IMPORTANT NOTICE: NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR OTHERWISE TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following before continuing. The following applies to the attached Listing Particulars (the "**Listing Particulars**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Listing Particulars. In accessing the attached Listing Particulars, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. If you have gained access to this transmission contrary to any of the following restrictions, you are not authorised and will not be able to purchase any of the securities described herein (the "**Securities**"). You acknowledge that this electronic transmission and the delivery of the attached Listing Particulars is intended for you only and you agree you will not forward this electronic transmission or the attached Listing Particulars to any other person. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorised. Failure to comply with the following directives may result in a violation of the US Securities Act of 1933 (the "**Securities Act**") or the applicable laws of other jurisdictions.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") OR WITHIN THE UNITED STATES ONLY TO QIBs IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A, OR ANOTHER EXEMPTION THEREFROM, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view the Listing Particulars or make an investment decision with respect to the securities referred to herein, investors must be (i) outside the United States or (ii) QIBs that are acquiring the securities for their own account or the account of another QIB. By accepting this e-mail and accessing the Listing Particulars, you shall be deemed to have represented to us that: (1) (A) the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the US or (B) you are a QIB acquiring the securities referred to herein for your own account and/or for another QIB and (2) you consent to delivery of such Listing Particulars by electronic transmission.

The Listing Particulars may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "**FSMA**") does not apply and may be distributed in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (ii) are persons falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Order (all such persons together being referred to as "**Relevant Persons**"). In the United Kingdom, the Listing Particulars are directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the Listing Particulars relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

The Listing Particulars do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the issuer of the Securities in such jurisdiction.

These Listing Particulars are being sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of Joint Stock Company Georgia Capital, Citigroup Global

Markets Limited, J.P. Morgan Securities plc, Renaissance Capital (Cyprus) Limited nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached document distributed to you in electronic format and the hard copy version available to you on request.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PRIIPs / IMPORTANT – EEA RETAIL INVESTORS

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No. 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / Professional investors and eligible counterparties only target market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties, professional clients only, each as defined in MiFID II and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

LISTING PARTICULARS

Joint Stock Company Georgia Capital

(incorporated in Georgia with limited liability)

US$300,000,000 6.125% Notes due 2024

Issue Price 98.770%

The US$300,000,000 6.125% Notes due 2024 (the "**Notes**") will be issued by Joint Stock Company Georgia Capital (the "**Company**" or the "**Issuer**", and together with its consolidated subsidiaries, the "**Group**"). Interest on the Notes will accrue at the rate of 6.125% and will be payable semi-annually in arrear on 9 March and 9 September in each year, commencing on 9 September 2018.

The Notes may be redeemed by the Issuer in whole, but not in part, at their principal amount, plus accrued and unpaid interest thereon (if any), if, as a result of a change of law, the Issuer becomes obliged to pay certain additional amounts and otherwise as described under "*Terms and Conditions of the Notes—Condition 6(b) (Redemption for Taxation and Other Reasons)*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 9 March 2024 (the "**Maturity Date**").

The Notes will constitute unsecured and unsubordinated obligations of the Issuer (subject as described in Condition 4(a) (*Negative Pledge*)). See "*Terms and Conditions of the Notes—Condition 3* (*Status*)".

This document ("**Listing Particulars**") has been prepared for the purpose of providing disclosure information with regard to the Notes which are to be admitted to the Official List of the Irish Stock Exchange and to trading on The Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange (the "**Global Exchange Market**"). The Global Exchange Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**"). Application has been made to the Irish Stock Exchange plc ("**Irish Stock Exchange**") for the Notes to be admitted to the Official List ("**Official List**") and trading on its Global Exchange Market. Investors should note that securities to be admitted to the Irish Stock Exchange's Official List and to trading on its Global Exchange Market will, because of their nature, normally be bought and traded by a limited number of investors who are particularly knowledgeable in investment matters.

These Listing Particulars do not constitute (i) a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) or (ii) a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). These Listing Particulars have been prepared solely with regard to the Notes which are (i) not to be admitted to listing or trading on any regulated market for the purposes of MiFID and (ii) not to be offered to the public in a Member State (other than pursuant to one or more of the exemptions set out in Article 3.2 of the Prospective Directive). These Listing Particulars have not been approved or reviewed by any regulator which is a competent authority under the Prospectus Directive.

The denominations of the Notes shall be US$ 200,000 and integral multiples of US$ 1,000 in excess thereof.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 7 OF THESE LISTING PARTICULARS BEFORE INVESTING IN THE NOTES.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold outside the United States in accordance with Regulation S under the U.S. Securities Act ("**Regulation S**") and within the United States to qualified institutional buyers (**QIBs**) in reliance on Rule 144A under the U.S. Securities Act ("**Rule 144A**"). Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or passed upon the adequacy or accuracy of these Listing Particulars. Any representation to the contrary is a criminal offence. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. For a more complete description of restrictions on offers, sales and transfers, see "*Transfer Restrictions*" and "*Subscription and Sale*".

The Notes that are being offered and sold in accordance with Regulation S (the "**Regulation S Notes**") will initially be represented by a Regulation S global certificate (the "**Regulation S Global Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 9 March 2018 (the "**Closing Date**"). Notes that are offered and sold in reliance on Rule 144A (the "**Rule 144A Notes**") will initially be represented by beneficial interests in a restricted global certificate (the "**Rule 144A Global Certificate**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. Definitive notes in respect of beneficial interests in the Regulation S Global Certificate and the Rule 144A Global Certificate ("**Regulation S Definitive Certificates**" and "**Rule 144A Definitive Certificates**", respectively, and, together, the "**Definitive Certificates**") will not be issued except as described under "*Terms and Conditions of the Notes*".

The Notes are expected to be rated B+ by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("**S&P**") and B2 by Moody's Investors Service Limited ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Credit ratings included or referred to in these Listing Particulars have been issued by S&P and Moody's, the first of which is established in the European Union (the "**EU**") and all of whom are registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

Joint Bookrunners

Citigroup **J.P. Morgan**

Joint Lead Managers

Citigroup **J.P. Morgan** **Renaissance Capital**

Co-Manager

Galt & Taggart

Listing Particulars dated 7 March 2018

IMPORTANT INFORMATION ABOUT THESE LISTING PARTICULARS

These Listing Particulars do not comprise a prospectus for the purposes of the Prospectus Directive and constitute listing particulars for the purpose of giving information with regard to the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Notes, which, according to the particular nature of the Issuer, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group and of the rights attaching to the Notes.

The Issuer accepts responsibility for the information contained in these Listing Particulars. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

These Listing Particulars do not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers (as defined in "*Subscription and Sale*"), or JSC Galt & Taggart (the "**Co-Manager**" and, together with the Joint Lead Managers, the "**Managers**") or the Trustee to subscribe for or purchase any Notes in any jurisdiction where it is unlawful to make such an offer or invitation. The distribution of these Listing Particulars and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required by the Issuer, the Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of these Listing Particulars, see "*Transfer Restrictions*" and "*Subscription and Sale*".

No person is authorised to provide any information or to make any representation not contained in these Listing Particulars and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Managers or the Trustee. The delivery of these Listing Particulars at any time does not imply that the information contained in them is correct as at any time subsequent to its date. Neither the delivery of these Listing Particulars nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of these Listing Particulars.

None of the Issuer, the Managers, the Trustee or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess these Listing Particulars. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer, the Managers and the Trustee are not responsible for compliance with these legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether, or the extent to which, the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

The contents of the Issuer's website do not form any part of these Listing Particulars.

No representation or warranty, express or implied, is made by the Managers, the Trustee or any of their or its affiliates or any person acting on their behalf as to the accuracy or completeness of the information set forth in these Listing Particulars. Nothing contained in these Listing Particulars is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving these Listing Particulars acknowledges that such person has not relied on the Managers, the Trustee or any of its or their affiliates or any person acting on their behalf in connection with its investigation of the accuracy or completeness of such information or its investment decision. Each person contemplating making an investment in the Notes from time to time must make its own investigation and analysis of the creditworthiness of the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

NOTICE TO INVESTORS IN GEORGIA

These Listing Particulars and the information contained herein are not a public offer or advertisement of the Notes in Georgia and are not an offer, or an invitation to make offers, to purchase, sell, exchange or transfer any securities in Georgia or to or for the benefit of any Georgian person or entity, unless and to the extent otherwise permitted under Georgian law, and must not be made publicly available in Georgia. The Notes have not been and will not be registered in Georgia and are not intended for "placement", "public circulation", "offering" or "advertising" (each as defined in Georgian law) in Georgia except as permitted by Georgian law.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the initial allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

NOTICE TO PROSPECTIVE U.S. INVESTORS

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGO ING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THESE LISTING PARTICULARS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THIS OFFERING IS BEING MADE IN THE UNITED STATES IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF THE NOTES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. IN MAKING YOUR PURCHASE, YOU WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS. SEE "*TRANSFER RESTRICTIONS*" AND "*SUBSCRIPTION AND SALE*".

THESE LISTING PARTICULARS ARE BEING PROVIDED (1) TO A LIMITED NUMBER OF INVESTORS IN THE UNITED STATES THAT THE ISSUER REASONABLY BELIEVES TO BE "QIBS" FOR INFORMATIONAL USE SOLELY IN CONNECTION WITH THEIR CONSIDERATION OF THE PURCHASE OF THE NOTES AND (2) TO INVESTORS OUTSIDE THE UNITED STATES IN CONNECTION WITH OFFSHORE TRANSACTIONS COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or the Trustee, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

The language of these Listing Particulars is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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OVERVIEW OF THE OFFERING

This overview describes the principal terms of the Notes. This overview does not purport to be complete and is qualified in its entirety by the remainder of these Listing Particulars. See "Terms and Conditions of the Notes" for a more detailed description of the Notes.

The Offering	Offering of US$300,000,000 6.125% Notes due 2024. The Notes are being offered by the Issuer (i) in the United States to certain QIBs (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act; and (ii) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.
Issuer	Joint Stock Company Georgia Capital.
Substitute Issuer	Joint Stock Company Georgia Capital Group. After the issue of the Notes and as part of the ongoing Demerger described herein, it is intended that the Substitute Issuer will become the Issuer's immediate parent company and the Issuer will merge with the Substitute Issuer, which will replace the Issuer as the principal debtor under the Notes.
Joint Bookrunners	Citigroup Global Markets Limited and J.P. Morgan Securities plc.
Joint Lead Managers	Citigroup Global Markets Limited, J.P. Morgan Securities plc and Renaissance Capital (Cyprus) Limited.
Co-Manager	JSC Galt & Taggart.
Trustee	Citibank, N.A. London Branch.
Principal Paying Agent	Citibank, N.A. London Branch.
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG.
Issue Price	98.770% of the principal amount of the Notes.
Interest	The Notes will bear interest at the rate of 6.125% per annum from and including 9 March 2018 to but excluding 9 March 2024. Interest on the Notes will be payable semi-annually in arrear on 9 March and 9 September in each year, commencing on 9 September 2018.
Status and Ranking of the Notes	The Notes constitute unsecured and unsubordinated obligations of the Issuer (subject as described in Condition 4(a) (*Negative Pledge*)) and shall at all times rank *pari passu* and without preference amongst themselves. The Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Covenants*), at all times rank at least *pari passu* in right of payment equally with all other unsubordinated creditors of the Issuer.
Form	The Notes will be issued in registered form, without coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be represented by interests in a Regulation S Global Certificate and a Rule 144A Global Certificate, each in registered form without coupons. The Regulation S Global Certificate will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Certificate will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Certificate and the Rule 144A Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg. The Global Certificates

