14,042	33.8%
Gross profit margin	*44.6%*	*47.8%*	*-3.2ppt*
Operating expenses	(10,064)	(6,891)	46.0%
EBITDA	**8,731**	**7,151**	**22.1%**
Net profit/(loss)	**1,017**	**(91)**	**NMF**
CASH FLOW HIGHLIGHTS			
Net cash flows from operating activities	2,755	98	NMF
Net cash flows from investing activities	(39,196)	(18,350)	NMF
Of which, maintenance capex	*(6,278)*	*(641)*	*NMF*
Of which, acquisition of subsidiaries	*(32,918)*	*(21,674)*	*51.9%*
Net cash flows from financing activities	33,077	23,248	42.3%
Net proceeds from borrowings	*16,525*	*24,286*	*-32.0%*
Cash, ending balance	**5,230**	**8,380**	**-37.6%**

Beer business

INCOME STATEMENT HIGHLIGHTS			
Revenue	43,628	29,308	48.9%
Gross profit	12,204	10,087	21.0%
Gross profit margin	*28.0%*	*34.4%*	*-6.4ppt*
Operating expenses	(18,654)	(23,841)	-21.8%
EBITDA	**(6,450)**	**(13,754)**	**53.1%**
Net loss	**(55,237)**	**(28,475)**	**94.0%**
CASH FLOW HIGHLIGHTS			
Net cash flows from operating activities	(13,989)	(13,846)	-1.0%
Net cash flows from investing activities	(18,614)	(10,043)	85.3%
Net cash flows from financing activities	34,285	12,826	NMF
Net proceeds from borrowings	*26,361*	*7,984*	*NMF*
Cash, ending balance	**2,543**	**1,244**	**NMF**

Wine business highlights *(GEL millions, unless otherwise noted)*	FY19	FY18	Change
Revenue	42.2	29.4	43.6%
EBITDA	8.7	7.2	22.1%
Development capex	32.9	21.7	51.9%
Maintenance capex	6.3	0.6	NMF
FCF	(36.4)	(18.3)	-98.9%
Cash from operations	2.8	0.1	NMF
Net debt	43.1	40.5	6.4%

Beer business highlights *(GEL millions, unless otherwise noted)*	FY19	FY18	Change
Revenue	43.6	29.3	48.9%
EBITDA	(6.5)	(13.8)	53.1%
Development capex	18.6	10.0	86.0%
Maintenance capex	–	–	NMF
FCF	(32.6)	(23.9)	-36.4%
Cash from operations	(14.0)	(13.8)	-1.0%
Net debt	86.4	66.8	29.3%

Key performance metrics *(GEL millions, unless otherwise noted)*	31 December 2019
Net investment	157.2
2019 dividend	–
ROIC, wine business[1]	6.2%
ROIC, beer business[1]	-15.5%
MOIC, wine business[1]	1.2x
MOIC, beer business[1]	0.2x
IRR, wine business[1]	4.8%
IRR, beer business[1]	–

Wine business

Key points

- Export sales outperforming the strong export market growth in 2019 and driving FY19 revenues up 43.6% y-o-y.
- Outstanding topline growth led to 22.1% y-o-y growth in FY19 EBITDA.
- Acquisition of Alaverdi winery added 244 hectares of vineyards and tripled annual production capacity to 28.4 million wine bottles per annum.
- FY19 operating cash flow at GEL 2.8 million (GEL 0.1 million in FY18), benefiting from decreased reliance on grape purchases.

The wine business demonstrated a robust performance in 2019, which was supported by growth in exports. Strong demand in the Georgia's export markets resulted in a 9% y-o-y increase in volume in 2019, with export bottles sold reaching a 14 year high of 93 million. With its well diversified export portfolio compared to local peer companies, our business increased its wine bottle sales by 46.5% from c.3.1 million bottles in 2018 to c.4.5 million in 2019 – well above the market growth rate. As a result, revenue increased by 43.6% y-o-y to GEL 42.2 million in 2019. FY19 revenues reflect a GEL 2.9 million revaluation gain on grapes, up 0.8% y-o-y. Revaluation gain is expected to increase next year during the harvest season in 2H20, as Alaverdi grapes were already reflected at fair value in the acquisition price in 2019.

The wine business maintained a solid gross profit margin of 44.6% in 2019 (47.8% in 2018) despite the increased purchase prices for grapes. Management expects to minimise reliance on third party wine materials and manage gross margin levels, as the business benefits from Kindzamaruli and Alaverdi acquisitions. The business continued to invest in developing new export markets during the year, which led to increased operating costs in 2019. As a result, FY19 EBITDA was up by 22.1%.

Operating cash flow increased from GEL 0.1 million in 2018 to GEL 2.8 million in 2019, reflecting decreased reliance on purchased grapes. The cash used in investing activities increased by 114% to GEL 39.2 million in 2019 mainly due to Alaverdi acquisition for the total cash consideration of GEL 32.9 million (GEL 16 million was a capital allocation from GCAP). In addition to 244 hectares of vineyards, Alaverdi also added sizable existing wine inventory materials available for immediate sale and 135 hectares of free land available for immediate vineyard development. Following Alaverdi acquisition on 19 August 2019, the business has three top class wineries across Kakheti's three wine-making regions with 704 hectares of vineyards.

Starting from 2H19 the business strengthened its management team with a new CEO. Management expects to continue to focus on its strategic priorities to enter untapped strategic export markets, diversify its product mix by portfolio premiumisation and optimise costs through increased production capacity.

1 Please see definitions on page 255.

Strategic Review Discussion of Results

FINANCIAL REVIEW CONTINUED

Beer business

Key points

- Beer business launched four new brands in 1H19, followed by the launch of Heineken in July 2019.
- Strong beer sales volumes in 3Q19, driving market share growth from 14% in 2018 to 20% in 2019.
- Beer business EBITDA at break-even level in 2H19.

During the first half of 2019, the beer business was mainly focused on launching new brands: in March the business acquired a prominent Georgian beverages brand – Kazbegi, followed by the launch of Kazbegi beer and lemonade in April. Krusovice, Amstel and a local light beer, Kayaki, three upper-mainstream segment beer brands, were also fully launched during May. In July 2019, the business achieved a significant milestone and launched locally brewed Heineken. Starting from 2H19 the beer business benefited from a full scale launch of new brands. Improved product mix allowed the business to increase beer market share from 14% to 20% in 2019 and to achieve a 58.1% y-o-y growth in 2H19 revenues. The 48.9% growth in FY19 revenues and negative GEL 6.5 million FY19 EBITDA does not reflect full year potential due to mid-year launches. FY19 revenues normalised for new brand launches would have been GEL 47.2 million, up 67.9% y-o-y. 2H19 EBITDA was at break-even level, while 2H19 revenues were up by 39.2% h-o-h to GEL 25.4 million. Operating cash flow was negative GEL 14.0 million in 2019, negatively affected by delays in launching Heineken brands. As a result, the business booked impairment loss of GEL 25.3 million in non-recurring items under IFRS. Increase in cash used in investing activities by GEL 8.6 million was mainly driven by acquisition of Kazbegi brand. In 2019, the business obtained borrowings from local banks to support growth in the HoReCa market, where it achieved leading position. Additionally, Georgia Capital provided GEL 15 million capital to finance working capital needs.

Pipeline businesses

Attractive service business – Auto Service

Georgia Capital sees strong value creation opportunity in the auto services industry, which is currently a very fragmented market with approximately GEL 2.8 billion[1] annual revenues. The leading player controls c.16% of the market, while the rest of the market is dominated by small, owner-operated lower-end service shops. The number of vehicles has grown at 7% CAGR over the last seven years, while the vast majority of vehicles in the country remains largely outdated. The attractive growth rates combined with the expected increase in customer spending due to the stricter regulatory environment make the auto service business an attractive strategic opportunity. Georgia Capital aims to build a diversified business model with a digital platform combining different auto-related services: car services and parts, secondary car trading, car insurance and periodic technical inspection (PTI).

The Group's PTI business became fully operational from March 2019 under the name of Greenway Georgia (GWG), as described in more detail below. Additionally, the Group acquired an 80% interest in Amboli, at the end of June 2019. Amboli, the second largest player on the market with approximately 1% market share, was valued at 0.7x EV/Sales. The Group paid GEL 3.4 million for the acquisition and also contributed GEL 1.6 million capital into equity (its pro rata share) to fund the business growth.

PTI Business FY19 Performance *(GEL thousands, unless otherwise noted)*

Income statement highlights	FY19
Revenue	12,917
Gross profit	**8,525**
Gross profit margin	*66.0%*
Operating expenses	(5,263)
EBITDA	**3,262**
EBITDA margin	*25.3%*
Net loss	**(5,156)**

Cash flow highlights	
Net cash flows from operating activities	2,924
Net cash flows used in investing activities	(15,076)
Net cash flows from financing activities	12,394

Balance sheet highlights	Dec-19	Dec-18	Change
PPE, net and intangible assets	50,682	37,840	33.9%
Total assets	**53,849**	**41,395**	**30.1%**
Total liabilities	**55,215**	**42,721**	**29.2%**

1 The auto service business started selling imported secondary cars, increasing total addressable market by GEL 1 billion from previously estimated GEL 1.8 billion.

As part of the Georgia-EU Association Agreement, Georgia started implementation of a mandatory vehicle inspection programme in several phases starting from January 2018. In July 2018, GWG won a state tender to launch and operate 51 periodic technical inspection lines across Georgia with a 10-year license. Technical inspection prices are set at GEL 60 and GEL 100 for light vehicles and heavy vehicles, respectively. GWG is the only player on the market with support from an international partner, Applus+, a Spain-headquartered worldwide leader in testing, inspection and certification services with a market presence in more than 70 countries.

GWG finalised construction of 26 centres (10 locations in the capital city and 16 locations in the regions) and became fully operational from March 2019. Gross profit margin was 66% and EBITDA margin stood at 25% in 2019, both expected to substantially increase on a stabilised basis in 2020. GWG serviced 342,275 cars (of which, 246,932 were primary checks) in 2019, capturing approximately 36% of current total market. The number of cars serviced in 2H19 was up 43.9% h-o-h to 201,937 cars. The PTI businesses generated GEL 3 million operating cash flow during the year. GWG invested GEL 48 million to commence its operations, of which, GEL 5 million was equity capital provided by Georgia Capital and the rest was financed by borrowings from a local financial institution.

Education – fragmented education market offers attractive opportunity for a scaled player

There are currently c.60,000 learners in private schools in Georgia, representing 10% of the total school education market. Georgia Capital expects that the private school market in Georgia will double in size over the next five years. The market is currently very fragmented, with no single player having more than 2% market share. Georgia Capital intends to create a diversified business model combining premium, mid-level and affordable school segments. The Group aims to implement a partnership model across all schools with the Group holding majority stakes. By 2025 the Group aims to generate GEL 70,000 million EBITDA with up to 30,000 learners and an additional GEL 185 million gross capital allocation.

In 2019, Georgia Capital acquired majority stakes in three leading schools: British-Georgian Academy (70% stake), the leading school in the premium segment of the market; Buckswood International School (80% stake), well-positioned in the mid-level segment; and Green School (80-90% ownership[1]), a leading player in the affordable education segment. BGA and Buckswood were acquired at a 6.4x EV/EBITDA 2020 and Green School acquisition multiple was 5.6x EV/EBITDA. We plan to increase maximum capacity of existing learners at all three schools by expanding the existing campuses and adding new ones in Tbilisi and surrounding areas.

The table below summarises the investments and expected growth pipeline in the education business:

School	Segment	Total existing and future capital allocation from GCAP	Debt/equity	GCAP ownership	Current capacity of learners	Targeted capacity of learners	Targeted cost per learner
BGA	Premium	GEL 75 million	50%	70%	800	3,200	GEL 35,000-40,000
Buckswood	Mid-level	GEL 24 million	50%	80%	760	2,980	GEL 13,000-18,000
Green School	Affordable	GEL 21 million	50%	80%-90%[1]	1,250	5,000	GEL 6,500-8,500
Total		**GEL 120 million**			**2,810**	**11,180**	

Redberry – A leading platform for investments in the digital services business

On 8 May 2019, Georgia Capital acquired a 60% equity stake in Redberry, a leading Georgian digital marketing agency. Redberry was fully owned and managed by two young Georgian entrepreneurs who will remain with the business. The total cash consideration for the acquisition was US$ 3.2 million, of which, US$ 0.4 million was used to acquire the equity stake from the existing shareholders and US$ 2.8 million capital was injected to fund business growth. To capitalise on the high growth digital sector, the Group plans to further focus on digital start-up developments by: 1) creating digital start-ups focused on Georgia, with small investment sizes of c.US$ 100 thousand per each start-up, and 2) developing digital sales channels/business lines for Georgian corporates through joint venture partnerships models.

1 80% equity stake in the current campus and 90% equity stake in three new schools that will be developed under Green School brand.

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SUPPLEMENTARY FINANCIAL INFORMATION

Number of outstanding shares overview

Below we describe the change in the number of outstanding shares during 2019:

	# of shares issued (1)	Unawarded shares in trust (2)	# of outstanding shares (1)+(2)
Opening balance at 31 December 2018	**39,384,712**	**(1,295,154)**	**38,089,558**
Buybacks*	(2,085,014)	(1,409,350)	(3,494,364)
Cancellation of prior year buybacks (held in treasury)	(565,361)	–	(565,361)
Transfer of treasury shares to management trust	–	(686,468)	(686,468)
Share compensation awards	–	663,168	663,168
Issue of shares for the acquisition of a 13.6% equity stake in GHG	3,435,438	–	3,435,438
Closing balance at 31 December 2019	**40,169,775**	**(2,727,804)**	**37,441,971**

* 2.1 million shares bought back under the programme, were cancelled in 2019. 1.4 million shares were repurchased on the market for management trust.

Value creation – reconciliation of Management Income Statement with NAV Statement

The table below summarises the reconciliation of FY19 value creation per Management Income Statement (page 106) with NAV Statement (column 1. Value creation on page 101):

	Per Management Income Statement			
GEL thousands, unless otherwise noted	Dividend income (1)	Investment return (2)	Total (1)+(2)	Per NAV Statement
Listed portfolio companies	**28,932**	**(62,869)**	**(33,937)**	**(33,937)**
Of which, Georgia Healthcare Group PLC	3,982	(203,109)	(199,127)	(199,127)
Of which, Bank of Georgia Group PLC	24,950	140,240	165,190	165,190
Private portfolio companies	**93,287**	**75,021**	**168,308**	**168,308**
Late Stage	**93,287**	**63,722**	**157,009**	**157,009**
Of which, Water Utility	22,000	52,953	74,953	74,953
Of which, Housing Development	59,254	(23,630)	35,624	35,624
Of which, P&C Insurance	12,033	34,399	46,432	46,432
Early Stage	**–**	**(5,098)**	**(5,098)**	**(5,098)**
Of which, Renewable Energy	–	–	–	–
Of which, Hospitality and Commercial Real Estate	–	9,918	9,918	9,918
Of which, Beverages	–	(15,016)	(15,016)	(15,016)
Pipeline businesses	**–**	**16,396**	**16,396**	**16,396**
Of which, Auto Service	–	17,056	17,056	17,056
Of which, other	–	(659)	(659)	(659)
Total investment return/total value creation	**122,219**	**12,152**	**134,371**	**134,371**

Photo Metekhi church – located on the bank of river Mtkvari, built in the 12th century. In front of the Metekhi Church stands a statue of King Vakhtang Gorgasali – the founder of Tbilisi.

DIRECTORS' GOVERNANCE STATEMENT

Irakli Gilauri
Chairman and
Chief Executive Officer

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 our second Governance Statement. The Board has applied the UK Corporate Governance Code published in 2018 (the "Code") and, with the exception of the matters in the Compliance Statement, the Board aims to apply the Code in its entirety.

The Board is committed to the highest standards of corporate governance which is embedded in its newly articulated culture and reported on later in this statement.

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

- a complete Committee structure with terms of reference that are compliant with the 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 our Chairman and CEO and six Independent Non-Executive Directors; and comprehensive governance policies.

The Board was fully briefed on the revisions made to the Code during 2018, which applied to the Group from 1 January 2019. The Group monitors its Code compliance on an ongoing basis and has been taking appropriate steps to ensure that it continues to comply. Revised Committee Terms of References and Group Policies, compliant with the revised Code, were adopted towards the end of 2018 and reviewed towards the end of 2019.

During this financial year, the Board have worked on ensuring appropriate stakeholder engagement and ongoing dialogue with shareholders. At the investor day in June, the Group presented its updated strategy. Earlier in the year, the Non-Executive Directors held face-to-face meetings with shareholders on corporate governance matters such as the joint Chairman/CEO role and the new Remuneration Policy, which were strongly supported in the 2019 AGM. A key element of our governance structure is the direct engagement by the Investment Committee, which comprises all Directors, with our portfolio companies. The Investment Committee visited nine of our key businesses last year and engaged directly with senior management. Kim Bradley began his work as the designated Non-Executive Director to engage with the workforce. You can read about all of this in more detail in the Corporate Governance Framework on page 136. We both also continued our roles with the Group's now 70.6% owned listed subsidiary's Georgia Healthcare Group PLC.

We are particularly pleased that the Board's structure has been supported with 94% in favour of Irakli's re-appointment to the Board.

As we said last year, we remain committed to working with our management to ensure that our high standards extend beyond the boardroom and are implemented in the successful delivery of the Company's strategic priorities.

Finally, we are delighted to report on the recent addition of Maria Chatti-Gautier to our Board. Maria strengthens our Board in terms of geographic, experience and gender diversity, and is already adding value to our lively boardroom discussions.

Irakli Gilauri	**David Morrison**
Chairman and	Senior Independent
Chief Executive Officer	Non-Executive Director
7 April 2020	7 April 2020

Combined CEO and Chairman role

We acknowledge that our decision for the roles of Chairman and CEO to be exercised by one individual is not compliant with Provision 9 of the 2018 UK Corporate Governance Code. This matter continues to be reviewed by the Nomination Committee and the Board. On page 131 you will find the results of the Board evaluation we conducted this year. A feature of this exercise was to determine how the current structure of combined Chairman/CEO contributes to the effectiveness of the operation of the Board and more widely to the Company as a whole. The Board continues to believe that the current structure better serves our Company and its stakeholders and believes that it should continue. The basis for this conclusion is summarised on the next page.

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 35 employees). It is principally at the level of the central management team at which the Board and Investment Committee provide 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 70.6% 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 operates 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 (five in total and six as of 19 March 2020). 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. The decisions of 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 and Valuation Committee. Previous roles for the other Non-Executive Directors (as detailed in the biographies later in this section) include:
  - career at Goldman Sachs specialising in real estate;
  - investment officer at a major investment fund;
  - career in banking, investment funds and investor relations;
  - membership and experience on a number of UK boards and qualified accountant; and
  - background in private equity and understanding of investment strategies.

The role of the Investment Committee in our Company context is outsized.
The Investment Committee plays the key role 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 GBP 2.5 million). In 2019, as noted in the Investment Committee report, the Committee's activity further increased. 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 and Valuation Committee.
The Group's key financial and investor communications metric is its net asset value as approved by the Audit and Valuation Committee, a committee of all Independent Non-Executive Directors on which the Chairman/CEO does not sit. The Report of the Audit and Valuation Committee on pages 140 to 144 includes their oversight on the adoption of investment entity accounting on 31 December 2019.

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 Chairman/CEO 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. As part of the regular quarterly meeting schedule of the Investment Committee, all Directors visit facilities and projects of the portfolio companies, and meet with one or more of the portfolio company's CEO/executive management team which provides 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. The structure was supported by shareholders at the time of the demerger from BGEO Group PLC and the Board notes that the recent shareholder engagement exercise in 2019, and their encouragement in the 2019 AGM voting (94.07% approval), shows that its shareholders understand and support this approach. The Board will nevertheless keep the approach under regular review to ensure that it continues to serve our stakeholders.

COMPLIANCE STATEMENT

The Company is subject to the principles and provisions of the UK Corporate Governance Code 2018 (the Code), a copy of which is available at www.frc.org.uk. For the year ended 31 December 2019, the Board considers that it has complied in full with the provisions of the Code with two exceptions. Provision 9 states that the roles of chair and chief executive should not be exercised by the same individual. 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. We set out why we regard the joint Chairman and Chief Executive position to be appropriate for our Company and we also explain some of the measures we have put in place to ensure that no one individual is able to dominate the Board's decision making.

Secondly, Provision 32 states that the appointee to chair of the remuneration committee should have served on a remuneration committee for at least 12 months. On 16 January 2019 Jyrki Talvitie was appointed chair of the Remuneration Committee to replace Bill Huyett who had stepped down as chair. Mr Talvitie was considered the most suitable candidate and had 10 months' experience on the Committee (appointed 16 March 2018).

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.

Governance

BOARD OF DIRECTORS

Biography

Irakli Gilauri

Chairman and Chief Executive

Irakli Gilauri was appointed CEO and Chairman on 24 February 2018. He also serves as a member on the Nomination and Investment Committees.

Skills and Experience: Irakli 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 Chairman of the Bank from 2015 to 2018, having previously served as CEO of the Bank since May 2006. Prior, he was an EBRD (European Bank for Reconstruction and Development) banker. Mr Gilauri has up to 20 years of experience in banking, investment and finance. 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.

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

Reasons for appointment: Irakli Gilauri brings significant insight of local and international strategic and commercial issues to the Board and has a distinguished career in corporate banking. 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's local expertise and business experience, in working with both Georgia Healthcare Group PLC and previously BGEO Group PLC, alongside his strong understanding of the Georgian political, economic and cultural context is invaluable to the Board.

David Morrison

Senior Independent Non-Executive Director

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

Skills and Experience
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, as well as serving on the boards of two other conservation trusts he helped to create. A principal focus of his role for these charities is now the investment of a portfolio of over US$125 million in endowment capital. In April 2019, David Morrison was named as Georgia's first Environmental Ombudsman.

Education: 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.

Reasons for appointment: With his background as a corporate finance and securities lawyer advising dozens of clients, including a large number of publicly held companies, David Morrison brings to the Board vast experience in corporate governance and compliance as well as a strong understanding of legal and regulatory issues. His work since 2008 has given him extensive regional experience, which includes in depth knowledge of ESG matters in Georgia. As an experienced Chairman of Audit Committees of premium listed companies, Mr Morrison has significant, direct experience of ensuring integrity in financial reporting and adequate risk management and internal control procedures. With his significant focus on financial disclosure and reporting, his career as a financial and securities lawyer prepared him well for his audit committee duties.

Kim Bradley

Independent 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. He is also a member of the Supervisory Board of JSC Georgia Capital.

Skills and Experience: Mr Bradley served as an Independent Non-Executive Director of BGEO Group PLC from December 2013 until May 2018. He also served as Chairman of its Risk Committee and as a member of 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 real estate and corporate areas. 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, 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 services. Mr Bradley serves as a director of a mental health charity, Gould Farm.

Education: 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.

Reasons for appointment: Kim Bradley has significant experience of strategic consultancy working with a number of major investment banks across Europe as well as a history of performance in the field of property and real estate investment. In addition to real estate, Mr Bradley has had extensive experience in various corporate industries through corporate distressed debt resolution including recapitalisation. Mr Bradley's extensive experience and strong understanding of these areas makes him well suited to his role as Chairman of the Investment Committee and enables him to make an effective contribution to the oversight and improvement of corporate value of the Group.

Massimo Gesua' sive Salvadori

Independent Non-Executive Director

Massimo Gesua' sive Salvadori was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves as a member of the Company's Investment and Audit and Valuation Committees and is a member of the Supervisory Board of JSC Georgia Capital.

Skills and Experience: 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 and 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.

Education: Dr Gesua' sive Salvadori, a native of Venice, obtained an M.Phil. 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.

Reasons for appointment: Massimo Gesua' sive Salvadori's background in investment and his experience with international markets and strategy brings a breadth of knowledge to the Investment and Audit and Valuation Committees, of which he is a member, and makes him an important asset to the Board.

Caroline Brown

Independent Non-Executive Director

Caroline Brown was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. She also serves as a member of the Investment and Audit and Valuation Committees and is a member of the Supervisory Board of JSC Georgia Capital.

Skills and Experience: 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. She is a Fellow of the Chartered Institute of Management Accountants and has over 20 years experience sitting on the boards of listed companies, and has chaired audit committees of listed companies for the past 15 years. 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 IP Group plc. Dr Brown also serves as a Trustee of the Raspberry Pi Foundation.

Education: 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.

Reasons for appointment: Caroline Brown brings a strong understanding of corporate finance and accounting practices and is an experienced chair of audit committees of UK listed companies. This significant and direct experience, alongside her accountancy experience and qualifications, is a valued addition to the Board and the Audit and Valuation Committee.

Jyrki Talvitie

Independent Non-Executive Director

Jyrki Talvitie was appointed as an Independent Non-Executive Director of the Company on 24 February 2018. He also serves as the Chairman of the Nomination Committee and the Remuneration Committee and as a member of the Investment Committee. He is also a member of the Supervisory Board of JSC Georgia Capital.

Skills and Experience: Mr Talvitie has worked in the financial industry for 28 years in banks as well as on both the buy and sell side of the markets. Prior to joining the Board, Mr Talvitie worked in Moscow for 14 years, his latest position being in charge of Strategic Partners and Investors at Sberbank, one of the largest banks in Russia and previously 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 10 boards of both public and private companies in Georgia, Finland, Russia, Kazakhstan and Ukraine.

Education: 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.

Reasons for appointment: Jyrki Talvitie has spent his career in the financial industries in the region, including in Georgia, and has a considerable breadth and variety of experience in corporate governance derived from his positions on the boards of various companies in the region. Mr Talvitie has a deep understanding of regional and international strategic issues which, complemented with his extensive board experience, is a valued asset to the Board.

Maria Chatti-Gautier

Independent Non-Executive Director

Maria Chatti-Gautier was appointed as an Independent Non-Executive Director of the Company on 19 March 2020. She also serves as a member of the Company's Investment, Remuneration and Nomination Committees and is a member of the Supervisory Board of JSC Georgia Capital.

Skills and Experience: Ms Chatti-Gautier is a Senior Investment manager with over 25 years of experience in private equity in prominent financial institutions, and has sat on the Boards of Directors of over 30 companies. She currently serves as Partner of Trail Management, an Independent Euro-Chinese Private Equity investment firm, where she invests in European midcap companies to develop them in China. Ms Chatti-Gautier started her career at Chase Manhattan Bank in Paris before joining BAII. She spent most of her career (15 years) at Natixis Private Equity, before moving to Oddo Private Equity and Drake Star Partners (previously known as LDA Jupiter). Her activities included sourcing, analyzing, managing and monitoring a large number of investments and exits. Through her own consulting firm, Ms Chatti-Gautier has also advised various investment and fund raising programmes in Europe, Lebanon and the MENA region. Ms Chatti-Gautier currently serves as a board member and member of the Audit Committee of Groupe Pizzorno Environnement, a leading French operator in the waste management business listed on Euronext. She is also a director of Buffet Crampon Group, a major producer of wind musical instruments.

Education: Ms Chatti-Gautier holds an MBA with major in Finance from Ecole des Hautes Etudes Commerciales-HEC, with joint MBA programmes from London Business School and NYU Stern.

Reasons for appointment: Maria Chatti-Gautier has extensive experience in all types of private equity transactions with a hands-on approach and leadership role in investment execution, build-up and exit strategies. Ms Chatti-Gautier's background in private equity and understanding of investment strategies, alongside her board experience makes her well suited to her role on the Board and a valuable asset.

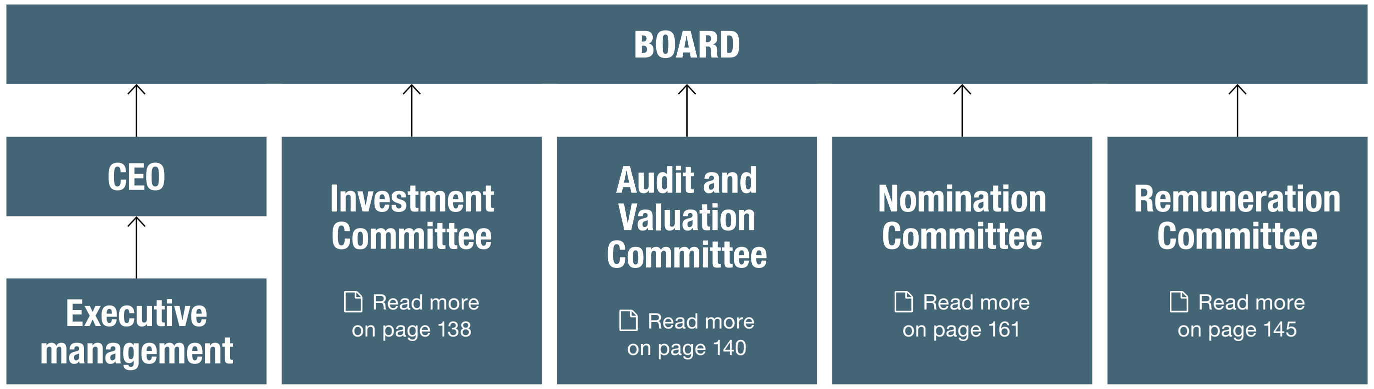
Link Company Matters Limited

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

CORPORATE GOVERNANCE FRAMEWORK

Our Governance Structure



Board size, composition, tenure and independence
The Board is comprised of seven Directors, six of whom are Independent Non-Executive Directors, and one executive Chairman – Irakli Gilauri, who also acts as the Company CEO.

The responsibilities of the Board can be viewed on page 164.

Full director biographies can be found here: **https://georgiacapital.ge/governance/board** and on page 126.

We consider that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities, age and gender is 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.

Board appointments are made based on recommendations received from the Nomination Committee. In making these appointments, the Nomination Committee ensures that appointments and succession plans are made based on merit as well as other objective criteria, whilst ensuring the Board maintains the right balance of skills and knowledge needed to address its specific needs. Due consideration will also be given to diversity in the wider sense, and the benefits that stem from having a diverse Board.

In March 2020, we announced the appointment of Maria Chatti-Gautier. Following Maria's appointment, 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. More on the background of Maria's appointment is included in the Nomination Committee's report on pages 161 to 163.

Each of our Non-Executive Directors occupies, and/or has previously occupied, senior positions in a broad range of relevant associated industries, bringing valuable external perspective to the Board's deliberations through their experience and insight from other sectors, enabling them to contribute significantly to decision-making. Some of these skills include:

- Banking, investment and finance sector experience.
- Leadership knowledge.
- Understanding of local and international strategic and commercial issues.
- Investor market knowledge.
- Experience of stakeholder engagement.
- Understanding of governance practices and regulatory framework.
- Familiarity with Georgian political, economic and cultural context.
- Experience of investment execution and exit strategies.

The relationship between Directors ensures that no individual, or group of individuals, is able to dominate the decision-making process, independence of thought is maintained, and no undue reliance is placed on any individual.

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 impair their judgement.

Our Governance Structure
We understand our responsibility to shareholders and stakeholders. We are dedicated to delivering shareholder value over the long term and promoting the success of the Company for the benefit of all shareholders through the management of the Group's business.

The Georgia Capital Board is assisted in fulfilling its responsibilities by four Committees: Investment, Audit and Valuation, 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 Investment Committee report on page 138, the Audit and Valuation Committee report on page 140, the Remuneration Committee report on page 145 and the Nomination Committee report on page 161.

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. All decisions are made through Directors exercising independent objective judgement, and following open and rigorous challenge.

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.

Each Director also recognises their statutory duty to take into account and represent the Company's various stakeholders in its deliberations and decision-making. You can read more about how Directors had regard to the factors in section 172(1) of the Companies Act 2006 and how Directors performed their duties under section 172 on page 68 of the Strategic Report.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board.

The key matters reserved for the Board are:

- The Group's long-term objectives and strategy.
- Shareholder engagement and general meetings.
- Overall corporate governance arrangements including Board and Committee composition, Committee terms of reference, Directors' independence and conflicts of interest.
- Internal controls, governance and risk management frameworks.
- Changes to the corporate or capital structure of the Company.
- Annual report and accounts, and financial and regulatory announcements.
- Significant changes in accounting policies or practices.
- Annual budgets and financial expenditure.

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 quarterly in Georgia, and meetings are also held at our London offices, with Directors 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 and trading updates to the market typically being approved in separate phone conferences).
- Monitoring of financial performance against budget.
- 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 and Valuation Committee report on accounting issues and valuations and internal audit.
- Business updates from selected portfolio companies. The entire Board sits on the Investment Committee, and every meeting reviews the investment pipeline and takes action as necessary on new investments or divestments.

In addition, during 2019 the Board spent time discussing culture, the adoption of investment entity accounting and the various issues concerning its shareholding in Georgia Healthcare Group PLC that led to the share exchange offer near the end of the year.

We maintain a corporate calendar which sets out rolling agenda items that must be considered during the year. This annual schedule of items ensures that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle.

The Chairman/CEO seeks input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any matters they have raised 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 Chairman present at least once during the year to appraise the Chairman's performance.

Governance

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

Board activities in 2019

Details of the areas that the Board considered this year are set out below and comprise:

Strategy	• Reviewed the definition of GCAP core values, mission and strategy, in light of the Company's long-term strategy and shareholder interests. • Discussed the strategy on the Company's holding in Georgia Healthcare Group PLC leading to the share exchange proposal. • Discussed the new strategic priorities: 1) Decrease of share of listed assets to 20% in our portfolio over the next 5 years; and 2) Starting to manage the third-party money. • Agreed business KPI's. • Reviewed portfolio company investments. • Reviewed performance against strategy. • Regularly reviewed the Georgian and regional political and economic climate.
Governance, assurance and risk management	• Focus on high level governance issues and developments that may have an effect on the Company. • Reviewed the culture and began work to create/reinforce the desired culture. • Board succession, consideration of various additional board candidates leading to appointment in early 2020 of a new Board member. • Received reports from different Committees. • Conducted an internally facilitated Board evaluation looking at Board effectiveness and process. • Considered external legislative and governance developments. • Reviewed the Board Diversity policy. • Considered the updated requirements under the FRC 2018 Corporate Governance Code and impact this would have on the Company. • Reviewed and approved governance documents, including terms of reference for the Audit and Valuation Committee, Remuneration Committee, Nomination Committee and Investment Committee and Group level policies.
Financial Reporting	• Application and implementation of investment entity accounting under IFRS 10. • Received reports on the financial performance of the Group. • Approval of establishment of Audit and Valuation Committee. • On the recommendation of the Audit and Valuation Committee (or its predecessor the Audit Committee), reviewed and approved financial reporting including approval of Accounts, notice of AGM, half year and full year announcements and trading updates to the market.
Stakeholders	• Considered the Company's culture. • Reviewed and approved share buyback programme. • Considered duties under s172 reporting. • Began the Board's workforce engagement efforts.
Investment matters	• Most work is undertaken by the Investment Committee. See report on pages 138 to 139

Board and Committee meeting attendance

Details of Board and Committee meeting attendance in 2019 are as follows:

Members	Board	Audit and Valuation Committee	Nomination Committee	Remuneration Committee	Investment Committee
Irakli Gilauri	11/11	n/a	2/2	N/A	4/4
David Morrison*	11/11	11/11	2/2	N/A	4/4
Kim Bradley*	11/11	n/a	2/2	4/4	4/4
Massimo Gesua' Sive Salvadori*	11/11	11/11	2/2	N/A	4/4
William Huyett**	4/4	N/A	N/A	3/3	1/1
Caroline Brown*[1]	10/11	11/11	2/2	n/a	3/4
Jyrki Talvitie*	11/11	N/A	2/2	4/4	4/4

Notes:
* Denotes Independent Director.
** Mr Huyett stepped down from the Board on 5 June 2019.
1 Ms Brown was unable to attend one Board and Investment Committee meeting due to a prior commitment, however she provided full comments on the materials discussed to the Board ahead of the meeting.

For Board and Committee meetings, Directors attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend.

The Board's objectives for 2020:

- Consolidate our recent acquisitions and access additional sources of capital.
- Continuous review of overall purpose, values and strategy for the Group.
- Monitoring and assessing culture and how this aligns with our purpose, values and strategy.
- Our purpose is to help Georgia to succeed by creating multiple private companies/institutions, which will have a positive impact on Georgia's development. In order to create such institutions, we will need to further develop our leaders so that they become future entrepreneurs of Georgia.

Board Strategic review

The Board has a responsibility for the overall purpose, values and strategy of the Company and the related issues are discussed during each Board meeting. During these discussions, gaps were identified. This led to a more in-depth discussion on the Company strategy in October.

The Board believe that there are three features of success that will allow the Company to capitalise on the fast-growing Georgian economy: access to capital, access to management and strong corporate governance.

Purpose

The Company's purpose is to provide investors with an opportunity to invest in the fast growing Georgian economy and to give access to attractive private deals with long-term growth potential to develop into viable independent businesses.

Culture

In 2019, the Board has given additional focus towards developing, monitoring and assessing corporate culture and thinking about the ways in which our culture might serve as a long-term differentiator, both in terms of strategy and of recruitment and retention. We are proud of the culture that we have within Georgia Capital and recognise it is important to articulate this and drive it and ensure that it permeates the entire business.

Helping Georgia to succeed is at the heart of Georgia Capital, and during the year the Board looked closely at our mission, vision and values and how we could reinforce this in shaping the Company's long-term strategy. The Board is of the view that this will benefit all of the Company's stakeholders.

As part of the Board's discussion on our culture, three core desired values have been identified which are driven by, and serve to complement, our strategic and operational needs: being entrepreneurial; having a learning mindset; and maintaining the highest standard of ethics. The Board has overseen and contributed to the work in this area.

Values

Being entrepreneurial:
We believe our current culture is entrepreneurial in nature, and this is something that is grounded in our ability to see and seize opportunities and to develop business strategies whilst remaining disciplined and rational. All of our portfolio companies have been founded or substantially developed by entrepreneurs, and this is at the core of what we do. Our objective moving forward is to empower our people, continue to develop this spirit and pursue execution excellence in our businesses.

Having a learning mindset:
We believe we are developing a learner mindset as part of our wider culture, however, we recognise that we need to improve the ways in which we communicate and give and provide feedback and help our people to develop. We are approaching this by looking at ways we can mentor and coach people throughout the organisation, and we aim to create an environment where independent thinking and curiosity are encouraged.

Maintaining the highest standard of ethics:
This has been an aspect of our culture that we have maintained since our inception, and it is a priority of ours to ensure this stays this way. In order to ensure we maintain a high level of ethics, we will draw on principles of transparency and accountability and seek to maintain the highest standards of corporate governance.

Creating a culture relies on the active and continued participation and leadership of our Board of Directors and this vision can then be communicated through executive management and onward to the wider businesses. 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.

Going forward, the Board will monitor and assess the culture of the Group by holding meetings with members of management and reviewing employee feedback, including through different workshops and off-site meetings. The Non-Executive Directors meet regularly with the Company's portfolio businesses, adopting a proactive approach to communication, which allows the culture to spread.

We recognise that the Board will have to continue to play an important role in shaping, defining and communicating our culture. While we have made important progress in 2019 in defining our mission, vision and values, we recognise that there is more to do in 2020.

Evaluation of Board's performance

This year, the Board conducted its first formal effectiveness evaluation since the demerger in 2018. The primary focus of the evaluation was to conduct a comprehensive review of the Board's composition, expertise, interaction, management, key decision-making processes and meeting focus and prioritisation. The Board reviewed its key decision-making processes during the year, particularly relating to investment decisions and the decision to adopt IFRS 10 accounting for the Company. The Board also assessed its culture and engagement with stakeholders in line with the 2018 Code. Evaluations were also conducted to review the performance of the Committees, and Directors were asked to review their own performance.

The formal evaluation was conducted with reference to the guidance contained in the FRC Guidance on Board effectiveness. The evaluation process consisted of a questionnaire for all Directors to complete, and allowed Directors to provide an open response to some of the questions to provide further insight on some of the addressed topics, which was then followed by a report disclosing the process, outcomes and actions taken from the data.

The outcomes of the evaluation were positive overall, and discussed by the Board during their December 2019 meeting, including a number of actions that were agreed to be taken forward.

Governance

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

The main findings from the evaluation and key focus areas are set out below:

Area of focus	Findings in 2019	Focus for 2020
Management of meetings	• Discussions are balanced following the reorganisation of meeting structure in recent month. • Management presentations on the day following the Board meeting in Tbilisi are very helpful. • The structure of agendas and papers to the Board and Committees have been reviewed, particularly to assist Directors and ensure they meet their responsibilities under section 172 of the Companies Act 2006.	• Continued discipline in looking at new investments and exit opportunities. • More discipline with time management in relation to timing of papers.
Board responsibilities and effectiveness	• The Board and its members provide significant value to the Company and its strategy. • Consistently strong agreement across Directors that the Board is sufficiently involved in major challenges faced by the Company.	• Continued improvement of the monitoring of culture and behaviours and how this aligns with strategy. • Developing Directors refresher training on matters linked to corporate governance. • Supporting management and development of key personnel within the management team.
Board composition and dynamics	• Strong meeting dynamics, with critical and constructive discussions where Directors feel free to express their opinions and perspectives. • The Board has a very good diversity of experience and perhaps most importantly, a breadth and diversity of how members think and look at our businesses. • The model of appointing a potential Board member as an advisor as part of the selection process was considered to be very helpful.	• To focus on succession planning and diversifying the Board's knowledge, in particular providing further private equity expertise at the Board level. This is not necessarily about industry experts but also ensuring the Board members are continuously improving their private equity or similar knowledge. • The composition of the Nomination and Remuneration Committees to be reviewed during 2020.

Individual performance

Alongside the Board and Committee evaluations, Directors were also invited to assess their individual performance in their role as Director, using a 3-point scoring system. Directors were asked to rate their performance in a number of areas, including their preparation before meetings, the quality and value of contributions and the success of their relationships with fellow Board members. They were also invited to suggest areas they would like additional training on or areas where they would want additional support.

The process for evaluating the Chairman's performance

Given his role as Chairman/CEO, the main forum for reviewing Irakli Gilauri's performance was at the Remuneration Committee. However, the full Board met once in 2019 and once in early 2020 to consider the Remuneration Committee's recommendations and Irakli's performance as Board Chairman. The Board endorsed the recommendations of Remuneration Committee as to Irakli's compensation. It also reached consensus on his performance as Chairman as reflected in the favourable Board self-evaluation and the decision to recommend the maintenance of the current combined role of Chairman/CEO as discussed above.

Succession planning: Board appointments and senior management

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 is 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 and, typically, a period of service in a board advisory role.

More detail on the role and performance of the Nomination Committee is on pages 161 to 163.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are provided with a letter which 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 are sufficiently able to dedicate the amount of time necessary to contribute effectively to the Board.

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

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. Despite our Non-Executive Directors holding external directorships and other external positions, the Board believe they still have sufficient time to devote to their duties as a Director of the Company. In order to form a view of this, we conduct an annual review of individual Director's conflicts, which is recorded in the Conflicts of Interest Register, and as part of the review, we also consider other appointments held by each Director.

Shareholder and stakeholder engagement

Shareholder engagement

The revised Code has reinforced and expanded on the long-standing requirements of the UK Companies Act for directors to remain mindful of their duties to consider the interests of key stakeholders. The Board recognises the impact that effective engagement with our stakeholders has on our business, and its contribution to the long term success of the Company. The Company has established a comprehensive shareholder engagement programme and encourages an open and transparent dialogue with existing and potential shareholders.

The Board has a responsibility to ensure the delivery of the Group's strategic objectives whilst:

- Maintaining an understanding of the views of shareholders.
- Seeking regular engagement with major shareholders in order to understand their views.
- Generating value for shareholders and contributing to wider society.

The Chairman has overall responsibility for ensuring that the Board understands the views of major stakeholders. The 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.

The Board's primary contact with institutional shareholders is through the Chairman/CEO, CFO, 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 Committees' 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 for shareholders.

During the year, the Board took several key decisions relevant to shareholders including continuing to pursue the share buyback programme as the Board is of the opinion that the share price remained significantly undervalued. The Board also approved the further investment in GHG, increasing the Group's stake in GHG from 57% to 70.6% on 18 December 2019 following the completion of a share exchange facility, whereby GCAP issued 3.4 million new shares in exchange for a 13.6% equity stake in GHG.

Over the course of 2019, members of the Board and management met with approximately 200 institutional investors and analysts, and participated in more than 20 investor conferences and road shows. Throughout the year, our Directors and management met with shareholders in Georgia, the United Kingdom, Europe and the United States. We also held our annual investor day where shareholders were invited to Tbilisi to discuss the business with the Group's management and the Board, and to visit the facilities of selected portfolio companies.

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.

Stakeholder engagement

Our Directors understand the importance of effective engagement with stakeholders to gain an understanding of the issues that relate to each stakeholder so that the Board can appropriately consider these views and their concerns when having Board discussions and making Board decisions.

Over the year, the Board restructured the meeting agendas to take account of each of the provisions in s172, and focused on long-term value generation opportunities, taking into account political and macroeconomic circumstances and stakeholder considerations. Stakeholders' considerations are sought out and then incorporated into our discussions and decisions.

The table on page 134 sets out our key relationships with stakeholders and how we have engaged with them over the financial year. The table also shows examples of how we have considered our stakeholders when making key decisions and how this has influenced certain decisions.

More information about how the directors have discharged their duty under s.172 of the Companies Act 2006 is available in the Strategic Report, on pages 2 to 123.

Governance

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

Key stakeholders	Activities undertaken throughout the year	How this stakeholder group influenced the Board/Committee agenda and decision making
Investors	**Types of engagement:** • Meetings with NEDS • Meetings with Chairman/CEO • Meetings and calls with advisor to the CEO • Investor relations team • The London Stock Exchange announcements • Investor day • Investor roadshows • Corporate website with investor section • AGM • Half yearly results and quarterly trading updates • SID as intermediary • Annual Report **How the Board engages with investors:** During the year, we updated our strategy to consider the changes in our portfolio that will add value for investors by accessing attractive deals. We shared the updated strategy with investors and they were very supportive of the changes. In June 2019, Georgia Capital hosted an investor day in Tbilisi, which was open to all investors and analysts. This investor day provided the opportunity for investors and analysts to receive an update on: Georgia Capital strategy from the Chairman/CEO; Georgia Capital performance from the Chief Financial Officer; an investment appraisal from the Chief Investment Officer; Georgian macro-economic outlook from our Chief Economist; and a summary of the five-year vision and strategy for each business from the CEO of each portfolio company. All of the investors and analysts also had an opportunity to meet informally with Board members and raise matters of interest. The company was pleased to host approximately 40 investors and analysts at the event and has ensured that the views expressed by the investors have been fed back to the Board. Investors and analysts visited different sites of our businesses together with key management personnel at Georgia Capital and our portfolio companies. Further to this, a number of investor meetings took place over the year. We will engage with shareholders through the Company's forthcoming Annual General Meeting to be held in June 2020 but will also continue to communicate with shareholders on important developments throughout the year. Our half-yearly results and quarterly trading updates are supported by a combination of presentations and telephone briefing, as was the announcement of our annual results in February 2019. Our UK General Counsel and our Company Secretary also have ongoing dialogue with the shareholders' advisory group and proxy voting agencies.	• The Board receives feedback from investors at our investor days and during meetings about how they view Georgia Capital within the wider market, and raise matters of interest which are then discussed at the Board meetings. • In 2019, we discussed in meetings, and on calls with individual shareholders, the joint Chairman/CEO role, to confirm that we still had the shareholders support; and we contacted shareholders by letter and also presented on and took into account, feedback on the new Remuneration Policy in early 2019, ahead of its implementation. • We hold regular meetings with the Group's existing bondholders and actively engage with potential lenders to discuss our funding strategy. The Chairman/CEO, Senior Independent Director and members of the Board make themselves available to meet with institutional investors when requested. • Our comprehensive investor website is updated and reviewed on a regular basis to ensure that information, including matters relating to sustainability, are up to date.

Key stakeholders	Activities undertaken throughout the year	How this stakeholder group influenced the Board/Committee agenda and decision making
Employees	**Types of engagement:** • Nominated NED • Regular town halls • Offsite and on site meetings • Feedback systems, e.g. employee satisfaction surveys at our businesses **How the Board engages with employees:** Kim Bradley was appointed as the designated Non-Executive Director for workforce engagement. The Board is encouraged to engage with employees outside of formal channels and workforce engagement included visits to construction sites and portfolio company offices. Details of these visits are fed back to the Board so they are aware of any issues or feedback. We believe that communicating with our employees is vital and we provide information in a number of ways, including via managers, presentations, email, intranet and regular off-site meetings. We communicate 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.	• Employee surveys are conducted across the portfolio companies. • The Board decided to appoint Kim Bradley as the designated Non-Executive Director of workforce engagement and he shares employee views with the Board. • Management have been instructed to ensure that proposals to the Board and Investment Committee are made in line with stakeholders interests. • The Board is currently undertaking a review of culture and it is one of the focus points for the year 2020. • The Nomination Committee will look at succession planning and ensuring a diverse pipeline in the future. • Through the work of the Investment Committee and Kim Bradley, the Non-Executive Director with responsibility for workforce engagement, the Board has been able to take account of the views of the workforce across all of its portfolio companies and reflect elements of this in its statements on culture and take account of relevant elements in the Board decision making. • Please see pages 136 to 137 for further details on workforce engagement.
Wider community and environment	**Types of engagement:** • Investments to support diversified economy • Engagement with local communities • Education • Corporate website • Volunteering **How the Board engages with the wider community:** The Group considers the interests of its main stakeholders when developing the strategy and the processes to improve its operations. Investing in local businesses helps us to diversify and modernise the Georgian economy, and this can be seen in the development of our different portfolio companies. Our healthcare business is driving the modernisation and improvement of healthcare in the country. Our water and energy businesses are involved in infrastructure programmes and ongoing structural market reforms, such as the improvement of wastewater treatment and clean energy. Our automobile inspection business contributes to overall cleaner air and improved vehicle safety. The Group believes that educating young people is extremely important for the development of the community as a whole. Georgia Capital is investing in schools to give more learners access to high-quality education and facilities, and by investing GEL 40 million, secured three high-quality partners across affordable, mid-level and premium private schools during 2019. The formation of our flagship pilot programme GEA GCAP Entrepreneurship Academy, will allow us to engage more with the next generation of Georgian leaders and contribute to our mission of helping Georgia to succeed. As part of our sponsorship and charitable activities, the Group is conserving nature, promoting and enhancing access to education, and supporting people with disabilities and special needs. See pages 81 to 83 in the Resources and Responsibilities section for more detail.	• Board agenda from time to time considers Governmental issues that influence the wider Georgian market, which can influence key investment decisions. • Investments are made in local businesses that will be beneficial to the Georgian economy. • The Board sees long term benefit to the Company and Georgian society through its investments in the education sector during 2019. • Investments in the auto service business help support the Georgian government in its efforts to improve vehicle safety.

Governance

CORPORATE GOVERNANCE FRAMEWORK CONTINUED

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 164 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 and Valuation Committee).

A review of the Company's risk management approach is further discussed in the Strategic Report on pages 70 to 75.

For detail on the management and mitigation of each principal risk see pages 75 to 79.

The Group's viability statement is detailed on pages 73 to 74.

Please refer to pages 140 to 144 for further detail in relation to the role of the Audit and Valuation Committee.

The Group's governance structure for risk management is illustrated on pages 70 to 75.

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.

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 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 has appointed Link Company Matters Limited to act as Company Secretary to Georgia Capital PLC. Link Company Matters Limited is one of the UK's largest professional services secretarial teams.

Directors
In line with the Code's recommendations, Maria Chatti-Gautier will stand for election at the AGM in 2020, being the first AGM following her appointment to the Board. The Board has set out in its Notice of Annual General Meeting the qualifications of each Director and support for election or re-election as applicable.

Workforce engagement
In December 2018, Kim Bradley was appointed as the designated Non-Executive Director for employee engagement and consequently spent time in Georgia during the first half of 2019, involved in workforce engagement. All of the other Non-Executive Directors are also encouraged to engage with employees outside of formal channels. As mentioned elsewhere, the full Board, through the Investment Committee, regularly visits different sites and offices of portfolio companies. At the time of most regular Board meetings, dinners with second level Group and portfolio companies management are organised so that they allow for informal exchange. The Senior Independent Director also spends time outside of Board meetings and meets informally with various staff.

Given that Georgia Capital is a relatively small holding company with a diverse number of portfolio companies, the initial discussions in early 2019 focused on ensuring that the various companies were taking concrete steps to encourage employee feedback and discussion with their respective leadership teams.

In addition, our initial discussions concluded that given the relative independence of the portfolio companies, the steps and tools used to encourage employee engagement would be developed within the companies as opposed to a "top down" initiative directed by Georgia Capital. As part of this process, Kim Bradley, in his role as the Non-Executive Director responsible for engagement with the workforce, meets regularly with the management teams of the various portfolio companies to develop an oversight of the engagement activities that occur across the Group. For this reason, we have included the employees in the portfolio companies in our definition of workforce for the purpose of workforce engagement.

The following is a brief summary of employee engagement activities undertaken at Georgia Capital and in our respective businesses:

Georgia Capital: As our people are our main asset, we invest a lot to help engage and motivate our staff. The Company has a small head office (c.35 people) and we encourage an open door policy – staff can approach management at any time with any concern. The matter of workforce engagement will be something that the Board will continue to focus on in 2020.

In 2019, we organised several events engaging staff such as:

- Offsite event for all staff where management introduced our strategy and staff had the opportunity to ask questions.
- Town hall meeting about future plans.
- Training for middle management in Giving Feedback, where they practiced giving real time feedback to each other.
- Georgia Capital awareness event for students and graduates where all Georgia Capital staff attended and had opportunity to ask (and answer) questions; another similar event was a meeting with Georgians living abroad.
- With the help of an independent consultant, we collected upward feedback for top management.
- In the scope of performance management – exchanged upward, downward and peer feedbacks.

Our P&C Insurance business, Aldagi recently created an online platform, where employees can share their ideas on any matter. To encourage open communication, Aldagi maintains an internal educational platform called Aldagi Talks, where employees have opportunity to give speeches and share their ideas, initiatives and considerations. Our P&C Insurance business gathers employee feedback through annual employee engagement surveys to further develop the system and improve policies and procedures. During 2019, Aldagi created its new Mission and Vision and employees were actively involved in this process.

In 2019, the Human Capital Development Department of **the Water Utility business (GGU)** undertook a number of initiatives to improve employee engagement. Teambuilding events were organised for five different departments. Moreover, various workshops for middle level management were held to discuss challenges and other important issues facing the company and to plan future steps and actions. Approximately 40 employees successfully completed a three-month skill development programme to increase teamwork, employee satisfaction and motivation, and the awareness of corporate culture.

Our Housing Development and Hospitality and Commercial Real Estate businesses, m², organised two staff meetings where all employees were present. The first was during the summer offsite meeting, where staff were informed about ongoing changes in organisational structure and future plans from CEOs. In addition, the results of the employee satisfaction survey conducted in June 2019 were presented by m²'s HR Manager. In March, the business conducted 360-degree assessments of middle and top managers. The results were shared with top management by the CEO, and with middle management by their own managers and HR. In November 2019, a town hall meeting was held. All employees were given detailed information about structural changes and plans for newly formed companies. Employees have also completed a survey about the effectiveness of staff meetings held during 2019.

Our Healthcare business, Georgia Healthcare Group PLC ("GHG"), has established practices and initiates new projects every year, to develop their corporate culture, increase employee engagement and encourage a practice of open dialogue. Regular dialogue with the workforce is promoted through organised town halls, off-site meetings, and encouraging the practice of open communication across all employment levels. This is further fostered through annual and quarterly Performance Review Sessions that allow dual feedback between managers and employees. During 2019, GHG conducted three employee satisfaction surveys, measuring criteria such as employee engagement in strategy setting, day-to-day operations, salary satisfaction and employee loyalty level. In June 2019, 150 of GHG's managers met with their company Chairman, Bill Huyett, who gave a "Leadership Talk" and engaged in open dialogue with the employees.

People development in the Company and our portfolio companies is one of our key priorities in fulfilling our purpose of helping Georgia succeed. Employees are incentivised though rewarding and recognising their achievements. For example, in our **Global Beer Georgia business**, we achieve this by sending thank you letters to employees, and the Spot Recognition Bonus.

We hope that our efforts to embed our culture, and supporting the independence of our portfolio companies in encouraging the workforce in their respective business, will continue to initiate productivity in our workforce as a whole.

The above reflects that the Board has regard of employee interests, and as set out elsewhere in this report, takes account of those interests in its decision making.

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 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 2020 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.

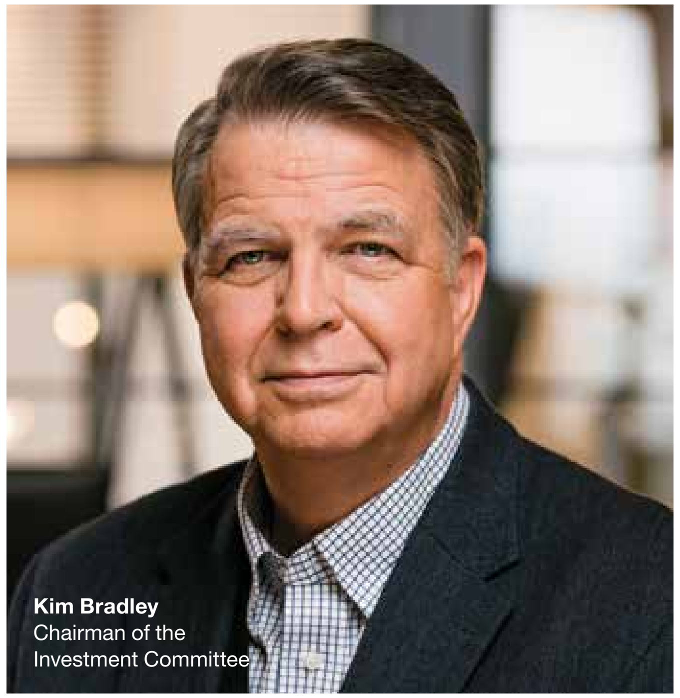
See page 256 for further Shareholder Information and pages 133 to 135 for further information on shareholder engagement.

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 a whistleblowing system, including an anonymous helpline, under its Whistleblowing Policy.

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 85.

Governance

INVESTMENT COMMITTEE REPORT



Kim Bradley
Chairman of the Investment Committee

INDEPENDENT AND OBJECTIVE REVIEW AND CHALLENGE OF THE GROUP'S INVESTMENTS

Dear shareholders

I am delighted to report on the work of the Investment Committee during 2019. The Investment Committee was established to provide an independent and objective review of investment opportunities and performance, within the scope of its term of reference.

During 2019, the Investment Committee took on a much more active role, reflecting the high level of excellent opportunities being generated not only by Georgia Capital's management team but also directly by the portfolio companies. The Investment Committee is a key part of Georgia Capital's corporate governance framework – all Directors are members of the Investment Committee, which is chaired by me, an Independent Non-Executive Director, and not the Chairman/CEO. Maria Chatti-Gautier was appointed to the Board of Directors on 19 March 2020 and joined the Investment Committee on the same date.

The Investment Committee plays the key role 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 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.

Kim Bradley
Chairman of the Investment Committee
7 April 2020

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 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 Transaction[1];
- assessing the risks and rewards and general attractiveness and suitability of proposed Major Transactions[1];
- 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; and
- ensuring that management has the appropriate plans and controls in place, with the necessary resources and capability to manage the investment risk framework.

1 A "Major Transaction" is an investment opportunity, acquisition or disposal which is in excess of GBP 2.5 million.

Key activities

The Investment Committee's role is to provide oversight of investment activity and challenge management where appropriate. As reported elsewhere in this Annual Report on page 125, an important part of this process is the visits to portfolio companies and the meetings with senior management that take place throughout the year. The Investment Committee considers this is fundamental to it gaining real insight into the operations and fundamental to the Board's approach to corporate governance.

During 2019, the Investment Committee considered the following investments;

- The buyout of the 40% minority stake in a luxury hotel by m^2.
- Acquisition of the Kazbegi beer brand and commercial assets.
- Acquisition of 80% of the Amboli LLC a distributor of car parts.
- Acquisition of 60% of Redberry LLC, a digital marketing agency.
- Acquisition of 70% of British-Georgian Academy LLC.
- Acquisition of 80% interest in Buckswood International School – Tbilisi LLC.
- Acquisition of 80% interest in Green School LLC.
- Acquisition of 100% of Alaverdi Ltd, a winery.
- Acquisition of 100% of Hydrolea Ltd, an owner and operator of three hydro power plants.
- Acquisition of 100% of Qartli Wind Farm, the only operational wind farm in Georgia.
- Acquisition of 50% interest in four leading restaurants by the Group's hospitality business to partner with the owner, a famous Georgian chef, embracing the business's focus on a unique Georgian culinary in its existing and upcoming hotels.

The strategic move into education and expansion of the motor vehicle business were both considered in detail and challenged by the Investment Committee. This process of course extends beyond the financial rationale – the Investment Committee will always take a long-term view and in particular ensure there is a clear and cogent exit strategy. In the Strategic Report (page 68), you will find a description of how the Directors discharge their duties under section 172 of the Companies Act 2006 when making decisions such as these. It is also worth noting that at each of its quarterly meetings in Tbilisi, the Investment Committee receives a detailed update on the regional and Georgian economy and the prevailing political climate. This information is critical to the Investment Committee's decision making process.

In December 2019, the Investment Committee undertook an evaluation of its effectiveness. The effectiveness evaluation concluded that overall the Investment Committee was performing effectively and its composition, being all the members of the Board, remained appropriate. In particular, having an Independent Director chair the Investment Committee continued to be an effective and important element of the Company's corporate governance framework.

We expect 2020 to be another exciting and busy year for Georgia Capital. This will bring with it challenges for the Investment Committee and a priority therefore will be to ensure that the Investment Committee's processes remain rigorous, appropriate and agile.

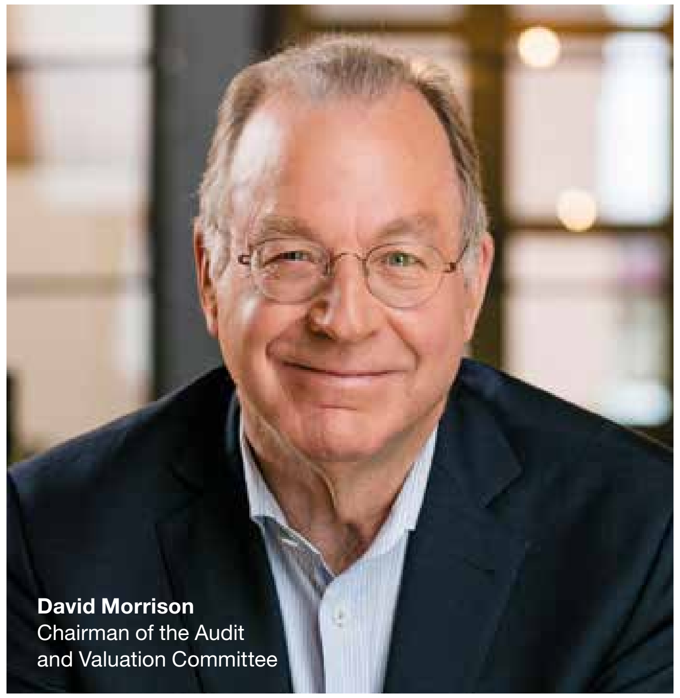
I look forward to reporting to you next year on how the Investment Committee continues to develop and the areas of work that it has focused on.

Priorities for 2020

- Ongoing in-depth review of portfolio businesses and investment monitoring meetings that will complement the Investment Committee's oversight of annual business.
- Focus on operational execution.
- Focus on how investments are performing against the basis on which approval given.
- Ensuring portfolio monitoring and review metrics remain valid and appropriate.
- Monitoring of how the Investment Committee ensures Directors' duties under section 172 of the Companies Act 2006 are addressed.

Governance

AUDIT AND VALUATION COMMITTEE REPORT



David Morrison
Chairman of the Audit and Valuation Committee

COMMITMENT TO COMPREHENSIVE AND TRANSPARENT REPORTING

Dear Shareholders,

As Chairman of the Audit and Valuation Committee (the "Committee"), I am pleased to present the Committee's report for Georgia Capital for the year ended 31 December 2019. For the entire financial year, the Committee was known as the Audit Committee. However, effective from 31 December 2019, the role of the Audit Committee was expanded to cover the additional governance processes required as we adopt investment entity accounting in accordance with IFRS 10. These additional responsibilities are focused principally on oversight of valuation policies and procedures which the Committee approved and recommended to the Board and are contained in its Terms of Reference (**https://georgiacapital.ge/governance/cgf/terms**). Particularly important in this regard are the policies and procedures developed for valuing our private portfolio companies.

The adoption of investment entity accounting was the major area of focus for the Committee during the second half of the year. The Committee provided oversight of the transition and further information on this is provided below.

Otherwise, the Committee's primary functions were unchanged from last year and included a review of the integrity of the Company's financial statements and of the performance and effectiveness of the Company's external auditor. The Committee also undertook its first review of its own effectiveness. Particular areas of focus during 2019 included:

- valuation of private portfolio companies;
- accounting treatment of infrastructure assets; and
- the use and presentation of Alternative Performance Measures.

The Committee has also overseen the development of the Internal Audit function and is pleased to note that each late stage portfolio company now has its own internal audit capability reporting to Georgia Capital's Internal Auditor, with a full internal audit plan in place for 2020. Internal Audit has also contributed substantially to the due diligence process undertaken by the Company's investment team on new investments.

Finally, in the weeks prior to the publication of this report, we began considering the impact of the COVID-19 crisis on our business and our financial reporting. While it is too early to make a judgment about the final lasting effects of the crisis, we have endeavored to ensure that the new risks we face have been properly considered and reflected in our reporting.

David Morrison
Chairman of the Audit and Valuation Committee
7 April 2020

Introduction

This report describes the functioning and activities of the Committee during the reporting period, including an overview of the key areas of activity and principal topics covered at each meeting of the Committee.

Key purposes and responsibilities

On behalf of the Board, the Committee monitors the integrity of the Company's annual report and oversees conduct in financial reporting, valuation process, internal control and risk management and Internal Audit. It also supervises the work of our external auditor.

The 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 Committee's Terms of Reference outline its primary roles and responsibilities. As mentioned previously, these were updated with effect from 31 December 2019.

Composition and operations of Committee

The Committee members are David Morrison (Chairman), Dr Caroline Brown and Massimo Gesua' sive Salvadori, all of whom are Independent Non-Executive Directors. For the purposes of the Code and Disclosure, Guidance and Transparency Rule 7.1, the Board is satisfied that all members of the Committee have recent and relevant financial experience and as a whole has competence relevant to the sector in which the Company operates. A finance and securities lawyer whose practice for more than 25 years included a focus on financial reporting, Mr Morrison has both chaired and sat on audit committees of three premium listed companies over the last 10 years. Massimo Gesua' sive Salvadori's experience of valuations is of particular benefit to the Committee as it assumes its oversight role in this regard. Dr Caroline Brown is a Fellow of the Chartered Institute of Management Accountants and is also chair of the committee of another premium listed company. More detailed biographies of the Committee members are set out on pages 126 and 127.

The Audit and Valuation Committee held 11 meetings during the year, and the meeting attendance during the year can be seen on page 130.

The Company Secretary is Secretary to the Committee and attends all meetings. Meetings are also attended by: Chief Financial Officer, Head of Technical Accounting and Head of Internal Audit. In addition, representatives of Ernst & Young LLP (EY), the Company's external auditors are invited to attend several meetings each year. On some occasions, invitations to attend are extended to other members of the Board and management where necessary, to provide a deeper level of insight into key issues and developments. The Committee also holds at least one meeting during each year with the external auditor and the Head of Internal Audit without management present to allow discussion of any issues of concern in more detail.

The 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.