	will be exchangeable for Definitive Certificates only in the limited circumstances described under "*Overview of Provisions Relating to the Notes in Global Form*".
Redemption	Subject to early redemption or acceleration, the Notes will be redeemed on 9 March 2024.
Tax Redemption	Upon the occurrence of certain events relating to taxation in Georgia as a result of which the Issuer becomes obligated to pay additional amounts on the Notes, the Issuer may redeem the outstanding Notes in whole (but not in part) at any time, at their principal amount plus accrued interest thereon (if any) to, but excluding the redemption date. See "*Terms and Conditions of the Notes—Condition 6(b)* (*Redemption for Taxation and Other Reasons*)".
Negative Pledge and Other Covenants	Condition 4 (*Covenants*) contains a negative pledge on the Issuer; covenants limiting mergers by the Issuer and its Material Subsidiaries (as defined in the Conditions), disposals by the Issuer and its Material Subsidiaries and transactions between the Issuer, its Material Subsidiaries and its Affiliates (as defined in the Conditions); the payment of dividends and other distributions and payments by the Issuer, restrictions on the payment of dividends by Material Subsidiaries and the incurrence of Indebtedness (as defined in the Conditions) by the Issuer; certain information furnishing requirements (including the provision of compliance certificates); and other covenants. See "*Terms and Conditions of the Notes—Condition 4* (*Covenants*)".
Events of Default	If an Event of Default (as defined in Condition 9 (*Events of Default*)) has occurred, the Trustee may give notice that the Notes are, and the Notes shall immediately become, due and payable at 100% of the principal amount together with (if applicable) accrued interest. See "*Terms and Conditions of the Notes—Condition 9* (*Events of Default*)".
Credit Ratings	The Notes are expected to be rated B+ by S&P and B2 by Moody's, each with a stable outlook. Moody's assigned a long-term foreign currency issuer rating of Ba2 to Georgia, with a stable outlook, while Fitch and S&P assigned Georgia a long-term foreign currency issuer default rating of BB- with a stable outlook. Each of Fitch and Moody's established in the EU and registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Withholding Tax or Increased Costs; Gross up	All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, in accordance with "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", unless such withholding is required by law, in which event, the Issuer shall, save in certain circumstances provided in "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.
Use of Proceeds	The net proceeds to be received by the Company from the issuance of the Notes (after the deduction of management, underwriting and selling fees, and commissions and listing fees, but before the deduction of other expenses) will be approximately US$293 million. The Company intends to use the net proceeds from the offering as follows: • approximately US$165 million will be on-lent to the Group's investment business subsidiaries; • approximately US$105 million will be used to repay the US$105 million loan between JSC BGEO Group and the Issuer (the "**BGEO Loan**"); and • approximately US$23 million will be retained by the Issuer and used for the Issuer's general corporate purposes.
Listing and Admission to Trading	Application has been made to the Irish Stock Exchange plc ("**Irish Stock Exchange**") for the Notes to be admitted to the Official List ("**Official List**") and trading on its Global Exchange Market
Selling Restrictions	The Notes have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The offer and sale of Notes is also subject to restrictions in Georgia, the United Kingdom and other jurisdictions. See "*Subscription and Sale*".
Governing Law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law.
Arbitration and Jurisdiction	The Notes and the Trust Deed provide that disputes are to be resolved by arbitration in London, England.
Risk Factors	Prospective purchasers of Notes should consider carefully all of the information set forth in these Listing Particulars and, in particular, the information set forth under "*Risk Factors*" before making an investment in the Notes.
Security Codes	Regulation S Notes: ISIN: XS1778929478 Common Code: 177892947

Rule 144A Notes:

ISIN: US373143AA49

Common Code: 178546554

CUSIP: 373143AA4

Overview of the Group

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

The Group has historically functioned as the investment arm of BGEO Group PLC, which as of the date of these Listing Particulars is the Issuer's ultimate parent company. BGEO Group PLC is listed on the premium segment of the London Stock Exchange and is the holding company of a Georgia-based banking group with an investment arm (the "**BGEO Group**"). BGEO Group PLC announced on 3 July 2017 that it intends to demerge the BGEO Group's investment business from its banking business for strategic reasons. The board of directors of BGEO Group stated that they believed the Demerger (as defined below) will deliver additional value to shareholders by creating two distinct entities, each a leader in its respective field, with separate strategic, capital and economic characteristics, and strong, knowledgeable separate boards and executive management teams. The board of directors of BGEO Group approved the Demerger on 11 February 2018.

As of the date of these Listing Particulars, the Issuer is held by its immediate parent company, JSC BGEO Group. After the issue of the Notes, it is intended that the Substitute Issuer, a Georgian company JSC Georgia Capital Group, will be inserted above the Issuer as the new holding company of the Issuer. It is then intended that the Issuer will merge with the Substitute Issuer. The Substitute Issuer will be the surviving entity and will replace the Issuer as the principal debtor under the Notes. Following the merger with the Issuer, the Substitute Issuer will have no assets other than its shares in the Portfolio Investments and the Exit Stage Portfolio Investments. In addition, as part of the Demerger, the Issuer may lend up to US$60,000,000 to JSC BGEO Group for a term of up to 24 months on arm's length terms. See "*Description of Business—Demerger*".

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

The Company's Portfolio Investments are:

- GGU (35.1% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a water utility and renewable energy business. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area, where it provided water supply and sanitation ("**WSS**") services to 1.4 million people (more than one-third of Georgia's population) in 2017. It also operated hydro power plants with a total capacity of 149.3 MW as of 31 December 2017 and invests in the development of renewable energy projects in the under-supplied Georgian energy sector. The Group anticipates further growth opportunities for GGU in both of its business lines: pursuing cost efficiencies within the water utility business by targeting the reduction of technical losses and reducing energy consumption internally to preserve the supply available for sale to third parties while also planning the construction of hydro, wind and solar power generation plants;
- m^2 (33.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a residential and commercial property developer that is currently delivering a weighted average IRR of 82% on its seven completed projects. m^2 seeks to pursue

an asset light strategy which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m^2 brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia;

- Aldagi (14.3% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), the foremost provider of property and casualty insurance products in Georgia with a market share of 39% by revenue in the Georgian property and casualty insurance sector (excluding health insurance) for the nine months ended 30 September 2017, according to the Insurance State Supervision Service of Georgia. Aldagi has experienced sustained growth in recent years and, as of 31 December 2017, had 45,598 active retail clients and 2,125 active corporate clients. The Group sees new opportunities for Aldagi as a result of anticipated developments in mandatory third party liability insurance and other property and casualty insurance products; and
- Teliani (15.2% of the revenue of the Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a leading wine and beer producer in Georgia and a distributor of its own and third party beverage brands that has a five year exclusivity licence from Heineken with a five year extension option to produce beer to be sold in Georgia, and the right to resell in Armenia and Azerbaijan. The Group seeks future growth opportunities in Teliani's beer and wine sales by utilising Teliani's distribution platform.

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

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

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

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

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

Note:

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

For the details of revenue and net assets of GHG and the Banking Business, please see "*Operating and Financial Review—Summary Information on Exit Stage Portfolio Investments for the twelve months ended 31 December 2017 compared to the twelve months ended 31 December 2016 and twelve months ended 2015*".

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of Notes should carefully read these entire Listing Particulars. In addition to the other information in these Listing Particulars, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. Any of the risks described below could have a material adverse effect on the Group's business, financial condition and results of operations. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Although the Group believes that the risk factors described below represent the principal risks inherent in investing in the Notes, there may be additional risks and uncertainties that the Group currently considers immaterial or of which the Group is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below. Accordingly, the Group does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Risks related to the Group

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

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

Real GDP growth in Georgia slowed from 4.6% in 2014 to 2.9% in 2015 and 2.8% in 2016, according to the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"). This slowdown was due to a weaker external economic environment, which was reflected in weaker foreign currency remittances from Georgians working abroad, lower net exports from Georgia and lower foreign direct investment ("**FDI**"). Real GDP growth in Georgia accelerated to 4.8% in 2017. According to the International Monetary Fund ("**IMF**") World Economic Outlook published in October 2017, the regional economies improved in 2017, following a recession in 2015 and very shallow growth in 2016. The IMF projects a 2.1% growth rate in Commonwealth of Independent States ("**CIS**") economies in 2017 and 2018, and an average growth rate of 2.2% from 2019 to 2022, and, after two years of recession, economic activity in Russia was projected to expand by 1.8% in 2017, helped by stabilising oil prices, easing financial conditions, and improved confidence. Although Management believes that Georgia's real GDP growth in 2018 will be higher than the 4.2% forecast by the IMF and other organisations, there can be no assurance that these growth levels will be achieved. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of customers in Georgia. Due to the high degree of dollarisation of the Georgian economy, the purchasing power of Georgian companies and individuals may be affected by currency fluctuations and, in particular, the depreciation of the Lari against the Dollar and the Euro. Uncertain and volatile global economic conditions, such as the unpredictability of the US regulatory and fiscal policies, the potential adoption of trade restrictions, the negotiation of the United Kingdom's relationship with the EU post-Brexit, and heightened geopolitical risk, could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy.

The Georgian economy is also dependent upon the economies of other countries in the region, in particular, Russia, Turkey, Azerbaijan and Armenia. Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 7.4% and 9.8% of Georgia's total exports and approximately 8.6% and 9.3% of Georgia's total imports in 2015 and 2016, respectively, according to Geostat. In 2015 and 2016, the Russian economy was in recession due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the ongoing political tensions between Russia and Western countries arising from the conflict in Ukraine and Syria. In January 2016, the Russian Rouble declined to an all-time low against the US Dollar before recovering modestly during the course of 2016. In 2017, the Russian Rouble generally returned to 2015 levels of strength against the US Dollar and Russia's GDP is provisionally expected to increase

by 1.8% in 2017 according to the IMF of the Russian Federation, subject to movements in current global oil prices. Turkey represents the largest source of Georgian imports, accounting for 18.2% and 18.6% of total imports in 2015 and 2016, respectively, according to figures published by Geostat. Although Turkey is projected to have grown by 5.1% in 2017 and is projected to grow by 3.5% in 2018 according to the IMF, continued political uncertainty and rising inflation represent potential obstacles to the growth of the Georgian economy. Azerbaijan and Armenia accounted for 10.9% and 8.2% of Georgia's total exports, respectively, in 2015, 7.2% and 7.1%, respectively in 2016 and 10.0% and 7.7%, respectively in 2017. Following its devaluation by 47.6% against the US Dollar and 47.9% against the Euro in December 2015, the Azerbaijani Manat stabilised throughout 2016 and 2017. The Armenian Dram also experienced a period of stability during 2017, having devalued by 16.9% against the US Dollar in between October 2014 and February 2015.

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

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

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

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

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

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

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

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

Management believes the Demerger will deliver additional long-term value to Georgia Capital PLC and Bank of Georgia Group PLC shareholders by creating two distinct entities which will have enhanced growth opportunities in the growing Georgian economy. The Demerger is subject to the satisfaction of a number of conditions precedent and the performance of a number of steps which result in execution risks and significant costs, and there can be no guarantee that the Group will

realise any or all of the anticipated benefits of the Demerger in a timely manner or at all. Completion of the Demerger is subject to obtaining consents or waivers from certain of the Group's counterparties, including lenders, and certain of the Group's contractual arrangements contain change of control provisions that could be triggered by the corporate actions that form part of the Demerger, without appropriate waivers and/or consents from such counterparties. Although the Group is in the process of obtaining the necessary waivers and consents, no assurance can be given that they will be obtained on time or at all, which might result in a delay to the implementation of the Demerger. As part of the Demerger, the Issuer may lend up to US$ 60 million to JSC BGEO Group for a term of up to 24 months on arm's length terms. The Issuer cannot guarantee that it would recover all amounts due under this loan (if made) in full or on time. Furthermore, the Demerger will require considerable management time and effort and may divert management's attention from day-to-day operations, and if the Demerger does not deliver the anticipated benefits or does not occur in whole or in part, it could adversely affect the Group's business, financial condition, results of operations or prospects. See "*Description of Business—Demerger*".

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

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

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

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

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

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

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

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

development plans, harm the Group's reputation and/or hamper the Group's ability to develop new projects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GGU's principal water source, the Zhinvali Reservoir, depends on prevailing weather conditions and is exposed to the risk of natural disasters, such as earthquakes and landslides, all of which could interrupt the supply of water and result in unforeseen expenses in restoring supplies or switching to alternative sources. GGU supplies purified, chlorinated water from the primary reservoir to final users. Chlorine tanks are installed in selected water units throughout the cities where the water is delivered. Although the use of liquid chlorine is more prevalent in GGU's water network, gaseous chlorine is also used in selected locations and deposited in gas tanks that may be at risk of explosion, which could cause environmental damage.

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

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

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

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

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

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

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

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

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

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

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

m^2 faces significant competition.

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

m^2 also faces competition in the Georgian hospitality market. As the number of tourists visiting Georgia has significantly increased, new participants have entered the market and m^2's existing

competitors are actively developing their businesses. For example, over 2,000 rooms were added to the market over the last two years including international "mid-scale" brands like Ibis Styles and Mercure. Increased competition could lead to a lower average daily rate (the average realised room rental per day) which, with stabilising levels of occupancy, could adversely affect the Group's business, financial condition, results of operations or prospects.

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

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

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

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

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

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

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

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

There is a risk that reinsurance support will not be available in the future if the results or future prospects of Aldagi are not attractive enough to reinsurers; this is a particular risk with newer business lines where the risk of underperformance is potentially higher. If Aldagi is not able to reinsure risks above the level of desired risk retention, new business lines may be withheld until

appropriate reinsurance can be found, which could adversely affect the Group's business, financial condition, results of operations or prospects.