Mr Morrison will be available at the AGM to respond to any questions from shareholders that may be raised on the Committee's activities.

Activities of the Committee in 2019

The table below sets out the Committee activity during 2019.

Area of focus	Core activities
Financial reporting	• Oversight of the Company's change in accounting basis from consolidation to fair value measurement (in accordance with IFRS 10) • Review of the use, presentation and clarity of APMs • Review the appropriateness and disclosure of accounting policies and practices • Review the annual report and accounts content and advise the Board on whether the annual report was fair, balanced and understandable • Review of the Company's annual and interim financial statements and quarterly trading updates relating to the Company's financial performance, including a review of the significant financial reporting policies and judgements contained in them • Review of valuation of portfolio companies • Review of valuation of investment properties and infrastructure assets • Review and recommendation to the Board its approval of the Going Concern and Viability statements
Valuation	• Ensured that the Company has a Valuation Policy, which is approved by the Board • Ensured that the Valuation Policy complies with IFRS 13, Fair Value Measurement, and with the obligations within any agreements in place, legislation, regulations, guidance and other policies of the Company • Reviewed half-yearly and annual valuations of the Company's portfolio investments prepared and presented to it by the management and monitored the compliance with the Valuation Policy and IFRS 13 • Considered the extent of valuation disclosure in the Company's annual and interim reports
Risk and control environment	• Reviewed and assessed the effectiveness of GCAP internal controls and risk management processes • Reviewed the results of risk identification and assessment work performed by management • Reviewed the Board's approach to assessing the Company's long-term viability • Reviewed reports from the external auditor where they have looked at internal controls as part of the annual audit process • Reviewed the Company's Principal Risks and Uncertainties statement included in the annual report • Regular monitoring of the internal and external environment to ensure that any new or emerging risk is identified in a timely manner and responded to appropriately. As a result of the principal risks assessment, no new risks relating to the Company and the portfolio businesses have been identified.
Internal Audit	• Reviewed reports of internal audits and monitored action points and follow up actions arising from audit visits • Approval of 2020 audit plan • Monitored and reviewed the effectiveness of the Company's Internal Audit function • Approved the annual budget for the Internal Audit function
External audit	• Monitored the effectiveness and performance of EY • Reviewed the objectivity and independence of the external auditor • Reviewed and made recommendations to the Board on the appointment/terms of engagement and remuneration of the external auditor • Reviewed 2019 Audit Plan including the approach, scope and risk assessments of external audit • Agreement on terms of the external auditor's engagement and fees • Policy and approval of non-audit fees
Governance	• Reviewed governance processes in place to oversee valuation of portfolio companies • Approved amended Terms of Reference to reflect the Audit Committee's new status as the Audit and Valuation Committee • Committee effectiveness evaluation

AUDIT AND VALUATION COMMITTEE REPORT CONTINUED

Key activities during the year:

Business developments

The Committee considered the financial implications of a number of business developments, namely the implications of new pipeline projects.

Financial reporting

A principal responsibility of the Committee is to consider the significant areas of complexity, management of judgement and estimation that have been applied in the preparation of the financial statements. This includes ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and that they comply with disclosure requirements.

Throughout the year the Committee received detailed reporting from the external auditor in respect of key areas of audit focus and these were, in some instances, discussed without management present. As well as these, regular reports were received from the CFO on the financials and internal controls and where appropriate, reports and feedback from internal and external advisors were presented to the Committee to enhance the quality of our reporting.

The finance team worked intensively, under the supervision of the Committee, in considering the suitability of the accounting policies which have been adopted, ensuring that key reporting estimates and judgements were appropriate, and ensuring that the external auditors were afforded timely and full access.

Using our own independent knowledge of the Group, but also taking into account the external auditor's assessment of risk, the Committee has where necessary, challenged the actions, estimates and judgements of management in relation to the preparation of the financial statements. When considering financial reporting, the Committee assesses compliance with relevant accounting standards, regulations and governance codes.

The significant accounting measures and financial judgements considered by the Committee in relation to the financial statements are outlined below:

Key matters considered during the year	How the Committee addressed the matter
Adoption and Evaluation of IFRS 10 criteria for investment entity classification	The Company meets investment entity definition in accordance with IFRS 10 from 31 December 2019 and as a result, the accounting basis was changed from consolidation to fair value measurement effective on that date. The background to this is that under IFRS 10 a parent entity that meets the definition of an "investment entity" does not consolidate certain subsidiaries but rather measures those investments at fair value. Management has for some time been increasingly viewing itself as an investment entity and has been providing alternative performance measures based on its statement of net asset value. The final step which triggered the company becoming an investment entity under IFRS 10 was the creation of the valuation process included in the Terms of Reference of the new Audit and Valuation Committee and the creation of that Committee on 31 December 2019. The Committee received regular updates from management and external auditors about meeting the investment entity definition and the adoption of investment entity basis accounting in accordance with IFRS 10. The Committee is satisfied with management's judgement applied in the assessment of investment entity status under IFRS 10, further described on page 212 in Note 4 to the financial statement.
Portfolio company fair value estimation and disclosure	Reviewed half-yearly and annual valuations of the Company's portfolio investments prepared and presented to it by management. The Committee considered and challenged whether management followed appropriate valuation standards as reflected in the Valuation Policy and used appropriate judgement. The Committee also considered the methods used to account for significant or unusual valuations where different approaches are possible.
Going concern and viability	The Committee considered the management's assessment of the Company's ability to continue as a going concern and its long-term viability taking into consideration the expected impact of the COVID-19 crisis. The Committee reviewed and challenged the inputs and assumptions made during the assessment and ensured that disclosures in Annual Report and Accounts are appropriate.
Revenue recognition	The Audit and Valuation 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.
Valuation of investment property portfolio	Considered the reports of management, prepared based on the third-party valuation and the view of the external auditors.
Alternative performance measures	At the start of the financial year the Committee reviewed the alternative performance measures used by the Company. Throughout the year the Committee considered the prominence of the APMs (this was also flagged by EY). The 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 Committee has challenged management and is satisfied that these are appropriate.
Capitalisation of borrowing costs on residential apartments	Reviewed management's paper setting out the rationale for and impact of the proposed change in accounting policy and considered the external auditor's views. It was decided that the capitalisation under IAS 23 was inappropriate in light of IFRIC March 2019 paper and implemented the change in accounting policy in 1H19.
Change in accounting policy for infrastructure assets	Reviewed management's paper setting out the rationale for and impact of the proposed change in accounting policy and considered the external auditor's views.

Risk management and internal controls

One of the delegated responsibilities of the Committee is to review the effectiveness of the Company's internal financial control systems and risk management and to ensure that where areas of improvement are identified, there are the correct processes in place to effectively take action to address these areas.

The Committee assists the Board in fulfilling its responsibility to review the adequacy and effectiveness of the controls over financial reporting and risk. Further information on risk management and internal controls can be found on pages 70 to 75.

The Committee is supported by a number of sources of internal assurance within the Group in order to discharge its responsibilities. As part of the regular reporting from the Chief Financial Officer and the finance team regarding the operating performance of the portfolio companies, the strength of the internal control environment is considered. Management also provide updates on how risks, for example bribery and information security, are managed within particular business areas, and updates are presented to the Board or the Committee as appropriate. Further, during the year, the Internal Audit function assisted management to perform certain risk identification and assessment activities at the private portfolio companies, the results of which were presented and discussed at the Committee meeting.

The Committee continued, on behalf of the Board, to oversee the Internal Audit function, which serves as the Group's independent assurance over the adequacy and effectiveness of the systems and processes of risk management and control across the Group. The Committee monitors the scope, extent and effectiveness of the Group's Internal Audit function. We review, approve and oversee the Internal Audit Plan, which is designed using a risk-based approach aligned with the overall strategy of the Group.

Throughout the year, we received regular reports from Internal Audit on the progress of the Internal Audit Plan and on the audits themselves, including 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.

With respect to external assurance, throughout the year, the Committee received and reviewed regular interim reports from the external auditors, EY, which include the external auditor's observations on risk management and internal financial controls identified as part of its audit.

The processes described above ensure that the effectiveness of the controls is reviewed on an ongoing basis, and we are pleased to report that no significant weaknesses in our risk management processes or internal controls were identified this year.

Internal Audit effectiveness

As noted above, the Committee continued, on behalf of the Board, to oversee the Internal Audit function, monitoring the scope, extent and effectiveness of the Group's Internal Audit function and reviewing, approving and overseeing the Internal Audit Plan.

The Head of Internal Audit has direct access to the Committee and the opportunity to discuss matters with the 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 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. During the year, internal audit provided assurance across a range of areas, including capital expenditures in capital intensive businesses, procurement cycle, management of insurance claims and revenue recognition under IFRS 15. We also considered the quality of the reporting by Internal Audit to the 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. More information on the activities of Internal Audit can be found on page 72.

External audit

Oversight of the relationship between Georgia Capital and the external auditors, EY, is one of the Committee's key responsibilities. 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 judgements;
- 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; and
- recommended the appointment, re-appointment or removal, as applicable, of the external auditor.

Audit tender

EY was appointed by the Board as the Group statutory auditor in 2018, following a competitive tender process, and re-appointed by shareholders at the 2019 AGM. The audit tender process was described in detail in last year's report. Following the successfully completed tender for the provision of external audit services last year, the Group will be required to put the external audit contract out to tender no later than 2028.

Following the tender last year, Richard Addison has since stepped down from his role as lead partner and was replaced by John Flaherty in September 2019.

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 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 2019 Transparency Report and the annual FRC Audit Quality Inspection Report of EY.

Governance

AUDIT AND VALUATION COMMITTEE REPORT CONTINUED

During the year, an assessment of the effectiveness of the external auditor was conducted through the use of a questionnaire completed by all Committee members and also the Chief Financial Officer and members of the finance team and the Company Secretary. The questionnaire addressed a number of issues including:

- the quality of the auditors' involvement and their understanding of the Company;
- co-ordination between the London and Tbilisi offices;
- governance and independence;
- audit scope, planning and execution; and
- quality of the challenge to management and the Committee from EY.

Feedback was positive overall, and areas in which EY could improve were identified. The result of the assessment was discussed in September 2019 and the Committee Chairman met with the new audit lead partner to discuss the results of the evaluation.

Auditor independence

The Committee has the responsibility of developing, implementing and monitoring 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. This is supported by the Company's Non-Audit Services Policy.

The Committee has undertaken a formal assessment of EY's independence, which included a review of: 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 the value of non-audit services provided by EY. EY have confirmed that they believe they remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. In the Group's internal evaluation of the services of EY, some of the highest scores were received in relation to EY's maintenance of its independence and their discussion of its internal processes for ensuring independence with the Committee.

Non-Audit Services Policy

In order to safeguard the external auditor's independence and objectivity, our policy on the provision of non-audit services by our external auditors aligns with the current EU Statutory Audit regime and recent amendments to the UK Corporate Governance Code. Any work other than for audit or review of interim statements to be undertaken by the external auditor now requires authorisation by the Committee, except in very narrow circumstances. The Group's Non-Audit Policy Services is available on our website at: **https://georgiacapital.ge/governance/cgf/policies**.

The ratio of non-audit fees to audit fees for 2019 is below 1:1. Nearly all of the non-audit fees relate to interim review of financial statements. As indicated in Note 26 of the audited IFRS Financial Statements for 2019, the total fees paid to EY for the year ended 31 December 2019 was GEL 5.2 million.

Compliance

During 2019, the Company complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Whistleblowing, conflicts of interest, anti-bribery and anti-corruption and data protection

The Company is committed to the highest standard of integrity and ethics. The Committee conducts an annual review of the Company's policies, and it is the responsibility of the Committee to ensure that there is a robust governance framework and effective procedures are in place. This included a review of the Whistleblowing Policy. Under the new UK Corporate Governance Code effective from 2019, it is now the responsibility of the Board to have oversight of whistleblowing within the Company and accordingly, following its review of the Policy the Committee made an appropriate recommendation to the Board. The 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 Board continues to monitor and note potential conflicts of interest, and recommends to the Board to consider whether these should be authorised.

The 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 2019.

Fair, balanced and understandable reporting

The Committee reviewed the 2019 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.

In making this assessment, we satisfied 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 2019 Annual Report and Accounts and directly reviewed the overall messages and tone of the Annual Report with the CEO and CFO; and
- we 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

An internal review was facilitated by the Company Secretary, in reviewing the Committee's performance over the financial year. The effectiveness evaluation concluded that overall the Committee was performing effectively and its composition remained appropriate. During the year, the Committee changed the structure of some of it's meeting in order to enhance the effectiveness of Committee meetings.

Continuing education and training

The entire Board received training on the current UK Corporate Governance Code, and on proposed changes that could impact the work of the Committee.

Priorities for 2020

Our priorities for 2020 include,among others, continued focus on:

- monitoring the successful implementation of investment entity basis accounting in accordance with IFRS 10;
- the review of portfolio company valuations and monitoring compliance with the Group's valuation policy;
- ensuring continued integrity and balance in the Group's financial reporting; and
- new and emerging risks, including the Group's response to the coronavirus pandemic.

DIRECTORS' REMUNERATION REPORT

Jyrki Talvitie
Chairman of the Remuneration Committee

INNOVATIVE ALIGNMENT OF REMUNERATION WITH SHAREHOLDERS' LONG-TERM INTERESTS

Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

The Remuneration Committee was strongly encouraged that the new Directors' Remuneration Policy received 99% approval by our shareholders at our AGM in May 2019. Similarly, the Directors' Remuneration Report also received 99% approval.

Directors' Remuneration Policy implemented

Shaping, consulting on and implementing the new Directors' Remuneration Policy (the "Policy") was the Remuneration Committee's priority in the first months of 2019. The Policy focuses on alignment between the Executive Directors and our shareholders. In particular, the Executive Director's salary and performance-based remuneration is paid in shares which vest over several years. There is no cash salary or cash bonus and no LTIP. This remuneration structure has been designed to foster and reward long-term strategic performance.

The Policy is in tune with relevant guidance including:

- Shareholding guidelines with an equivalent of 200% of salary, also to be maintained for two years post-employment;
- Malus and clawback provisions with strengthened prescribed triggers consistent with the UK best practice; and
- Pension contribution by the Company the same as for Group employees, although our CEO, Irakli Gilauri, has waived his pension entitlement.

Furthermore, there was a 35% reduction in salary for the CEO compared to that of our predecessor BGEO Group PLC.

A summary of the Policy is on pages 156 to 160 of this Remuneration Report and the full text of the Policy is available on the website at **https://georgiacapital.ge/governance/cgf/policies.**

Shareholder engagement

In early 2019, the Remuneration Committee (including myself) and the Senior Independent Director engaged extensively with our investors on the proposed new Policy through letters to our shareholders, and, where possible, calls and face-to-face meetings. Their feedback was taken into account ahead of finalising the Policy. We are grateful for their engagement and the support shown for the Policy at the AGM.

Workforce engagement

We are also mindful of the value of workforce engagement. Employees were able to raise matters relating to the workforce through the designated Non-Executive Director, Kim Bradley, who is also a member of the Remuneration Committee; further details of this can be found on page 136.

Addressing the factors in provision 40 of the new UK Corporate Governance Code (the "Code")

The Remuneration Committee considered the requirements of the new Code in determining the new remuneration structure and Policy, taking each of the factors of provision 40 of the Code in turn:

- ***Clarity:*** remuneration arrangements are transparent and competitive. The Remuneration Committee set out the rationale and the full Policy last year: this year, we summarise the Policy in this report so that main features are clear.
- ***Simplicity:*** the rational is simple, focusing the Executive Director and senior management on sustainable, long-term performance of the Company by remunerating mostly in deferred shares.
- ***Risk:*** by its nature, setting all of the CEO's remuneration in shares which are deferred by up to six years from the start of the work year, the structure drives the CEO and senior management to mitigate reputational, behavioural and undue strategic risks as the outcome of such would be likely to affect the share price over the years. The new Policy also introduced a minimum shareholding and post-employment shareholding requirements.
- ***Predictability:*** the range of possible values was set out in the Policy including the impact of share price appreciation and depreciation even though such disclosure was voluntary, to aid predictability. Weighted KPIs have been used in this year's performance review.
- ***Proportionality:*** outcomes reward performance proportionately by reference to performance targets and, furthermore, to allow appropriate adjustment, the entire "bonus" is discretionary. For further considerations on proportionality, see section "CEO Pay and Comparators" on page 151.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

- ***Alignment to culture:*** the entire remuneration in deferred shares rather than cash promotes alignment with culture and the long-term success of the Company, supported by the inclusion of initiating cultural change as one of the CEO's performance KPIs.

Pay for performance

An important decision for the Remuneration Committee was determination of the discretionary performance-based remuneration (in deferred shares) for our CEO and sole Executive Director, Irakli Gilauri, in respect of his performance over 2019.

This year, to aid transparency in decision making, the Remuneration Committee disclosed weighting against each KPI.

The CEO's KPIs were selected based on our framework of value creation as well as setting up the Group for long-term growth. The first six KPIs and targets, to which 90/100 weighting was attributed are therefore completely aligned with strategy. The Group also considers softer KPIs (weighting 10/100) important, such as active mentoring of the management team, continued personal development and initiating cultural change; as setting standards, encouraging development and leading by example correlate with the Group's responsibilities and its future.

The Remuneration Committee considered Mr Gilauri's performance against the ambitious financial targets chosen, as well as the strategic non-financial targets and KPIs that shape the cultural growth of our Group, and awarded Mr Gilauri 50% of the maximum opportunity. The performance-based remuneration is entirely discretionary, although based upon the CEO's performance measures. It will vest on a phased basis with a total vesting and holding period of five years. The rationale and performance metrics are further explained later in this report. The Remuneration Policy operated as intended in terms of the Company performance and quantum.

Pension contributions

In 2019, the Remuneration Committee also reviewed the changes to the pension provision following the new Georgian state pension legislation. This implementation has been group-wide in Georgia; the Group, the employee and the Georgian Government each contribute an amount equivalent up to 2% (up to a ceiling) of the employee's remuneration. As above, our current Executive Director, Irakli Gilauri, has waived the pension contribution from the Company and further, is not receiving a payment in lieu of pension contribution.

Approach to workforce remuneration

There is some variation to workforce remuneration between portfolio companies. The general approach taken to compensation is: (i) base salary, (ii) cash bonus determined by direct managers based on individual performance, (iii) health insurance, and (iv) other varying benefits.

The pension provision in Georgia is the same across the Group, as above. At the top levels in portfolio companies, compensation may include shares or phantom shares.

In 2019, the Remuneration Committee reviewed the employees remuneration structures in the portfolio companies. It considered the addition of benefits for some companies, such as accident insurance, transportation and communication benefits. The Remuneration Committee also compared benefits and salary banding within and across the portfolio companies.

Other Remuneration Committee activities in 2019

The Remuneration Committee decided the bonus for senior management for the work year 2018 (in early 2019) and for work year 2019 (in early 2020), including the number of discretionary deferred shares, which vest over several years. Senior management is defined as the top executives in the Georgian holding company.

The Remuneration Committee has also reviewed and recommended the updated Terms of Reference of the Remuneration Committee and updated the Executive Incentive Plan to align it with the new Policy.

On a final note, we would like to thank our shareholders for their strong support on remuneration matters at the 2019 AGM, as we also believe the structure, package and approach to remuneration is right for our Group.

Jyrki Talvitie
Chairman of the Remuneration Committee
7 April 2020

What's in this report

This Directors' Remuneration Report discloses the amounts earned and other information relating to the year ended 31 December 2019.

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.

The Directors' Remuneration Policy was approved by shareholders in a binding vote at the 2019 AGM and took formal effect from the date of approval and will apply until the 2022 AGM, at which time we will be required to submit our Directors' Remuneration Policy for approval by shareholders. A summary of our Directors' Remuneration Policy can be found on pages 156 to 160. The full policy is set out in the 2018 Annual Report on pages 140 to 147 which is available at **https://georgiacapital.ge/ir/annual-reports** and on our website at **https://georgiacapital.ge/governance/cgf/policies**.

The Annual Report on Remuneration (set out on pages 145 to 160), which includes the Annual Statement by the Chairman of the Remuneration Committee, will be subject to an advisory vote at the 2020 AGM.

The Remuneration Committee and its Advisers

The Remuneration Committee is principally responsible to the Board for establishing a remuneration policy for the Executive Directors, the Chairman and designated members of the Executive Management team that rewards fairly and responsibly, and is designed to support the Company'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 reviewed in December 2019 and are available on our website: **https://georgiacapital.ge/governance/cgf/terms**.

The Remuneration Committee is comprised of three Independent Non-Executive Directors: Jyrki Talvitie who serves as Chairman, Kim Bradley and Maria Chatti-Gautier who joined the Remuneration Committee on 19 March 2020. Bill Huyett stepped down as Chairman of the Remuneration Committee in January 2019, and as a member of the Remuneration Committee and the Board in June 2019. At the date of appointment as Chairman, Mr Talvitie had 10 months' experience on a remuneration committee: the Company has explained against the Code provision in the Governance Statement on page 125 on this matter. The members' attendance during 2019 is shown in the Board and Committee meetings attendance table on page 130.

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 Company's legal advisers. The Remuneration Committee is of the view that the advice received from Baker & McKenzie LLP is objective and independent.

To aid in formulating the new Policy, the Company engaged a specialised remuneration consultant, Willis Towers Watson (WTW), to conduct an independent review of the Company's previous 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 advisers appointed following a competitive tender process who have no other relationship with the Company. WTW's fees are typically charged on an hourly basis with estimates for work agreed in advance. During 2019, WTW was paid £13,800 for this work for the Remuneration Committee.

Shareholder context

The Directors' Remuneration Policy applicable to this section of the Annual Report on Remuneration was approved by shareholders at our AGM on 22 May 2019 (the 2019 Policy). The Directors Remuneration Policy received the following votes from shareholders.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Policy	28,900,823	98.89	325,227	1.11	29,226,050	2,309,274

Set out below are the shareholder voting figures for the Directors' Remuneration Report (including the Annual Statement of the Chairman of the Remuneration Committee) presented at our 2019 AGM.

Resolution	Votes for	%	Votes against	%	Total votes cast	Votes withheld
Approval of the Directors' Remuneration Report	29,932,096	98.77	371,362	1.23	30,303,458	1,231,866

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' remuneration

Single total figure of remuneration for the Executive Director (audited)

The table below sets out the remuneration earned by Georgia Capital PLC's sole Executive Director, Irakli Gilauri, during 2019, in respect of his employment for the year ended 31 December 2019. 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 fixed share price as described in footnotes 2 and 3 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 158.

	Cash salary (US$)[1]	Deferred share salary (US$)[2]	Total salary compensation (US$)	Discretionary deferred shares (US$)[3]	Taxable benefits (US$)[4]	Pension benefits[4]	Total (US$)
2019	**–**	**2,730,000**	**2,730,000**	**1,060,000**	**–**	**–**	**3,790,000**
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. 200,000 deferred salary shares were awarded for the work year 2019 and 118,356 deferred salary shares were awarded for the work year 2018 (i.e. 200,000 annual salary pro-rated since the listing on 29 May 2018). The change from a part to full work year explains the change in salary received from 2018 to 2019. To discharge the UK tax and employee National Insurance Contributions arising upon the grant of the salary shares Georgia Capital PLC and the Executive Director agreed to waive his entitlement to such number of the salary shares as needed for the payment of the Executive Director's UK tax and employee National Insurance Contributions by the Company. Under this arrangement, the Executive Director waived his entitlement to 9,186 deferred salary shares with respect to work year 2019 and 4,200 shares with respect to work year 2018. The value of US$2,730,000 for the work year 2019 and US$1,615,562 for the work year 2018 is calculated by reference to the share price as the date of the Remuneration Committee meeting at which salary was determined, 12 July 2018, being US$13.65 a share (the official share price of GBP 10.324 converted into US 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 PLC shares underlying nil-cost options granted in respect of bonus award for the year. For 2019, awards were granted over 100,000 shares. The value is calculated by reference to the share price on 29 January 2020, which the last available price as the date of the Remuneration Committee meeting which determined the discretionary deferred share award, 30 January 2020, being US$10.60 a share (the official share price of GBP 8.15 converted into US Dollars using an exchange rate of 1.3 being the official exchange rate published by the Bank of England on the same date). 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 US 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 and 2019 award is subject to a further holding period of a year.

4 There are no taxable benefits or pension benefits for 2019 and 2018. Mr Gilauri has agreed for all pension contributions to be waived. 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.

5 The number of shares awarded pursuant to the deferred share salary and discretionary deferred share remuneration is fixed on grant. No discretion has been exercised as a result of share price appreciation or depreciation. Discretionary deferred shares are subject to one-year targets and the Company does not operate a LTIP. No amounts were recovered or withheld in 2019. No dividend equivalents have been received.

Alternative remuneration table showing the Executive Director's 2018 and 2019 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 and 2019 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. Further, the Executive Director may forfeit the shares on cessation of employment in certain circumstances.

	Deferred share salary (US$)	Discretionary deferred shares (US$)	Total salary and discretionary deferred shares remuneration (US$)
2019	**1,590,845**	**657,634**	**2,248,480**
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 2019, and his discretionary compensation as a percentage of maximum opportunity.

	2018	2019
Single total figure of remuneration (US$)	4,066,962	**3,790,000**
Discretionary compensation as a percentage of maximum opportunity (%)	85	**50**

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 2019

Mr Gilauri's KPIs included financial targets, strategic targets and non-tangible components. The financial and strategic elements largely track the Group's KPIs as he is expected to deliver on the Group's strategy. The non-tangible targets take into account factors such as leadership and mentoring, corporate culture and personal development. The Remuneration Committee's practice is to set ambitious financial targets, and would normally expect to award 70% of the maximum available for meeting the target, depending on the circumstances, including business and economic developments during the year. For strategic and non-tangible targets, measurement is more difficult, but here again we have high expectations of Mr Gilauri and would typically plan to award 70% of the maximum available for meeting these targets. The range above a 70% award is reserved for performance that exceeds the target or is truly exceptional.

In a change from last year, we are reporting our weighting of the KPIs so that the award outcome is more transparent (although ultimately, as will be clear from this year's award, the Remuneration Committee retains discretion). The overall financial to non-financial KPIs ratio is 60:40 (the Group is young and non-financial strategic targets are also key) and the individual KPI weightings are shown in the table below, which sets out the target for Mr Gilauri's 2019 KPIs as well as a summary of the Remuneration Committee's assessment of his performance against them. More details on performance is provided below the table.

Key Performance Indicator	Weight/100	2019 Target	Performance and Remuneration Committee Evaluation	Award & Weighted Result
Financial Targets				
NAV growth as per business plan	40	17.5%+ growth focused principally on private portfolio companies (stretch target is 20% growth)	Largely achieved – 21% value creation in private portfolio	80% (32)
Generate cash at GCAP level as well as at private portfolio companies	10	65% growth	Fell short – 39.8% growth	40% (4)
Expense Ratio	10	2% management fee expenses as a % of market cap	Target exceeded – 1.8%	80% (8)
Strategic Targets				
Active and disciplined pursuit of new investment opportunities	17.5	Pursuit in line with strategy: good deal flow, building an investment process with disciplined capital allocation	Discipline pursuit of pipeline deals with 11 completed New business areas entered Targeted exceeded	92% (16)
Achieve strategic priorities of portfolio companies	12.5	Key targets for portfolio companies (all as published in investor presentations)	Target met	72% (9)
Intangible Targets				
Active mentoring and development of management team including successors		Active mentoring and development of senior executives; help develop of their business and soft skills		
Initiate Cultural Change	10	Support the board in defining the corporate culture and initiating cultural change, including leading by example	Targets met, see below for details	80% (8)
Continued personal development		Continued self-development		
Total Performance Assessment				77/100

Comments on individual KPIs

Financial targets

- NAV grew by 35.3% with a very healthy 21% value added in the private portfolio. The combined negative growth of our two public portfolio companies offset this result and produced overall growth of 5.7%.
- Cashflow generation targets at the aggregate portfolio level was not met, although the target was met at the Company level.
- At 1.8%, the expense ratio was well within our target maximum, as good cost discipline was maintained.

Strategic targets

- A large number of investment opportunities were screened with financial and strategic rigour, and Mr Gilauri led the team in pursuing an extraordinary number of investment opportunities that passed through this initial screening, leading to number of very promising new investments and 11 deals completed. (This KPI is a key non-financial driver in building up this young Group.)
- Key targets for portfolio companies met as above.

Intangible targets

- Mr Gilauri aided in developing our executives into "internal entrepreneurs" in line with the Company's purpose, both by directly and actively monitoring senior executives, and by encouraging management participation in coaching and training. Mr Gilauri lead the Board in considering the culture we want and how our current culture measures up against our vision, and initiating cultural change (including leading by example on the new values). He continued his personal development and is supportive of the Board on planning for succession on all levels.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

As evident from the above, the Remuneration Committee was highly satisfied with Mr Gilauri's performance and the overall assessment suggested an award of 77% of the maximum. Notwithstanding this, both Mr Gilauri and the Remuneration Committee agreed that the poor performance of the public portfolio in 2019 should be taken into consideration (even though the CEO had limited influence over this). The Remuneration Committee had originally set the figure at a somewhat higher amount, but after detailed discussion with the CEO his award was set at 50% of the maximum opportunity.

Percentage change in remuneration of CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2018 and 2019, compared with the average percentage change in the per capita remuneration awarded to the employees at the holding company's level only (c.35 employees in total) as a whole between 2018 and 2019. We considered comparison against these employees to be the most appropriate given the Company's status as an investment entity under IFRS 10. See the single total figure of remuneration table on page 147 for an explanation of deferred share salary, taxable benefits and discretionary deferred remuneration of Mr Gilauri.

	Percentage change for the CEO between 2018 and 2019	Average percentage change for the Group's employees as a whole (excluding Mr Gilauri) between 2018 and 2019
Total deferred share salary[1]	0%	0%
Taxable benefits	0%	24.4%
Total bonus (discretionary deferred share remuneration, in the case of Mr Gilauri, and deferred discretionary share remuneration plus cash bonus, in the case of other employees of the Group)	-52.6%	-3.1%

Note:
1 For the work year 2018, the CEO's deferred share salary of 200,000 shares was pro-rated since the listing on 29 May 2018. For the purpose of this disclosure the award was scaled up to the full year. The same approach is applied for the deferred share salary of other senior managers.

Details of fixed and discretionary deferred share remuneration granted during 2019

The table below sets out details of the nil-cost options over GCAP shares which have been granted to Mr Gilauri in 2019 in respect of 2018 work year. Please note that the information presented in this section is for the 2018 financial year.

	Deferred share salary	Discretionary deferred share remuneration
Number of underlying shares and basis on which award was made	118,356 granted on the basis described in the table under the old BGEO 2017 policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.	170,000 granted on the basis described in the table under the old BGEO 2017 policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group (as reflected in accounts)	US$ 1,615,562[1]	US$ 2,451,400[2]
Face value	US$ 1,615,562[1] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).	US$ 2,451,400[2] Cash payments equal to the dividends paid on the underlying shares will be made upon vesting (if applicable).
Percentage of award achievable if minimum performance achieved	100% of the award will be receivable, since the award is part of the Executive Director's salary for 2018 and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2018 performance (and is not LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the Policy and so no payment is required upon exercise.	Nil. The options make up the entirety of the Executive Director's performance-based remuneration and so no payment is required upon exercise.
Vesting period	20% in each of 2020, 2021, 2022, 2023 and 2024.	25% in each of 2020, 2021, 2022 and 2023.
Performance measures	None. See section (1) of the BGEO 2017 Policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.	See section (2) of the BGEO 2017 Policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.

Notes:
1 Deferred share salary. The value is calculated as described in Note 2 to the table of single total figure of remuneration to the Executive Director. The terms and conditions applying to deferred share salary for 2018 are described in section (1) of the BGEO 2017 Policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.
2 Discretionary deferred share remuneration. The value is calculated as described in Note 3 to the table of single total figure of remuneration to the Executive Director. The means of determining the number of shares underlying this award and the terms and conditions are described in section (2) of the BGEO 2017 Policy available at **https://georgiacapital.ge/ir/annual-reports** as amended in accordance with the circular to shareholders available at **https://georgiacapital.ge/ir/listing-materials**.

CEO pay and comparators

It is noted that the Group has less than 250 UK employees and therefore is not required to disclose ratios of the CEO pay against the UK pay (and indeed given it has less than 20 UK employees, to do so would be distortionary). The Remuneration Committee also noted the 35% decrease in salary from our predecessor, BGEO Group PLC. The delayed receipt of the salary and the bonus (in shares vesting across several years) means that the time value of money and also the risk of salary and bonus not vesting (due to malus but also to shares lapsing in the event of early termination under certain circumstances) were factored. We also presented the overall package (without factoring in the time value or money or risk of lapse) in face-to-face meetings with investors when engaging on the new Policy.

Single total figure of remuneration for Non-Executive Directors (audited)

During 2019, the Board reviewed the Investment Committee Chairman's time commitment, responsibilities and technical skills required to make a valuable contribution to the Investment Committee and the Board. The Investment Committee plays key role in making decisions on portfolio investments and exits, and 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 and in considering the commercial terms of major transactions and is pivotal to the Company. Given the responsibilities of the role and the level of time commitment from Kim Bradley in his position as Investment Committee Chairman, including the time spent with the portfolio companies to understand their businesses, the Board decided a commensurate increase in fees for the Chairman of Investment Committee, which took effect from 1 August 2019.

The table below sets out the remuneration received by each Non-Executive Director in 2019 and 2018.

	Georgia Capital PLC fees (US$)		JSC Georgia Capital fees (US$)		Total fees (US$)	
	2019	2018	2019	2018	2019	2018
David Morrison	**77,526**	47,560	**124,100**	76,061	**201,626**	123,621
Massimo Gesua' sive Salvadori	**61,977**	51,122	**94,973**	79,365	**156,950**	130,487
Kim Bradley	**65,730**	37,427	**108,903**	60,958	**174,633**	98,385
William Huyett	**25,585**	51,122	**39,444**	79,365	**65,029**	130,487
Caroline Brown	**61,977**	51,122	**94,973**	79,365	**156,950**	130,487
Jyrki Talvitie	**63,994**	48,688	**94,957**	76,123	**158,951**	124,811
Total	**356,789**	287,041	**557,350**	451,237	**914,139**	738,278

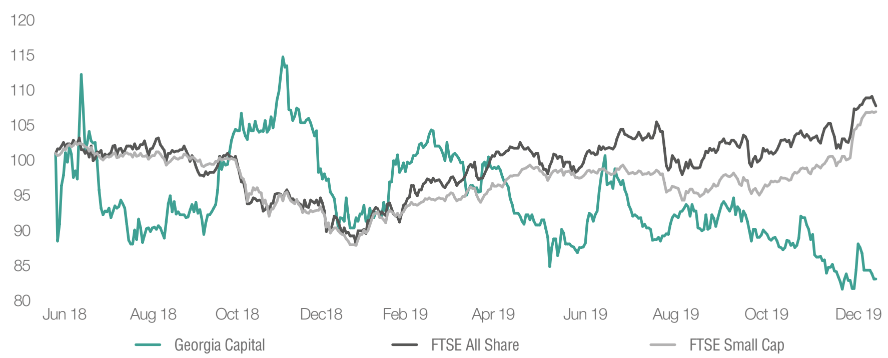
Notes:
1 The Company has been publicly listed since 29 May 2018. David Morrison and Kim Bradley waived their fees until 21 May 2018 as they were remunerated as BGEO Group PLC directors until that date. BGEO Group PLC fees are not included in 2018 fees in the above table as fees in this report are for Georgia Capital PLC and its Group entities only. Other Non-Executive Directors were only remunerated from March 2018 when appointed. Hence, 2018 was not a complete year for fee payment, unlike 2019. The increase in Investment Committee Chair fees is explained above the table. Together these matters explain the difference between 2018 and 2019 fees.
2 William Huyett stepped down as Chairman of the Remuneration Committee on 16 January 2019 but remained as a member of the Remuneration Committee. On 5 June 2019 William Huyett resigned from the Board of Directors of Georgia Capital PLC and the Supervisory Board of JSC Georgia Capital and their associated committees.
3 Jyrki Talvitie, stepped up from being a member of the Remuneration Committee of the Company and of the Supervisory Board, to Chairman of the respective Remuneration Committees on 16 January 2019.

Payments to former Directors and for loss of office

No payments were made to former Directors or for loss of office during the year ended 31 December 2019.

Total Shareholder Return

The following graph compares the Total Shareholder Return (TSR) of Georgia Capital PLC with the companies comprising the FTSE All Share Index and FTSE Small Cap Index for the period from 29 May 2018 until 31 December 2019. Georgia Capital PLC has been a member of the FTSE All Share Index since its premium listing in 29 May 2018.



Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Relative importance of spend on pay

The following table shows the Georgia Capital's actual spend on pay at the holding company's level only (c.35 employees in total) between 2018 and 2019. We considered comparison against these employees to be the most appropriate given the Company's status as an investment entity under IFRS 10.

	Remuneration paid to all employees of the Group	Distribution to shareholders by way of buy-back
Year ended 31 December 2018 (US$ 000)	11,456	17,850
Year ended 31 December 2019 (US$ 000)	9,580	27,133
Percentage change	-16.4%	52.0%

Notes:
1 Remuneration for the year 2018 was scaled up to a full year from the listing date on 29 May 2018 for comparison reasons.
2 Decrease in total remuneration paid to the holding company's employees was driven by currency depreciation and decrease in discretionary compensation.
3 The Company did not make any other significant distributions during 2019.

Share ownership requirement (audited)

Executive Directors are required to build over five years and maintain a shareholding equivalent to 200% of base salary. Mr Gilauri already holds above this requirement as at 31 December 2019 – see table and Note 2 below. In accordance with the Policy, beneficially owned shares as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares count towards the requirement, noting that such unvested and vested shares are not subject to performance conditions after their grant.

Directors' interests in shares (audited)

The following table sets forth the respective holdings of GCAP shares of each Director as at 31 December 2018 and 2019.

	As at 31 December 2018				As at 31 December 2019			
	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	**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	**18,246**	**N/A**	**N/A**	**18,246**
Caroline Brown	—	N/A	N/A	—		**—**	**—**	**—**
Massimo Gesua' sive Salvadori	11,699	N/A	N/A	11,699	**13,739**	**N/A**	**N/A**	**13,739**
Irakli Gilauri	592,424	N/A	412,515	1,004,939	**721,141**	**—**	**579,005**	**1,300,146**
William Huyett	500	N/A	N/A	500	**500**	**N/A**	**N/A**	**500**
David Morrison	43,457	N/A	N/A	43,457	**53,252**	**N/A**	**N/A**	**53,252**
Jyrki Talvitie	5,762	N/A	N/A	5,762	**5,762**	**N/A**	**N/A**	**5,762**

Notes:
1 As at 31 December 2019, WI Huyett Revocable Trust, a Person Closely Associated (PCA) of Mr Huyett, also held 6,500 GCAP shares. Mr Huyett stepped down from the Board in June 2019.
2 As at 31 December 2019, Mr Gilauri's vested and unvested shareholding was 1,300,146 GCAP shares, representing approximately 3.2% of the Company's share capital. In 2020, Mr Gilauri received awards of 200,000 salary deferred shares for the 2019 work year, out of which 9,186 shares were waived by Mr Gilauri to discharge the UK tax and employee National Insurance Contributions. This will be reported in the 2020 Annual Report and Accounts and is not included in the table above, which is at 31 December 2019. None of Mr. Gilauri's connected persons have any interest in the shares of the Company.
3 In June 2019, Mr Gilauri exercised options in respect of 117,665 GCAP shares, of which 23,533 were withheld to satisfy tax liabilities. The net gain of these options was US$ 1,276,430.

The Remuneration Policy focuses on base salary in deferred salary shares and discretionary compensation in discretionary deferred shares. The long vesting periods naturally result in the Executive Director, Irakli Gilauri, building up large holdings of unvested nil-cost options. 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, the 2019 Policy introduced formal guidelines on shareholding and on post-employment shareholding. As at 31 December 2019, Mr Gilauri met the shareholding requirement.

Under the Directors' Remuneration Policy, the Group does not require Non-Executive Directors to hold a specified number of shares in GCAP. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders. The Chairman and Non-Executive Directors are not awarded incentive shares and are not subject to a shareholding requirement.

There have been no changes in the Directors' interests in shares in the Company between the end of the financial year and 7 April 2020, with exception of Irakli Gilauri who as at 7 April 2020 holds total of 1,490,960 vested and unvested shares.

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 2019.

As at 31 December 2019	Number of GHG shares held directly
Kim Bradley	10,687
Irakli Gilauri	231,566
David Morrison	65,583

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.

Remuneration Committee effectiveness review

An internal review of the effectiveness of the Remuneration Committee was facilitated by the Company Secretary. The evaluation concluded that overall the Remuneration Committee was performing effectively. However, the Remuneration Committee had concluded that it would be necessary to replace Bill Huyett, who ceased to be a member of the Remuneration Committee in June 2019 when he stood down from the Board. The Remuneration Committee was therefore pleased that Maria Chatti-Gautier who was appointed to the Board on 19 March 2020 and would be joining the Remuneration Committee.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Implementation of Remuneration Policy for 2020

Details of how the Policy will be implemented for the 2020 financial year are set out below.

For Irakli Gilauri

2020 FIXED PAY

Total deferred share salary	200,000 Georgia Capital deferred shares underlying nil-cost options.
Pension Benefits	Mr Gilauri has agreed for all pension contributions to be waived. Details of the benefits received by Executive Directors are on page 157.

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.

2020 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 by the Remuneration Committee for the work year and the performance of the Group during the work year. If Mr Gilauri is awarded discretionary deferred shares with respect to 2020 work year, the award will vest 25% in January of each of 2022, 2023, 2024 and 2025. 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 2020, 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 has set the 2020 KPIs for the CEO. However, given the emergence of the coronavirus, the Remuneration Committee will keep the KPIs under review. While the below KPIs constitute current strategy and are achievable on a business as normal basis, the current situation gives us a reason to believe that we may need to adjust KPIs and/or targets in order to take into account the impact of coronavirus. Our priority will be to safeguard the long-term success of the business; so accordingly, KPIs may also be adjusted to correspond with appropriate priorities.

- Performance targets:
  - NAV per share growth
  - Achieving budgets of GCAP and portfolio companies, including cash flow generation
  - Expense Ratio
  - Broaden access to capital including active seeking of price discovery of assets held
  - Disciplined pursuit of investment opportunities
  - Progress towards achieving mid-to-long term strategic priorities in portfolio companies

- Developmental targets:
  - Active mentoring and development of management including successor(s)
  - Continue personal development
  - Introduction of succession planning process across the GCAP and portfolio companies

Due to the potential impact on our commercial interests, the targets are sensitive and appropriate detail will be disclosed in the 2020 Remuneration Report following the completion of the financial year. KPIs and targets will be reviewed and may be revised by the Remuneration Committee throughout the year and by the Board as appropriate, subject to the terms of the Policy, in particular given the impact of, and appropriate response to and adjustments arising from, circumstances resulting from coronavirus, as above.

The 2020 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 2020. 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 the 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 maybe reviewed from time to time by the Board. The Chairman does not receive a Committee fee.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' Remuneration Policy

The Remuneration Policy was approved at the AGM on 22 May 2019 and took effect from that date. It is intended that approval of the Policy will be sought at three-year intervals, unless amendments to the Policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2020. The full Policy is available at: **https://georgiacapital.ge/governance/cgf/policies**.

The tables in this section provide a summary of the Directors' Remuneration Policy.

Remuneration Policy table for Executive Directors

Deferred share salary

Purpose and link to strategy	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 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.
Operation	**Performance measures**
The level of base salary for an Executive Director is fixed in his or her service agreement(s). 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 with no cash salary. Deferred share salary is awarded annually in the form of nil-cost options in respect of the work year and 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 also receives cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date. Lapse provisions (natural malus) are built into the deferred share salary. Extended malus and clawback provisions do not apply to the deferred share salary as the awards attach to salary already earned.	N/A

Discretionary deferred shares

Purpose and link to strategy	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 is solely in the form of deferred shares (no cash), designed to closely align the interests of an Executive Director with shareholders, avoid inappropriate risk taking for short-term gain and encourage long-term commitment to the Group.	The maximum number of discretionary deferred shares that may be awarded in respect of the previous work year for Mr Gilauri 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.
Operation	**Performance measures**
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. The Remuneration Committee will determine annually the number of shares to be awarded based on the Executive Director's achievement of the KPIs set for the work year and the performance of the Group during that year. 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, the Executive Director also 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. 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. Extended malus and clawback, in addition to lapse provisions (natural malus) apply.	KPIs for the Executive Director are set towards the beginning of each work year and reflect the 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. If appropriate, where a strategic change or change in business circumstances has made one or more of the KPIs an inaccurate gauge of the Executive Director's performance, the Remuneration Committee may decide to base its assessment on alternative measures.

Pension

Purpose and link to strategy	Opportunity
The Group complies with pension requirements set by the Georgian Government. The same arrangement applies to employees across the Group in Georgia.	In line with current Georgian legislation, the Executive Director and Group each contribute 2% of total remuneration from the Group, and the Georgian Government may contribute a further small amount (0-2% depending on income levels). Pension contributions will only increase above this level if mandated by Georgian legislation or if mandated by any other applicable legislation.
Operation	**Performance measures**
Pension provision will be in line with Georgian pension legislation, which may change from time to time. There is no provision for the recovery or withholding of pension payments.	N/A

Benefits

Purpose and link to strategy	Opportunity
Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	There is no prescribed maximum on the value of benefits payable to an Executive Director. 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.
Operation	**Performance measures**
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. Other benefits may be provided from time to time if considered reasonable and appropriate.	N/A

Shareholding guidelines

Purpose and link to strategy
To ensure Executive Directors build and hold a significant shareholding in the Group over the long term and to align Executive Directors' interests with those of shareholders. To ensure departing Executive Directors make long-term decisions and maintain an interest in the ongoing success of the Group post-employment.
Operation
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"). All beneficially owned shares, as well as unvested (net of tax) and vested deferred share salary and discretionary deferred shares count towards the Required Shareholding (as such awards are not subject to any performance conditions after grant). 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 its discretion in the Group's next Remuneration Report. It should be emphasised that there is no present intention to use this discretion.

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DIRECTORS' REMUNERATION REPORT CONTINUED

Clawback and Malus

Discretionary deferred shares are subject to malus, and clawback for up to two years from vesting, in the following circumstances:

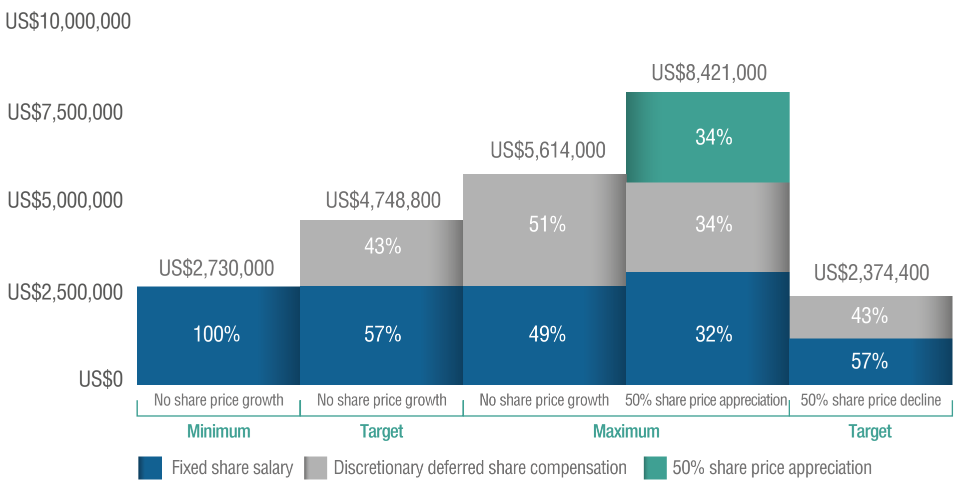
- misconduct in the performance or substantial failure to perform duties;
- significant financial losses, serious failure of risk management or serious damage to the reputation of Georgia Capital PLC or JSC Georgia Capital, caused by misconduct or gross negligence (including inaction in performance of 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.

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. For more information please see the "Termination of the JSC Georgia Capital service agreement" in the Remuneration Policy available at: **https://georgiacapital.ge/governance/cgf/policies**.

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 2020 under the proposed Policy at five different performance levels. The below is an extract from the 2019 Policy.

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 US 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 2020 work year will be reported in the 2020 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%.

Remuneration Policy table for Chairman and Non-Executive Directors

Base fees	
Purpose and link to strategy	**Opportunity**
To attract and retain high performing Non-Executive Directors with the requisite skills, knowledge, experience, independence and other attributes to add value to the Group.	The maximum aggregate Georgia Capital PLC fees for all Non-Executive Directors which may be paid under the 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.
Operation	**Performance measures**
All fees are paid in cash 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. Fees may be reviewed from time to time by the above, taking 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.	N/A
Committee fees	
Purpose and link to strategy	**Opportunity**
Compensate for additional time spent discharging Committee duties.	The Chairman does not receive Committee fees.
Operation	**Performance measures**
Cash payment on a quarterly basis. The amount of remuneration for Committee membership is reviewed as above.	N/A

Service agreements and policy on payments for loss of office

Mr Gilauri is the sole Executive Director of the Group. Mr Gilauri has a service contract effective from 29 May 2018 with Georgia Capital PLC for an indefinite term (subject to re-election at the AGM) which is terminable by either party on four months' notice unless for cause where notice is 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 the Company with immediate effect and by the Executive on not less than three months' notice unless for cause where notice is served by the Group shall have immediate effect.

For information on our policy on payments for loss of office, please see our full Policy at **https://georgiacapital.ge/governance/cgf/policies**.

Governance

DIRECTORS' REMUNERATION REPORT CONTINUED

Letters 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 serious 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 Non-Executive 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.

The service agreements and letters of appointment are available for inspection at the Company's registered office.

Signed on behalf of the Remuneration Committee

Jyrki Talvitie
Chairman of the Remuneration Committee
7 April 2020

NOMINATION COMMITTEE REPORT

Jyrki Talvitie
Chairman of the Nomination Committee

DEVELOPING AND RECRUITING THE TALENT PIPELINE FOR A UNIQUE GROUP

Dear Shareholders,
I am delighted to present the Company's Nomination Committee Report.

The Nomination Committee's principal responsibility is to lead the process for appointing Directors to the Board and in respect of senior management positions. In last year's report, I explained that the Nomination Committee had focused primarily on ensuring the Board and its Committees were suitably resourced to facilitate the successful delivery of the Company's strategic and financial objectives. The Company is only in its second year of operation since its demerger from BGEO Group PLC and continues to evolve. The continuous development of our business, together with ensuring that the combination of the roles of Chairman and CEO continues to be the best structure for the Company, will be key areas of focus for the Nomination Committee going forward.

Bill Huyett stepped down from the Board in June 2019, and the Nomination Committee concluded that in the context of succession planning and future appointments, considering the skills and experience available to the Board and possible gaps, the Board would benefit from more experience of private equity. Alongside other matters, including diversity, the Nomination Committee will take this into consideration. The Nomination Committee has adopted a model of identifying potential candidates and working with them over a period of time by inviting them to Board meetings and introducing them to senior management. This enables both the Board – and the candidates – to establish suitability and fit. As a result of the adoption of this process, the Nomination Committee was able to recommend that the Board appoint Maria Chatti-Gautier and you can read more about Maria's background and experience on page 127.

The Committee is satisfied that the overall size and composition of the Board is appropriate for the Group and that it comprises the right combination of skills, experience and knowledge. The Committee is also satisfied that we have in place strong leaders across our portfolio companies.

The Nomination Committee also reviewed the composition of each of the Board Committees and considered the results of the effectiveness evaluation undertaken by each of them. The Nomination Committee concluded that the composition of the Audit and Valuation Committee continues to be appropriate. Later in this report there is a summary of the results of the effectiveness evaluation of this Committee as a result of which the size and composition of the Nomination Committee has been reduced and will now comprise myself as Chairman, Irakli Gilauri, Kim Bradley and Maria Chatti-Gautier. Maria has also joined the Remuneration Committee.

The Investment Committee will continue to comprise all Board members and therefore Maria joined that Committee on her appointment as a Director.

In 2020, we will continue to focus on Board composition and succession planning at both the Board and senior management level, and oversee the ongoing development of a diverse pipeline for succession.

I invite you to read more on the activities we have undertaken during 2019 in the following report.

Jyrki Talvitie
Chairman of the Nomination Committee
7 April 2020

Governance

NOMINATION COMMITTEE REPORT CONTINUED

The Role of the Nomination Committee

The role of the Nomination Committee is to help ensure 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 Board's diversity policy.

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 of candidates to fill Board vacancies as and when they arise;
- giving full consideration to succession planning for Directors, including the Chairman-CEO and other senior management, 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, and ensuring plans are in place for senior management succession, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- making recommendations to the Board concerning the re-election by shareholders of Directors under the annual re-election provisions of the 2018 UK Corporate Governance Code (the "Code"), 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 a review of its Terms of Reference in December 2018 and agreed upon the necessary revisions to ensure the responsibilities of the Committee were aligned with the Code. A further review was carried out in December 2019. The full Terms of Reference of the Nomination Committee can be found on our website here: **https://georgiacapital.ge/governance/cgf/terms**.

Composition and meeting attendance

The composition of the Nomination Committee and the members' meeting attendance for the year 2019 are set out in the Board and Committee meeting attendance table on page 130, and the skills and experience each member contributes can be found on pages 126 to 127. For the duration of 2019, the Nomination Committee consisted of all members of the Board, the majority of which are Independent Non-Executive Directors.

Having taken into account the results of the Nomination Committee's effectiveness evaluation exercise, the Nomination Committee considered that it would be more effective if it reduced its membership to three Independent Non-Executive Directors, and the Chairman-CEO. Accordingly, following the Board's approval of this change, the Nomination Committee now comprises me as Chairman, Kim Bradley, Maria Chatti-Gautier and Irakli Gilauri.

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.

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 CEO be elected at the 2019 AGM.

Role of the Chairman of the Board

The Nomination Committee has revisited the decision to combine the roles of Chairman and CEO. The Senior Independent Director also met with the Non-Executive Directors without the Chairman/CEO present to assess the effectiveness of the Chairman/CEO. Notwithstanding that this combined role is not compliant with Provision 9 of the Code, the Nomination Committee and the Board continue to believe that the current structure better serves our Company and recommend that it should continue. Shareholders were supportive of this structure in 2019 and we believe that this continues to be the case. The basis for this conclusion, and our shareholder engagement on this matter, is set out in the Directors' Governance Statement on page 124.

Inclusion and diversity

Our Board embraces diversity in all its forms and the Board understands the importance of developing a diverse pipeline for succession to senior management and the Board.

The Nomination Committee and Board recognise the role that diversity has in promoting balanced decision making which aligns with our values and strategy, and 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 Parker Review regarding ethnic diversity, and the Hampton-Alexander Review regarding gender diversity, which are primarily aimed at FTSE 350 companies. Following Maria's appointment, just under 30% of the Board is female. Whilst the Nomination Committee will continue to examine ways in which we can become an increasingly diverse Board, we are also working to improve female representation at senior leadership positions, and this year following a number of promotions, our female representation has now increased to two women and three men in executive management positions. You can view our gender diversity statistics on page 85.

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 2020. As part of our review of the Company's Diversity Policy, we will ensure that the policy is reviewed in light of the recommendations of both the Parker Review and the Hampton-Alexander Review and consider whether it will become appropriate to adopt targets in the future to promote an inclusive and diverse culture.

Succession planning and talent development

Succession planning at the Board and senior management level will continue to be a primary focus of the Nomination Committee throughout 2020. In 2019, appropriate opportunities were created to develop high-performing individuals and to build diversity in senior roles across the business. As a result of this, we have a fantastic talent pool of employees within Georgia Capital PLC. We firmly believe that focusing on their development is the best way to ensure a healthy and diverse pipeline of future leaders of the Company.

In addition, the Company is embarking on an exciting initiative, called the Entrepreneurship Academy, to help develop future business leaders. The aim is to develop the entrepreneurial business leaders that Georgia Capital will require as it grows.

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 our investments operate. All of our Directors participated in ongoing site visits, development sessions and presentations. The UK General Counsel and Group Company Secretary provide briefings as appropriate on regulatory and governance developments.

Each Director, upon appointment, receives a tailored induction to the Company and its various investments 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 that year would not provide sufficient value for the Board and the Company. Accordingly, an evaluation of the effectiveness of the Board and its Committees was first carried out in 2019.

An internal review was facilitated by the Company Secretary. The evaluation concluded that overall the Nomination Committee was performing effectively and the Directors identified areas of focus for 2020 which include:

- succession planning;
- diversifying knowledge of the Board, particularly in private equity expertise; and
- the composition of the Nomination Committee, as it was considered that the current arrangement whereby all Directors are members of the Nomination Committee might not be the most effective as the Group grows.

Governance

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the consolidated and stand-alone Financial Statements and the Directors' Remuneration Report, 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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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
7 April 2020

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2019.

Strategic Report
The Strategic Report on pages 2 to 123 was approved by the Board of Directors on 7 April 2020 and signed on its behalf by Irakli Gilauri, Chairman and Chief Executive Officer.

Management Report
This Directors' Report together with the Strategic Report on pages 2 to 123 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 123
Going Concern Statement	Page 73
Viability Statement	Page 73
Risk Management	Pages 70 to 75
Principal risks and uncertainties	Pages 75 to 79
Directors' Governance Statement	Pages 124 to 125
The Board of Directors	Pages 126 to 127
Nomination Committee Report	Pages 161 to 163
Audit and Valuation Committee Report	Pages 140 to 144
Remuneration Committee Report	Pages 145 to 160
Summary of Remuneration Policy	Pages 156 to 160
Investment Committee Report	Pages 138 to 139
Greenhouse Gas Emissions	Pages 88 to 89
Employee Matters	Pages 83 to 86
Environmental Matters	Pages 86 to 89
Share Capital	Note 24 on pages 233 to 234
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 241 to 244

Articles of Association
Georgia Capital PLC (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 Company's Articles of Association are available on our website: **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 page 233 of this Annual Report. As at the date of this Annual Report there was a single class of 40,169,775 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 22 May 2019 for the Company to purchase up to 5,671,823 shares (14.99%) of Georgia Capital's shares as at 3 April 2019. This authority will expire at the conclusion of the Company's AGM in 2020 or, if earlier, the close of business on 22 June 2020.

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. During 2019, 2,085,014 shares representing 5.5% of the issued share capital as at 31 December 2018 were bought back for US$27.1 million. Since commencement of the share buyback programme 3,336,843 shares were repurchased, of which 2,650,375 shares were cancelled and 686,468 shares were transferred from treasury to JSC Georgia Capital Executive Equity Compensation Trust. No repurchased shares are held in treasury as at the date of this Annual Report.

On 23 December 2019, 3,435,438 new ordinary shares in the Company were allotted pursuant to the offer made by the Company to shareholders of Georgia Healthcare Group PLC announced on 18 November 2019, which closed for acceptances on 17 December 2019. Following this allotment, the total number of ordinary shares in issue was 40,169,775. The offer was for an exchange of Georgia Healthcare Group PLC shares. The share exchange ratio was set at 0.192:1 share in the Company for every 5.22 shares in Georgia Healthcare Group PLC. This ratio is equal to the average Georgia Healthcare Group PLC/Georgia Capital PLC ratio for the 30 days prior to 18 December 2019 based on the closing prices.

A renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. 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.

At a General Meeting of the Company on 22 May 2019, the Directors were given the power a) to allot shares up to a maximum nominal amount of GBP 131,282.37 (representing 13,128,237 ordinary shares) representing approximately one third of the Company's issued share capital as at 3 April 2019, and b) to allot equity securities up to an aggregate nominal amount of GBP 131,282.37, in connection with an offer by way of a rights issue: (i) to holders of 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

Governance

DIRECTORS' REPORT CONTINUED

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 2020 AGM (or, if earlier, at the close of business on 22 August 2020) 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.

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 608.9 million. The Company's profit after taxation for the year was GEL 604.3 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.

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 LSE 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 2019. 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 was put to the shareholders for approval at the 2019 AGM and remuneration is determined in accordance with that Policy. The fees paid to the Non-Executive Directors in 2019 pursuant to their letters of appointment are shown on page 151. The fees paid to our sole Executive Director in 2019 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 2019 are shown on page 153 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 page 251 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.

A copy of the Relationship Agreement is available to view at the Company's registered office.

Presence outside of Georgia

We have our Company office in London: see page 256.

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 83 to 86.

Political donations

The Company did not make any political donations or expenditure during 2019. Authority to make political donations and incur political expenditure will be put to shareholder vote at the 2020 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: **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 2019:

	As of 31 December 2019	
Shareholder	Number of voting rights	% of voting rights
M&G Investment Management Ltd	3,024,486	7.53%
Schroder Investment Management Ltd	1,829,704	4.55%
LGM Investments Ltd	1,366,764	3.40%
Consilium Investment Management LLC	1,358,787	3.38%
Norges Bank Investment Management	1,253,083	3.12%

Source: Georgeson, Computershare

From the period 1 January 2020 up to and including 7 April 2020, there have been no further notifications to the Company in respect of interest in voting rights.

It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed. The respective regulatory filings by shareholders are available on GCAP's website: **https://georgiacapital.ge/ir/news/regulatory-announcements** and the London Stock Exchange website: **www.londonstockexchange.com**.

Governance

DIRECTORS' REPORT CONTINUED

Post balance sheet events

On 25 February 2020, Georgia Capital acquired the remaining 34.4% equity stake in Georgian Renewable Power Company (GRPC). The total consideration for the buyout was $13.8million, of which US$ 11.8 million represents total equity contributions received from RP Global, as well as an additional consideration for RP Global's technical assistance during the last six years. An additional deferred adjustable consideration of up to US$ 4.5 million was agreed to be payable if actual market electricity sales prices are higher during 2023-2025 than the Group's current internal forecasts are higher during 2023-2025 than the Group's current internal forecasts.

As at 3 April 2020, fair value of listed equity investments has declined by 39.5% (to GEL 621,991) compared to 31 December 2019 in light of COVID-19 pandemic impact on stock markets. The fair value of our unquoted portfolio investments may have increased or decreased since 31 December 2019. The valuations depend on market multiples and outlook and the direct exposure to the impact of COVID-19 of each particular portfolio investment.

Statement of disclosure of information to the auditor

We, the Directors 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.

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 (see Note 19 on page 232);
- 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 165 to 168 was approved by the Board of Directors on 7 April 2020 and signed on its behalf:

By order of the Board

Link Company Matters Limited
Company Secretary
7 April 2020

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 2019 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 2019	Separate statement of financial position as at 31 December 2019
Consolidated income statement for the year ended 31 December 2019	Separate statement of changes in equity for the year ended 31 December 2019
Consolidated statement of comprehensive income for the year ended 31 December 2019	Separate statement of cash flows for the year ended 31 December 2019
Consolidated statement of changes in equity for the year ended 31 December 2019	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 2019	
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 75 to 79 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 73 to 74 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 73 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 73 to 74 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 matter	• Change in basis of accounting – meet the requirements of the IFRS 10 Consolidated financial statements (IFRS 10) Investment Entity consolidation exception. • Valuation of unquoted investments. • Valuation of investment properties. • Risk of fraud in recognition of revenue across the different businesses within the Group. • Going concern basis used in preparation of the Annual Report and Accounts.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

Audit scope	The Company determined that it met the Investment Entity criteria under IFRS 10 on 31 December 2019. Due to the change in accounting basis, portfolio investments are no longer consolidated but instead accounted for at fair value at 31 December 2019 as required by IFRS 10. A full Consolidated income statement and the Consolidated statement of cash flows have been presented in the Group financial statements as the Company met the criteria of an Investment Entity on 31 December 2019 only. The parent company indirectly holds a portfolio of quoted and unquoted investments through a single direct subsidiary, which is also an Investment Entity under IFRS 10. • Since the Consolidated income statement and the Consolidated statement of cash flows are presented in the Group financial statements, we performed an audit of the complete financial information of 8 components and audit procedures on specific balances for a further 3 components. • The components where we performed full or specific audit procedures accounted for 97% of EBITDA, adjusted for non-recurring items, 95% of Revenue and 106% of Profit before tax and non-recurring items. • Our audit sample covered 100% of the investment portfolio.
Materiality	• Overall Group materiality of GEL 17.5 million represents 1% of net assets (2018: GEL 3.1 million which represents 5% of profit before tax and non-recurring items). • Specific materiality of GEL 5.5 million, which represents 2% of EBITDA, adjusted for non-recurring items, at 31 December 2019 is applied to the income statement accounts, excluding the gain from change in Investment Entity status. • We changed the basis for materiality in 2019 due to the change in basis of accounting as a result of the Company meeting the IFRS 10 Investment Entity criteria.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 and Valuation Committee
(New in 2019) Change in basis of accounting – meet the requirements of the IFRS 10 Investment Entity consolidation exception *Refer to the Audit and Valuation Committee Report (page 140); Accounting policies (pages 197 and 198); and Note 4 to the Consolidated Financial Statements (pages 212 and 213)* The Company determined that it met the Investment Entity criteria under IFRS 10 on 31 December 2019 and accordingly prospectively applied the exception to consolidation. The Company deconsolidated all of its subsidiaries and instead recognised them at their fair value as at 31 December 2019. The difference between the net assets of the deconsolidated subsidiaries and their fair value was recognised as a gain from the change in Investment Entity status in the Consolidated income statement. The investment in the single direct subsidiary, previously measured at cost, was remeasured at fair value and the difference was recorded in the Company's income statement. In accordance with IFRS 10, an Investment Entity is an entity that: a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and c) measures and evaluates the performance of substantially all of its investments on a fair value basis. There is a substantial level of judgment applied by management in assessing whether the Company meets the Investment Entity criteria under IFRS 10 and at what point in time the Company became an Investment Entity.	Our procedures were performed by the primary audit team. With the assistance of our internal valuation specialists and IFRS subject matter experts, we: • examined the Company's assessment whether it meets the Investment Entity criteria under IFRS 10; • assessed whether the Company has substantially all the features of an Investment Entity evident in practice by considering its policies and practices related to fair value measurement and reporting, in particular: – obtained evidence of internal management reporting to corroborate the fact that management measures and evaluates performance of substantially all of its investments on a fair value basis; – inquired of the members of the Audit and Valuation Committee and executive management to confirm that they measure and monitor fair value; – undertook a detailed review of the Company's valuation policy and rulebook with a focus on risk management and control and compliance with IPEV guidelines and IFRS 13; – assessed the quality and robustness of valuations produced by management by auditing the fair valuation of the water utility business, the biggest private investment, in advance of the year end; • received confirmation from the Company's internal legal team (who had itself received confirmation from the Company's external legal advisers) that the adoption of IFRS 10 investment entity basis of accounting by the Company is compatible with the Company's listing as a commercial company pursuant to Chapter 6 of the UK Listing Rules; • considered whether the Board's approval of the valuation policy, rulebook and the updated terms of reference of the Audit and Valuation Committee on 31 December 2019 was the trigger point which meant that the Company met the last criteria under IFRS 10, which requires an Investment Entity to measure and evaluate the performance of substantially all of its investments on a fair value basis, and became an Investment Entity.	On the basis of our consideration and audit procedures performed, we are satisfied that the technical requirements of IFRS 10 have been met and that the Company has established policies and process that allows substantially all the portfolio investments to be measured and reported on a fair value basis. We have also confirmed with the Company's internal legal team (who had itself received confirmation from the Company's external legal advisers) there is no impediment to this change. under the Company's listing status.