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

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

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

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

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

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

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

Although Teliani has been importing and distributing beer since 2006, it only began brewing beer in 2017. The Georgian beer market is highly concentrated. There are high barriers of entry into the Georgian beer market, which include the high levels of capital expenditure required to build factories, distribution capabilities and undertake successful marketing campaigns. As a result, there were no new market entrants between 2012 and 2016. The three main producers are Efes-Georgia (with a 45.1% market share), Georgian-Beer Company (with a 30.1% market share) and Teliani (with a 22.0% market share). Each of Teliani's main competitors has high levels of brand recognition, strong

flagship brands, sophisticated marketing, experience in the Georgian market, international affiliations and the ability to quickly react to market developments.

Although Teliani gained a 22.0% market share within six months following initial production and the launch of mainstream beer sales in June 2017, it had to make significant investment in its sales and marketing activities to achieve this. Therefore, Teliani may not be able to sustain such growth and acquire targeted levels of market share, sales and earnings, which could adversely affect the Group's business, financial condition, results of operations or prospects.

Risks Relating to the Company's Exit Stage Portfolio Investments

The Company may not be able to monetise its holdings.

As of the date of these Listing Particulars, the Company has significant investments in businesses of the former BGEO Group: GHG (57% stake) and the Banking Business (19.9% stake). Shortly after the proposed Demerger becomes effective the Share Exchange is expected to take place. Following the Share Exchange, the Issuer's parent company has agreed that, for as long as the Issuer's stake in the Bank of Georgia Group PLC is greater than 9.9%, it will exercise its voting rights in the Bank of Georgia Group PLC in accordance with the votes cast by all other Bank of Georgia Group PLC shareholders on all shareholder votes. See "*Description of Business—Demerger*".

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

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

Risks Relating to GHG

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

- *GHG may not be able to expand its business in line with its strategy, realise its revenue and growth targets or achieve the intended benefits or operating synergies from its development projects.* As a key part of GHG's growth strategy, GHG plans to more than double its 2015 revenue by the end of 2018 and expand its healthcare services and pharmacy businesses in Georgia through acquisitions which place significant demands on its management and operational resources. GHG might not be able to expand its business in accordance with its plans and its expansion strategy might not generate the benefits expected by management. These projects are also subject to assumptions about anticipated cost savings, synergies and revenue enhancements. If GHG's assessments prove to be incorrect because other factors, not accounted for in GHG's analyses, cause actual developments to differ from its expectations, GHG may not be able to realise the anticipated cost savings, synergies and revenue enhancements from its acquisitions, which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Issuer's holding in GHG;
- *GHG's healthcare services business depends on revenue from the Georgian government and a small number of private insurance providers.* As a result, GHG's ability to obtain favourable prices depends on its ability to maintain good working relationships with the government and private insurance providers and may be impacted by a change in the process by which the government reimburses healthcare providers, including GHG, which could increase GHG's administrative

costs or result in delays in obtaining payment for its services, which could adversely affect GHG's business, financial condition, results of operations or prospects, which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Issuer's holding in GHG;

- *GHG might not be able to predict in full the evolution of the Georgian government's policy in respect of the state funding of healthcare and, in particular, changes to Georgia's Universal Healthcare Programme and any consequent effect on GHG's business.* GHG's strategy assumes that the Georgian government's Universal Healthcare Programme will increase the total amount spent on healthcare services in Georgia and increase demand for "top up" private medical insurance. Reimbursement under the Universal Healthcare Programme is capped at GEL15,000 per person per annum for planned procedures and GEL15,000 per incident for emergency inpatient treatment, with certain limited exceptions. With the exception of certain vulnerable groups (including students, pensioners and children under six), policyholders cannot use private medical insurance products to supplement the basic state healthcare coverage provided under the Universal Healthcare Programme. GHG's strategy assumes that the limited cover available under the Universal Healthcare programme will increase demand for private medical insurance, particularly as an employee benefit in the corporate insurance market. However, such opportunities may not materialise, which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Issuer's holding in GHG;

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

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

- *Healthcare providers such as GHG can be the subject of litigation by patients,* and it is possible that some of these cases will be decided against GHG, which could require GHG to pay increased premiums for medical malpractice insurance or risk incurring substantial damages or amounts in judgments or settlements, harm GHG's reputation and the goodwill associated with its brand, require significant time and attention from management and require GHG to incur debt to finance any judgment or settlement, all of which could adversely affect GHG's business, financial condition, results of operations or prospects, which in turn could result in a reduction in the fair market value of the Issuer's holding in GHG;

- *GHG's patients may contract serious infections or communicable diseases at its facilities because of the risks typically closely associated with the operation of medical care facilities.* GHG's operations involve the treatment of patients with a variety of infectious diseases and previously

healthy or uninfected people may contract, during their stay at or visits to GHG's facilities, serious communicable diseases, which could also infect GHG's employees and significantly reduce the treatment and care capacity of GHG's medical facilities in the short-, medium- and long-term. In addition to claims for damages, any of these events may lead to limitations on the activities of GHG's healthcare facilities as a result of regulatory restrictions, loss of reputation and reduced utilisation of GHG's hospitals which could adversely affect GHG's business, financial condition, and results of operations or prospects, which in turn could result in a reduction in the fair market value of the Issuer's holding in GHG; and

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

Risks Relating to the Banking Business

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

- *The Banking Business is subject to risks associated with political, financial and economic instability in Georgia and the wider region.* The Banking Business's operations are primarily located in, and most of its revenue is sourced from, Georgia. The Banking Business's results of operations are, and are expected to continue to be, significantly affected by political, financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia and the wider region. Any continuing or further economic disruptions or crises in Georgia's neighbouring markets may have a material adverse effect on Georgia's economy and on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- *The Banking Business's may not be able to maintain the quality of its loan portfolio*, which may deteriorate due to external factors beyond the Banking Business's control such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio;

- *The Banking Business's loan portfolio is largely US Dollar denominated, and the quality of the Banking Business's loan portfolio may deteriorate as a result of slower economic growth and Lari depreciations and devaluations.* As of 31 December 2017 and 31 December 2016, approximately 83.1% and 83.4% and approximately 48.2% and 60.1% of the Banking Business's corporate investment banking loan and retail banking loan portfolios, respectively, were denominated in foreign currency (predominantly US Dollars). Any depreciation of the Lari against the US Dollar may result in customers having difficulty repaying their loans. The Banking Business's impairment charges and, in turn, the cost of credit risk may increase if a single large borrower defaults or a material concentration of smaller borrowers default. In addition, fluctuations of the Lari against the US Dollar may cause the value of the Banking Business's US Dollar loan portfolio to fluctuate;

- *The Banking Business's corporate loan portfolio is concentrated.* The Banking Business's top ten corporate banking borrowers accounted for 10.7% of the loan portfolio (gross of allowances for impairment) as of 31 December 2017, as compared to 11.8% as of 31 December 2016 and 12.7% as of 31 December 2015. Any loss of a key corporate borrower or deterioration in the quality of the Banking Business's corporate banking loan portfolio which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- *Collateral values may decline*. As of 31 December 2017 the Bank held collateral against gross loans covering 83.5% of the total gross loans. If the fair value of the collateral that the Bank holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further changes to laws or regulations may impair the value of such collateral. If any of these risks materialise, they could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- *Significant changes or volatility in the Banking Business's net interest margin could have an adverse effect on the Banking Business's performance*. The Banking Business derives the majority of its total net income from net interest income. As a result, the Banking Business is affected by fluctuations in its net interest margin ("**NIM**"), which is, in turn, affected by key factors such as interest rates, competition for loans and deposits, customer demand and cost of funding. Any reduction in NIM (as a consequence of the factors outlined above) could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- *Currency fluctuations have affected, and may continue to affect the Banking Business*. As a substantial portion of the total assets of the Banking Business, especially the Bank's loan portfolio (61.7% of gross loans as of 31 December 2017), is denominated in foreign currencies, primarily US Dollars, while the majority of customers with foreign-currency denominated loans depend on Lari-denominated income. Consequently, any depreciation of the Lari against the currency of loans may result in customers facing difficulties repaying such loans. Although the Banking Business offers programmes to certain customers facing financial difficulties, there can be no assurance that any of these programmes will materially reduce the number of such customers. In addition, the Banking Business's operations are affected by the Lari to Belarusian Rouble exchange rate as this affects the value of the Bank's majority equity interest (100% as of 31 December 2017) in BNB, which may, in turn, affect the Banking Business's ability to comply with contractual covenants, calculated on a consolidated basis. A depreciation of the Belarusian Rouble against the Lari reduces BNB's contribution to the Banking Business's consolidated capital, as it directly affects BNB's results of operations and indirectly affects the value of the Banking Business's equity interest. Notwithstanding the appreciation of the Lari against the Belarusian Rouble (by 3.3% in 2017, compared with deprecation of 4.9% in 2016), the regulatory capital of BNB increased in Lari terms by 4.4% in 2017, and remained above the minimum regulatory capital requirement set by the National Bank of the Republic of Belarus ("**NBRB**"). As of 31 December 2017, the regulatory capital of BNB was GEL78.2 million. Any subsequent depreciation or a devaluation of the Belarusian Rouble could result in declines in BNB's regulatory capital. Any currency fluctuations could adversely affect the Banking Business, and as a result have an adverse effect on the value of the Group's holding in the Banking Business;

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

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

  The Banking Business is also subject to five major cyber-security threats: data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance e-mail attacks. Although to date cyber-security threats have not materially affected the Banking Business's operations, it is expected that such threats will continue to increase, which will

require the Group to closely monitor such threats, materialisation of which could adversely affect the Banking Business and as a result could have a material adverse effect on the value of the Group's holding in the Banking Business.

- *The Banking Business may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion.* The Banking Business aims to achieve long-term sustainable growth and profitability of its business by increasing the size of its retail banking business relative to corporate banking, mostly by increasing its product to client ratio, and generating additional non-interest income from advisory and other fee-generating businesses. Although the Banking Business currently expects to have sufficient funding to execute its strategy, there can be no assurance, however, that the Banking Business will be able to achieve its major strategic objectives, including increasing its revenue or profitability, over the longer term, as the Banking Business is subject to certain macroeconomic risks including risks relating to economic growth in Georgia and the wider region which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business faces liquidity and funding risk*. Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business faces competition*. In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as of 12 February 2018, there were 16 commercial banks operating in Georgia, 12 of which had foreign capital participation. An increase in competition could lead to significant pressure on the Banking Business's market share, which could adversely affect the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business is subject to certain regulatory ratios*. Like all regulated financial institutions in Georgia, the Bank is required to comply with certain capital adequacy and regulatory ratios set by the NBG. Failure to maintain the minimum capital adequacy, liquidity, related party credit exposure and other regulatory ratios may have a material adverse effect on the Banking Business. The Banking Business may be subject to penalties from the NBG for violations of capital adequacy and other regulatory ratios. Among other things, the NBG has introduced amendments to the regulation on capital adequacy requirements for commercial banks within Pillar 1 and additional capital buffer requirements within Pillar 2. Should the Bank fail to reach the Pillar 2 capital adequacy ratios, which it may do under certain stress scenarios, the Bank's ability to pay dividends would be limited or it might be unable to pay dividends at all during certain periods. Depending on the seriousness of any violation, the NBG is also authorised to impose other sanctions, including suspension of the signatory authority of the Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, in severe cases, withdrawal of the Banking Business's licence which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business operates in an evolving regulatory environment and is subject to regulatory oversight with changes to regulations being difficult to predict.* The Banking Business operates in an evolving regulatory environment, which means that its retail banking business, corporate banking business and BNB are subject to changes in regulation imposed by various regulatory bodies. The Banking Business cannot predict what regulatory changes will be introduced in the future or their effect. In addition, the Banking Business is also subject to significant regulation and governmental supervision. If regulations change or the Banking Business expands its businesses, the Banking Business may become subject to additional rules and regulations at a national, international or supranational level, which may impact operations. There can be no assurance that the current regulatory environment in which it operates will not be subject to significant change in the future, including as a result of a change in government in Georgia or Belarus, or that the Banking Business will be able to comply with any or all resulting regulations which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;

- *If the Banking Business fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on the Bank.* The Bank has implemented comprehensive AML, ''know-your-customer'' (''**KYC**''), ''know your corresponding bank'' and ''know your employee'' policies. Compliance with these policies is monitored by the Bank's and BNB's AML and Compliance Department, and the Banking Business seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective. If the Banking Business fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on its Banking Business, and as a result on the value of the Group's holding in the Banking Business. In addition, involvement in such activities may result in criminal or regulatory fines and sanctions which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business's insurance policies may not cover, or fully cover, certain types of losses.* The Banking Business generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in the United Kingdom and Georgia. The Bank also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect its existing operations and could, in turn, have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The Banking Business faces certain risks associated with conducting international operations.* The Banking Business has made investments in Ukraine and Belarus in the past, although it liquidated all of its interests in Ukrainian banking investments in 2014. While it retains its investment in BNB, it will continue to be subject to risks relating to its operations, including political and economic risks, compliance risks and foreign currency exchange risks, regulatory risks as well as the risk of failure to market adequately to potential customers in Belarus. Any failure to manage such risks may cause the Banking Business to incur increased liabilities, which could, in turn, have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business;
- *The loss of key personnel or the failure to attract, develop or retain skilled or qualified employees; and could negatively impact the Banking Business.* The Banking Business depends on the capabilities and performance of its key personnel, including its executive officers and employees. As there is a limited pool of potential officers and employees with the relevant expertise that can be recruited in Georgia, the Banking Business's ability to continue to retain, motivate and attract qualified and experienced management and personnel is vital to its business. There can be no assurance that the Banking Business will be able to successfully recruit and retain the necessary qualified personnel to staff the Banking Business's business. The loss or diminution in the services of members of the Banking Business's senior management team or an inability to recruit, train or retrain necessary personnel could negatively impact the Banking Business's ability to implement its strategy which could have a material adverse effect on the Banking Business, and as a result on the value of the Group's holding in the Banking Business.

Macroeconomic and Political Risks Related To Georgia

Regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy.

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories within its borders, Abkhazia and the Tskhinvali Region/South Ossetia. Ongoing political tensions within the region have led to sporadic outbreaks of violence and the straining of diplomatic relations between Georgia and its neighbours. Russia imposed sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed the international border and a state of war was declared. Although a French-brokered ceasefire was signed, calling for the withdrawal of Russian troops, Russia recognised the independence of the breakaway regions and tensions persist. The introduction of a free trade regime between Georgia and the EU in 2016 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may exacerbate tensions between these countries. For example, in 2017, the Russian occupation forces deployed in central Georgia moved the occupation line further into Georgian territory. The geopolitical relationship between Russia and Ukraine remains strained following the crisis which

began in 2013. Sanctions by the United States and EU (and other nations) against Russia continue, and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. The political environment in Turkey remains tense after the civil unrest which took place in Turkey during 2016. The failed coup has led to amendments to the Turkish constitution which were approved by voters in a referendum. These amendments grant the president wider powers and could have a negative impact upon political stability in Turkey. Further geopolitical disharmony in the region, most notably between Azerbaijan and Armenia, may also impact upon Georgia.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

operating in Georgia are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that the Group could face fines or penalties as a result of regular tax audits.

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

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

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

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2015, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (including the sum of sales and purchase but excluding activities of the NBG) amounted to US$25.8 billion and €11.7 billion, respectively, and according to the same source, in 2016, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$28.2 and €10.8 billion, respectively, and in 2017, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$26.0 billion and €6.9 billion, respectively. According to the NBG, the NBG had US$3 billion in gross official reserves as of 31 December 2017. While the Government has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market coupled with a significant current account deficit and external debt may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group's business, financial condition and results of operations.

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

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

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

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

Risks Relating to the Notes

The Issuer and the Substitute Issuer are holding companies and there is a risk of structural subordination.

The Issuer and the Substitute Issuer are holding companies and conduct (or will conduct) the vast majority of their operations through their subsidiaries and associates. The Issuer and the Substitute Issuer hold (or will hold) no significant assets other than shares of their subsidiaries, interests in their associates and shareholder loans to their subsidiaries, and they are therefore dependent upon the receipt of dividends from their subsidiaries and associates and interest income on intercompany loans as well as the divesting of their shareholdings, to meet their obligations. Noteholders will be structurally subordinated to the creditors of the Issuer's and (after the Issuer merges with the Substitute Issuer) the Substitute Issuer's subsidiaries, in that the Issuer's and the Substitute Issuer's ability to benefit from the distribution of any assets upon the liquidation of any of their respective subsidiaries will be subject to the prior claims of that subsidiary's direct creditors. In addition, as of the date of these Listing Particulars, none of the Issuer's or the Substitute Issuer's current Material Subsidiaries is subject to the limitations on the distribution of dividends, negative pledge or debt incurrence provided in the Terms and Conditions of the Notes. A decrease in dividend or interest income or the incurrence of additional debt or granting of security from the Issuer's and the Substitute Issuer's subsidiaries or the insolvency or liquidation of one or more of the Issuer's subsidiaries could adversely affect the market price of the Notes without regard to the Issuer's business, financial condition, prospects and results of operations and the Issuer's or the Substitute Issuer's ability to service the Notes.

Noteholders may face difficulties enforcing judgments, including foreign arbitral awards, in respect of the Notes and against the Issuer or the Substitute Issuer.

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer or the Substitute Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted.

Neither the Issuer nor the Substitute Issuer has submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of London Court of International Arbitration (the "**LCIA**"). Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law. Pursuant to Article 45.1 of the Law of Georgia on Arbitration, arbitral awards against either the Issuer or the Substitute Issuer, irrespective of the country in which it is rendered, may not be recognised and enforceable in Georgia if: (i) the party against whom the award is made proves before Georgian courts that: (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had appointed a supporter in relation to issues under the arbitration agreement but did not receive any support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was

made; (b) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests; (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration provided that, the decisions on matters submitted to arbitration can be separated from those not so submitted in order that only that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced; (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or (e) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or (ii) the court establishes that: (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or (b) the recognition and enforcement of the award is contrary to public order. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The uncertainties of the Georgian tax system could have a material adverse effect on the taxation of the Notes, in particular, the sale of the Notes.

The Tax Code does not provide a clear definition of the place of sale (or supply) of the Notes for the purposes of determining profit or income tax exposure, and, accordingly, while it is unlikely that the sale of Notes, absent a sale of Notes on the territory of Georgia or to a Georgian tax resident, will trigger any Georgian tax obligations on the part of Noteholders, there is a risk that the relevant provisions may be interpreted differently by the tax authorities. The ambiguities noted above concerning the application of the Tax Code, combined with the absence of established practices relating to the introduction of debt securities to the Georgian market generally may result in varying interpretations of the applicable provisions of the Tax Code by the tax authorities. See "*Taxation—Georgian Taxation*".

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, actual or anticipated variations in the operating results of the Issuer's competitors, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and actual or expected sales of a large number of Notes, as well as any other factors affecting the Issuer or the Group, including economic and market conditions in Georgia and its neighbouring countries and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's business, financial condition and results of operations. If an active trading market for the Notes develops, there can be no assurance that events in Georgia or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the financial condition and prospects of the Issuer or other factors some of which may be beyond the control of the Issuer.

The Notes are pari passu securities.

Subject to the restrictions on the incurrence of indebtedness set out in the Conditions, there is no restriction on the amount of securities, which the Issuer or Substitute Issuer may issue and which may rank equally in right of payment with the Notes. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect the Issuer's or the Substitute Issuer's ability to repay principal of, and make payments of interest on, the Notes. This could have a material adverse effect on the trading price of the Notes.

The Notes constitute unsecured obligations of the Issuer and the Substitute Issuer.

The Issuer's and the Substitute Issuer's obligations under the Notes will constitute unsecured obligations of the Issuer. Accordingly, any claims against the Issuer under the Notes would be unsecured claims, which would be satisfied only after any secured creditors, if at all. The ability of the Issuer to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Any change of law in England in the future may have a material adverse effect on the Notes.

The Terms and Conditions of the Notes are based on the laws of England in effect as of the date of these Listing Particulars. There can be no assurance as to the impact of any possible judicial decision or change in law or administrative practice in England after the date of these Listing Particulars.

Any fluctuations in the credit ratings assigned to Georgia, the Issuer or the Notes may cause trading in the Notes to be volatile and/or adversely affect the trading price of the Notes.

The Notes are expected to be rated "B+" by S&P and "B2" by Moody's, each with a stable outlook. Moody's assigned a long-term foreign currency issuer rating of "Ba2" to Georgia, with a stable outlook, while Fitch and S&P assigned Georgia a long-term foreign and local currency issuer default rating of "BB-"with a stable outlook.

As of the date of these Listing Particulars, each of Fitch and Moody's is established in the EU and is registered under the CRA Regulation. S&P is not established in the EU and has not applied for registration pursuant to the CRA Regulation.

The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Georgia, the Issuer or the Notes may cause trading in the Notes to be volatile or adversely affect the trading price of the Notes.

The credit ratings may not reflect the potential impact of the risks discussed above or of any other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Investors whose financial activities are denominated in a currency or currency unit other than US Dollars may receive less interest or principal than expected, or no interest or principal on the Notes, as a result of fluctuations in exchange rates or changes to exchange controls.

The Issuer will pay principal and interest on the Notes in US Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US Dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Issuer's or the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US Dollar would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal on the Notes.

The proposed financial transactions tax (the "FTT").

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy,

Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). Estonia has, however, since stated that it will not participate.

The Commission's Proposal has broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Commission Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is the subject of the dealings is issued in a participating Member State. The FTT proposal, however, remains subject to negotiation between participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may also decide to participate in the FTT.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

An investment in the Notes involves certain legal investment considerations.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used by it as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Transfer of the Notes will be subject to certain restrictions.

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws. Prospective investors may not offer or sell Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Prospective investors should read the discussion under the heading "*Notice to Prospective U.S. Investors*" for further information about these transfer restrictions. It is each investor's obligation to ensure that offers and sales of the Notes within the United States and other countries comply with any applicable securities laws.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures.

The Regulation S Notes will be represented on issue by a Regulation S Global Certificate that will be deposited with a nominee for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Regulation S Global Certificate, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Regulation S Global Certificate. While the Notes are represented by the Regulation S Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented on issue by a Rule 144A Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the Rule 144A Global Certificate, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in the Rule 144A Global Certificate. While the Notes are represented by the Rule 144A Global Certificate, investors will be able to trade their beneficial interests only through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Terms and Conditions of the Notes may be modified or waivers for breaches of the Terms and Conditions of the Notes may be given in the future.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

There may not be an active trading market for the Notes.

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected by a number of factors, some of which may be beyond the control of the Issuer. Furthermore, although certain anchor or other investors may purchase and hold Notes as part of the initial issuance, there can be no assurance that any anchor or other investor will be granted any particular allocation of Notes. See "*Subscription and Sale—Other Investors*". If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition and prospects of the Issuer.

FORWARD LOOKING STATEMENTS

These Listing Particulars include statements that are, or may be deemed to be, ''forward-looking statements''. These forward-looking statements can be identified by the use of forward-looking terminology such as ''believe'', ''expects'', ''may'', ''will'', ''could'', ''should'', ''shall'', ''risk'', ''intends'', ''estimates'', ''aims'', ''plans'', ''predicts'', ''continues'', ''assumes'', ''positioned'' or ''anticipates'' or the negative thereof, other variations thereon or comparable terminology. All statements other than statements of historical facts included in these Listing Particulars are forward-looking statements. They appear in a number of places throughout these Listing Particulars, involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' or the Group's intentions, beliefs or current expectations concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates and the general economic outlook. In particular, the statements under the headings ''*Risk Factors*'', ''*Description of Business*'' and ''*Operating and Financial Review*'' regarding the Company's strategy and other future events or prospects and the statements under the headings ''*Risk Factors—Risks related to the Group—Some or all of the anticipated benefits of the Demerger may not be realised, or the Demerger may not take place*'' and ''*Description of Business—Demerger*'' regarding the remaining steps of the Demerger are forward-looking statements.

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

These forward-looking statements speak only as of the date of these Listing Particulars. Except as required by the Irish Stock Exchange, or applicable law, the Issuer does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in these Listing Particulars might not occur.

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

ENFORCEABILITY OF FOREIGN JUDGMENTS AND ARBITRAL AWARDS

The Issuer is a joint stock company incorporated under the laws of Georgia. A substantial portion of the assets of the Issuer and most of the Management team and the Issuer's executive officers reside outside the United Kingdom and the United States and all of the assets of the Group and of such persons are located outside of the United States and the United Kingdom. The Issuer has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of the LCIA. Georgia is a party to the New York Convention. Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law.