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
(New in 2019) Valuation of unquoted investments (GEL 1.224 million, 2018: n/a) *Refer to the Audit and Valuation Committee Report (page 140); Accounting policies (pages 199 and 200); and Note 31 to the Consolidated Financial Statements (pages 246 to 250)* The investment portfolio comprises 11 unquoted businesses. The fair value of the investment portfolio forms the basis of valuation of the single direct subsidiary presented under the account Equity investments at fair value in the Consolidated and Separate statement of financial position. The Company adopts a valuation methodology based on the International Private Equity and Venture Capital Valuation 2018 (IPEV) guidelines, in conformity with IFRS 13 – Fair value measurements (IFRS 13). Owing to the unquoted and illiquid nature of these investments, the assessment of fair valuation is subjective and requires a number of significant and complex judgments to be made by management. There is the risk that inaccurate judgments made in the assessment of fair value, in particular in respect of the selection of an appropriate valuation method, determination of peer group and applicable earnings multiples, calculation of discount rates and the estimation of future maintainable earnings, could lead to the incorrect valuation of the unquoted investment portfolio. In turn, this could materially misstate the value of equity investments at fair value in the Consolidated and Separate statement of financial position, the gain from change in investment entity status in the Consolidated and Separate income statement and the net asset value per share. There is also the risk that management may influence the significant judgments and estimations in respect of unquoted investment valuations in order to meet market expectations of the overall net asset value of the Group.	Our procedures were performed by the primary audit team, including our valuation specialists. Our procedures extended to testing 100% of the related balance. We obtained an understanding of management's processes and controls for determining the fair valuation of unquoted investments. With the assistance of our valuation specialists, we: • compared management's valuation methodology to IFRS and the IPEV guidelines. We sought explanations from management where there were judgments applied in its application of the guidelines and assessed their appropriateness. • formed an independent range for the key assumptions used in the valuation of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values for each investment using our assumptions and other qualitative risk factors. We compared these ranges with management's assumptions. • corroborated key inputs in the valuation models, such as earnings and net debt to source data, which in most instances was subject to full scope audit by component teams. • also performed the following procedures on key judgments made by management in the calculation of fair value: – assessed the suitability of the comparable companies used in the calculation of the earnings multiples; – for recently acquired companies, assessed whether any significant changes occurred from the acquisition to the reporting date, also considered other factors that would warrant change in valuation of such investments as compared to the recent purchase price; – challenged management on the selection of weighting applied to earnings multiples of the comparable companies by independently estimating our own range of multiples; – evaluated the appropriateness of discount rates by performing corroborative calculations; and – with the assistance of component teams, discussed with local management the key assumptions applied to calculate future cash flows and terminal value and corroborated this to supporting documentation. We checked the mathematical accuracy of the valuation models. We recalculated the result of the deemed disposal of portfolio investments impacting the consolidated and Company's income statement. We assessed the disclosures against the requirements of IFRS 10 and IFRS 13.	Reasonable inputs to the valuations were used and the valuation of the unquoted investments is within a reasonable range of fair values. All valuations are in accordance with IFRS and the IPEV guidelines. We are satisfied that the disclosures in the financial statements are in accordance with IFRS.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
Valuation of investment properties (Net book value of investment properties of GEL 185 million, 2018: GEL 151 million). *Refer to the Audit and Valuation Committee Report (page 140); Accounting policies (pages 199 and 203); and Note 12 to the Consolidated Financial Statements (page 225)* The Group applied a fair value model for measurement of investment properties until the change in basis of accounting on 31 December 2019. Investment properties were revalued as at 31 October 2019 and the revaluation result was recorded in the consolidated income statement. The valuation of investment properties also links to the valuation of unquoted investments risk, as the hospitality and commercial real estate business, which holds the vast majority of investment property, is valued at the net asset value. 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. There is also the risk that management may influence the significant judgments and estimations in respect of investment property valuations in order to achieve investment property and the hospitality and commercial real estate business valuation targets. The risk has remained consistent with the prior year.	Our procedures were performed by the primary audit team and component teams, including our real estate valuation specialists. • We performed a walkthrough of the investment property valuation process and assessed the design and implementation of key controls. • We used a risk-based approach based on market movements to select properties for review by our real estate specialists and selected a sample representing 96% of the net fair value movement and 84% of the fair value of the investment property at the valuation date. • We conducted analytical procedures on the properties not included in the sample reviewed in detail by our real estate specialists by comparing the value of each property by reference to our understanding of the Georgia real estate market and external market data. • We engaged our London based 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; – considering real estate market movements and property-specific events between the investment property valuation date and year end. • We analysed whether there were any indications that the value of properties newly acquired in 2019 has changed significantly since the acquisition date. • We assessed the appropriate recognition of the results of the valuations in accordance with IAS 40 Investment Property.	Based on the results of our audit procedures, we concluded that the valuations of investment properties are, in all material respects, within a reasonable range.

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
Risk of fraud in the recognition of revenue across the different businesses within the Group (GEL 1,473 million, 2018: GEL 1,283 million) *Refer to the Audit and Valuation Committee Report (page 140); Accounting policies (pages 206 to 208); and Note 25 of the Consolidated Financial Statements (pages 235 to 238)* The consolidated revenue is presented in the Consolidated income statement in 2019 as the change in accounting basis only took place on 31 December 2019. Investors' and analysts' expectations of the Group and its separate portfolio investments could result in pressure on management to overstate revenue. 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. The risk has neither increased nor decreased in the current year.	• Of the primary audit team in all full and specific scope components. • Overall response • We obtained an understanding of the different revenue streams and revenue models covering all material businesses: healthcare, commercial real estate 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. • 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; and • We performed other substantive analytical procedures on the water utility business designed to identify unusual trends. • Our response to the fraud risk • 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; and • 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.	On the basis of our audit performed we are satisfied that revenue has been recognised and measured in accordance with the Group's accounting policy and IFRS 15 Revenue from contracts with customers, where relevant.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit and Valuation Committee
(New in 2019) Going concern basis used in preparation of the Annual Report and Accounts *Refer to the Audit and Valuation Committee Report (page 140); Strategic Report (page 73) and Note 2 to the Consolidated Financial Statements.* The Company's Annual Report and Accounts are prepared on the going concern basis of accounting. This basis is dependent on a number of factors, including the sufficiency and credit quality of the Group's cash and liquid funds and the future capital inflows from portfolio investments. An important factor is that there are no legal guarantees or constructive commitments in place for the Company to fund losses or activities at portfolio companies' level. The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the further spread of the virus and the state of the world economy. The Company's cash and liquid funds comprise cash at banks, listed debt securities and loans issued to portfolio investments. The outbreak of COVID-19 has resulted in some companies suspending dividend payments and may affect the ability of portfolio investments to make capital distributions and pay back loans due. This in turn would affect the Company's ability to make capital allocations to its portfolio investments and service its debt.	In light of COVID-19 pandemic the audit partner and other senior members of the audit team spent significant amount of time performing the following procedures. • We obtained the base case cash flow and liquidity forecasts covering the full viability assessment period until 31 December 2022 and the single worst case scenario prepared by management and assessed the appropriateness of the inputs and key assumptions used in the forecasts. • We assessed the credit quality and liquidity of the underlying cash and liquid funds at 31 December 2019 with reference to the business model and the financial position of the counterparties in case of loans granted to the portfolio investments and the credit ratings of debt securities. • We performed an independent stress testing to assess whether the liquidity headroom calculations are reasonable. • We verified that the Company has not provided any material guarantees to its portfolio investments and there are no legal and constructive obligations to fund losses or activities at portfolio companies' level. • We screened the local media and public announcements made by the Government of Georgia to assess the severity of COVID-19 pandemic in the country and the Government's ability and intentions to support the local economy. • We considered the financial position of Bank of Georgia and the COVID-19 related disclosures presented in its annual report for the year ended 31 December 2019, given that Bank of Georgia is the largest quoted investment in the Company's portfolio and also a depository of the majority of the Company's cash. • We assessed the adequacy of going concern and viability disclosures.	Based on the results of our audit procedures, we concluded that there is no material uncertainty related to the Company's ability to continue as a going concern. We assessed whether the disclosures were fair, balanced and understandable by comparing the disclosure to the knowledge gained during the audit. The going concern and viability forecasts, including stress-testing scenarios, are consistent with the results of our audit procedures.

This year we have included three new Key Audit Matters: change in basis of accounting – meet the requirements of the IFRS 10 Investment Entity consolidation exception, Valuation of unquoted investments and Going concern basis used in preparation of the Annual Report and Accounts. The Company had to meet specific Investment Entity criteria under IFRS 10 which require a certain level of judgment. Given a significant level of estimation uncertainty involved in the valuation of unquoted investments, this was our new focus area in 2019. We also spent significant amount of time assessing the Company's ability to continue as a going concern in light of COVID-19 pandemic.

In the prior year, our auditor's report included Key Audit Matters in relation to the 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 and valuation of infrastructure assets. In the current year, the first two risks have been removed due to the change in accounting basis whereby subsidiaries are not consolidated and accounted for at fair value at 31 December 2019. In advance of the change in accounting basis, the Group changed accounting policy of infrastructure assets from revaluation model to cost accounting. As such the risk of valuation of infrastructure assets is no longer relevant in 2019.

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, the organisation of the group and changes in the business environment when assessing the level of work to be performed at each entity.

The parent company indirectly holds a portfolio of quoted and unquoted investments through a single direct subsidiary, which is also an Investment Entity under IFRS 10. The fair value of the investment portfolio forms the basis of the value of the single direct subsidiary presented as one line item in the Consolidated statement of financial position. All audit work performed in respect to the audit of the Consolidated statement of financial position, including the valuation of the underlying portfolio investments, was undertaken by the Primary audit team.

The Consolidated income statement and the Consolidated statement of cash flows have been presented in the Group financial statements as the Company met the IFRS 10 Investment Entity criteria and changed the basis of accounting on 31 December 2019 only. In scoping the audit of the Consolidated income statement and the Consolidated statement of cash flows, we reflect the Group's structure (holding companies, the pharmacy and distribution business, hospitals, clinics, the medical insurance business, the housing development business, the hospitality and commercial real estate business, the water utility business, the renewable energy business, the property and casualty insurance business, the beverages business, the education business, the auto service and the digital services businesses). 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 11 components covering entities within the United Kingdom and Georgia, which represent the principal business units within the Group. Audit procedures over the selected components also contributed to our audit of the valuation of the underlying portfolio investments as five unquoted businesses were valued using earnings based multiple.

Of the 11 components selected, we performed an audit of the complete financial information of 8 components ("full scope components") which were selected based on their size or risk characteristics. For another 3 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 2019 the remaining components not subject to full or specific group scoping mainly represent certain entities within the beverages, auto service, water utility, education and digital segments which are not significant individually or in the aggregate. Of the remaining components, the largest represents less than 1% of the Group EBITDA, adjusted for non-recurring items and only 1% of the Group's revenue.

The table below illustrates the coverage obtained from the work we performed:

	2019					2018			
	No.	Revenue	Profit[4]	Total Assets[5]	Adjusted EBITDA[6]	No.	Revenue	Profit[4]	Total Assets
Full scope[1]	8	89%	105%	80%	88%	7	85%	125%	84%
Specific scope[2]	3	6%	1%	10%	9%	2	10%	30%	6%
Full and Specific scope coverage	11	95%	106%	90%	97%	9	95%	95%	90%
Remaining components[3]		5%	-6%	10%	3%		5%	5%	10%
Total reporting components	11	100%	100%	100%	100%	9	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.
4. Profit before non-recurring items and tax and the gain from the change in Investment Entity status. The coverage of 105% by full scope components represents 3 full scope components having a positive contribution of 195% offset by 1 full scope component having a negative contribution of 70%.
5. Total assets on 31 December 2019 before change in Investment Entity status.
6. EBITDA, adjusted for non-recurring items.

Changes from the prior year

In 2019, JSC Georgian Renewable Power Co was included as a specific scope component due to the amount of capital expenditure and damage made to the hydro power plant due to flooding in July. Also in 2018 the healthcare business as a whole was designated as a full scope component, whereas in 2019 we have assigned full scope to the hospitals business, specific scope to the clinics business and other procedures scope to the diagnostics business.

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 six full scope components and the three 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

INDEPENDENT AUDITOR'S REPORT CONTINUED

undertaken. The Senior Statutory Auditor is based in the United Kingdom, but since Group management and operations reside in Georgia, the primary audit team operates as an integrated team including members from the United Kingdom and Georgia. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Georgia. We completed our visits before the travel restrictions related to COVID-19 outbreak were put in place. The Senior Statutory Auditor visited Georgia twice for three days 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 17.5 million (2018: GEL 3.1 million), which is 1% of net assets (2018: 5% of profit before tax and non-recurring items). Upon meeting the requirements of the IFRS 10 Investment Entity consolidation exception and the consequential change in accounting basis on 31 December 2019, it was no longer appropriate to calculate 2019 materiality using a performance-based measure. We believe that total equity provides us with an appropriate basis for audit materiality as NAV is a key published performance measure and is a key metric used by management in assessing and reporting on the overall performance of the Group.

Since the change in the basis of accounting took place on 31 December 2019, the Group presents full Consolidated income statement and the Consolidated statement of cash flows for 2019. We have set a materiality of GEL 5.5m representing 2% of the Group's EBITDA, adjusted for non-recurring items, of GEL 273 million for the audit of the Consolidated income statement accounts, excluding the gain from change in Investment Entity status, which reflects our understanding that an amount less than our NAV based materiality would influence the economic decisions of users of the financial statements.

We calculated materiality during the planning stage of the audit based on EBITDA, adjusted for non-recurring items, as the Group was loss making at interim period, and then during the course of our audit and in light of the change in accounting basis on 31 December 2019, we reassessed initial materiality based on 31 December 2019 net asset value, and adjusted our audit procedures accordingly.

We determined materiality for the parent company to be GEL 17.5 million (2018: GEL 27.6 million), which is 1% (2018: 2%) of net assets. We have reduced the percentage in 2019 due to the change in basis of accounting.

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% (2018: 50%) of our planning materiality, namely GEL 8.77 million (2018: GEL 1.54 million). We set performance materiality at this percentage due to the judgmental nature of the valuations in the Consolidated statement of financial position, to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality of GEL 17.5 million.

For the audit of the Consolidated income statement we set a lower performance materiality equal to 50% of the EBITDA, adjusted for non-recurring items, based on planning materiality of GEL 2.7 million. We set the lower performance materiality at this percentage based on factors including the history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant income statement accounts is undertaken based on a percentage of total lower 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 0.55m to GEL 2.05m (2018: GEL 0.38m to GEL 1.16m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Valuation Committee that we would report to them all uncorrected audit differences in excess of GEL 0.88 million (2018: GEL 0.15 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.

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 123;
- Governance section, including Directors' Governance Statement, Board of Directors, Corporate Governance Framework, Investment Committee Report, Audit and Valuation Committee Report, Director's Remuneration Report, Nomination Committee Report, Statement of Directors' Responsibilities and Directors' Report, set out on pages 124 to 168; and

Additional information, including Abbreviations, Glossary and Shareholder information, set out on pages 253 to 256.

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 164 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides 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 and Valuation Committee reporting set out on page 140 – the section describing the work of the Audit and Valuation Committee does not appropriately address matters communicated by us to the Audit and Valuation Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 124 – 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 164, 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.

Financial Statements

INDEPENDENT AUDITOR'S REPORT CONTINUED

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 and Valuation 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.

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/auditors responsibilities. 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.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the year ending 31 December 2018 to 31 December 2019.
- 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 and Valuation 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.

John Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
7 April 2020

Notes:
1 The maintenance and integrity of the Georgia Capital PLC web site 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	31 December 2019	31 December 2018 (restated)*	1 January 2018 (restated)*
Assets				
Cash and cash equivalents	7	**1,243**	256,930	346,239
Amounts due from credit institutions	8	**–**	40,299	38,141
Marketable securities	9	**–**	71,824	31,907
Accounts receivable	10	**–**	170,228	21,507
Insurance premiums receivable		**–**	57,801	30,855
Inventories	11	**–**	276,230	76,713
Investment properties	12	**–**	151,232	159,989
Prepayments		**234**	117,909	87,760
Income tax assets	17	**–**	2,405	1,374
Property and equipment	13	**–**	1,573,624	551,339
Goodwill	15	**–**	142,095	21,935
Intangible assets	15	**–**	51,471	5,143
Other assets	16	**–**	251,462	69,870
Equity investments at fair value	9	**1,758,197**	457,495	1,153
Assets of disposal group held for sale		**–**	–	1,148,584
Total assets		**1,759,674**	3,621,005	2,592,509
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	**–**	62,345	73,489
Borrowings	19	**–**	764,355	650,734
Debt securities issued	20	**–**	916,401	77,835
Other liabilities	16	**7,653**	235,771	63,206
Liabilities of disposal group held for sale		**–**	–	619,029
Total liabilities		**7,653**	2,191,312	1,574,543
Equity	24			
Share capital		**1,320**	1,293	10,000
Additional paid-in capital		**108,863**	–	466,187
Treasury shares		**–**	(118)	–
Other reserves		**–**	415,164	171,076
Retained earnings		**1,641,838**	684,349	76,354
Total equity attributable to shareholders of Georgia Capital PLC		**1,752,021**	1,100,688	723,617
Non-controlling interests		**–**	329,005	294,349
Total equity		**1,752,021**	1,429,693	1,017,966
Total liabilities and equity		**1,759,674**	3,621,005	2,592,509

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy as described in Note 3.

The financial statements on page 179 to 252 were approved by the Board of Directors on 7 April 2020 and signed on its behalf by:

Irakli Gilauri
Chief Executive Officer

Georgia Capital PLC
Registered No. 10852406

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

Financial Statements

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	2019	2018 (restated)*
Revenue		**1,473,437**	1,282,995
Cost of sales		**(883,024)**	(789,884)
Gross profit	25	**590,413**	493,111
Salaries and other employee benefits	26	**(177,000)**	(137,068)
Administrative expenses	26	**(116,911)**	(107,526)
Other operating expenses		**(11,464)**	(11,225)
Expected credit loss/impairment charge on financial assets	27	**(11,474)**	(10,610)
Impairment charge on insurance premium receivables, other assets and provisions	27	**(1,078)**	(2,179)
		(317,927)	(268,608)
EBITDA		**272,486**	224,503
Share in profit of associates		**357**	247
Dividend income	9	**24,953**	23,875
Depreciation and amortisation		**(110,075)**	(66,449)
Net foreign currency loss		**(41,663)**	(37,546)
Net gains from investment securities measured at FVPL		**1,654**	–
Net realised gains from investment securities measured at FVOCI		**1,187**	–
Interest income at EIR method		**30,672**	23,275
Interest expense		**(150,370)**	(96,895)
Net operating income before non-recurring items		**29,201**	71,010
Net non-recurring items	28	**(9,130)**	(41,251)
Gain from change in investment entity status	3	**588,828**	–
Profit before income tax expense		**608,899**	29,759
Income tax expense	17	**(4,633)**	(3,606)
Profit for the year		**604,266**	26,153
Total profit/(loss) attributable to:			
– shareholders of Georgia Capital PLC		**569,262**	(254)
– non-controlling interests		**35,004**	26,407
		604,266	26,153
Earnings/(loss) per share:	24		
– basic		**16.4478**	(0.0069)
– diluted		**16.0932**	(0.0069)

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy described in Note 3.

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	2019	2018 (restated)*
Profit for the year		**604,266**	26,153
Other comprehensive income			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Income from currency translation differences		**9,964**	9,246
Changes in the fair value of debt instruments at FVOCI		**2,694**	(1,207)
Realised gain on financial assets measured at FVOCI reclassified to the consolidated income statement		**(1,187)**	–
Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI		**(172)**	117
Reclassification of other reserves to PL due to Change in investment entity status		**(26,866)**	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(15,567)**	8,156
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment	13	**3,474**	–
Changes in fair value of equity instruments designated at FVOCI	24	**140,441**	(248,505)
Reclassification of other reserves to retained earnings due to Change in investment entity status		**108,265**	–
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**252,180**	(248,505)
Other comprehensive income/(loss) for the year, net of tax		**236,613**	(240,349)
Total comprehensive income/(loss) for the year		**840,879**	(214,196)
Total comprehensive income/(loss) attributable to:			
– shareholders of Georgia Capital PLC		**804,036**	(241,579)
– non-controlling interests		**36,843**	27,383
		840,879	(214,196)

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy as described in Note 3.

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
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	–	–	–	192	(10,808)	(10,616)	(3,216)	(13,832)
Effect of change in accounting policy (Note 3, (a))*	–	–	–	(370)	(3,450)	(3,820)	–	(3,820)
Effect of change in accounting policy (Note 3, (b))*	–	–	–	–	(106,610)	(106,610)	–	(106,610)
1 January 2018 (restated)*	10,000	466,187	–	171,076	76,354	723,617	294,349	1,017,966
(Loss)/Profit for the year (restated)*	–	–	–	–	(254)	(254)	26,407	26,153
Other comprehensive (loss)/income for the year	–	–	–	(241,325)	–	(241,325)	976	(240,349)
Total comprehensive loss	–	–	–	(241,325)	(254)	(241,579)	27,383	(214,196)
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	–	–	–	–	–	–	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 (restated)*	1,293	–	(118)	415,164	684,349	1,100,688	329,005	1,429,693

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy described in Note 3 ((a) borrowing costs and (b) infrastructure assets).

** The minority shareholder of the Group in JSC Georgian Renewable Power Company contributed GEL 23,348 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.

**** 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 188 to 252 are an integral part of these consolidated financial statements.

	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 2018 (restated)*	**1,293**	**–**	**(118)**	**415,164**	**684,349**	**1,100,688**	**329,005**	**1,429,693**
Profit for the year	**–**	**–**	**–**	**–**	**569,262**	**569,262**	**35,004**	**604,266**
Other comprehensive income for the year	**–**	**–**	**–**	**234,774**	**–**	**234,774**	**1,839**	**236,613**
Total comprehensive income for the year	**–**	**–**	**–**	**234,774**	**569,262**	**804,036**	**36,843**	**840,879**
Issue of share capital (Note 24)***	**113**	**112,743**	**–**	**–**	**–**	**112,856**	**–**	**112,856**
Increase in equity arising from share-based payments (Note 29)	**–**	**–**	**–**	**25,148**	**–**	**25,148**	**6,585**	**31,733**
Transaction costs recognised directly in equity (Note 24)***	**–**	**(5,888)**	**–**	**–**	**–**	**(5,888)**	**–**	**(5,888)**
Dilution of interests in subsidiaries	**–**	**–**	**–**	**5,040**	**–**	**5,040**	**(5,040)**	**–**
Increase in share capital of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**6,215**	**6,215**
Acquisition/sale of non-controlling interests in existing subsidiaries***	**–**	**–**	**–**	**(46,512)**	**–**	**(46,512)**	**(92,354)**	**(138,866)**
Acquisition of additional interest in existing subsidiaries by non-controlling shareholders	**–**	**–**	**–**	**(1,932)**	**–**	**(1,932)**	**749**	**(1,183)**
Non-controlling interests arising on acquisition of subsidiary (Note 5)	**–**	**–**	**–**	**–**	**–**	**–**	**6,976**	**6,976**
Dividends paid by subsidiaries **	**–**	**–**	**–**	**–**	**(89)**	**(89)**	**(11,170)**	**(11,259)**
Cancellation of own shares	**(86)**	**–**	**86**	**–**	**–**	**–**	**–**	**–**
Purchase of treasury shares	**–**	**2,008**	**(106)**	**(134,962)**	**–**	**(133,060)**	**–**	**(133,060)**
Change in investment entity status (Note 3)	**–**	**–**	**138**	**(496,720)**	**388,316**	**(108,266)**	**(277,809)**	**(386,075)**
31 December 2019	**1,320**	**108,863**	**–**	**–**	**1,641,838**	**1,752,021**	**–**	**1,752,021**

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy described in Note 3 ((a) borrowing costs and (b) infrastructure assets).

** During 2019, Georgia Healthcare Group PLC, Group's subsidiary, announced dividend out of which GEL 2,873 was paid dividends to its minority shareholders. In addition, JSC GEPHA, a subsidiary of the Group's healthcare business, paid dividend to its minority shareholders in the amount of GEL 8,297.

*** On 18 November 2019, the Company announced a share exchange facility for GHG shareholders. Under the exchange facility, GHG shareholder's had the opportunity to exchange GHG shares for shares in GCAP in the ratio of 1:0.192. The facility closed on 18 December 2019, as a result of which GCAP exchanged 17,892,911 existing GHG shares for 3,435,438 newly issued GCAP shares. Group's interest in GHG increased to 70.6%. Acquisition of non-controlling interest in existing subsidiaries is mostly attributable to GHG share exchange transaction.

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	2019	2018
Cash flows from operating activities			
Revenue received		**1,386,928**	1,196,852
Cost of goods sold paid		**(896,818)**	(818,201)
General, administrative and operating expenses paid		**(111,162)**	(110,616)
Salaries and other employee benefits paid		**(150,122)**	(108,376)
Net other income received/(expense paid)		**7,207**	(13,701)
Interest received		**23,363**	22,291
Net change in operating assets and liabilities		**977**	(2,324)
Net cash flows from operating activities before income tax		**260,373**	165,925
Income tax paid		**(4,082)**	(2,423)
Net Cash flow from operating activities		**256,291**	163,502
Net withdrawals of amounts due from credit institutions		**(16,240)**	14,586
Loans repaid/(issued)		**114,654**	(135,785)
Acquisition of subsidiaries, net of cash acquired	5	**(160,348)**	(25,339)
Repayment of remaining holdback amounts from previous year acquisitions		**(5,876)**	(14,820)
Purchase of marketable securities		**(81,970)**	(62,297)
Proceeds from sale and redemption of marketable securities		**125,534**	28,780
Purchase of investments in associates	2	**(10,822)**	–
Proceeds from sale of investment properties	12	**860**	2,566
Purchase and construction of investment properties	12	**(13,430)**	(20,397)
Proceeds from sale of property and equipment and intangible assets		**11,162**	1,496
Purchase of property and equipment		**(283,402)**	(378,928)
Purchase of intangible assets		**(28,740)**	(23,919)
Dividends received		**24,953**	23,875
Change in investment entity status	3	**(248,735)**	–
Net cash flows used in investing activities		**(572,400)**	(590,182)
Cash flows from financing activities			
Proceeds from borrowings	19	**660,400**	247,574
Repayment of borrowings	19	**(416,682)**	(393,981)
Proceeds from debt securities issued	19	**247,053**	747,184
Redemption and buyback of debt securities issued	19	**(106,713)**	(80,747)
Other purchases of treasury shares	24	**(75,428)**	(44,717)
Dividends paid	24	**(11,405)**	(10,012)
Interest paid		**(148,790)**	(96,312)
Contributions under share-based payment plan	24	**(60,461)**	(66,701)
Increase in share capital of subsidiaries		**6,215**	2,675
Purchase of additional interest in existing subsidiaries		**(1,615)**	(5,719)
Transaction costs incurred in relation to share issue	24	**(1,106)**	(2,298)
Cash payments for principal portion of lease liability	14	**(21,087)**	–
Cash payments for interest portion of the lease liability	14	**(6,665)**	–
Net cash from financing activities		**63,716**	296,946
Effect of exchange rates changes on cash and cash equivalents		**(3,294)**	(8,416)
Effect of change in expected credit losses for cash and cash equivalents		**–**	1
Net decrease in cash and cash equivalents		**(255,687)**	(138,149)
Cash and cash equivalents, beginning of the year	7	**256,930**	346,239
Cash and cash equivalents of disposal group held for sale, beginning of the year		**–**	48,840
Cash and cash equivalents of disposal group held for sale, end of the year		**–**	–
Cash and cash equivalents, end of the year	7	**1,243**	256,930

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	31 December 2019	31 December 2018
Assets			
Cash and cash equivalents		**1,243**	3,581
Prepayments		**234**	90
Equity investments at fair value	2	**1,758,197**	1,377,083
Total assets		**1,759,674**	1,380,754
Liabilities			
Other liabilities	16	**7,653**	591
Total liabilities		**7,653**	591
Equity	24		
Share capital		**1,320**	1,293
Additional paid-in capital		**108,863**	–
Treasury shares		**–**	(41)
Retained earnings		**1,327,327**	1,395,861
Net profit/(loss) for the year		**314,511**	(16,950)
Total equity		**1,752,021**	1,380,163
Total liabilities and equity		**1,759,674**	1,380,754

Equity investments at fair value is represented by direct investment in JSC Georgia Capital. As at 31 December 2019, investment in JSC Georgia Capital is measured at fair value (2018: at deemed cost determined as quoting price of the company as at listing date adjusted for subsequent capital reductions).

The parent company distributable reserves as at 31 December 2019 were GEL 1,320,092 (31 December 2018: 1,378,911).

The parent company has taken advantage of the exemption in Companies' Act 2006 section 408 not to disclose a separate income statement.

The financial statements on page 179 to 252 were approved by the Board of Directors on 7 April 2020 and signed on its behalf by:

Irakli Gilauri
Chief Executive Officer

Georgia Capital PLC
Registered No. 10852406

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

Financial Statements

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Total
1 January 2018	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**
Income for the year	**–**	**–**	**–**	**314,511**	**314,511**
Increase in equity arising from share-based payments	**–**	**–**	**–**	**535**	**535**
Issue of share capital (Note 24)	**113**	**112,743**	**–**	**–**	**112,856**
Transaction costs recognised directly in equity (Note 24)	**–**	**(5,888)**	**–**	**–**	**(5,888)**
Cancellation of shares	**(86)**	**–**	**86**	**–**	**–**
Purchase of treasury shares	**–**	**2,008**	**(45)**	**(52,119)**	**(50,156)**
31 December 2019	**1,320**	**108,863**	**–**	**1,641,838**	**1,752,021**

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI)

	Notes	2019	2018
Interest income received		**14**	38
Salaries and other employee benefits paid		**(1,332)**	(810)
General, administrative and operating expenses paid		**(4,393)**	(1,443)
Net other expense paid		**(208)**	(14,063)
Cash flows from operating activities		**(5,919)**	(16,278)
Capital redemption from subsidiary		**80,389**	64,468
Cash flows from investing activities		**80,389**	64,468
Cash flows from financing activities			
Purchase of treasury shares	24	**(75,428)**	(44,718)
Transaction costs incurred in relation to share issuance	24	**(1,108)**	–
Net cash from financing activities		**(76,536)**	(44,718)
Effect of exchange rates changes on cash and cash equivalents		**(272)**	109
Net increase in cash and cash equivalents		**(2,338)**	3,581
Cash and cash equivalents, beginning of the period		**3,581**	–
Cash and cash equivalents, end of the period		**1,243**	3,581

The accompanying notes on pages 188 to 252 are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (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. The Group principally operates in utility and renewable energy, property and casualty insurance, housing development, hospitality and commercial real estate – property construction and development, wine and beer production, education, digital, auto service businesses through privately held subsidiaries and healthcare, pharmaceutical and medical insurance business through London Stock Exchange premium-listed Georgian Healthcare Group PLC. In addition to its subsidiaries, the Group has a 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.

Georgia Capital's registered legal address is 84 Brook Street, London W1K 5EH, England, United Kingdom.

As at 31 December 2019 and 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	31 December 2019	31 December 2018
M&G Investment Management Ltd	**8%**	8%
Schroder Investment Management	**5%**	5%
Others	**87%**	87%
Total	**100%**	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 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 2019 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 financial assets measured at fair value and investments in subsidiaries held at fair value through profit or loss (FVPL).

The financial statements are presented in thousands of Georgian Lari (GEL), except per-share amounts and unless otherwise indicated.

Investment Entity Status

On 31 December 2019 Georgia Capital concluded that it met the definition of investment entity as defined in IFRS 10 *Consolidated Financial Statements*. As per IFRS 10 an investment entity is an entity that:

a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

According to IFRS 10, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.

Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments, both meet the definition of investment entity and Georgia Capital PLC measures its investment in JSC Georgia Capital at fair value through profit or loss.

Given the above, these financial statements consolidate the Group's subsidiaries up to 31 December 2019. As of that date, the subsidiaries have been de-consolidated, and recognised as investments in subsidiaries at their fair value as at 31 December 2019.

Further details on financial impact of change in investment entity status and underlying significant judgements are provided in Notes 3, 4 and 31, respectively.

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 (Policy Applied up to 31 December 2019)

Starting from 31 December 2019, Georgia Capital's status has been changed to investment entity. As the result, it measures investments in subsidiaries at fair value rather than consolidating them. Investments in subsidiaries are measured at fair value through profit or loss in accordance with IFRS 9.

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. 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; and
- 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.