Pursuant to Article 45.1 of the Law of Georgia on Arbitration, arbitral awards against the Issuer, irrespective of the country in which it is rendered, may not be recognised and enforceable in Georgia if:

(i) the party against whom the award is made proves before Georgian courts that:

  (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had appointed a supporter in relation to issues under the arbitration agreement but did not receive any support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;

  (b) a party was not duly informed about the appointment of an arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests;

  (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration. Provided that, the decisions on matters submitted to arbitration can be separated from those not so submitted in order that only that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced;

  (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or

  (e) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or

(ii) the court establishes that:

  (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or

  (b) the recognition and enforcement of the award is contrary to public order.

It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The Issuer has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on the directors and executive officers of the Issuer or enforce judgments against such persons or the Issuer. In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted. See "*Risk Factors—Risks Relating to the Notes—Noteholders may face difficulties enforcing judgments including foreign arbitral awards, in respect of the Notes and against the Issuer*".

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Historical Financial Information

The combined historical financial information of the investment business of BGEO Group PLC as of and for the years ended 31 December 2015, 2016 and 2017 (the "**Historical Financial Information**") has been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("**IFRS**") except for the application of certain conventions set out in the Annexure to SIR 2000 as it applies to the preparation of combined financial information, and in a form consistent with that which will be adopted in the Group's next published annual financial statements. Ernst & Young LLP have issued an unqualified accountant's report on the Historical Financial Information.

The unaudited fourth quarter and full year 2017 preliminary results of BGEO Group PLC (the "**BGEO Preliminary Financial Information**") have been prepared in accordance with IFRS.

Incorporation by reference

The following parts of the BGEO Preliminary Financial Information, which is available for viewing at http://bgeo.com/uploads/financialresults/bgeo-group-plc-4q17-and-fy17-results-20.pdf and which has previously been published, shall be deemed to be incorporated in, and to form part of, these Listing Particulars:

- Discussion of Banking Business Results; and
- Discussion of Investment Business Results – Healthcare Business.

Where the documentation described above itself incorporates information by reference to another document ("**Further Information**"), the Further Information is not intended to form part of this document for any purpose. Where only part of a document is incorporated by reference, the other parts of that document are either not relevant for Noteholders or are covered elsewhere within these Listing Particulars, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of these Listing Particulars to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of these Listing Particulars.

Pro forma

Certain *pro forma* balance sheet line items reflecting the acquisition of 19.9% in JSC Bank of Georgia (Georgia) and JSC BG Financial (Georgia) after 31 December 2017 have also been included in the Listing Particulars.

Unless otherwise stated, the financial information relating to the investment business of BGEO Group PLC has been extracted from the Historical Financial Information for the relevant financial year (presented in accordance with IFRS except for the application of certain conventions set out in the Annexure to SIR 2000 as it applies to the preparation of combined financial information). Unless otherwise stated, all unaudited financial information in this document has been extracted without material adjustment from the BGEO Group PLC's unaudited management accounts.

Non-IFRS Information

Alternative Performance Measures

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

Earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") is defined as earnings before interest, taxes, depreciation and amortisation, as well as net foreign currency gain/(loss), profit from associates and cost of credit risk and net non-recurring items. EBITDA is derived from the Historical Financial Information.

EBITDA margin is calculated by dividing EBITDA by revenue ("**EBITDA Margin**").

Internal rate of return ("**IRR**") is defined as a metric used to estimate the profitability of potential and actual investments or projects. IRR is a discount rate that makes the net present value of all cash flows from a project equal to zero.

Return on average equity ("**ROAE**") is defined as profit for the period attributable to shareholders divided by average total equity of the period attributable to shareholders (calculated as the sum of equity at the start and at the end of the relevant period, divided by two).

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

EBITDA, EBITDA Margin, IRR and ROAE are not uniformly or legally defined measures and are not recognised under IFRS or any other generally accepted accounting principles. The Group is not presenting EBITDA, EBITDA Margin, IRR and ROAE as measures of its financial performance. EBITDA, EBITDA Margin, IRR and ROAE have important limitations as an analytical tool and prospective investors should not consider these financial measures in isolation or as a substitute for analysis of the Group's results of operations. The Company considers these APMs to be important indicators of its representative recurring operations.

Other Non-IFRS Measures

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

Market, Industry and Economic Information

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

Available Information

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

Currency and Exchange Rates

In these Listing Particulars, all references to **Lari** and **GEL** are to the lawful currency of Georgia; all references to **dollars**, **US Dollars**, **US$** and **USD** are to the lawful currency of the United States of America; and all references to **Euros**, **€** and **EUR** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. References to **billions** are to thousands of millions.

Solely for the convenience of the reader, these Listing Particulars contain translations of certain Lari amounts into US Dollars at exchange rates established by the NBG and effective as of the dates, or

for the periods, specified herein. These exchange rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the Lari amounts actually represent such US Dollar amounts or that such amounts could have been converted into US Dollars at any particular rate, or at all.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per US Dollar.

	High	Low	Average	Period End
	(Lari per US Dollar)			
February (through 20 February) 2018	2.4962	2.4427	2.4625	2.4638
January 2018	2.5967	2.4578	2.5437	2.4969
2017	2.7674	2.3824	2.5090	2.5922
2016	2.7846	2.1272	2.3667	2.6468
2015	2.4499	1.8780	2.2702	2.3949

Source: *NBG.*

Certain Defined Terms

In these Listing Particulars:

(a) the Group means the Company or Issuer (or Substitute Issuer) and its subsidiaries and subsidiary undertakings from time to time holding or operating the investment business; and

(b) the Investment Group means a group of companies which represent a continuation of investment businesses of BGEO Group PLC.

USE OF PROCEEDS

The net proceeds to be received by the Company from the issuance of the Notes (after the deduction of management, underwriting and selling fees, and commissions and listing fees, but before the deduction of other expenses) will be approximately US$293 million.

The Company intends to use the net proceeds from the Offering as follows:

- approximately US$165 million will be on-lent to the Group's investment business subsidiaries;
- approximately US$105 million will be used to repay the BGEO Loan; and
- approximately US$23 million will be retained by the Issuer and used for the Issuer's general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The table below sets out the capitalisation and indebtedness of a group of companies which represent a continuation of the investment business activities of BGEO Group PLC ("**Investment Group**") and has been extracted without material adjustment from the Historical Financial Information, as included in "*Historical Financial Information*".

	As of 31 December 2017
	(thousands of GEL)
Total current debt	**73,823**
Secured	23,861
Unguaranteed/unsecured	49,962
Total non-current debt (excluding current portion of long-term debt)	**661,121**
Secured	122,841
Unguaranteed/unsecured	538,280
Total invested capital	**1,164,116**

Secured debt comprises borrowings under which the Investment Group has pledged real estate or other types of assets as collateral as a security for loan.

Unguaranteed/unsecured debt comprises borrowings which have neither collateral nor third party guarantee.

Net Indebtedness

The following table shows the Issuer's net indebtedness as of 31 December 2017 and has been extracted without material adjustment from management accounts that have been prepared using policies that are consistent with those used for preparing the Historical Financial Information as disclosed in "*Operating and Financial Review*".

		Adjustments				
	31 December 2017	Notes offered hereby	Fees[(2)]	Repayment of BGEO Loan	Loans on-lent to subsidiaries	As adjusted[(1)]
			(thousands of GEL)			
Cash and cash equivalents	219,002	777,660	(7,827)	(272,279)	(427,713)	288,843
Debt investment securities	45,147	—	—	—	—	45,147
BGEO Loan	272,279	—	—	(272,279)	—	—
Debt securities issued	—	777,660	—	—	—	777,660
Net Debt	**(8,130)**	**—**	**(7,827)**	**—**	**(427,713)**	**(443,670)**

Notes:

(1) The 'as adjusted' column reflects (a) the receipt of the proceeds of the Offering in an indicative amount of US$ 300 million net of indicative fees and expenses related to the Offering, and (b) the repayment of the BGEO Loan and (c) on lending to subsidiaries.

(2) Indicative fees and expenses related to the Offering.

In addition, the Issuer may lend up to US$ 60 million to JSC BGEO Group for a term of up to 24 months on arm's length terms.

As of 31 December 2017, the Issuer had no contingent or indirect indebtedness, and on a *pro forma* basis assuming the transfer of a 19.9% stake in the share capital of each of the Bank and JSC BG Financial had occurred as at such date, and based on an offer size of US$300 million, the adjusted net debt to adjusted shareholders' equity of the Issuer on a standalone basis was 19.6%.

Other than as noted above, there has been no change in the capitalisation and indebtedness of the Issuer since 31 December 2017.

SELECTED COMBINED FINANCIAL AND OPERATING INFORMATION

The selected combined historical financial information for the Investment Group set out below has been extracted without material adjustment from "*Historical Financial Information*".

Combined Income Statement

	For the year ended 31 December				
	2017	**2017-2016**	**2016**	**2016-2015**	**2015**
	(thousands of GEL)	*Change (%)*	*(thousands of GEL)*	*Change (%)*	*(thousands of GEL)*
Utility and energy revenue	127,569	125.84%	56,486	—	—
Cost of utility and energy	(39,198)	120.14%	(17,806)	—	—
Gross utility and energy profit	**88,371**	**128.47%**	**38,680**	—	**—**
Real estate revenue	121,153	17.65%	102,974	68.4%	61,150
Cost of real estate	(85,765)	5.75%	(81,098)	104.17%	(39,721)
Gross real estate profit	**35,388**	**61.77%**	**21,876**	2.09%	**21,429**
Net insurance premiums earned	52,147	20.95%	43,115	5.53%	40,856
Net insurance claims incurred	(25,098)	40.54%	(17,858)	(11.22)%	(20,114)
Gross insurance profit	**27,049**	**7.10%**	**25,257**	21.77%	20,742
Beverage revenue	55,441	86.09%	29,793	0.90%	29,527
Cost of beverage	(32,313)	110.19%	(15,373)	5.12%	(14,624)
Gross beverage profit	**23,128**	**60.39%**	**14,420**	(3.24)%	**14,903**
Other income	7,435	(11.18)%	8,371	528.93%	1,331
Gross profit	**181,371**	**67.00%**	**108,604**	85.95%	**58,405**
Salaries and other employee benefits	(34,548)	112.22%	(16,279)	37.96%	(11,800)
Administrative expenses	(38,351)	82.13%	(21,057)	33.29%	(15,798)
Other operating expenses	(1,892)	1.56%	(1,863)	407.63%	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(3,417)	240.34%	(1,004)	(10.44)%	(1,121)
EBITDA[(1)]	**103,163**	**50.82%**	**68,401**	133.30%	**29,319**
Profit from associates	—	—	4,074	0.59%	4,050
Depreciation and amortisation	(28,237)	180.66%	(10,061)	320.43%	(2,393)
Net foreign currency loss	(4,938)	57.66%	(3,132)	(138.39)%	8,158
Interest income	12,971	204.48%	4,260	66.21%	2,563
Interest expense	(30,014)	121.90%	(13,526)	524.18%	(2,167)
Net operating income before non-recurring items	**52,945**	**5.86%**	**50,016**	26.53%	**39,530**
Net non-recurring items	(624)	(101.94)%	32,104	(2,953.69)%	(1,125)
Profit before income tax expense from continuing operations	**52,321**	**(36.29)%**	**82,120**	113.83%	**38,405**
Income tax benefit (expense)	(5,749)	(26.41)%	(7,812)	73.60%	(4,500)
Profit for the year from continuing operations	**46,572**	**(37.33)%**	**74,308**	119.17%	**33,905**
Profit from discontinued operations	47,351	(21.21)%	60,099	309.39%	14,680
Profit for the year	**93,923**	**(30.12)%**	**134,407**	176.64%	**48,585**
Total profit attributable to:					
– shareholders of Georgia Capital	69,778	(34.72)%	106,893	136.88%	45,125
– non-controlling interests	24,145	(12.24)%	27,514	695.20%	3,460
Profit from continuing operations attributable to:					
– shareholders of Georgia Capital	50,382	(32.07)%	74,170	108.03%	35,653
– non-controlling interests	(3,810)	(2,860.87)%	138	107.89%	(1,748)
Profit from discontinued operations attributable to:					
– shareholders of Georgia Capital	19,396	(40.73)%	32,723	245.47%	9,472
– non-controlling interests	27,955	2.11%	27,376	425.65%	5,208
Basic earnings per share:	1.7717	(34.72)%	2.7141	136.89%	1.1457
– earnings per share from continuing operations	1.2792	(32.07)%	1.8832	108.04%	0.9052
earnings per share from discontinued operations	0.4925	(40.73)%	0.8309	245.49%	0.2405

Note:

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

Combined Statement of Financial Position

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

Combined Statement of Cash Flows

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

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited *pro forma* financial information of the Investment Group as at 31 December 2017 set out below has been prepared to illustrate the impact of the transfer of 19.9% of the share capital of each of the Bank and JSC BG Financial, as if they had occurred on 31 December 2017.

		Adjustment[2]	
	Investment Group as at 31 December 2017	**Transfer of 19.9% of the share capital of each of JSC Bank of Georgia and JSC BG Financial**	**Pro forma Investment Group as at 31 December 2017**
Assets			
Investment securities	33,060	732,484	765,544
Total assets	**2,748,366**	**732,484**	**3,480,850**
Net Assets	**1,164,116**	**732,484**	**1,896,600**

Notes:

(1) The net assets of the Investment Group have been extracted without material adjustments from the Historical Financial Information.

(2) 19.9% stakes in the Bank and JSC BG Financial were transferred to the Group on 16 February 2018 as an equity contribution from JSC BGEO Group, which will be exchanged for a 19.9% stake in Bank of Georgia Group PLC following the demerger. See "*Description of Business—Demerger*". The adjustment to *Investment securities* represents the fair values of the stakes in JSC Bank of Georgia and JSC BG Financial valued at the date of transfer. The fair values of the stakes were determined in accordance with IFRS 13 *Fair Value Measurement*.

(3) In preparing the unaudited *pro forma* financial information, no account has been taken of the trading and transactions of the Group since 31 December 2017.

OPERATING AND FINANCIAL REVIEW

Overview

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

The Group has historically functioned as the investment arm of BGEO Group PLC, which as of the date of these Listing Particulars is the Issuer's ultimate parent company. BGEO Group PLC is listed on the premium segment of the London Stock Exchange and is the holding company of a Georgia-based banking group with an investment arm. BGEO Group PLC announced on 3 July 2017 that it intends to demerge the BGEO Group's investment business from its banking business for strategic reasons. The board of directors of BGEO Group PLC stated that they believe the Demerger will deliver additional value to shareholders by creating two distinct entities, each a leader in its respective field, with separate strategic, capital and economic characteristics, and strong, knowledgeable separate boards and executive management teams. The board of directors of BGEO Group approved the Demerger on 11 February 2018. As of the date of these Listing Particulars, the Issuer is held by its immediate parent company, JSC BGEO Group. After the issue of the Notes, it is intended that the Substitute Issuer, a Georgian company JSC Georgia Capital Group, will be inserted above the Issuer as the new holding company of the Issuer. It is then intended that the Issuer will merge with the Substitute Issuer. The Substitute Issuer will be the surviving entity and replace the Issuer as the principal debtor under the Notes. Following the merger with the Issuer, the Substitute Issuer will have no assets other than its shares in the Portfolio Investments and the Exit Stage Portfolio Investments. In addition, as part of the Demerger, the Issuer may lend up to US$60,000,000 to JSC BGEO Group for a term of up to 24 months on arm's length terms. See "*Description of Business—Demerger*".

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

The Company's Portfolio Companies are:

- GGU (35.1% of the revenue of the Investment Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a water utility and renewable energy business. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area, where it provided WSS services to 1.4 million people (more than one-third of Georgia's population) in 2017. It also operated hydro power plants with a total capacity of 149.3 MW as of 31 December 2017 and invests in the development of renewable energy projects in the under-supplied Georgian energy sector. The Group anticipates further growth opportunities for GGU in both of its business lines: pursuing cost efficiencies within the water utility business by targeting the reduction of technical losses and reducing energy consumption internally to preserve the supply available for sale to third parties while also planning the construction of hydro, wind and solar power generation plants;
- m^2 (33.3% of the revenue of the Investment Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a residential and commercial property developer that is currently delivering a weighted average IRR of 82% on its seven completed projects. m^2 seeks to pursue an asset light strategy which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m^2 brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia;

- Aldagi (14.3% of the revenue of the Investment Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), the foremost provider of property and casualty insurance products in Georgia with a market share of 39% by revenue in the Georgian property and casualty insurance sector (excluding health insurance) in the nine months ended 30 September 2017. Aldagi has experienced sustained growth in recent years and, as of 31 December 2017, had 45,598 active retail clients and 2,125 active corporate clients. The Group sees new opportunities for Aldagi as a result of anticipated developments in mandatory third party liability insurance and other property and casualty insurance products; and
- Teliani (15.2% of the revenue of the Investment Group in 2017 (excluding revenue generated by the Exit Stage Portfolio Investments)), a leading wine and beer producer in Georgia and a distributor of its own and third party beverage brands that has a five year exclusivity licence from Heineken with a five year extension option to produce beer to be sold in Georgia, and the right to resell in Armenia and Azerbaijan. The Group seeks future growth opportunities in Teliani's beer and wine sales by utilising Teliani's distribution platform.

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

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

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

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

Note:

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

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

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

The Group reduced its stake in GHG from 65% to 57% in May 2017. In line with Georgia Capital's strategy, it is highly probable that the Group will own less than a 50% stake in GHG at the end 2018 and as a result and in line with IFRS requirements, the Group has reclassified its investment in GHG as a "disposal group held-for-sale" and reports GHG's results of operations under "discontinued operations" in the BGEO Preliminary Financial Information and in the Investment Group's combined Historical Financial Information, as a result, does not form part of the Investment Group's discussion of the results of its continuing operations for the track record period. Given that GHG was a significant subsidiary of the Investment Group during the track record period, a summary discussion of its results is included under "*—Summary Information on Exit Stage Portfolio Investments for the twelve months ended 31 December 2017 compared to the twelve months ended 31 December 2016 and twelve months ended 31 December 2015*".

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

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

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

Key factors affecting results of operations

Acquisitions, developments and disposals

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

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

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

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

Acquisition of New Coffee Company LLC. In February 2017, Global Coffee Georgia LLC, a 100% subsidiary of the Company, acquired 100% of New Coffee Company LLC, a coffee distribution company operating in Georgia, which now forms part of the Group's Beverage Business. The total consideration for the acquisition was GEL$5.7 million.

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

Disposal of GHG. In May 2017, the Investment Group sold 9.5 million GHG shares, reducing its stake in GHG by 7.2% to 57.0%, and received gross proceeds of GEL98.0 million to realise a gain on sale of GEL63.4 million, which was recorded as an increase in the Investment Group's shareholders' equity.

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

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

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

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

Macroeconomic Conditions

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

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

Source: *Preliminary 2017 GDP data by Geostat.*

Notes:

(1) Based on preliminary 2017 nominal GDP estimate.

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

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

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

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

Due to the global strengthening of the US Dollar and the related slump in world commodity prices and slowdown of growth in Georgia and the economies of its main trading partners, the Lari depreciated by 28.5% against the US Dollar in 2015. In 2016, growing uncertainty in global and regional financial markets, and a stronger US Dollar following the elections in the United States resulted in resumed pressures and contributed to a further depreciation of the Lari by 10.5%. These depreciations helped Georgia to facilitate adjustment to external shocks as imports decreased by 15.1% in 2015, as compared to 2014, and 0.1% in 2016, as compared to 2015, although exports have shown signs of growth since September 2016. As foreign exchange interventions have been limited to smoothing excessive exchange rate volatility, the NBG's gross foreign reserves have been preserved, although the depreciation of the Lari has contributed to an overall increase in Georgia's public debt to 41.4% of GDP and 44.4% of GDP in 2015 and 2016, respectively, as compared to 35.7% of GDP in 2014. The Lari appreciated by 2.1% against the US Dollar in 2017 as exports, remittances and tourism revenues increased significantly and continued appreciating against the US Dollar in the beginning of 2018.

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

Cost of Funds

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

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

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

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

Currency Fluctuations

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

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

Although the Group seeks to minimise the effect of currency fluctuations, such fluctuations may affect its results. As of 16 February 2018, the official Lari/US Dollar rate published by the NBG was GEL 2.4641 = US$ 1.00 and the official Lari/Euro rate published by the NBG was GEL 3.0782 = EUR 1.00. To the extent that the Group acquires or develops businesses in other industry sectors, the nature of the Group's exposure to currency fluctuations may change.

Efficiencies and cost management

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

Factors affecting the Investment Group's Portfolio Companies

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

GGU

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

m^2

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

revenue is recognised according to the percentage of completion method. Management expects that the trends in the Georgian residential property market will continue to affect the Group's real estate revenue in future periods.

Aldagi

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

Teliani

- *Growth in beverage sales*. Teliani's wine production and distribution business revenue has grown consistently during the track record period (from GEL17,825 thousand for the year ended 31 December 2015 to GEL22,156 thousand for the year ended 31 December 2017), which has impacted Teliani's results of operations. In addition, Teliani has obtained a 22.0% share of the domestic beer market in Georgia in the first six months of beer production in 2017. Management expects that this will impact Teliani's future gross profit as a result of increased beer sales revenue and the reduction of capital expenditure required following significant investments in plant and machinery and sales and marketing activities required to launch beer production operations.

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

Disposal group held for sale

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

Segment information

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

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

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

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

The Real Estate Business contribution to the Investment Group's total revenue decreased from 46.2% in the twelve months ended 31 December 2015 to 42.4% in the twelve months ended 31 December 2016. The P&C Insurance Business contribution to the Investment Group's total revenue decreased from 32.1% in the twelve months ended 31 December 2015 to 18.8% in the twelve months ended 31 December 2016. The Beverage Production and Distribution Business contribution to the Investment Group's total revenue decreased from 22.2% in the twelve months ended 31 December 2015 to 12.4% in the twelve months ended 31 December 2016. These decreases where primarily due to the Investment Group's acquisition of the remaining 75% of GGU in July 2016. As a result of this acquisition, the contribution of the Utility and Energy Business to the Investment Group's total

revenue increased from nil to GEL63,246 thousand in the twelve months ended 31 December 2016. Consequently, while revenue generated by the P&C Insurance Business, the Real Estate Business, Beverage and Production and Distribution Business increased, their contribution to the Investment Group's total revenue decreased as the Investment Group's operations were materially affected by acquisition of the remaining 75% of the Utility and Energy Business in July 2016, which contributed GEL45,440 thousand or 42% of Group's total gross profit for the twelve months ended 31 December 2016.

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

Gross utility and energy profit

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

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

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

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

Gross real estate profit

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

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

Real estate revenue increased by GEL18,179 thousand, or 17.7%, to GEL121,153 thousand (US$46,738 thousand) in the twelve months ended 31 December 2017 from GEL102,974 thousand in the twelve months ended 31 December 2016, primarily due to a GEL21.4 million revaluation realised on three investment properties which are currently under construction. Revenue generated from the sale of apartments decreased by GEL2,902 or 3.0% in the twelve months ended 31 December 2017 compared to twelve months 31 December 2016. Management believes that revenues from the sale of apartments in 2016 and 2017 are not comparable because m^2 adopted IFRS 15 from 1 January 2017.

Prior to that date m^2 recognised revenues from sales of residential units upon completion and handover of the units to customers in line with IAS 18, while under IFRS 15 revenue is recognised according to the percentage of completion method. See Note 3 to the Historical Financial Information.

Cost of real estate increased by GEL4,667 thousand, or 5.8%, to GEL85,765 thousand (US$33,086 thousand) in the twelve months ended 31 December 2017 from GEL81,098 thousand in the 12 months ended 31 December 2016. As a result of m^2's early adoption of IFRS 15 from 1 January 2017, trends for the twelve months ended 31 December 2017 and the twelve months ended 31 December 2016 are not comparable.

Gross insurance profit

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

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

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

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

Gross beverage profit

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

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

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

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

Other income

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

Gross profit

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

Salaries and other employee benefits

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

Administrative expenses

Administrative expenses principally includes charges relating to rent, the purchase of office supplies, marketing and advertising costs, professional service fees, representative costs, expenditure on communication, bank fees and commissions, administrative utilities, travel expenses and other expenses.

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

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

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

Other operating expenses

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

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

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

EBITDA

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

Depreciation and amortisation

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

Net foreign currency gain / (loss)

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

Interest income

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

Interest expense

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

Net non-recurring items

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

Profit for the year from continuing operations

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

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

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

Gross utility and energy profit

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

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

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

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

Gross real estate profit

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

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

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

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

Gross insurance profit

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

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

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

Gross beverage profit

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

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

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

Other income

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

Gross profit

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

Salaries and other employee benefits

Salaries and other employee benefits increased by GEL4,479 thousand, or 38.0%, from GEL11,800 thousand in 2015 to GEL16,279 thousand in 2016. The increase in expense was primarily attributable to increased personnel costs associated with the acquisition of the remaining 75% stake of

the Utility and Energy Business which increased the Investment Group's headcount by 2,291 employees and an increase in P&C Insurance Business salaries and other benefits.