Subsidiaries and Associates

The total amount of investment in subsidiaries in the Company's separate statement of financial position up to 31 December 2019 was GEL 1,758,197 (as at 31 December 2018: 1,377,083) represented by direct investment in JSC Georgia Capital. As at 31 December 2019, investment in JSC Georgia Capital (Note 31) is measured at fair value (2018: at deemed cost determined as quoting price of the company as at listing date adjusted for subsequent capital reductions). The consolidated financial statements up to 31 December 2019 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held					
Subsidiaries	31 December 2019	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 Georgia Real Estate (formerly JSC m² Real Estate)	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	27/9/2006	–
m² Group, LLC (formerly m² Residential, LLC)	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	17/8/2015	–
m² Development, LLC	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	12/12/2019	–
Optima ISANI, LLC	**100.00%**	Georgia	14 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
Tamarashvili 13, LLC	**100.00%**	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
m² at Hippodrome, LLC	**100.00%**	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
m² Skyline, LLC	**100.00%**	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
m² at Kazbegi, LLC	**100.00%**	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
m² at Tamarashvili, LLC	**100.00%**	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
m² at Nutsubidze, LLC	**100.00%**	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
M Square Park, LLC	**100.00%**	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
Optima Saburtalo, LLC	**100.00%**	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
m² at Chavchavadze LLC	**100.00%**	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–

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FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Land, LLC	**100.00%**	Georgia	Between university and Kavtaradze st., Tbilisi	Real estate	3/10/2014	–
Optima, LLC (formerly m² at Vake, LLC)	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	3/8/2016	–
BK Construction, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Construction	18/5/2017	2/6/2017
BK Production, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Construction	27/6/2019	–
Georgia Real Estate Management Group, LLC (formerly m² Hospitality, LLC)	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	17/8/2015	–
Amber Group, LLC	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Hospitality	10/12/2019	–
Kakheti Wine and Spa, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	23/04/2018	–
Gudauri Lodge, LLC (formerly m² at Gudauri, LLC)	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	24/04/2018	–
m² Mtatsminda, LLC (former Kass 1, LLC)	**100.00%**	Georgia	22 Zaal Dumbadze st., Tbilisi	Hospitality	16/10/2014	26/12/2017
m² Svaneti, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	14/11/2018	–
m² Hatsvali, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	17/4/2019	–
m² Resort,LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	11/2/2019	–
JSC Litera	**50.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Hospitality	4/12/2019	–
Georgia Property Management Group, LLC (formerly m² Commercial Assets, LLC)	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Property management	4/10/2018	–
Vere Real Estate, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	4/3/2010	6/8/2018
Caucasus Autohouse, LLC	**100.00%**	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	29/3/2011	–
Georgia Hotels Management Group, LLC	**100.00%**	Georgia	Kazbegi street 15, Tbilisi Georgia	Real estate	16/12/2019	–
m², LLC	**100.00%**	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	12/2/2014	–
m² Kutaisi, LLC	**100.00%**	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
m² at Melikishvili, LLC	**100.00%**	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
m² Zugdidi, LLC	**100.00%**	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	7/11/2018	–
Georgia Hospitality Management Group, LLC	**100.00%**	Georgia	Kazbegi street 3-5, Tbilisi Georgia	Real estate	22/8/2018	–
JSC Georgian Renewable Power Company	**65.59%**	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	15/9/2015	–
JSC Geohydro	**85.00%**	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	**100.00%**	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	**100.00%**	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	20/8/2015	–
JSC Caucasian Wind Company	**100.00%**	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
JSC Caucasian Solar Company	**100.00%**	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
Bakhvi 2, LLC	**95.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	22/10/2015	8/23/2019
JSC A Group	**100.00%**	Georgia	1, Berbuki str., Saburtalo, Tbilisi	Various	20/9/2018	–
JSC Insurance Company Aldagi	**100.00%**	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	31/7/2014	–
JSC Insurance Company Tao	**100.00%**	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
Aliance, LLC	**100.00%**	Georgia	20, Chavchavadze ave., floor 2, Vake-Saburtalo, Tbilisi	Various	3/1/2000	30/4/2012
Auto Way LLC	**100.00%**	Georgia	20, Chavchavadze ave., Vake, Tbilisi	Various	9/8/2004	30/4/2012
Insurance Informational Bureau, LLC	**22.50%**	Georgia	Baratashvili bridge underground crossing, Mtkvari Left Bank, Old Tbilisi, Tbilisi	Insurance	23/7/2007	–
JSC Carfest (former JSC Uno Leasing)	**100.00%**	Georgia	3, Pushkini str., Krtsanisi, Tbilisi	Leasing	17/11/2017	–
JSC Greenway Georgia	**100.00%**	Georgia	6, University str., Vake, Tbilisi	Vehicle Inspection	9/7/2010	1/5/2012

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
GreenWash, LLC	**100.00%**	Georgia	6, University str., Vake, Tbilisi	Car Wash	31/8/2018	–
Georgia Healthcare Group PLC	**70.63%**	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L	**100.00%**	Georgia	9, Anna Politkovskaias Str. Vake-Saburtalo District, Tbilisi	Insurance	22/6/2007	–
JSC GEPHA	**67.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Pharmacy and Distribution	19/10/1995	4/5/2016
JSC ABC Pharamcia (Armenia)	**100.00%**	Armenia	Kievyan Str. 2/8, Erevan, Armenia	Pharmacy and Distribution	28/12/2013	6/1/2017
ABC Pharmalogistics, LLC	**100.00%**	Georgia	Peikrebi str. 14a, Tbilisi, Georgia	Pharmacy and Distribution	24/2/2004	6/1/2017
JSC Evex Hospitals	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	1/8/2014	1/8/2014
EVEX-Logistics, LLC	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	13/2/2015	–
New Clinic, LLC	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	3/1/2017	20/7/2017
Caucasus Medical Center, LLC	**99.80%**	Georgia	23, P. Kavtaradze Str., Tbilisi	Healthcare	12/1/2012	30/6/2015
JSC Pediatry	**76.00%**	Georgia	U. Chkeidze str. 10, Tbilisi, Georgia	Healthcare	5/9/2003	6/7/2016
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	**67.00%**	Georgia	Djavakhishvili str. 85, Kutaisi, Georgia	Healthcare	5/5/2003	29/11/2011
LLC Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia	**67.00%**	Georgia	A Djavakhishvili str. 83A, Kutaisi, Georgia	Healthcare	15/10/2004	29/11/2011
NCLE Evex Learning Centre	**100.00%**	Georgia	#83A, Javakhishvili street, Tbilisi	Other	20/12/2013	20/12/2013
Emergency Service, LLC	**85.00%**	Georgia	U. Chkeidze str. 10, Tbilisi, Georgia	Healthcare	18/6/2013	3/1/2015
GNCo	**50.00%**	Georgia	Chavchavadze ave. N 16, Tbilisi	Healthcare	4/6/2001	5/8/2015
High Technology Medical Center, LLC	**100.00%**	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare	16/4/1999	5/8/2015
LLC Nefrology Development Clinic Centre	**80.00%**	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare	28/9/2010	5/8/2015
JSC Evex Clinics	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	1/4/2019	–
Tskaltubo Regional Hospital, LLC	**67.00%**	Georgia	16 Eristavi street, Tskhaltubo	Healthcare	29/9/1999	29/11/2011
LLC Aliance Med	**100.00%**	Georgia	142, A. Beliashvili str, Tbilisi	Healthcare	7/7/2015	20/7/2017
JSC Polyclinic Vere	**97.80%**	Georgia	18-20 Kiacheli str., Tbilisi	Healthcare	22/11/2013	25/12/2017
New Dent, LLC	**75.00%**	Georgia	Vazha Pshavela ave. #40, Tbilisi	Healthcare	24/12/2018	–
JSC Mega-Lab	**92.00%**	Georgia	Petre Kavtaradze str. 23, Tbilisi	Healthcare	6/6/2017	–
JSC Patgeo	**100.00%**	Georgia	Mukhiani, II mcr. District, Building 22, 1a, Tbilisi	Healthcare	13/1/2010	1/8/2016
JSC Vabaco	**67.00%**	Georgia	Bochorishvili str. 37, Tbilisi, Georgia	Software Development	9/9/2013	28/9/2018
Georgian Global Utilities, LLC	**100.00%**	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	**100.00%**	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	**100.00%**	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	**100.00%**	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	**100.00%**	Georgia	Aghmashenebeli St., Mtskheta	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	**100.00%**	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	**100.00%**	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
JSC Georgian Beverages	**100.00%**	Georgia	75 Chavchavadze Ave., Tbilisi	Beer Production and Distribution	14/11/2016	7/2/2018
JSC Georgian Beverages Holding	**86.81%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Investment	17/12/2019	-
JSC Teliani Valley	**100.00%**	Georgia	3 Tbilisi highway, Telavi	Winery	30/6/2000	28/2/2007
Teliani Trading (Ukraine), LLC	**100.00%**	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007

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2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Georgia Logistics and Distribution, LLC	**100.00%**	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
Le Caucase, LLC	**100.00%**	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
Kupa, LLC	**70.00%**	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	**100.00%**	Georgia	Tsilkani, Mtskheta Region, Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
Kindzmarauli Marani, LLC	**100.00%**	Georgia	56 A. Tsereteli Ave., Tbilisi	Winery	18/12/2001	25/4/2018
Alaverdi, LLC	**100.00%**	Georgia	Chumlaki, Gurjaani Region, Georgia	Winery	8/4/2008	19/8/2019
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	7 Kotetishvili st, Tbilisi, 0108	Beer Production and Distribution	7/6/2011	7/2/2018
Craf and Draft, LLC	**100.00%**	Georgia	Tsilkani, Mtskheta Region, Georgia	Beer Production	20/2/2019	–
JSC Artisan Wine and Drinks	**100.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Wine distribution	26/8/2019	–
Amboli, LLC	**80.00%**	Georgia	24, Leonidze st, Rustavi, Georgia	Car Services	13/8/2004	25/6/2019
Redberry, LLC	**60.00%**	Georgia	9, Tashkenti st, Tbilisi, Georgia	Digital Services	29/8/2014	1/5/2019
Lunchoba, LLC	**100.00%**	Georgia	22 Nutsubidze IV Micro-district, Tbilisi	Catering Services	8/10/2018	–
GCMF, LLC	**100.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Excess liquidity management company	2/5/2019	–
Georgian Energy Trading Company (GETC), LLC	**100.00%**	Georgia	15 Aleksandre Kazbegi Ave, Tbilisi, 0160	Renewable Energy Sales	23/4/2019	–
Georgian Wind Company, LLC	**100.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Renewable Energy	18/6/2019	–
Qartli Wind Farm, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	10/9/2012	30/12/2019
Georgia Energy Holding, LLC	**100.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Renewable Energy	26/9/2019	–
Racha Hydro, LLC	**95.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	31/10/2019	–
Hydrolea, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	6/7/2012	28/10/2019
Geoenergy, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	26/1/2012	28/10/2019
Hydro Georgia, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	8/5/2012	28/10/2019
Darchi, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	18/11/2013	28/10/2019
Hydro S, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	18/1/2019	28/10/2019
Kasleti 2, LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	18/11/2013	28/10/2019
Georgia Geothermal Company LLC	**100.00%**	Georgia	10 Medea (Mzia) Jugheli st, Tbilisi, 0179	Renewable Energy	16/12/2019	–
Tbilisi Green School, LLC	**80.00%**	Georgia	Didube-Chughureti / Dighomi massive IV, Building 5A, Apartment 35	Education	7/6/2011	22/8/2019
Georgia Education Group, LLC	**100.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Education	16/7/2019	–

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Green School, LLC	**90.00%**	Georgia	8a Petre Melikishvili Ave, Tbilisi, 0179	Education	21/10/2019	–
British-Georgian Academy, LLC	**70.00%**	Georgia	17, Leo Kvachadze str, Tbilisi	Education	3/2/2006	23/7/2019
NNLE British International School of Tbilisi	**100.00%**	Georgia	17, Leo Kvachadze str, Tbilisi	Education	3/2/2015	–
British International School of Tbilisi LLC	**100.00%**	Georgia	17, Leo Kvachadze str, Tbilisi	Education	5/9/2019	–
Buckswood International School – Tbilisi, LLC	**80.00%**	Georgia	2, Dolidze str, Tbilisi	Education	24/8/2005	29/7/2019
JSC Liberty Consumer	**75.10%**	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
JSC Intertour	**99.94%**	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006

Associates	Proportion of voting rights and ordinary share capital held 31 December 2019	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	**35.00%**	Georgia	Temka, XI mcr. Block 1, N 1/47, Tbilisi	Healthcare	16/9/1999	4/5/2016
Ytong Capital, LLC*	**28.90%**	Georgia	15, Kipshidze str, Tbilisi, Georgia	Production	6/3/2015	30/10/2019
JSC Isani Parki	**6.00%**	Georgia	Kakheti Highway, Isani, Tbilisi	Real estate	18/12/2017	–

* On 30 October 2019, one of the Group's wholly-owned subsidiaries – JSC Georgia Real Estate (formerly JSC m2 Real Estate) acquires 28.9% equity investment in Ytong Capital LLC. Total consideration paid was GEL 10,823.

During 2019, JSC Georgia Capital made capital reduction to its 100% shareholder with total consideration of GEL 80,389.

The consolidated financial statements as at 31 December 2018 include the following subsidiaries and associates:

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	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 m^2 Real Estate	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	27/9/2006	–
m^2 Residential, LLC	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	17/8/2015	–
Optima ISANI, LLC	100.00%	Georgia	16 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
Tamarashvili 13, LLC	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
m^2 at Hippodrome, LLC	100.00%	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
m^2 Skyline, LLC	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
m^2 at Kazbegi, LLC	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
m^2 at Tamarashvili, LLC	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
m^2 at Nutsubidze, LLC	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
M Square Park, LLC	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
Optima Saburtalo, LLC	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
m^2 at Vake, LLC	100.00%	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
m^2 Hospitality, LLC	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	17/8/2015	–
m^2, LLC (formerly JSC m^2)	100.00%	Georgia	29 Ilia chavchavadze Ave., Tbilisi, 0105	Real estate	12/2/2014	–
m^2 Kutaisi, LLC	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
m^2 at Melikishvili, LLC	100.00%	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
Kass 1, LLC	67.00%	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	23/04/2018	–
m^2 at Gudauri, LLC	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	24/04/2018	–
m^2 Zugdidi, LLC	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	7/11/2018	–
m^2 Svaneti, LLC	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	14/11/2018	–
m^2 at Chavchavadze LLC	100.00%	Georgia	50 I. Chavchavadze Ave., Tbilisi	Real estate	5/9/2016	–
m^2 Commercial Properties LLC	100.00%	Georgia	80 Chavchavadze Ave., Tbilisi	Real estate	11/6/2014	–
Caucasus Autohouse, LLC	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	29/3/2011	–
Land, LLC	100.00%	Georgia	Between university and Kavtaradze st., Tbilisi	Real estate	3/10/2014	–
BK Construction, LLC	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	18/5/2017	2/6/2017
m^2 Commercial Assets, LLC	100.00%	Georgia	Tbilisi, Chavchavadze ave. 29	Real estate	4/10/2018	–

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2. Basis of Preparation continued

Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Melikishvili Business Center, 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%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
JSC Geohydro	85.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	100.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
JSC Zoti Hydro	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	20/8/2015	–
JSC Caucasian Wind Company	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
JSC Caucasian Solar Company	100.00%	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
JSC A Group	100.00%	Georgia	1, Berbuki str., Saburatlo, Tbilisi	Various	20/9/2018	–
JSC Insurance Company Aldagi	100.00%	Georgia	Old Tbilisi, Pushkin str #3, Tbilisi	Insurance	31/7/2014	–
JSC Insurance Company Tao	100.00%	Georgia	Old Tbilisi, Pushkin str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
Aliance, LLC	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%	Georgia	20, Chavchavadze ave., Vake, Tbilisi	Various	9/8/2004	30/4/2012
Insurance Informational Bureau, LLC	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%	Georgia	3, Pushkini str., Krtsanisi, Tbilisi	Leasing	17/11/2017	–
JSC Greenway Georgia (formerly known as Premium Residence, LLC)	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%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
JSC Georgia Healthcare Group	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
JSC Insurance Company Imedi L	100.00%	Georgia	9, Anna Politkovskaias Str. Vake-Saburtalo District, Tbilisi	Insurance	22/6/2007	–
JSC GEPHA	67.00%	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
JSC ABC Pharamcia (Armenia)	100.00%	Armenia	Kievnaia sts. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
ABC Pharmalogistics, LLC	100.00%	Georgia	Sanapiro Str.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
JSC Medical Corporation EVEX	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Medical services	15/10/2004	12/9/2011
Tskaltubo Regional Hospital, LLC	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
Patgeo, LLC	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%	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
High Technology Medical Center, LLC	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
Geolab, LLC	–	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
Nephrology Development Clinic Center, LLC	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
Catastrophe Medicine Pediatric Center, LLC	100.00%	Georgia	U. Chkeidze str. N 10, Tbilisi	Medical services	18/6/2013	5/8/2015

2. Basis of Preparation continued

Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
JSC Pediatria	76.00%	Georgia	1, t. Chkheidze str., Didube-Chugureti District, Tbilisi	Medical services	5/9/2003	5/7/2016
Emergency Service, LLC	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%	Georgia	Guria str. 171, Poti	Medical services	29/10/2014	1/1/2016
Deka, LLC	97.20%	Georgia	23, P. Kavtaradze Str., Tbilisi	Medical services	12/1/2012	11/6/2015
EVEX-Logistics, LLC	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	2/2/2015	–
EVEX Collection, LLC	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	25/3/2016	–
Unimed Achara, LLC (merged with JSC Medical Corporation Evex)	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%	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%	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%	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%	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%	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%	Georgia	9 Paolo Iashvili street, Kutaisi	Medical services	3/11/2000	20/5/2008
Referral Centre of Pathology, LLC	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
EVEX Learning Center	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
JSC Mega-Lab	100.00%	Georgia	23 Kavtaradze str., Tbilisi	Medical services	6/6/2017	–
New Clinic, LLC	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
Alliance Medi, LLC	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
Medical Center Alimedi, LLC	–	Georgia	17 R. Tabukashvili str., Tbilisi	Medical services	27/9/2003	8/11/2017
JSC Polyclinic Vere	97.80%	Georgia	18-20 Kiacheli str.,Tbilisi	Medical services	22/11/2017	25/12/2017
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%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
Georgian Water and Power, LLC	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
Rustavi Water, LLC	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
Gardabani Sewage Treatment, LLC	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
Mtskheta Water, LLC	100.00%	Georgia	Aghmashenebeli St., Mtskheta	Utilities	1/9/1999	31/12/2014
Georgian Engineering and Management Company (GEMC), LLC	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/03/2011	31/12/2014
JSC Saguramo Energy	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	11/12/2008	31/12/2014
JSC Teliani Valley	77.62%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

2. Basis of Preparation continued
Subsidiaries and Associates continued

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2018	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
Georgia Logistics and Distribution, LLC (Formerly known as Teliani Trading (Georgia), LLC)	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
Teliani Trading (Ukraine), LLC	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
Le Caucase, LLC	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
Kupa, LLC	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
Global Beer Georgia, LLC	100.00%	Georgia	Tsilkani, Mtskheta Region, Georgia	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
Global Coffee Georgia, LLC		Georgia	29a Gagarini street, Tbilisi	Coffee Distribution	26/12/2016	–
New Coffee Company, LLC		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%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
JSC Intertour	99.94%	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
JSC Prime Fitness	100.00%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–

Associates	Proportion of voting rights and ordinary share capital held 31 December 2018	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	35.00%	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016
JSC Isani Parki	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. Certain accounting policies relate to assets, liabilities, income and expenses of subsidiaries of the Group which were consolidated up until 31 December 2019 before change of Company's investment entity status, and might not be relevant for Company's assets and liabilities as at 31 December 2019 or to its operations going forward:

Change in Basis of Accounting

IFRS 10 Consolidated Financial Statements

Following the change in investment entity status on 31 December 2019 (Note 2), the Group de-consolidated its subsidiaries and recognised them as investments in subsidiaries at their fair value as at 31 December 2019.

Prospective application of IFRS 10 investment entity accounting requirements resulted in the following changes to the balance sheet as of 31 December 2019:

	Before change in investment entity status	Effect – change in investment entity status	After change in investment entity status
Assets			
Cash and cash equivalents	249,978	(248,735)	1,243
Amounts due from credit institutions	63,126	(63,126)	–
Marketable securities	42,509	(42,509)	–
Accounts receivable	209,015	(209,015)	–
Insurance premiums receivable	63,425	(63,425)	–
Inventories	323,515	(323,515)	–
Investment properties	184,744	(184,744)	–
Prepayments	94,390	(94,156)	234
Income tax assets	2,760	(2,760)	–
Property and equipment	2,027,284	(2,027,284)	–
Right-of-use asset	100,067	(100,067)	–
Goodwill	197,281	(197,281)	–
Intangible assets	75,232	(75,232)	–
Other assets	189,814	(189,814)	–
Equity investments at fair value	601,957	1,156,240	1,758,197
Total assets	4,425,097	(2,665,423)	1,759,674
Liabilities			
Accounts payable	176,685	(176,685)	–
Insurance contracts liabilities	71,645	(71,645)	–
Income tax liabilities	2,033	(2,033)	–
Deferred income	77,521	(77,521)	–
Lease liabilities	103,699	(103,699)	–
Borrowings	1,163,094	(1,163,094)	–
Debt securities issued	1,113,246	(1,113,246)	–
Other liabilities	249,306	(241,653)	7,653
Total liabilities	2,957,229	(2,949,576)	7,653
Equity			
Share capital	1,320	–	1,320
Additional paid-in capital	108,863	–	108,863
Treasury shares	(138)	138	–
Other reserves	415,356	(415,356)	–
Retained earnings	664,658	977,180	1,641,838
Total equity attributable to shareholders of Georgia Capital PLC	1,190,059	561,962	1,752,021
Non-controlling interests	277,809	(277,809)	–
Total equity	1,467,868	284,153	1,752,021
Total liabilities and equity	4,425,097	(2,665,423)	1,759,674

Change in equity attributable to shareholders of Georgia Capital PLC	561,962
Reserves reclassified to profit or loss	26,866
– Revaluation of investment securities, net of tax	*681*
– Gains/(losses) from currency translation differences	*26,185*
Gain from change in investment entity status	588,828

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued

Change in Basis of Accounting continued

IFRS 10 Consolidated Financial Statements continued

In separate financial statements of the Company, investments in subsidiaries (previously measured at cost) were re-measured at fair value at 31 December 2019, with the difference recognises in profit or loss for the period.

Business Combinations and Goodwill (Policy Applied up to 31 December 2019)

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.

Business Combination Under Common Control (Policy Applied up to 31 December 2019)

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 (Policy Applied up to 31 December 2019)

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.

3. Summary of Significant Accounting Policies continued

Investments in Associates and Joint Ventures (Policy Applied up to 31 December 2019) continued

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 organization similar to a venture fund. When the Group acquires an associate, at initial recognition, the Group makes an irrevocable choice to measure investment in associate under the equity method or at fair value through profit or loss under IFRS 9.

Investments in Subsidiaries in Parent Company Financial Statements (Policy Applied up to 31 December 2019)

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.

Fair Value Measurement

The Group measures financial instruments, such as debt securities owned, equity investments, derivatives, investments in subsidiaries (starting from 31 December 2019) and non-financial assets such as investment properties at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 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 (Policy Applied up to 31 December 2019)

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.

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3. Summary of Significant Accounting Policies continued

Non-Current Assets Held For Sale and Discontinued Operations (Policy Applied up to 31 December 2019) continued

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 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.

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 ninety days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Financial Assets

Initial Recognition

Financial assets in the scope of 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.

3. Summary of Significant Accounting Policies continued

Financial Assets continued

Financial Assets at Amortised Cost (Debt Instruments) continued

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 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 and investments in subsidiaries (from 31 December 2019).

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued

Impairment of Financial Assets continued
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 profit or loss.

Derecognition of Financial Assets And Liabilities
Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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.

3. Summary of Significant Accounting Policies continued

Insurance and Reinsurance Receivables (Policy Applied up to 31 December 2019)
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.

Insurance Liabilities (Policy Applied up to 31 December 2019)
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 (Policy Applied up to 31 December 2019)
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 (Policy Applied up to 31 December 2019)
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 (Policy Applied up to 31 December 2019)
Property and equipment 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.

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.

Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued

Property and Equipment (Policy Applied up to 31 December 2019) 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 group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Leases (IAS 17, Applied Until 1 January 2019)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a Lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. An operating lease is a lease other than a finance lease.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases (IFRS 16, Applied Since 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use Assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Group's right-of-use assets are presented separately in statement of financial position.

3. Summary of Significant Accounting Policies continued

Leases (IFRS 16, Applied Since 1 January 2019) continued

Right-of-use Assets continued

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term Leases and Leases of Low-value Assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicles and equipment across the Group, exemption will not be applied to the lease of real estate. The Group also applies low value lease exemption to its low value leases such as computers and furniture (assets with a value, when new, of GEL 15,000 or less). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Inventories (Policy Applied up to 31 December 2019)

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 (Policy Applied up to 31 December 2019)

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 (Policy Applied up to 31 December 2019)

The Group's intangible assets include computer software and licenses and exclusive rights.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software 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 (Policy Applied up to 31 December 2019)

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".

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued

Goodwill Impairment (Policy Applied up to 31 December 2019) continued

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

Contingent liabilities are not recognised in the 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 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. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of comprehensive income. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

Net Gain or Loss on Financial Assets and Liabilities at Fair Value Through Profit or Loss

Net gains or losses on financial assets and liabilities at FVPL are changes in the fair value of equity investment at fair value, financial assets and liabilities held for trading or designated upon initial recognition as at FVPL and exclude interest and dividend income and expenses.

3. Summary of Significant Accounting Policies continued

Income and Expense Recognition continued

Insurance Income and Expense (Policy Applied up to 31 December 2019)

- 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.
- 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 (Policy Applied up to 31 December 2019)

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 (Policy Applied up to 31 December 2019)

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued

Income and Expense Recognition continued

Real Estate Revenue (Policy Applied up to 31 December 2019)
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.

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.

Beverage Revenue (Policy Applied up to 31 December 2019)
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 (Policy Applied up to 31 December 2019)
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 programme 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 (Policy Applied up to 31 December 2019)
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.

Education Revenue (Policy Applied up to 31 December 2019)
Education revenue is recognised in line with the satisfaction of performance obligations in Education contracts.

For performance obligations which are satisfied at a point in time, respective revenue is recognised at a point in time. Revenue is recognised on a straight-line basis for learning process, catering and transportation services over the period during which the performance obligation is being satisfied.

Renewable Energy Revenue (Policy Applied up to 31 December 2019)
The Group recognises revenue from Renewable Energy 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. Revenue amount is based on power generation by the end of each period and application of the relevant tariff for services set in the agreements with customers.

3. Summary of Significant Accounting Policies continued

EBITDA
The Group separately presents EBITDA on the face of the 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, gain from change in investment entity status 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.

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 USD	Lari to EUR
31 December 2019	3.7593	2.8677	3.2095
31 December 2018	3.3955	2.6766	3.0701

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 16 Leases
The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 supersedes 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. The standard 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
IFRS16 Leases continued

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/decrease) is as follows:

	1 January 2019
Assets	
Right-of-use assets	93,053
Property and equipment	(8,799)
Prepayments	(261)
Total assets	**83,993**
Liabilities	
Income tax liabilities	–
Lease liabilities	83,993
Total liabilities	**83,993**

The adoption had no impact on shareholder equity.

Nature of the Effect of Adoption of IFRS 16

The Group has lease contracts for various items of land, building, vehicles and other equipment. Before the adoption of IFRS 16, when a lease was determined to be economically similar to purchasing the underlying asset, the lease was classified as a finance lease and reported on a company's balance sheet. All other leases were classified as operating leases and not reported on a company's balance sheet (they were "off balance sheet leases"). Off balance sheet leases were accounted for similarly to service contracts, with the company reporting a rental expense in the income statement. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets as described below. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

(a) Leases Previously Classified as Finance Leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

(b) Leases Previously Accounted for as Operating Leases

The group recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. Lease liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. A right-of-use asset was recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17 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 also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	1 January 2019
Liabilities	
Operating lease commitments as at 31 December 2018	129,940
Weighted average incremental borrowing rate as at 1 January 2019	6.74%
Discounted operating lease commitments as at 1 January 2019	90,978
Less:	
Commitments relating to short-term leases	1,624
Commitments relating to leases of low-value assets	3,075
Lease payments relating to renewal and termination periods not included in operating lease commitments as at 31 December 2018	10,962
Add:	
Commitments relating to leases previously classified as finance leases	8,676
Lease liabilities as at 1 January 2019	**83,993**

3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
IAS 23 Borrowing Costs

Up until reporting period ended 31 December 2018, the Group's accounting policy was to capitalise borrowing costs to cost of inventory represented by residential apartments. 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 to customer 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, starting from interim reporting period ended 30 June 2019, the Group changed its existing accounting policy retrospectively and ceased capitalisation of borrowing costs to cost of inventory property represented by residential apartments from the moment when such properties become ready for sale.

Infrastructure Assets

In the second half of 2019, the Group changed its accounting policy with respect to infrastructure assets category of property, plant and equipment. The Group now applies the cost model, where infrastructure assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Group applied the revaluation model, where infrastructure assets were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that cost model provides more reliable and more meaningful presentation for investors since, (1) it enhances comparability for the investors as the application of cost model is a market practice across utility industry, and (2) it more closely aligns the accounting with the business activities around these asset categories.

The change of accounting policy has been accounted for retrospectively and resulted in GEL 106,296 reduction in net property and equipment on 1 January 2018. In line with IAS 36 requirements, the Group revisited composition of its cash generating units (CGUs) for the purpose of performing impairment test of infrastructure assets as at the transition date. In applying the impairment requirements under the cost model, the Group identified separate water and energy CGUs, which were previously treated as a single CGU and asset category under the revaluation model. Under revaluation model, excess of fair value over historical cost in the energy CGU compensated for the respective downside effect in water utility CGU. As a result of change in accounting policy to cost model, fair value surplus existing in the energy CGU was no longer eligible for recognition, while the accumulated deficit of value in use of the water CGU below its historical cost resulted in reduction of property and equipment at 1 January 2018.

Retrospective Application Effect: Borrowing Costs (a) and Infrastructure Assets (b)

Changes in accounting policy has been applied retrospectively by restating each of the affected consolidated financial statement line items for the prior periods, as follows:

Consolidated statement of financial position as at 31 December 2018	As previously reported	Change in accounting policy	As restated	Note
Inventory	278,615	(2,385)	276,230	(a)
Property and equipment	1,671,917	(98,293)	1,573,624	(b)
Intangible assets	51,634	(163)	51,471	(b)
Deferred revenue	62,059	286	62,345	(a)
Equity	1,201,815	(101,127)	1,100,688	(a),(b)

Consolidated statement of financial position as at 1 January 2018	As previously reported	Change in accounting policy	As restated	Note
Inventory	80,110	(3,397)	76,713	(a)
Property and equipment	657,635	(106,296)	551,339	(b)
Intangible assets	5,457	(314)	5,143	(b)
Deferred revenue	73,066	423	73,489	(a)
Equity	834,047	(110,430)	723,617	(a),(b)

Consolidated income statement for the year ended 31 December 2018	As previously reported	Change in accounting policy	As restated	Note
Revenue	1,282,866	129	1,282,995	(a)
Cost of sales	(796,191)	6,307	(789,884)	(a)
Gross profit	**486,675**	**6,436**	**493,111**	**(a)**
Other operating expenses	(11,601)	376	(11,225)	(b)
EBITDA	**217,691**	**6,812**	**224,503**	**(a),(b)**
Depreciation and amortisation	(74,155)	7,706	(66,449)	(b)
Interest expense	(91,619)	(5,276)	(96,895)	(a),(b)
Net profit	**16,911**	**9,242**	**26,153**	**(a),(b)**
Earnings per share, basic and diluted	(0.2572)	0.250	(0.0069)	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

3. Summary of Significant Accounting Policies continued
Adoption of New or Revised Standards and Interpretations continued
Retrospective Application Effect: Borrowing Costs (a) and Infrastructure Assets (b) continued

Consolidated statement of other comprehensive income for the year ended 31 December 2018	As previously reported	Change in accounting policy	As restated	Note
Income from currency translation differences	9,185	61	9,246	(a)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**8,095**	**61**	**8,156**	(a)
Other comprehensive loss for the year, net of tax	**(240,410)**	**61**	**(240,349)**	(a)
Total comprehensive loss for the year	**(223,499)**	**9,303**	**(214,196)**	(a),(b)

Change in accounting policy affected the result of change in investment entity status (Note 3), as reduction of net carrying value of infrastructure assets increased the gain on their deemed disposal. This effect arises from the different requirements of IFRS to account for changes in accounting policy retrospectively and for change in investment entity status, on a prospective basis.

The following Interpretations and amendments did not have any impact on the financial statements of the Group:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Amendments to IAS 28: Long-term interests in associates and joint ventures

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:

Amendments to IFRS 3: Definition of a Business

Amendments to IAS 1 and IAS 8: Definition of Material

These amendments have no impact on the consolidated financial statements of the Group.

Annual Improvements 2015-2017 Cycle (issued in December 2017)
These improvements include:
- IFRS 3 Business Combinations
- IFRS 11 Joint Arrangements
- IAS 12 Income Taxes

Group does not expect any effect on its consolidated financial statements.

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:

Assessment of Investment Entity Status
Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at FVPL rather than consolidate them. The criteria which define an investment entity are, as follows:
- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment management services.
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Group invests funds, originally obtained from its investors, in greenfield and/or developed businesses and bolt-on acquisitions for its private portfolio companies, with a target to acquire businesses at low multiples as compared to their frontier and emerging market peers, uses its robust corporate governance and strong ability to access capital and management to help the portfolio companies institutionalise their governance and grow into mature, independent, companies, obtains dividend inflows from its mature investments and once the businesses are developed, identifies the next best owners for such businesses and exits the investment ideally at a higher multiple (vs entry multiple) to monetise on capital appreciation gains.

4. Significant Accounting Judgements and Estimates continued
Assessment of Investment Entity Status continued
The Group reports to its investors via quarterly investor information, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by IFRS in the Group's annual reports. The Group has a clearly documented exit strategy for all of its investments.

The Board has also concluded that the Group meets the additional characteristics of an investment entity, in that it has more than one investment; the Group's ownership interests are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments; although JSC Georgia Capital is wholly capitalised by Georgia Capital PLC, Georgia Capital PLC is funded by many investors who are unrelated to the entity; and ownership in Georgia Capital PLC is represented by units of equity interests acquired through a capital contribution. Thus the judgement above refers to both entities in aggregation. The Board has concluded that the Group meets the definition of an investment entity. These conclusions will be reassessed on a continuous basis, if any of these criteria or characteristics change.

Until 2019, Georgia Capital did not measure and evaluate its equity investments in portfolio companies at fair value and therefore did not meet investment entity definition. In 2019, Georgia Capital management started to measure investments in portfolio companies at fair value and evaluating their performance on a fair value basis, such fair values are estimated internally and are disclosed to investors in management accounts. During 2019, management finalised a robust process for measuring fair values of private portfolio companies and implemented rigorous controls. As a final step, on 31 December 2019, Georgia Capital finalised corporate governance oversight over valuation process and as a result, started meeting investment entity definition on 31 December 2019.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair Valuation of the Investment Portfolio
The investment portfolio, a material asset of the Group, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 31. Given the importance of this area, the Board has formed a separate Audit and Valuations Committee to review the valuations to be placed on portfolio companies, compliance with the valuation standards and usage of appropriate judgement. Detailed valuation process is disclosed in Note 31.