Administrative expenses

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

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

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

Other operating expenses

Other operating expenses increased by GEL1,496 thousand, or 407.6%, from GEL367 thousand for the twelve months ended 31 December 2015, to GEL1,863 thousand for the twelve months ended 31 December 2016. The increase was primarily attributable to write-offs of fixed assets by the Utility and Energy Business.

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

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

EBITDA

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

Depreciation and amortisation

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

Net foreign currency (loss) / gain

Net foreign currency loss increased by GEL11,290 thousand, or 138%, from a net gain of GEL8,158 thousand for the twelve months ended 31 December 2015, to a net loss of

GEL3,132 thousand for the twelve months ended 31 December 2016. This decrease was primarily attributable to the decrease of the foreign currency position of the Investment Group in 2016 compared to 2015. The Lari depreciated by 9.5% during the twelve months ended 31 December 2016, compared to depreciation of 28.5% during the twelve months ended 31 December 2015.

Interest income

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

Interest expense

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

Net non-recurring items

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

Profit for the year from continuing operations

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

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

Liquidity and capital resources

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

Analysis of combined cash flows

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

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

Net cash flows from operating activities from continuing operations

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

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

Net cash flows used in investing activities from continuing operations

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

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

Net cash flows from financing activities from continuing operations

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

thousand and a GEL276,277 thousand decrease in net proceeds from borrowings and debt securities issued.

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

Liabilities and Indebtedness

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

Capital Expenditure

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

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

Note:

(1) Excludes capital expenditures of GHG.

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

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

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

Contractual Obligations

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

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

Operating Lease Commitments

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

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

Commitments and Contingencies

The Investment Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

Off-Balance Sheet Arrangements

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

Qualitative and Quantitative Data About Market Risk

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

Risk Management Policy

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

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

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

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

GHG

- *Introduction of Universal Healthcare in Georgia.* During the periods under review the United Healthcare Programme (the "**UHC**"), which is a Government-funded healthcare programme that was introduced in Georgia in 2013, has increased, and will continue to increase, the demand for, and the total amount spent on, healthcare services in Georgia. This increased demand has contributed, and is expected to continue to contribute, to an increase in GHG's healthcare services revenue, particularly revenue from its referral hospitals. However, the introduction of the UHC has, to date, had a negative effect on GHG's medical insurance revenues as a result of the phasing out of prior state medical insurance programmes under which the government purchased medical insurance coverage on behalf of certain population groups in Georgia from private medical insurers.
- *Efficiencies and cost management.* Capturing economies of scale is a significant part of GHG's growth strategy. GHG has centralised certain functions across its healthcare services facilities and medical insurance business, and focused on implementing other efficient cost management practices. Management believes that in future periods, the continued implementation of its efficiency and cost management programme across all of GHG's facilities will have a positive impact on GHG's gross profit margins and EBITDA.
- *Fluctuations in Currency Exchange Rates.* Fluctuations in the prevailing foreign currency exchange rates affect GHG's financial position and cash flows. While all GHG's revenues and expenses are in GEL, a significant portion of medicines and medical disposables that GHG purchases are imported and therefore prices are pegged to foreign currency (mostly U.S. dollar and/or euro). Furthermore, prices of almost all medical equipment that GHG purchases are also set in foreign currency (mostly U.S. dollar and/or euro). 21.7% of GHG's borrowings drawn primarily to fund its expansion plans are denominated in U.S. dollars.
- *Macroeconomic Conditions.* GHG operates in Georgia with its Georgian operations accounting for almost 100% of its total combined revenue for the years ended 31 December 2017, 2016 and 2015. Accordingly, the demand for Georgian healthcare services, pharmaceutical products and medical insurance and, by extension, GHG's results of operations and financial condition are, and will continue to be, significantly affected by Georgian political and economic factors.
- *Acquisitions.* GHG has made significant acquisitions during the period under review, including the acquisition of two pharmaceutical retailers (JSC GPC was acquired for consideration of GEL32.7 million and JSC ABC Pharmacia was acquired for consideration of GEL73.8 million, of which GEL63.5 million was cash consideration and the remainder was 33% of the issued shares of JSC GPC), which have affected GHG's revenue, expenses and profitability. As GHG intends to continue to seek strategic acquisitions in the future, Management expects that GHG's financial results will continue to be affected by acquisitions.

Banking Business

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

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

- *Changes in Client Deposits and Notes.* Client deposits and notes are the Banking Business's largest source of funding, accounting for 62.3% of total liabilities as of 31 December 2017, as compared to 58.9% as of 31 December 2016 and 64.2% as of 31 December 2015. The Banking Business's client deposits and notes were GEL7,078.1 million as of 31 December 2017, GEL5,755.8 million as of 31 December 2016 and GEL5,011.3 million as of 31 December 2015.
- *Cost of Funds.* The Banking Business's principal liabilities are:
  - client deposits and notes (62.3% of total Banking Business liabilities as of 31 December 2017);
  - borrowings from international credit institutions, including Development Finance Institutions ("**DFIs**") and non-convertible subordinated debt (as a source of long-term funding), and deposits and loans from the inter-bank market (to manage short-term liquidity needs) (24.5% of total Banking Business liabilities as of 31 December 2017);
  - debt securities issued (12.2% of total Banking Business liabilities as of 31 December 2017); and
  - other liabilities (1.0% of total Banking Business liabilities as of 31 December 2017).
- *Cost Management.* In 2015, the Bank's ultimate parent company announced that cost efficiency would be a strategic priority for the Banking Business, and that it would seek to reduce the Banking Business's cost to income ratio to no more than 35%. In each of 2016 and 2017, the Banking Business's operating expenses increased by 12.9% and 17.6%, respectively, while revenue increased by 6.4% and 17.5 %, respectively, resulting in a 37.7% cost to income ratio for 2016 and a 37.7% cost to income ratio for 2017. The Banking Business is implementing more disciplined budgeting, cost analysis and control procedures across all business lines.
- *Currency Fluctuations*. Fluctuations in the US Dollar to Lari exchange rate affect the value, in Lari terms (the functional currency in which the Banking Business reports results), of the Banking Business's gross loans to customers and, in turn, total assets. In addition, the Banking Business incurs expenses that are linked to foreign currencies, primarily rental expenses that are US Dollar-linked. A depreciation of the Lari will increase these costs.

  The Banking Business is also affected by fluctuations in the Belarusian Rouble to Lari exchange rate, as the depreciation of Belarusian Rouble in relation to the Lari tends to reduce the value of the non-monetary assets of BNB, which are fixed in Belarusian Roubles, in Lari terms.
- *The Banking Business Restructuring*. Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in non-banking subsidiaries by locally regulated banking entities, the Banking Business completed a legal restructuring in August 2015 ("**Reorganisation**").
- *Acquisitions*. In January 2015, the Bank completed the acquisition of PrivatBank for cash consideration of GEL94 million. PrivatBank, the ninth largest bank in Georgia by total assets at the time of acquisition with a focus on retail banking, was a strategic match for the Bank and was acquired with the aim of strengthening the Bank's focus on retail banking.

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

GHG

Results of Operations

Revenue

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

investments in new healthcare services to close service gaps in hospitals and the roll out of new polyclinics.

Costs of services

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

Profit for the year

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

Total assets

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

Total liabilities

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

Banking Business

Results of Operations

Revenue

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

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

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

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

Operating expenses

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

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

Profit for the year

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

Total assets

As of 31 December 2017, the Banking Business had total assets of GEL12,907.7 million (US$4,979.4 million), as compared to total assets of GEL11,123.4 million as of 31 December 2016. The GEL1,784.3 million, or 16.0%, increase was primarily due to a GEL1,059.8 million, or 15.9%, increase in loans to customers and finance lease receivables, a GEL329.9 million, or 25.7%, increase in investment securities and a GEL275.9, or 29.3%, increase in amounts due from credit institutions.

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

Total liabilities

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

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

Recent and Prospective Changes in Accounting Policies

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

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Investment Group will adopt the new standard from the effective date by recognising the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information.

Critical Accounting Policies

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

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and infrastructure assets included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a

combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

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

Impairment of insurance premiums receivable, accounts receivable and other assets

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

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

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2017 was GEL4,243 (GEL8,762 as of 31 December 2016 and GEL7,031 as of 31 December 2015).

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNRs at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such as water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatisation transaction. Due to the lack of required documents and timing for registration, the Group was not able to perfect legal ownership title on certain fixed assets including infrastructure assets as at the date of these Listing Particulars.

However, based on the provisions of privatisation agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will perfect legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognized infrastructure assets as the Group's property, plant and equipment.

DESCRIPTION OF BUSINESS

Overview

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

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

The Company's Portfolio Companies are:

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

In addition to the Portfolio Companies, the Company has significant investments in two businesses of the former BGEO Group: GHG (57% stake), the London Stock Exchange premium-listed parent company of the largest diversified healthcare provider in Georgia, which operates in the healthcare services, pharmacy and medical insurance sectors; the Banking Business) (19.9% stake), the leading universal bank in Georgia. Shortly after the proposed Demerger becomes effective, the Share Exchange is expected to take place. Following the Share Exchange, the Issuer's parent company has

agreed that, for as long as the Issuer's stake in the Bank of Georgia Group PLC is greater than 9.9%, it will exercise its voting rights in the Bank in accordance with the votes cast by all other Bank shareholders on all shareholder votes. See "—*Demerger*". The stake in GHG and the stake in Bank of Georgia Group PLC (if the proposed exchange of stakes takes place) are expected to be held as listed investments and considered by management to be liquid, tradeable assets on the Group's balance sheet that could be readily convertible into cash as and when the Company decides to monetise these assets.

The Group has historically functioned as the investment arm of BGEO Group. Following the Demerger, the Issuer is expected to be owned by Georgia Capital PLC as a standalone business. See "—*Demerger*".

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

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

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

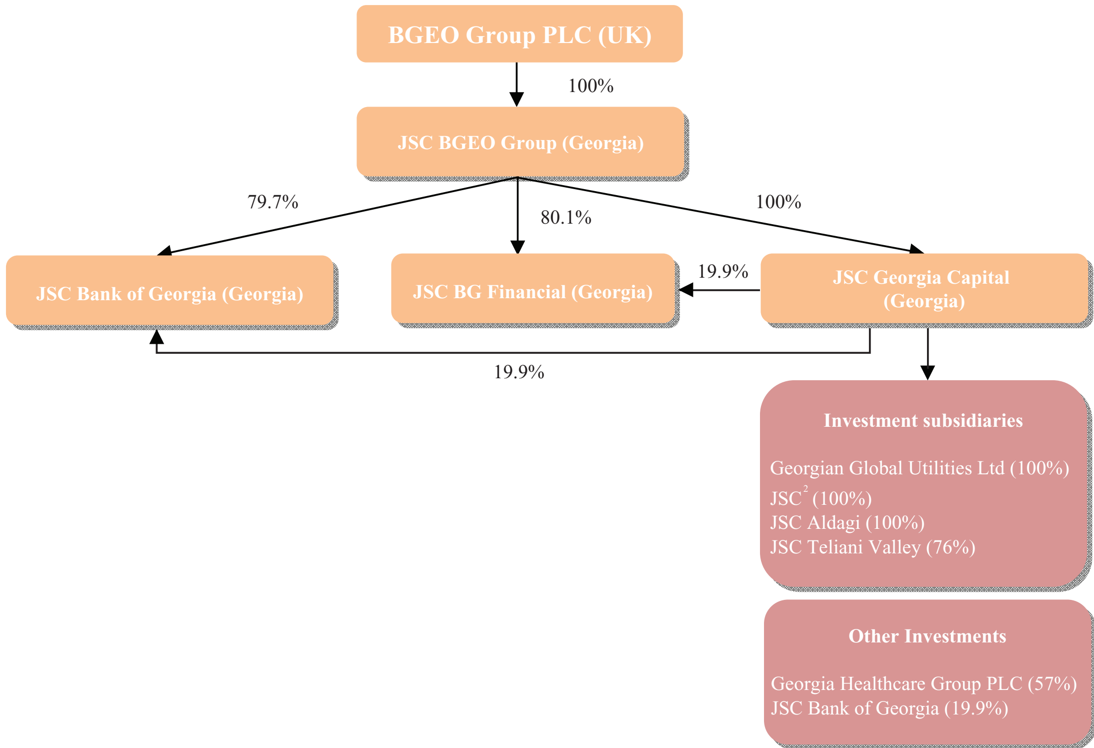
	31 December		
	2017	**2016**	**2015**
	(thousands of GEL)		
Total net asset value	866,551	788,363	590,533
Of which:			
utility and energy net asset value	284,938	284,712	55,544
real estate net asset value	149,252	137,873	107,787
insurance net asset value	50,901	41,803	35,252
beverage net asset value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