Determining the Lease Term of Contracts With Renewal And Termination Options – Group as Lessee (Applied up to 31 December 2019)
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms and under some of its leases to terminate the lease agreements. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew or the option to terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g. a change in business strategy).

Measurement of Fair Value of Investment Properties and Property and Equipment (Applied up to 31 December 2019)
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.

The Group performs valuation of its investment properties 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. Result of this valuation is presented in Note 12, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

5. Business Combinations
Acquisitions During the Year Ended 31 December 2019

Acquisition of Redberry

On 7 May 2019 the Group acquired 60% share capital in digital services company, Redberry LLC.

Provisionally estimated net assets of Redberry LLC at acquisition date comprised GEL 399. Consideration comprised of GEL 1,222. Additional GEL 7,568 capital has been injected for digital start-up development and the amount is taken into account in NCI calculations.

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

	Fair value recognised on acquisition
Cash and cash equivalents	134
Accounts receivable	290
Property and equipment	101
Right-of-use assets	288
Intangible assets	39
Other assets	12
	864
Lease liabilities	447
Accounts payable	7
Other liabilities	11
	465
Total identifiable net assets	399
Non-controlling interests	3,187
Goodwill arising on business combination	4,010
Purchase consideration	1,222

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(1,222)**
Cash acquired with the subsidiary	**134**
Net cash outflow	**(1,088)**

The acquisition enables the Group to have a platform for investments in the digital business. Management considers that the purchases will have a positive impact on the value of the Group's business.

Since the acquisition, company has recorded total of GEL 2,690 and GEL 389 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,474,378 and GEL 604,425, respectively.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the assembled workforce that is expected to generate future economic benefits.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

5. Business Combinations continued
Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Amboli

In June 2019, Georgia Capital acquired an 80% equity interest in Amboli LLC, car service provider.

Provisionally estimated net assets of Amboli LLC at acquisition date comprised negative GEL 708. Consideration comprised of GEL 3,434.

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

	Fair value recognised on acquisition
Cash and cash equivalents	102
Accounts receivable[1]	117
Inventories	1,436
Property and equipment	1,006
Right-of-use assets	1,104
Intangible assets	91
Prepayments	640
	4,496
Borrowings	3,315
Lease liabilities	1,148
Accounts payable	721
Other liabilities	20
	5,204
Total identifiable net assets	(708)
Non-controlling interests	(141)
Goodwill arising on business combination	4,001
Purchase consideration[2]	3,434

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(2,800)**
Cash acquired with the subsidiary	**102**
Net cash outflow	**(2,698)**

1 The fair value of the receivables amounted to GEL 117. The gross amount of receivables is GEL 219.
2 Purchase consideration comprises of GEL 3,434, which consists of cash payment of GEL 2,800 and holdback amount with a fair value of GEL 634.

The Group decided to increase its presence in the auto services markets by acquiring the company. Management considers that the purchases will have a positive impact on the value of the Group's business.

Since the acquisition, the company has recorded total of GEL 5,078 of revenue. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,475,711 and GEL 603,666, respectively.

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.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

5. Business Combinations continued
Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Private Schools

In June-July 2019 Georgia Capital signed SPAs with private schools: British-Georgian Academy ("BGA") to acquire 70% equity stake, Buckswood International School – Tbilisi LLC to acquire 80% equity stake and Tbilisi Green School (Green School) to acquire 80% equity stake.

Provisionally estimated net assets of education businesses at acquisition date comprised GEL 5,752. Total consideration comprised of GEL 40,245.

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

	Fair value recognised on acquisition
Cash and cash equivalents	5,397
Accounts receivable[1]	523
Inventories	197
Property and equipment	34,723
Right-of-use assets	3,268
Intangible assets	55
Prepayments	1,534
Other assets	610
	46,307
Borrowings	20,934
Accounts payable	2,140
Deferred income	14,896
Other liabilities	2,585
	40,555
Total identifiable net assets	5,752
Non-controlling interests	3,228
Goodwill arising on business combination	37,721
Purchase consideration[2]	40,245

The net cash outflow on acquisitions was as follows:

	31 December 2019
Cash paid	**(39,588)**
Cash acquired with the subsidiary	**5,397**
Net cash outflow	**(34,191)**

1 The fair value of the receivables amounted to GEL 523. The gross amount of receivables is GEL 998.
2 Purchase consideration comprises of GEL 40,245, which consists of cash payment of GEL 39,588 and holdback amount with a fair value of GEL 657.

The acquisitions are in line with the Group's business model combining premium, mid-level and affordable school segments. Management considers that the purchases will have a positive impact on the value of the Group's business.

Since the acquisition, the education business has recorded total of GEL 12,083 and GEL 2,938 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,485,863 and GEL 604,950, respectively.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the assembled workforce, premises and experienced management that is expected to generate future economic benefits.

The Group elected to measure the non-controlling interest in the acquirees at the proportionate share of its interest in the acquirees' identifiable net assets.

5. Business Combinations continued
Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Alaverdi

On 20 August 2019 the wine business of Georgia Capital acquired 100% equity interest in Alaverdi LTD, producer of exquisite Georgian wines and spirits. The acquisition was carried out through locally established special purpose vehicle (SPV). The control over Alaverdi is obtained without having direct controlling 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 Alaverdi.

Provisionally estimated net assets of Alaverdi LTD at acquisition date comprised GEL 25,619. Total consideration comprised of GEL 33,286.

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

	Fair value recognised on acquisition
Cash and cash equivalents	223
Accounts receivable[1]	315
Inventories	7,567
Property and equipment	19,713
Prepayments	140
Other assets	1,671
	29,629
Borrowings	2,910
Accounts payable	527
Other liabilities	573
	4,010
Total identifiable net assets	25,619
Goodwill arising on business combination	7,667
Purchase consideration	33,286

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(33,286)**
Cash acquired with the subsidiary	**223**
Net cash outflow	**(33,063)**

1 The fair value of the receivables amounted to GEL 315. The gross amount of receivables is GEL 315.

Alaverdi owns vineyards and free land plot in Kakheti region, available for immediate vineyard development. The acquisition of Alaverdi is in line with Georgia Capital's strategy to reach a vineyard base of 1,000 hectares.

Since the acquisition, Alaverdi LTD has recorded total of GEL 3,111 and GEL 809 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,480,668 and GEL 603,996, respectively.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the assembled workforce, premises and experienced management that is expected to generate future economic benefits.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

5. Business Combinations continued

Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Hydrolea

On 29 October 2019 the renewable energy business of Georgia Capital acquired 100% equity interest in Hydrolea LTD, operator of three Hydro Power Plants with aggregate 21MW installed capacity.

Provisionally estimated net assets of Hydrolea LTD at acquisition date comprised GEL 65,252. Total consideration comprised of GEL 65,252. The fair value of aggregate identifiable assets and liabilities of the companies as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	3,137
Amounts due from credit institutions, net	250
Accounts receivable[1]	1,266
Inventories	52
Property and equipment	107,980
Intangible assets	17
Other assets	1,129
	113,831
Borrowings	47,882
Accounts payable	316
Other liabilities	381
	48,579
Total identifiable net assets	65,252
Purchase consideration[2]	65,252

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(59,600)**
Cash acquired with the subsidiary	**3,137**
Net cash outflow	**(56,463)**

1 The fair value of the receivables amounted to GEL 1,266. The gross amount of receivables is GEL 1,266.
2 Purchase consideration comprises of GEL 65,262, which consists of cash payment of GEL 59,600 and holdback amount with a fair value of GEL 5,652.

Since the acquisition, Hydrolea LTD has recorded total of GEL 1,394 and GEL 1,372 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,481,579 and GEL 600,327, respectively.

Acquisition of Litera

On 4 December 2019 the Hospitality and Commercial Real Estate business of Georgia Capital acquired 50% share of JSC Litera. JSC Litera was established in December 2019 and operates in food and beverage business. The control over Litera is obtained without having more than 50% equity interest, through shareholder agreement signed with minority shareholder.

Provisionally estimated net assets of JSC Litera at acquisition date comprised GEL 175. Total consideration comprised of GEL 1,295 cash payment, which has been fully paid as at reporting date. Concurrently with the acquisition, the Group made injection to share capital of JSC Litera in the amount of US$ 415 (GEL 1,190) without changing the Group's ownership percentage. The cash injection was deemed to be linked to the acquisition transaction and contributed to the estimation of acquisition-date non-controlling interest.

5. Business Combinations continued

Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Litera continued

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

	Fair value recognised on acquisition
Cash and cash equivalents	–
Property and equipment	175
	175
Other liabilities	–
	–
Total identifiable net assets	175
Non-controlling interests	702
Goodwill arising on business combination	1,822
Purchase consideration	1,295

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(1,295)**
Cash acquired with the subsidiary	**–**
Net cash outflow	**(1,295)**

Since the acquisition, JSC Litera has recorded immaterial revenue. If the combination had taken place at the beginning of the period, the Group's revenue and profits would not have been materially different.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the assembled workforce, premises and experienced management that is expected to generate future economic benefits.

The Group elected to measure the non-controlling interest in the acquirees at the proportionate share of its interest in the acquirees' identifiable net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

5. Business Combinations continued
Acquisitions During the Year Ended 31 December 2019 continued

Acquisition of Qartli Wind Farm

On 30 December 2019 the renewable energy business of Georgia Capital acquired 100% equity interest in Qartli Wind Farm LLC.

Provisionally estimated net assets of Qartli Wind Farm LLC at acquisition date comprised GEL 41,322. Total consideration comprised of GEL 41,322.

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

	Fair value recognised on acquisition
Cash and cash equivalents	9,772
Amounts due from credit institutions, net	6,337
Accounts receivable[1]	1,271
Property and equipment	74,578
Other assets	306
	92,264
Borrowings	50,312
Accounts Payable	630
	50,942
Total identifiable net assets	41,322
Purchase consideration	41,322

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	**(41,322)**
Cash acquired with the subsidiary	**9,772**
Net cash outflow	**(31,550)**

1 The fair value of the receivables amounted to GEL 1,271. The gross amount of receivables is GEL 1,271.

Since the acquisition, Qartli Wind Farm LLC has not recorded any revenue or profit. If the combination had taken place at the beginning of the period, the revenue and profit of the Group including this acquisition only would have been GEL 1,489,944 and GEL 606,607, respectively.

6. Segment Information
At 31 December 2019 three new segments were added to the Group's reportable segments: Education, Auto Service and Digital Services. 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 RE	– 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;
Beverages	– Principally producing and distributing wine, beer and soft beverages;
Education	– Principally providing education for learners from Preschool to 12th grade (K-12);
Auto Services	– Principally providing auto and technical inspection services to corporate and individual clients;
Digital Services	– Principally providing tech-based marketing solutions to large Georgian corporate and Government agencies;
Other	– Comprises of early stage business and feasibility costs incurred in 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.

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 for the year ended 31 December 2019 and 2018.

As at 31 December 2019, and the for the periods following the change in investment entity status (refer to Note 3) the management of Georgia Capital will no longer monitor and use consolidated financial information going forward and will solely focus on fair value information for performance evaluation and decision-making. In line with updated management view the change also applied to the presentation of segment information as at 31 December 2019 and 2018, as outlined in the tables on pages 222 to 223.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

6. Segment Information continued

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2019:

	Healthcare	Water Utility	Housing Development	P&C Insurance	Renewable Energy	Hospitality and Commercial RE	Beverages
Revenue	976,329	168,457	117,741	64,631	16,171	37,588	125,092
Cost of sales	(650,191)	(41,868)	(101,946)	(31,311)	(108)	(7,627)	(80,349)
Gross profit	**326,138**	**126,589**	**15,795**	**33,320**	**16,063**	**29,961**	**44,743**
Operating expenses and impairment	(150,955)	(31,739)	(19,260)	(17,589)	(2,974)	(5,216)	(42,315)
EBITDA	**175,183**	**94,850**	**(3,465)**	**15,731**	**13,089**	**24,745**	**2,428**
Dividend income	–	–	–	–	–	–	–
Profit/(loss) for the year	**61,550**	**35,470**	**(16,796)**	**18,280**	**3,629**	**15,822**	**(30,683)**
Net Asset Value	**430,079**	**483,970**	**43,853**	**164,923**	**106,800**	**245,558**	**87,119**

	Auto Service	Digital Services	Education	Other	Corporate Center	Inter-Business Eliminations/ Consolidations	Group Total
Revenue	19,610	2,700	12,125	–	521	(67,528)	1,473,437
Cost of sales	(9,799)	(2,142)	(680)	–	–	42,997	(883,024)
Gross profit	**9,811**	**558**	**11,445**	**–**	**521**	**(24,531)**	**590,413**
Operating expenses and impairment	(7,417)	(396)	(7,593)	(39)	(32,252)	(182)	(317,927)
EBITDA	**2,394**	**162**	**3,852**	**(39)**	**(31,731)**	**(24,713)**	**272,486**
Dividend income	–	–	–	–	122,221	(97,268)	24,953
Profit/(loss) for the year	**(6,729)**	**389**	**2,730**	**(44)**	**648,230**	**(127,582)**	**604,266**
Net Asset Value	**25,757**	**8,790**	**56,316**	**2,183**	**98,520**	**(1,847)**	**1,752,021**

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 RE	Beverages	Other	Corporate Center	Inter-Business Eliminations / Consolidations	Group Total
Revenue	861,337	149,128	137,901	59,271	–	38,461	76,499	–	–	(39,602)	1,282,995
Cost of sales	(574,866)	(36,920)	(111,004)	(25,748)	–	(4,085)	(46,980)	–	–	9,719	(789,884)
Gross profit	**286,471**	**112,208**	**26,897**	**33,523**	**–**	**34,376**	**29,519**	–	–	**(29,883)**	**493,111**
Operating expenses and impairment	(154,448)	(29,051)	(11,583)	(15,453)	(789)	(2,841)	(35,734)	(1,395)	(18,253)	939	(268,608)
EBITDA	**132,023**	**83,157**	**15,314**	**18,070**	**(789)**	**31,535**	**(6,215)**	**(1,395)**	**(18,253)**	**(28,944)**	**224,503**
Dividend income	–	–	–	–	–	–	–	–	72,504	(48,629)	23,875
Profit/(loss) for the year	**53,235**	**40,700**	**1,307**	**17,082**	**(816)**	**26,395**	**(28,916)**	**(1,326)**	**2,697**	**(84,205)**	**26,153**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

7. Cash and Cash Equivalents

	31 December 2019	31 December 2018
Cash on hand	–	2,577
Current accounts with financial institutions	1,243	227,541
Time deposits with financial institutions with maturities of up to 90 days	–	26,813
Cash and cash equivalents, gross	**1,243**	256,931
Allowance (Note 27)	–	(1)
Cash and cash equivalents, net	**1,243**	256,930

8. Amounts Due from Credit Institutions

	31 December 2019	31 December 2018
Time deposits with maturities of more than 90 days	–	35,924
Deposits pledged as security for open commitments	–	4,375
Amounts due from credit institutions, gross	–	40,299
Allowance (Note 27)	–	–
Amounts due from credit institutions, net	–	40,299

9. Marketable Securities and Equity Investments at Fair Value

	31 December 2019	31 December 2018
Internationally listed debt securities	–	67,933
Locally listed debt securities	–	3,891
Marketable securities	–	71,824

	31 December 2019	31 December 2018
Subsidiaries (Note 31)	**1,758,197**	–
Bank of Georgia Group PLC*	–	457,495
Equity Investments at Fair Value	**1,758,197**	457,495

* In 2019, the Group recognised dividend income in the amount of GEL 24,953 (2018: GEL 23,875) from investment in Bank of Georgia Group PLC.

10. Accounts Receivable

	31 December 2019	31 December 2018
Healthcare services	–	115,150
Water supply services	–	23,965
Sales of pharmaceuticals	–	21,024
Beverage sales	–	18,235
Connection services	–	4,317
Electric power sales	–	700
Installation of water meters	–	94
Other receivables	–	8,456
Accounts receivable, gross	–	191,941
Allowance (Note 28)	–	(21,713)
Accounts receivable, net	–	170,228

Accounts receivable balance includes contract assets from sales to customers GEL 2,586 as at 31 December 2018. For more details, please refer to Note 25.

11. Inventories

	31 December 2019	31 December 2018
Healthcare and pharma inventory	–	146,164
Real estate inventory	–	96,979
Other inventory	–	33,087
Inventory	–	276,230

The Group performed inventory net realisable value test and charged impairment in the amount of GEL nil as at 31 December 2019 (2018: GEL 179).

12. Investment Properties

	31 December 2019	31 December 2018
At 1 January	**151,232**	159,989
Additions*	**13,430**	27,626
Disposals	**(860)**	(2,461)
Net gains from revaluation of investment property	**8,265**	6,895
Transfers from/(to) property and equipment and other assets**	**723**	(48,971)
Currency translation differences	**11,954**	8,154
Change in investment entity status	**(184,744)**	–
At 31 December	–	151,232

* Non-cash additions comprised GEL nil as at 31 December 2019 (2018: 1,145).
** Comprised of GEL 8,635 transfer from property and equipment (2018: transfers to property and equipment GEL 8,930), GEL 7,912 transfer to other assets – inventories (2018: GEL 40,041).

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 nil as at 31 December 2019 (2018: 43,676)). 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 October 2019 the valuation of the properties has been performed by accredited independent valuers. Refer to Note 31 for details on fair value measurements of investment properties as at 31 December 2018.

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.

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FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

13. Property and Equipment
The movements in property and equipment during the year ended 31 December 2019 were as follows:

	Office buildings	Hotels	Hospitals and clinics	Assets under construction	Infrastructure Assets	Factory and equipment	Computers and equipment	Other	Total
Cost									
31 December 2018 (restated)*	195,653	24,360	433,159	248,941	430,267	101,116	278,838	114,639	1,826,973
Transfer to right-of-use assets at adoption of IFRS 16 (Note 3)*	–	–	(8,799)	–	–	–	–	–	(8,799)
1 January 2019	195,653	24,360	424,360	248,941	430,267	101,116	278,838	114,639	1,818,174
Additions	20,856	439	4,943	182,006	56,259	7,239	23,983	33,304	329,029
Business combinations, (Note 5)	37,001	–	–	522	182,558	–	3,673	14,522	238,276
Disposals	(8,664)	–	–	(297)	–	(66)	(985)	(3,368)	(13,380)
Transfers	35,237	–	–	(250,180)	210,341	(71)	(762)	5,435	–
Transfers (to)/from investment properties	(12,700)	–	–	3,761	–	–	–	304	(8,635)
Transfers to from other assets*	5,041	–	–	–	–	–	–	–	5,041
Write off**	–	–	–	–	(39,011)	–	–	–	(39,011)
Revaluation	3,474	–	–	–	–	–	–	–	3,474
Currency translation differences	502	2,763	–	4,106	15,617	–	232	923	24,143
Change in investment entity status	(276,400)	(27,562)	(429,303)	(188,859)	(856,031)	(108,218)	(304,979)	(165,759)	(2,357,111)
At 31 December 2019	–	–	–	–	–	–	–	–	–
Accumulated impairment									
31 December 2018 (restated)*	105	–	(4)	1,766	104,530	–	23	(7)	106,413
Disposals	–	–	–	–	–	–	–	5	5
Currency translation differences	–	–	–	–	3	–	1	–	4
Change in investment entity status	(105)	–	4	(1,766)	(104,533)	–	(24)	2	(106,422)
At 31 December 2019	–	–	–	–	–	–	–	–	–
Accumulated depreciation									
31 December 2018 (restated)*	6,463	162	10,753	–	36,036	10,805	60,125	22,592	146,936
Depreciation charge	2,297	217	2,377	–	23,353	8,850	28,544	14,007	79,645
Currency translation differences	26	87	–	–	1,218	868	123	12	2,334
Transfers	–	–	–	–	–	–	(18)	18	–
Write off**	–	–	–	–	(1,653)	–	–	–	(1,653)
Disposals	(292)	–	–	–	(525)	(105)	(826)	(2,109)	(3,857)
Change in investment entity status	(8,494)	(466)	(13,130)	–	(58,429)	(20,418)	(87,948)	(34,520)	(223,405)
At 31 December 2019	–	–	–	–	–	–	–	–	–
Net book value:									
31 December 2018 (restated)*	189,085	24,198	422,410	247,175	289,701	90,311	218,690	92,054	1,573,624
At 31 December 2019	–	–	–	–	–	–	–	–	–

* Comprised GEL 4,693 transfer from inventory and GEL 8,451 transfer to right-of-use assets.
** In July 2019, a mudflow in Mestia in the Valley of Mestiachala caused damage to Mestiachala 1 and 2 Hydro Power Plants and the surrounding infrastructure. Mestiachala HPPs are owned by the Group's Renewable Energy segment, operated by Georgian Renewable Power Company, LLC. As a result the NBV of damaged infrastructure assets written off was GEL 37,358. Respective non-recurring expense of GEL 37,357 was recognised in the Group's 2019 financial statements. The expense amount was offset with the income recognised as a result of reimbursement of damage from a reinsurance contract concluded by JSC Aldagi (Group's P&C Insurance segment) in the amount of GEL 36,707.

13. Property and Equipment continued
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									
1 January 2018 (restated)*	136,784	–	–	142,801	275,669	91,023	13,949	41,614	701,840
Additions	10,213	2,991	22,209	274,101	12,582	5,726	62,174	20,659	410,655
Business combinations	6,639	–	–	–	–	15,303	5,632	4,042	31,616
Disposals	(833)	–	–	–	297	(70)	(297)	(382)	(1,285)
Transfers	19,107	–	(6,624)	(153,275)	141,719	(10,866)	(1,170)	11,109	–
Transfers (to)/from investment properties	8,572	19,837	–	(19,840)	–	–	–	–	8,569
Transfers from inventory	223	–	–	228	–	–	172	–	623
Transfer to 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
31 December 2018 (restated)*	195,653	24,360	433,159	248,941	430,267	101,116	278,838	114,639	1,826,973
Accumulated impairment									
31 December 2017	390	–	–	–	–	–	23	1	414
Effect of change in accounting policy (Note 3, (b))*	–	–	–	3,849	102,447	–	–	–	106,296
1 January 2018 (restated)*	390	–	–	3,849	102,447	–	23	1	106,710
Reversal	(15)	–	–	–	–	–	–	–	(15)
Disposals	–	–	–	–	–	–	–	(8)	(8)
Transfers	–	–	–	(2,083)	2,083	–	–	–	–
Transfer from assets of disposal group held for sale	–	–	(4)	–	–	–	–	–	(4)
Transfers to investment properties	(271)	–	–	–	–	–	–	–	(271)
Currency translation differences	1	–	–	–	–	–	–	–	1
31 December 2018 (restated)*	105	–	(4)	1,766	104,530	–	23	(7)	106,413
Accumulated depreciation				–					
1 January 2018 (restated)*	5,249	–	–	–	23,084	3,887	6,314	5,257	43,791
Depreciation charge	1,460	162	5,192	–	12,883	7,490	23,674	10,684	61,545
Currency translation differences	(229)	–	–	–	(1)	47	191	29	37
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
Disposals	(184)	–	–	–	75	(6)	(177)	(30)	(322)
31 December 2018 (restated)*	6,463	162	10,753	–	36,036	10,805	60,125	22,592	146,936
Net book value:									
1 January 2018 (restated)*	131,145	–	–	138,952	150,138	87,136	7,612	36,356	551,339
31 December 2018 (restated)*	189,085	24,198	422,410	247,175	289,701	90,311	218,690	92,054	1,573,624

* Certain amounts do not correspond to the 2018 consolidated financial statements as they reflect the adjustments made for changes in accounting policy described in Note 3 ((b) infrastructure assets).

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property as at 31 December 2019 was nil (31 December 2018: GEL 662,034).

14. Leases
Group as a Lessee

The Group has lease contracts for various items of land, building, vehicles and other equipment used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. Some lease contracts include extension and termination options and variable lease payments, which are further discussed below. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the "short-term lease" and "lease of low-value assets" recognition exemptions for these leases.

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14. Leases continued

Group as a lessee continued

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Gross Balance	Land	Buildings	Vehicles	Other equipment	Total
At 1 January 2019	**2,687**	**90,188**	**178**	**–**	**93,053**
Additions	**1,325**	**25,402**	**163**	**–**	**26,890**
Business combination (Note 5)	**348**	**4,245**	**57**	**10**	**4,660**
Disposals	**–**	**(2,218)**	**–**	**–**	**(2,218)**
Transfers from/(to) PPE	**(348)**	**–**	**–**	**–**	**(348)**
Currency translation differences	**38**	**186**	**–**	**–**	**224**
Change in investment entity status	**(4,050)**	**(117,803)**	**(398)**	**(10)**	**(122,261)**
At 31 December 2019	**–**	**–**	**–**	**–**	**–**
Accumulated Depreciation					
At 1 January 2019	**–**	**–**	**–**	**–**	**–**
Additions	**314**	**22,552**	**98**	**1**	**22,965**
Disposals	**–**	**(783)**	**–**	**–**	**(783)**
Currency translation differences	**–**	**13**	**–**	**–**	**13**
Change in investment entity status	**(314)**	**(21,782)**	**(98)**	**(1)**	**(22,195)**
At 31 December 2019	**–**	**–**	**–**	**–**	**–**
Net Book Value:					
Balance at 1 January 2019	**2,687**	**90,188**	**178**	**–**	**93,053**
Balance at 31 December 2019	**–**	**–**	**–**	**–**	**–**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019
At 1 January 2019	**83,993**
Additions	**34,989**
Business combination (Note 5)	**1,595**
Interest expense on lease liabilities	**6,664**
Payments of principal portion of lease liabilities	**(21,087)**
Payment of interest portion of lease liabilities	**(6,665)**
Foreign exchange rate movements	**4,209**
Change in investment entity status	**(103,699)**
At 31 December 2019	**–**

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	**(22,189)**
Interest expense on lease liabilities	**(6,665)**
Expense relating to short-term leases (included in administrative expenses)	**(534)**
Expense relating to leases of low-value assets (included in administrative expenses)	**(130)**
Variable lease payments (included in administrative expenses)	**(4,427)**
Total amount recognised in profit or loss	**(33,938)**

Total lease payments including low-value and short-term leases during the year was GEL 32,842.

Group as a Lessor

The Group has entered into operating leases of certain investment properties. Rental income recognised by the Group during the year is GEL 8,903 (2018: GEL 5,467). Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	31 December 2018
Not later than 1 year	5,243
Later than 1 year but not later than 5 years	11,531
Later than 5 years	9,090
Total	25,864

Most of the Company's leases are prices in USD and have lease term varying from 3 months to 10 years (average term: 4 years).

15. Goodwill and Intangible Assets

Movements in goodwill during the years ended 31 December 2019 and 31 December 2018, were as follows:

	31 December 2019	31 December 2018
Cost		
1 January	**146,787**	26,627
Business combinations	**55,221**	5,362
Transfer from/(to) assets of disposal group held for sale	**–**	114,798
Currency translation differences	**(35)**	–
Change in investment entity status	**(201,973)**	–
At 31 December	**–**	146,787
Accumulated impairment		
1 January	**4,692**	4,692
Change in investment entity status	**(4,692)**	–
At 31 December	**–**	4,692
Net book value:		
1 January	**142,095**	21,935
At 31 December	**–**	142,095

Impairment Test for Goodwill

As at 31 December 2019, Georgia Capital meets the definition of investment entity under IFRS 10, therefore it is not required to perform impairment tests of goodwill of the subsidiaries consolidated up to 31 December 2019.

Goodwill acquired through business combinations have been allocated to five individual cash-generating units, for impairment testing: Property & Casualty Insurance, Beverage, 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
P&C Insurance	15,454
Beverage	11,843
Pharmacy	77,755
Healthcare	33,581
Health Insurance	3,462
Total	142,095

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, %	2018, %	2018, %	2018, %	2018, %
Discount rate	15.6%	15.3%	14.4%	12.7%	14.3%

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; and
- Growth of other healthcare business lines through an increased market demand and economic growth.

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15. Goodwill and Intangible Assets continued

Discount Rates continued

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 and acquisitions of intangible assets presented in the consolidated statement of cash flows.

16. Other Assets and Liabilities

Other Assets Comprise:

	31 December 2019	31 December 2018
Loans issued*	–	150,300
Pension fund assets	–	18,796
Reinsurance assets	–	18,240
Operating tax assets	–	38,028
Call option	–	16,969
Investments in associates	–	3,124
Operating lease receivable	–	742
Other derivative financial assets	–	661
Other	–	4,602
Other assets	–	251,462

* Loans issued mainly consist of a loan granted to the former parent JSC BGEO Group and a loan granted to m[2] joint venture. For more details, please refer to Note 33.

Other Liabilities Comprise:

	31 December 2019	31 December 2018
Payables for transaction costs related to GHG share exchange	**4,782**	–
Other taxes payable	**381**	22,859
Accruals	**96**	55,623
Amounts payable for share acquisitions**	–	92,126
Other insurance liabilities	–	19,707
Pension fund liabilities	–	18,932
Finance lease liability	–	8,746
Dividends payable to non-controlling shareholders	–	991
Derivative financial liabilities	–	715
Provisions	–	525
Other	**2,394**	15,547
Other liabilities	**7,653**	235,771

** 2018 amount payable for share acquisitions comprise payables for healthcare and wine business acquisitions.

17. Taxation

The corporate income tax (expense) credit comprises:

	2019	2018 (restated)*
Current income tax expense	**(4,548)**	(3,924)
Deferred income tax (expense)/credit	**(85)**	318
Income tax (expense)	**(4,633)**	(3,606)
Deferred income tax credit (expense) in other comprehensive income/(loss)	–	–

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%.

17. Taxation continued

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2019 and 31 December 2018 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2019	2018 (restated)*
Profit before income tax expense	**608,899**	29,759
Average tax rate	**15%**	15%
Theoretical income tax expense at average tax rate	**(91,335)**	(4,464)
Non-taxable income	**88,225**	3,141
Correction of prior year declarations	**(376)**	(19)
Non-deductible expenses	–	(2,183)
Tax at the domestic rates applicable to profits in each country	**292**	587
Unrecognised deferred tax asset	**(1,439)**	(668)
Income tax (expense) benefit	**(4,633)**	(3,606)

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, income tax assets and liabilities consist of the following:

	31 December 2018
Current income tax assets	1,078
Deferred income tax assets	1,327
Income tax assets	2,405
Current income tax liabilities	1,119
Income tax liabilities	1,119

Deferred tax assets and liabilities as at 31 December 2018 are as follows:

	31 December 2018
Tax effect of deductible temporary differences:	
Tax credits carried forward	21,048
Insurance premiums receivables	688
Other assets and liabilities	639
Deferred tax assets	22,375
Investments in subsidiaries	21,048
Other assets and liabilities	–
Deferred tax liabilities	21,048
Net deferred tax asset recognised in the consolidated statement of financial position	1,327

18. Insurance Contract Liabilities and Reinsurance Assets

	2019			2018		
	Insurance contract liabilities	Reinsurance assets	Net	Insurance contract liabilities	Reinsurance assets	Net
	2019	2019	2019	2018	2018	2018
At 1 January	**68,207**	**(18,240)**	**49,967**	46,403	(20,671)	25,732
Premiums written during the year	**159,857**	**(22,517)**	**137,340**	135,595	(29,252)	106,343
Premiums earned during the year	**(156,674)**	**24,792**	**(131,882)**	(133,965)	27,235	(106,730)
Claims incurred during the year	**85,218**	**(8,226)**	**76,992**	65,728	(7,195)	58,533
Claims paid during the year	**(84,963)**	**10,347**	**(74,616)**	(66,507)	11,643	(54,864)
Transfer from assets and liabilities of disposal group held for sale	–	–	–	20,953	–	20,953
Change in investment entity status	**(71,645)**	**13,844**	**(57,801)**	–	–	–
At 31 December	–	–	–	68,207	(18,240)	49,967

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19. Borrowings

Borrowings comprise:

	31 December 2019	31 December 2018
Borrowings from local financial institutions	–	306,340
Borrowings from international financial institutions	–	451,984
Other borrowings	–	6,031
Borrowings	–	764,355

Some long-term borrowings from international credit institutions are received upon certain conditions (the Lender Covenants). At 31 December 2018, 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 USD, carry interest rates from 5% to 12%, with average remaining terms of maturity of 4 years.

As at 31 December 2018, borrowings from international financial institutions are denominated in GEL, EUR and USD, carry interest rates from 1.63% to 12.25%, with average remaining terms of maturity of 8 years.

As at 31 December 2018, other borrowings are denominated in GEL and EUR, carry interest rates from 12% to 13%, with average remaining terms of maturity of 3 months.

During 2018 total amount of interest paid comprised GEL 96,312.

Material Non-Cash Transactions

In 2019 year the Group incurred borrowings costs with total amount GEL 10,260 (2018: GEL 24,816) of which GEL nil (2018: GEL 6,018) has been capitalised as a part of investment property, GEL 4,261 (2018: GEL 3,153) was capitalised as a part of inventory property, GEL 5,678 (2018: GEL 15,450) was capitalised as part of property and equipment and GEL 321 (2018: GEL 195) was capitalised as part of intangible assets.

Changes in Liabilities Arising From Financing Activities

	Borrowings	Debt securities	Lease liabilities
Carrying amount at 1 January 2018	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	–
IFRS 16 transition effect	–	–	83,993
Foreign currency translation	37,151	56,649	4,209
Cash proceeds	660,400	247,053	–
Cash repayments	(416,682)	(106,713)	(21,087)
Acquisition of subsidiaries (Note 5)	125,353	–	1,595
Other*	(7,483)	(144)	34,989
Change in investment entity status (Note 3)	(1,163,094)	(1,113,246)	(103,699)
Carrying amount at 31 December 2019	–	–	–

* Other movement for lease liabilities represents amounts recognised at conclusion of the new lease contracts during the year.

20. Debt Securities Issued

Debt securities issued comprise:

	31 December 2019	31 December 2018
USD denominated Eurobonds issued by Georgia Capital	–	732,519
USD denominated local bonds issued by m²	–	85,663
GEL denominated local bonds issued by GHG	–	84,858
GEL denominated local bonds issued by GGU	–	13,361
Debt securities issued	–	916,401

In March 2018, JSC Georgia Capital issued a 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 2019	31 December 2018
Advances received for connection services	–	27,249
Advances received for sale of apartments	–	19,846
Advances received for sale of pharmaceuticals	–	4,867
Other	–	10,383
Deferred income	–	62,345

22. Accounts Payable

	31 December 2019	31 December 2018
Trade payables	–	139,879
Other payables	–	3,235
	–	143,114

Most of trade payables represent amounts due to suppliers in Healthcare, Water Utility, Housing Development, Hospitality and Commercial Real Estate and Beverages segments. Trade payables are usually short-term, denominated mostly in GEL and USD 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.

Commitments and Contingencies

As at 31 December 2018, the Group's commitments and contingencies comprised the following:

	31 December 2018
Operating lease commitments	
Not later than 1 year	23,383
Later than 1 year but not later than 5 years	75,147
Later than 5 years	31,410
	129,940
Capital expenditure commitments	10,341
Total Commitments	140,281

As at 31 December 2018 capital expenditure commitments represent the commitment for purchase of property and capital repairs GEL 9,624 and software and other intangible assets GEL 717.

24. Equity

Share Capital

As at 31 December 2019, issued share capital comprised of 40,169,775 authorised common shares (31 December 2018: 39,384,712), of which 40,169,775 were fully paid (2018: 39,384,712). Each share has a nominal value of one British penny. Shares issued and outstanding as at 31 December 2018 are described below:

	Number of ordinary shares	Amount
1 January 2018	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
Issue of share capital	3,435,438	113
Cancellation of shares	(2,650,375)	(86)
31 December 2019	**40,169,775**	**1,320**

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24. Equity continued

Share Issue

On 18 November 2019, the Company announced a share exchange facility for GHG shareholders. Under the exchange facility GHG shareholder's had the opportunity to exchange GHG shares for GCAP shares in the ratio of 1:0.192. The facility closed on 18 December 2019, as a result of which GCAP exchanged 17,892,911 existing GHG shares for 3,435,438 new GCAP shares. The Group's interest in GHG increased to 70.6%. The Group incurred transaction costs of GEL 5,888 in relation to this transaction.

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 (GEL 120.1 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. In August 2019, the Group finalised the buyback programme. Total number of shares bought back comprised 3,336,843 with total consideration of GEL 120,117.

Treasury Shares

In 2019, the Group acquired 3,608,174 own shares for total consideration of GEL 133,060.

In 2019, the Group paid cash consideration of GEL 135,889 (2018: GEL 111,118) for acquisition of treasury shares, of which GEL 60,461 (2018: GEL 66,701) was related to shares acquired for settlement of employee share-based payments and GEL 75,428 (2018: GEL 44,417) were other acquisitions made by the Company, including those under the share buyback programme.

On 12 June 2019 and 22 August 2019, 2,000,000 and 650,375 treasury shares bought back under the Buyback Programme were cancelled, respectively. 686,468 shares were transferred to JSC Georgia Capital Executive Equity Compensation Trust. As at 31 December 2019, the number of treasury shares outstanding was 4,207,224 (2018: 3,567,765).

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 2019 and 31 December 2018 are presented in the statements of other comprehensive income.

Non-Controlling Interest

Georgia Healthcare Group PLC (GHG) is the only significant subsidiary of the Group that has a material non-controlling interest of 43% as of 31 December 2018. The following table summarises key information before intragroup eliminations relevant to Georgia Healthcare Group PLC.

	2018
Total assets	1,222,503
Total Liabilities	665,487
Non-controlling interest	287,016
Revenue	861,337
Profit for the year	53,237
Total comprehensive income for the year	53,237
Net decrease in cash and cash equivalents	12,687
Profit attributable to non-controlling interest	33,142

Earnings Per Share

	2019	2018 (restated)*
Basic profit/loss per share		
Profit/(loss) for the year attributable to ordinary shareholders of the parent	**569,262**	(254)
*Weighted average number of ordinary shares outstanding during the year**	**34,610,215**	36,925,304
Earnings/(loss) per share	**16.4478**	(0.0069)
Diluted profit/loss per share		
Profit/(loss) for the year attributable to ordinary shareholders of the Group	**569,262**	(254)
Weighted average number of diluted ordinary shares outstanding during the year	**35,372,783**	36,925,304
Diluted earnings/(loss) per share	**16.0932**	(0.0069)

* 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

	2019	2018 (restated)*
Pharma revenue	**570,836**	501,090
Healthcare revenue	**315,042**	291,069
Utility and energy revenue	**162,962**	139,290
Net insurance premiums earned	**131,882**	106,730
Beverages revenue	**124,705**	76,358
Real estate revenue	**97,780**	142,147
Auto service revenue	**19,540**	–
Education revenue	**12,083**	–
Digital services revenue	**2,324**	–
Other income	**36,283**	26,311
Revenue	**1,473,437**	1,282,995
Cost of pharma services	**(424,814)**	(386,153)
Cost of healthcare	**(176,753)**	(154,452)
Cost of utility and energy	**(41,121)**	(36,274)
Net insurance claims incurred	**(76,992)**	(58,533)
Cost of beverages	**(80,283)**	(46,879)
Cost of real estate	**(70,441)**	(107,593)
Cost of auto service	**(9,799)**	–
Cost of education	**(679)**	–
Cost of digital services	**(2,142)**	–
Cost of sales	**(883,024)**	(789,884)
Gross profit	**590,413**	493,111

Gross Healthcare and Pharma Profit

	2019	2018
Revenue from Government programmes	**221,397**	200,652
Revenue from free flow (non-insured retail individuals)	**84,299**	78,500
Revenue from insurance companies	**9,346**	11,917
Healthcare revenue	**315,042**	291,069
Retail	**430,312**	378,398
Wholesale	**140,524**	122,692
Pharma revenue	**570,836**	501,090
Healthcare and pharma revenue	**885,878**	792,159
Direct salary expenses	**(112,321)**	(105,440)
Healthcare direct materials	**(48,189)**	(34,012)
Expenses on medical service providers	**(3,280)**	(3,226)
Other direct expenses	**(12,963)**	(11,774)
Cost of healthcare	**(176,753)**	(154,452)
Retail	**(309,213)**	(275,887)
Wholesale	**(115,601)**	(110,266)
Cost of pharma services	**(424,814)**	(386,153)
Cost of healthcare and pharma services	**(601,567)**	(540,605)
Gross healthcare and pharma profit	**284,311**	251,554

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25. Gross Profit continued

Gross Utility and Energy Profit

	2019	2018
Revenue from water supply	**131,608**	130,238
Revenue from electric power sales	**31,354**	9,052
Utility and energy revenue	**162,962**	139,290
Cost of water supply	**(33,102)**	(33,663)
Cost of electric power sales	**(8,019)**	(2,611)
Cost of utility and energy	**(41,121)**	(36,274)
Gross utility and energy profit	**121,841**	103,016

Gross Insurance Profit

	2019	2018
Gross health insurance premiums earned	**73,981**	54,040
Gross P&C insurance premiums earned	**82,693**	79,925
Total gross premiums earned on insurance contracts	**156,674**	133,965
Reinsurers' share of gross earned premiums on health insurance contracts	**(2,552)**	(3,020)
Reinsurers' share of gross earned premiums on P&C insurance contracts	**(22,240)**	(24,215)
Reinsurers' share of gross earned premiums on insurance contracts	**(24,792)**	(27,235)
Net insurance premiums earned	**131,882**	106,730
Gross health insurance claims incurred	**(47,697)**	(37,096)
Gross P&C insurance claims incurred	**(37,521)**	(28,632)
Gross insurance claims incurred	**(85,218)**	(65,728)
Reinsurers' share of gross health insurance claims incurred	**558**	4,311
Reinsurers' share of gross P&C insurance claims incurred	**7,668**	2,884
Reinsurers' share of gross insurance claims incurred	**8,226**	7,195
Net insurance claims incurred	**(76,992)**	(58,533)
Gross insurance profit	**54,890**	48,197

Gross Beverages Profit

	2019	2018
Revenue from beer sales	**49,668**	27,395
Revenue from wine sales	**42,216**	27,020
Revenue from distribution of imported goods	**19,569**	14,065
Change in net realisable value of agricultural produce after harvest	**2,899**	2,875
Other beverage revenue	**10,353**	5,003
Beverages revenue	**124,705**	76,358
Cost of beer	**(32,803)**	(17,848)
Cost of wine	**(23,553)**	(15,188)
Cost of distribution	**(15,894)**	(10,625)
Cost of other beverage revenue	**(8,033)**	(3,218)
Cost of beverages	**(80,283)**	(46,879)
Gross beverages profit	**44,422**	29,479

25. Gross Profit continued

Gross Real Estate Profit

	2019	2018 (restated)*
Revenue from apartment sale	**52,022**	96,052
Revenue from construction services	**21,835**	27,864
Income from operating leases	**9,416**	6,454
Revaluation of m² investment property	**7,498**	6,626
Revenue from hospitality services	**7,009**	5,151
Real estate revenue	**97,780**	142,147
Cost of apartments sold	**(43,513)**	(79,962)
Cost of construction services	**(19,412)**	(23,637)
Cost of operating leases	**(2,445)**	(879)
Cost of hospitality services	**(5,071)**	(3,115)
Cost of real estate	**(70,441)**	(107,593)
Gross real estate profit	**27,339**	34,554

Total revenue above includes the following revenue streams that are not in scope of IFRS 15 Revenue from Contracts with customers:

	2019	2018
Real estate revenue:		
Net gains from revaluation of investment property	**7,498**	6,626
Income from operating leases	**9,416**	6,454
	16,914	13,080
Beverages revenue:		
Change in net realisable value of agricultural produce after harvest	**2,899**	2,875
	2,899	2,875
Net insurance premiums earned	**131,882**	106,730
Other income		
Revenue from BI insurance*	**9,933**	–
Gain from call option	**6,619**	6,863
Payables derecognised	**1,021**	3,881
Litigation reserve reversal	**–**	817
Loss from sale of PPE and IP	**589**	262
Net gains (losses) from revaluation of investment property	**767**	269
	170,624	134,777

* Reimbursement of lost revenue due to business interruption under insurance contract.

Salary and employee benefit expenses included in cost of sales comprised GEL 128,664 (2018: GEL 124,333). Inventory recognised as an expense during the period comprised GEL 55,307 (2018: GEL 185,512).

Contract Assets and Liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	31-Dec-18
Deferred income	**47,616**
Accounts receivable	**134,815**
Contract assets*	**2,586**

* 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.

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25. Gross Profit continued
Contract Assets and Liabilities continued

Decrease in deferred revenue, contract assets and accounts receivable as at 31 December 2019 is due to change in investment entity status. On 31 December 2019 the Group met investment entity status, therefore the Group's subsidiaries are consolidated up to 31 December 2019. As of that date, the subsidiaries have been de-consolidated, including the respective contract assets and liabilities, and recognised as Investments in subsidiaries at their fair value (Note 3).

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 29,239 revenue in the current reporting period (2018: GEL 54,935) that relates to carried-forward contract liabilities and is included in the deferred income.

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

	2019	2018
Salaries and bonuses	**(149,542)**	(121,537)
Equity compensation plan costs	**(24,274)**	(14,618)
Pension costs	**(3,184)**	(913)
Salaries and other employee benefits	**(177,000)**	(137,068)

For directors' remuneration refer to page 151 of Directors' Remuneration Report on page 145 in Group's Annual Report 2019. For total number of employees of the Group refer to page 85 of Resources and Responsibilities section on page 80 in Group's Annual Report 2019.

General and Administrative Expenses

	2019	2018
Marketing and advertising	**(21,800)**	(17,278)
Legal and other professional services	**(21,422)**	(14,227)
Office supplies	**(11,637)**	(7,800)
Operating taxes	**(10,951)**	(10,275)
Utility expenses	**(6,547)**	(3,824)
Repair and maintenance	**(5,783)**	(4,974)
Occupancy and rent	**(5,090)**	(23,160)
Corporate hospitality and entertainment	**(3,566)**	(2,576)
Communication	**(3,490)**	(2,866)
Travel expenses	**(3,258)**	(2,430)
Banking services	**(3,220)**	(2,843)
Security	**(1,702)**	(1,348)
Customer service fee	**(1,697)**	(1,710)
Personnel training and recruitment	**(740)**	(1,829)
Other	**(16,008)**	(10,386)
General and administrative expenses	**(116,911)**	(107,526)

Auditor's Remuneration

Auditors' remuneration is included within legal and other professional services expenses above and comprises:

	2019	2018
Fees payable for the audit of the Company's current year annual report	**480**	371
Fees payable for other services:		
Audit of the Company's subsidiaries	**3,775**	2,238
Total audit fees	**4,225**	2,609
Audit related assurance services		
Review of the Company's and Subsidiaries' interim accounts	**860**	675
Other assurance services	**47**	15
Total audit related fees	**907**	690
Non-audit services		
Corporate finance services	**–**	2,048
Other non-audit services	**–**	36
Total other services fees	**–**	2,084
Total fees	**5,162**	5,383

26. Salaries and Other Employee Benefits, and General and Administrative Expenses continued
Auditor's Remuneration continued

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 GEL 179 (2018:nil) and in respect of other services of the Group were GEL 26 (2018: GEL 142).

Fees related to corporate finance services are included in non-recurring expenses under demerger fees. 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 2019	Provisions 2019	Total 2019
At 1 January	**8,285**	**525**	**8,810**
Charge	**958**	**120**	**1,078**
Write-offs	**(24)**	**–**	**(24)**
Currency translation differences	**333**	**–**	**333**
Change in investment entity status	**(9,552)**	**(645)**	**(10,197)**
At 31 December	**–**	**–**	**–**

	Insurance premiums receivable 2018	Other assets 2018	Provisions 2018	Total 2018
At 1 January	4,243	22	3,103	7,368
Charge	1,898	50	231	2,179
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	–	525	8,810

The movements in the allowance for financial assets according to IFRS 9 are as follows:

	Cash and cash equivalents 2019	Amounts due from credit institutions 2019	Debt securities owned 2019	Accounts receivable 2019	Other assets 2019	Total 2019
At 31 December	**1**	**–**	**309**	**21,713**	**414**	**22,437**
(Reversal)/Charge	**–**	**–**	**(172)**	**12,026**	**(380)**	**11,474**
Recoveries	**–**	**–**	**–**	**(220)**	**–**	**(220)**
Write-offs	**–**	**–**	**–**	**(2,506)**	**–**	**(2,506)**
Change in investment entity status	**(1)**	**–**	**(137)**	**(31,013)**	**(34)**	**(31,185)**
At 31 December	**–**	**–**	**–**	**–**	**–**	**–**

	Cash and cash equivalents 2018	Amounts due from credit institutions 2018	Debt securities owned 2018	Accounts receivable 2018	Other assets 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	414	10,610
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	414	22,437

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.

Increase in impairment charge in 2019 and 2018 is mainly attributable to the increased gross balance of receivables of healthcare and utility businesses.

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28. Net Non-Recurring Items
Net non-recurring expense for the year ended 31 December 2019 comprised:

	2019
Net loss on flood of Mestiachala	**(1,068)**
Termination benefits	**(4,397)**
Prepayments write-off	**(3,019)**
Other	**(646)**
Net non-recurring items	**(9,130)**

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)
	(41,251)

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 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 2019 the Trustee has repurchased 2,087,337 (2018: 1,191,127) shares.

There were no cancellations or modifications to the awards in 2019 or 2018 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 granted to the senior executives of the Group during the year:

	2019	2018
Shares outstanding at 1 January	**2,394,556**	–
Granted during the year	**343,638**	2,394,556
Forfeited during the year	**(239,000)**	–
Vested during the year	**(111,000)**	–
Shares outstanding at 31 December	**2,388,194**	2,394,556

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2019 was 4 years (2018: 5.4 years).

The weighted average fair value of shares granted during the year was GEL 38.2 (2018: GEL 33.4). The weighted average fair value of shares forfeited and vested was GEL 37.7.

29. Share-Based Payments 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:

	2019	2018
Increase in equity arising from equity-settled share-based payments	**31,733**	38,621
Expense arising from equity-settled transactions	**27,136**	34,921

Expense arising from equity-settled transactions in the amount of GEL 2,862 (2018: GEL 20,303, related to demerger of Group) was recognised in net non-recurring expenses related to termination of employment agreement of the executive in 2019.

30. Risk Management
Introduction
Risk is inherent in the Group's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to 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 and Valuation Committee
The Audit and Valuation 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.

It is responsible for reviewing and approving half-yearly and annual valuations of the Company's portfolio investments prepared and presented to it by the Management Board. The Committee will ensure that the Valuation Policy complies with the obligations within any agreements in place, legislation, regulations, guidance and other policies of the Company.

Investment Committee
The Investment Committee ensures a centralised process-led approach to investment; and the over-riding 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 and Valuation 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.

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30. Risk Management continued
Introduction continued
Risk Mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Credit Risk
Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and 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 (Policy Applied up to 31 December 2019)
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 table below demonstrates the Group's financial assets credit risk profile by external rating grades:

	31 December 2019			31 December 2018		
	BB+ to BB-	B+ to B-	Not graded	BB+ to BB-	B+ to B-	Not graded
Cash and cash equivalents	**1,243**	**–**	**–**	229,842	23,940	3,148
Amounts due from credit institutions	**–**	**–**	**–**	24,776	15,354	169
Marketable securities	**–**	**–**	**–**	70,668	1,156	–
Total	**1,243**	**–**	**–**	325,286	40,450	3,317

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
Marketable securities	10	71,824	–	71,824
Total		296,760	43,392	340,152

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue for more than 30 days are considered as impaired.

The Group does not have a grading system to evaluate credit quality of neither past due nor impaired assets. Maximum exposure to credit risk is limited to carrying value of respective financial assets.

Liquidity Risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

30. Risk Management continued
Liquidity Risk continued
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 31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Borrowings	**–**	**–**	**–**	**–**	**–**
Debt securities issued	**–**	**–**	**–**	**–**	**–**
Accounts payable	**–**	**–**	**–**	**–**	**–**
Other financial liabilities	**7,660**	**–**	**–**	**–**	**7,650**
Total undiscounted financial liabilities	**7,650**	**–**	**–**	**–**	**7,650**

Financial liabilities 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

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. Risks associated with changes in fair value of equity investment and its implied fair value components are disclosed in Note 31.

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 US dollar.

The tables below indicate the currencies to which the Group had significant exposure on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	2019		2018	
Currency	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
EUR	**7.9%**	**–**	9.9%	(23,283)
GBP	**10.2%**	**(130)**	10.8%	151
USD	**6.4%**	**(36)**	7.1%	(23,409)

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.

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30. Risk Management continued

Operating Environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Insurance Risk (Policy Applied up to 31 December 2019)

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, %	2018, %
Loss ratio	38%	77%
Combined ratio	75%	94%

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, property GEL 5,830, liability GEL 2,625, cargo GEL 1,142, life GEL 1,625 and other GEL 2,174.

Capital Management

Management monitors the Group's capital on a regular basis based on statement of Net Asset Value (NAV) prepared on fair value bases, same as equity attributable to shareholders of Georgia Capital PLC as at 31 December 2019 in the amount of GEL 1,752,021. Net Asset Value (NAV) statement, which breaks down NAV into its components, including 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 it's 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 shareholder's 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.

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 2019 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 2019	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Equity investments at fair value	**–**	**–**	**1,758,197**	**1,758,197**
Assets for which fair values are disclosed				
Cash and cash equivalents	**–**	**1,243**	**–**	**1,243**

31 December 2018 (restated)*	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
Marketable securities	27,010	44,814	–	71,824
Equity investments at fair value	457,495	–	–	457,495
Total revalued property	–	–	289,701	289,701
Infrastructure assets	–	–	289,701	289,701
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

Valuation Techniques

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.

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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31. Fair Value Measurements continued

Valuation Techniques continued

Investment in Subsidiaries

Equity investments at fair value include investment in subsidiary at fair value through profit or loss representing 100% interest of JSC Georgia Capital. Georgia Capital PLC holds a single investment in JSC Georgia Capital (an investment entity on its own), which holds a portfolio of investments, both meet the definition of investment entity and Georgia Capital PLC measures its investment in JSC Georgia Capital at fair value through profit or loss. Investments in investment entity subsidiaries and loans issued are accounted for as financial instruments at fair value through profit and loss in accordance with IFRS 9. Debt securities owned are measured at fair value through other comprehensive income. We determine that, in the ordinary course of business, the net asset value of investment entity subsidiaries is considered to be the most appropriate to determine fair value. JSC Georgia Capital's net asset value as of 31 December 2019 is determined as follows:

	31 December 2019
Assets	
Cash and cash equivalents	117,215
Marketable securities	62,493
Equity investments at fair value	2,251,465
Of which listed investments	1,027,814
GHG	430,079
BoG	597,735
Of which private investments:	1,223,651
Late stage	692,746
Water Utility	483,970
Housing Development	43,853
P&C Insurance	164,923
Early stage	439,478
Renewable Energy	106,800
Hospitality & Commercial RE	245,558
Beverages	87,120
Pipeline	91,427
Education	56,316
Auto Service	25,757
Digital Services	8,790
Other	564
Loans issued	151,884
Other assets	8,782
Total assets	2,591,839
Liabilities	
Debt securities issued	825,952
Other liabilities	7,690
Total liabilities	833,642
Net Asset Value	1,758,197

In measuring fair values of JSC Georgia Capital's investments, following valuation methodology is applied:

Equity Investments in Listed Portfolio Companies

Equity instruments listed on an active market are valued at the price within the bid/ask spread, that is most representative of fair value at the reporting date, which usually represents the closing bid price. The instruments are included within Level 1 of the hierarchy.

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.

The value of an unquoted equity investment is generally crystallised through the sale or flotation of the entire business, rather than the sale of an individual instrument. Therefore, the estimation of fair value is based on the assumed realisation of the entire enterprise at the reporting date. Recognition is given to the uncertainties inherent in estimating the fair value of unquoted companies and appropriate caution is applied in exercising judgements and in making the necessary estimates.

31. Fair Value Measurements continued

Valuation Techniques continued

Equity Investments in Private Portfolio Companies continued

Fair value of equity investment in private portfolio companies is usually determined using one of the valuation methods 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 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 will be used for the purposes of valuation. Earnings can be adjusted for extraordinary or non-recurring items.

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).

Discounted Cash Flow

Under the Discounted Cash Flow (DCF) valuation method, fair value is estimated by deriving the present value of the business using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the business. The discount rate is estimated with reference to the market risk-free rate, a risk adjusted premium and information specific to the business or market sector. DCF is mostly used to estimate fair value of project-based cash-flow driven businesses.

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.

Price of Recent Investment

The price of a recent investment, if resulting from an orderly transaction, generally represents fair value as of the transaction date. At subsequent measurement dates, the price of a recent investment may be an appropriate starting point for estimating fair value. However, adequate consideration must be given to the current facts and circumstances, including, but not limited to, changes in the market or changes in the performance of the investee company. The valuer should assess at each measurement date whether changes or events subsequent to the relevant transaction would imply a change in the investment's fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

31. Fair Value Measurements continued

Valuation Techniques continued

Equity Investments in Private Portfolio Companies 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. Based on DCF, we might make upward or downward adjustment to the value of valuation target as derived from primary valuation method. If fair value estimated using discounted cash flow analysis significantly differs from the fair value estimate derived using primary valuation method, the difference is examined thoroughly, and judgement is applied in estimating fair value at the measurement date.

Valuation Process for Level 3 Valuations

Georgia Capital's Management Board proposes fair value to be placed at each reporting date to the Audit and Valuation Committee. The Audit and Valuation Committee is responsible for the review and approval of fair values of investments at the end of each reporting period.

Fair values of investments in private companies is assessed internally in accordance with Georgia Capital's valuation methodology by the Valuation Workgroup.

Description of Significant Unobservable Inputs to Level 3 Valuations

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investments in subsidiaries:

Description	Valuation technique	Unobservable input	Range (weighted average)	Fair value
Loans Issued		Discount rate		
Equity investments at fair value				
Late stage				692,746
Water Utility	EV/EBITDA	EV/EBITDA multiple of peers	7.9x - 11.0x (8.8x)*	483,970
Housing Development	DCF	Cashflow probability	70% - 100%	43,853
		Revenue per sq.m.	1,832 - 4,511	
		Cost per sq.m.	1,333 - 3,563	
P&C Insurance	P/E	P/E multiple of peers	6.6x - 12.3x (9.0x)*	164,923
Early stage				439,478
Renewable Energy	Recent transaction price	Recent transaction price	n/a	106,800
Hospitality and Commercial RE	NAV	Multiple	1x	245,558
Beverages	EV/EBITDA/EV/Sales	EV/EBITDA/EV/Sales multiple of peers	8.6x - 13.8x (10.0x)* 1.3x - 3.9x (2.2x)*	87,120
Pipeline				91,427
Education	*Recent transaction price*	*Recent transaction price*	n/a	56,316
Auto Service	EV/EBITDA	EV/EBITDA multiple of peers	6.6x - 15.4x (10.4x)*	25,757
Digital Services	*Recent transaction price*	*Recent transaction price*	n/a	8,790
Other	*Recent transaction price*	*Recent transaction price*	n/a	564

* amounts in (brackets) are the weighted multiples used in valuation.

Sensitivity Analysis to Significant Changes in Unobservable Inputs Within Level 3 Hierarchy

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs. The Group adjusted the inputs used in valuation by increasing and decreasing them by 5%, which is considered by the Group to be within a range of reasonably possible alternatives based on the earnings multiples used across peers.

If the peer multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 December 2019 decreased by 5%, value of equity investments at fair value would decrease by 62 million or 8%. If the multiple increased by 5% then the equity investments at fair value would increase by 62 million or 8%.

If WACC used to value each unquoted investment valued using DCF decreased by 5%, the value of equity investments at fair value would increase by 2 million or 4%. If the WACC increased by 5% then the equity investments at fair value would decrease by 2 million or 4%.

If the multiple used to value each unquoted investment valued on NAV and recent transaction price basis as at 31 December 2019 decreased by 5%, value of equity investments at fair value would decrease by 21 million or 5%. If the multiple increased by 5% then the equity investments at fair value would increase by 21 million or 5%.

31. Fair Value Measurements continued

Methodology Applied Before 31 December 2019

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 parent company's market capitalisation from 1 January 2013 till 31 December 2017 period, which equalled 34.7%. If in 2018 the volatility was 10% higher, fair value of call option would increase by GEL 2,533, if volatility was 10% lower call option value would decrease by GEL 2,770. The Group recognised GEL 6,619 (2018: GEL 6,863) 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.

Impact on Fair Value of Level 3 Financial Instruments Measured at Fair Value of Changes to Key Assumptions (Applied Before 31 December 2019)

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	2018	
	Carrying Amount	Effect of reasonably possible alternative assumptions
Level 3 financial assets		
Equity securities at FVOCI	–	+ / – 0
Other derivative, call option	16,969	+2,533/ – 2,770

Description of significant unobservable inputs to valuations of non-financial assets (applied before 31 December 2019)

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%)

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

31. Fair Value Measurements continued

Methodology Applied Before 31 December 2019 continued

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 2019	Fair value 2019	Unrecognised gain/(loss) 2019	Carrying value 2018	Fair value 2018	Unrecognised gain/(loss) 2018
Financial assets						
Cash and cash equivalents	**1,243**	**1,243**	**–**	256,930	256,930	–
Amounts due from credit institutions	**–**	**–**	**–**	40,299	40,299	–
Loans Issued	**–**	**–**	**–**	150,300	163,900	13,600
Financial liabilities						
Borrowings	**–**	**–**	**–**	764,355	760,767	3,588
Debt securities issued	**–**	**–**	**–**	916,401	863,524	52,877
Total unrecognised change in unrealised fair value			**–**			70,065

Movements in Level 3 Financial Instruments Measured at Fair Value (Applied Before 31 December 2019)

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	At 1 January 2018	Reclassification of securities	Transfer from AHS	Gain on revaluation	At 31 December 2018	Gain on revaluation	Investment entity classification	At 31 December 2019
Level 3 financial assets								
Equity securities at FVOCI	1,153	(1,153)	–	–	–	–	–	**–**
Call option	–	–	10,106	6,863	16,969	6,619	(23,588)	**–**
Equity investments at fair value	–	–	–	–	–	–	1,758,197	**1,758,197**

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

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 2019		
	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	**1,243**	**–**	**1,243**
Equity investments at fair value	**–**	**1,758,197**	**1,758,197**
Prepayments	**234**	**–**	**234**
Total assets	**1,477**	**1,758,197**	**1,759,674**
Other liabilities	**7,653**	**–**	**7,653**
Total liabilities	**7,653**	**–**	**7,653**
Net	**(6,176)**	**1,758,197**	**1,752,021**

32. Maturity Analysis continued

	31 December 2018 (restated)*		
	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
Marketable securities*	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	211,868	64,362	276,230
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	–	1,573,624	1,573,624
Goodwill	–	142,095	142,095
Intangible assets	–	51,471	51,471
Other assets	80,507	170,955	251,462
Total assets	1,382,860	2,238,145	3,621,005
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	35,163	27,182	62,345
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	605,016	1,586,296	2,191,312
Net	777,844	651,849	1,429,693

* Internationally listed debt and equity investments are allocated to "less than 1 year" rather than based on contractual maturity.

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 2019		31 December 2018		
	Management***	Joint Ventures and Associates	Management***	Entities under common control**	Joint Ventures and Associates
Assets					
Loans issued*	**–**	**–**	–	–	1,038
	–	**–**	–	–	1,038
Liabilities					
Debt securities issued	**–**	**–**	2,596	–	–
	–	**–**	2,596	–	–

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2019 (THOUSANDS OF GEORGIAN LARI) CONTINUED

33. Related Party Disclosures continued

	2019		2018		
	Management***	Joint Ventures and Associates	Management***	Entities under common control**	Joint Ventures and Associates
Income and expenses					
Gross profit****	–	–	–	1,998	–
Salaries and other employee benefits	–	–	–	(428)	–
Administrative expenses	–	–	–	(527)	–
Net foreign currency (loss)	–	–	–	(675)	–
Interest income	–	199	–	4,482	73
Interest expense	(390)	–	–	(5,038)	–
	(390)	199	–	(188)	73

* 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 GEL133,830, 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 2019, one of the Group's subsidiaries, JSC Georgia Real Estate (formerly JSC m² Real Estate) has loans issued to a joint venture and associate. Interest income on loan issued is GEL 199 (2018: GEL 73).

** Entities under common control comprise of BGEO Group PLC's Banking Business subsidiaries.

*** Management of Georgia Capital PLC consist of four executives and six members of the Board of Directors (five executives and six board of directors in 2018).

**** The amount represents gross real estate profit received from key management personnel as a result of sale of apartments.

Compensation of key management personnel comprised the following:

	2019	2018
Salaries and other benefits	3,589	2,605
Share-based payments compensation	12,988	18,131
Total key management compensation	**16,577**	20,736

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 2019 was 10 (2018: 11).

34. Events after the Reporting Period

Buyout of the Minority Shareholder in Renewable Energy

On 25 February 2020 the Group bought out 34.4% stake minority shareholder, RP Global, in Georgian Renewable Power Company LLC. As part of the buyout, Georgia Capital will pay a fixed cash consideration of GEL 39 million. An additional deferred adjustable consideration of up to GEL 12.6 million may be payable if actual market electricity sales prices are higher during 2023-2025 than the Group's current internal forecasts.

Change in fair value of listed and unquoted investments

As at 3 April 2020, fair value of listed equity investments has declined by 39.5% (to GEL 621,991) compared to 31 December 2019 in light of COVID-19 pandemic impact on stock markets. The fair value of our unquoted portfolio investments may have increased or decreased since 31 December 2019. The valuations depend on market multiples and outlook and the direct exposure to the impact of COVID-19 of each particular portfolio investment.

ABBREVIATIONS AND REFERENCES

ADR	Average Daily Rate
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
EBITDA	Earnings before interest, taxes, non-recurring items, FX gain/losses and depreciation and amortisation
EECP	Executives' Equity Compensation Plan
EFTA	European Free Trade Association
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
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
NTM	Next twelve months
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

RevPar	Revenue per available room
ROAE	Return on average total equity
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
WPP	Wind Power Plant

REFERENCES

BGEO Group PLC	Former parent company of Georgia Capital PLC prior to demerger
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
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 in the P&C insurance business.
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 portfolio companies' operational performance and the profitability of these companies' operations. The Company considers EBITDA to be an important indicator of representative recurring operations.
Expense Ratio	Equals sum of acquisition costs and operating expenses divided by net earned premiums in the P&C insurance business.
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 2019.
Liquid assets and Loans issued	Liquid asset and loans issued in Georgia Capital include cash, marketable debt securities and issued short-term loans.
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.
MOIC	Multiple of Capital Invested is calculated as follows: i) the numerator is the cash and non-cash inflows from dividends and sell-downs plus fair value of investment at reporting date, and ii) the denominator is the gross investment amount.
Realised MOIC	Realised Multiple of Capital Invested is calculated as follows: i) the numerator is the cash and non-cash inflows from dividends and sell-downs, ii) the denominator is the gross investment amount.
ROAE	Return on average total equity equals profit for the period attributable to shareholders divided by monthly average equity attributable to shareholders for the same period for BoGG and P&C insurance.
ROIC	Return on invested capital is calculated as EBITDA less depreciation, divided by aggregate amount of total equity and borrowed funds.
Value creation	Value creation of each portfolio investment is calculated as follows: we aggregate a) change in beginning and ending fair values, b) gains from realised sales (if any) and c) dividend income during period. We then adjust the net result to remove capital injections (if any) to arrive at the total value creation / investment return.

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 4 June 2020 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.

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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 75 to 79.

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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The outer cover of this report has been laminated with a biodegradable film. Around 20 months after composting, an additive within the film will initiate the process of oxidation.

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GEORGIA CAPITAL

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