Note:

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

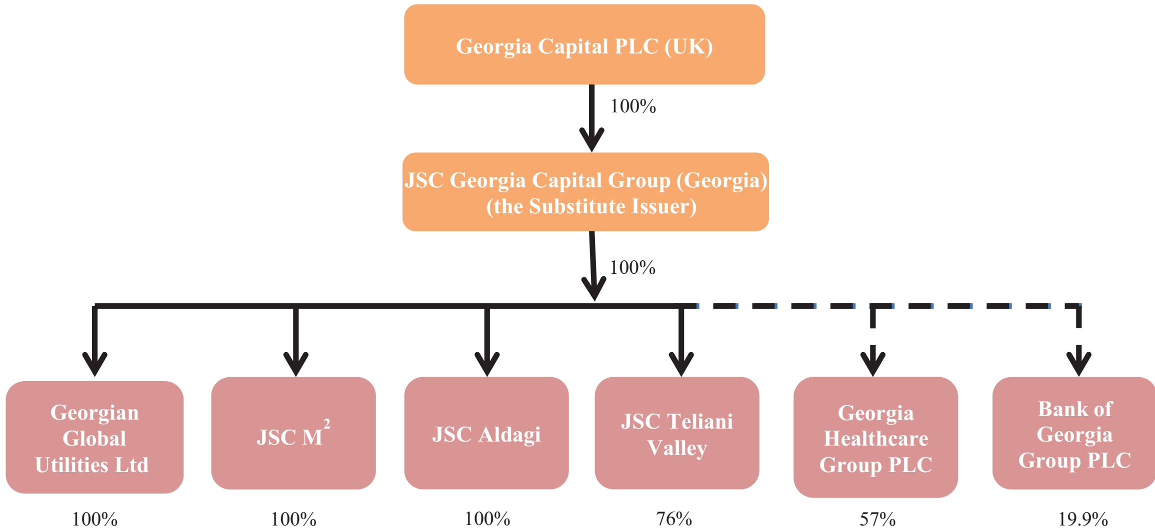
Corporate Structure

The current simplified corporate structure of the Group is as follows:



Demerger

The corporate structure of the investment part of the Group after the Demerger is expected to be as follows:



The Issuer expects that the following steps will be undertaken after the issue of the Notes to implement this corporate structure (the "**Demerger**"):

(i) the Issuer will lend up to US$60,000,000 to JSC BGEO Group for a term of up to 24 months on arm's length terms;

(ii) the Substitute Issuer will be inserted above the Issuer as the new holding company of the Issuer;

(iii) the Issuer will be merged into the Substitute Issuer;

(iv) subject to the approval of shareholders of BGEO Group at a court meeting and a general meeting of BGEO Group shareholders, Bank of Georgia Group PLC will be inserted above BGEO Group as the new holding company of BGEO Group pursuant to a court approved scheme of arrangement;

(v) the Substitute Issuer will be transferred to Bank of Georgia Group PLC and Bank of Georgia Group PLC will then, subject to certain conditions precedent, transfer the Substitute Issuer to Georgia Capital PLC;

(v) Bank of Georgia Group PLC will issue 19.9% of its then issued share capital to the Substitute Issuer in exchange for the transfer by the Issuer of 19.9% of the Banking Business to Bank of Georgia Group PLC; and

(vi) Georgia Capital PLC shares will then be admitted to the Official List and trading on the London Stock Exchange.

Business activities

Portfolio Companies

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

- ***GGU***: GGU carries on business in two key areas: water utility and renewable energy generation. In the water utility business, GGU has a natural monopoly in Tbilisi and the surrounding area (including the towns of Mtskheta and Rustavi), where it provided WSS services to 1.4 million people (more than one-third of Georgia's population) in 2017. In the renewable energy business, GGU owned three hydropower generation facilities (and managed an additional facility) with a total capacity of 149.3 MW as of 31 December 2017. Currently, generated power is primarily used by GGU's water business and excess capacity is then sold to third parties. GGU also has a pipeline of developments in hydro power plants as well as wind and solar energy production. In 2014, GGU established a joint venture with RP Global (a leading Austrian hydro power company) to develop and build renewable energy projects in Georgia. GGU has a 65% share in the joint venture whilst RP Global has a 35% share. GGU was fully acquired by the Issuer in July 2016. GGU's revenue has grown by 6.5% from GEL126,787 thousand in the year ended 31 December 2016 to GEL135,072 thousand in the year ended 31 December 2017. GGU distributed dividends of GEL28.0 million from its water utility business in the fourth quarter of 2017, which was the first dividend distribution since the acquisition of the remaining 75% interest in GGU in July 2016.
- ***m^2***: m^2 develops residential and commercial property in Georgia, outsourcing design while focusing on project and construction management, and sales. m^2 is also in the process of developing hotels with outsourced operations and manages a yielding real estate asset portfolio, which it accumulated through its own developments as well as opportunistic investments in high street real estate. m^2 has completed sales of 1,691 apartments worth US$144 million since 2010. 99% of apartments are sold in seven successfully completed projects and 83% of apartments are pre-sold in four ongoing projects. m^2 currently has two hotels under development, with a total capacity of 246 rooms, 1,202 apartments under construction and 10,244 m^2 commercial space under construction. m^2 launched its current business in 2011, as a result of developing land repossessed by the Bank. m^2's revenue has grown by 17.7% from GEL102,974 thousand in the year ended 31 December 2016 to GEL121,153 thousand in the year ended 31 December 2017.
- ***Aldagi***: Aldagi is the leading provider of property and casualty insurance products in Georgia with a market share of 39% by revenue in the Georgian property and casualty sector (excluding health insurance) in the nine months ended 30 September 2017, according to the Insurance State Supervision Service of Georgia, 1.7 times more than that of its nearest competitor, and covers more than 47,000 insured customers. Aldagi offers a broad range of insurance product lines designed for corporate and retail clients. As of 31 December 2017, Aldagi had 45,598 active retail clients and 2,125 active corporate clients. Aldagi was acquired by the Bank in 2004. Aldagi's net insurance premiums earned has grown by 20.9% from GEL43,115 thousand in the year ended 31 December 2016 to GEL52,147 thousand in the year ended 31 December 2017. Aldagi has distributed dividends totalling GEL14.1 million since 1 January 2016.
- ***Teliani***: Teliani is a leading wine and beer producer in Georgia, selling over three million bottles of wine per annum in 15 countries (including Georgia). Approximately 82% of Teliani's wine sales are derived from exports. Teliani has sold over 6,800 thousand litres of beer between June 2017 (when it began brewing) and December 2017 in Georgia. In the first four months of beer

sales Teliani reached a 22% market share in local branded beer sales and it has the capacity to produce 30 million litres of beer per annum. Teliani has a five year exclusivity licence from Heineken with a five year extension option to produce beer to be sold in Georgia for resale in Armenia and Azerbaijan (with a combined population of 17 million people). Teliani's third major business line is the distribution of its own and third party beverage brands, primarily throughout Georgia. Teliani was acquired by the BGEO Group PLC in February 2010. Teliani's revenue has grown by 86.1% from GEL29,793 thousand in the year ended 31 December 2016 to GEL55,441 in the year ended 31 December 2017.

Competitive Strengths

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

- ***The Group is the only group of its size and scale focused on investing in and developing businesses in Georgia and is uniquely positioned to benefit from the continued growth and further diversification of the Georgian economy, giving investors a ground floor opportunity.*** The Group is the only group focused on investing in and developing businesses in Georgia and has interests in high-growth businesses in industry sectors that are expected to benefit from the ongoing growth and further diversification of the Georgian economy. The Georgian economy grew in real terms at a compound annual growth rate of 5.7% between 2003 and 2017, according to Geostat. According to the IMF's World Economic Outlook, annual average real GDP is expected to grow by 4.9% per annum from 2018 to 2022, which Management believes will drive business growth and consumer demand in the segments in which the Group currently operates (utilities, insurance products, real estate and fast-moving consumer goods ("**FMCG**")). Such favourable economic environment is also expected to provide further investment opportunities for the Group, which has extensive experience of unlocking value through opportunistic acquisitions, consolidating fragmented sectors of the Georgian economy, and a hands-on approach to managing subsidiary companies. This approach is supported by good access to capital as a result of a strong track record of raising finance in both local and international capital markets and relationships with key international financial institutions and the Group's ability to monetise its liquid Exit Stage Portfolio Investments.
- ***Transparency and robust corporate governance.*** The Issuer's current parent company, BGEO Group PLC, has a longstanding culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its GDRs on the London Stock Exchange. Moreover, as members of the group of companies owned by BGEO Group PLC, the Group's core businesses have complied in all material respects with the robust corporate governance standards for a premium listed company since 2012, when the shares of its UK incorporated holding company, BGEO Group PLC (formerly known as Bank of Georgia Holdings PLC), were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. The Company intends to continue to maintain these high standards of governance and transparency. Further, the Issuer's remuneration policy is aligned with its long term development strategy and the value creation interests of its shareholders. See "*Management and Employees*".
- ***Experienced management with a strong track record and deep understanding of the local market***. The Group's senior management team is highly experienced and all of its members have previously served as members of the BGEO Group management team that helped grow that business by approximately 33 times in asset size between 2005 and 2017, which Management believes was a result of its strength in growing businesses organically, as well as successful acquisitions and the Group's sector consolidation capabilities. This growth was achieved while maintaining an emphasis on asset quality and conservative risk management policies and increasing its total market share, measured by total assets, from 17.8% as at 31 December 2005 to 34.4% as at 31 December 2017 in the banking business; diversified its business via a number

of strategic acquisitions; established itself as a borrower in the international markets and money markets; attracted new institutional equity investors (at the level of its parent company and its then healthcare subsidiary, GHG); and strengthened its transparency and corporate governance policies and procedures. This team has a successful track record of achieving strong investment returns; by way of example, this team oversaw the successful initial public offering of GHG in November 2015, which achieved returns over 90% as at 10 February 2018. Management intends to leverage its successful management experience of the BGEO Group and believes that these factors, together with its strong understanding of the Georgian market, will allow it to respond rapidly and positively to market developments and opportunities.

- ***The Group's access to capital***. The Group's access to both equity and debt capital provides flexibility in managing its balance sheet and is one of the Group's key competitive advantages in realising its goal of capturing attractive investment opportunities in Georgia. Georgian capital markets are not yet fully developed and relatively little wealth has been accumulated locally. As a result, corporates have limited options to raise local capital and domestic commercial banks remain their primary source of funding. By comparison, the Issuer, through its pre-Demerger membership of the BGEO Group, has more than ten years' of international capital markets experience. The BGEO Group has raised approximately US$ 0.5 billion in equity on the London Stock Exchange and has carried out four Eurobond issuances which, in aggregate, raised approximately US$ 1.2 billion. In addition, the Issuer has raised more than US$ 3 billion from the IFIs (including EBRD and IFC). Further, as Management believes that the Group's Exit Stage Portfolio Investments are readily convertible into cash, the Group could access further capital by pursuing an appropriate method of monetising these assets.
- ***Efficient cost structure.*** Unlike typical private equity fund structures, the Group does not charge management or success fees for managing shareholder money. Instead, the Group's management team receives total remuneration equivalent to approximately 2% of the Group's expected fair value of its net assets. Approximately two thirds of the Company's total operating expenses will be attributable to share-based compensation expected to be paid by way of long term deferred shares. See "*Management and Employees*". Management believes that this remuneration policy, combined with the Group's well-integrated management team, lean corporate structure and commitment to cash preservation, enables the Group to operate in a cost efficient way.

Strategy

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

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

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

The Group's approach to investing and managing companies

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

- *Be opportunistic and disciplined*. The Georgian economy entered a period of significant development and growth approximately ten years ago and different sectors and businesses are at an early stage of formation. Access to capital and management personnel is limited, owners of businesses are cash poor and, as a result, the Group can pursue attractive investment opportunities and acquire assets on relatively attractive terms with a view to consolidating fragmented and underdeveloped markets. Because the Group is under no time pressure to invest, its takes a selective and opportunistic approach to new investments. The Company's capital return policy is a natural self-discipline mechanism for its capital allocation decisions.
- *Active management of businesses*. The Group sets the strategy and business plan of each business it acquires or establishes and then actively manages their implementation, particularly at early stages of development.
- *Scale is important*. Achieving superior economies of scale in a small frontier economy is essential to the success of the Group's acquired businesses and helps it to manage or mitigate the risk of failure.
- *Management development*. As the availability of management personnel is limited, by developing top talent in Georgia the Group can add value for the Company's shareholders. Investing time in growing and developing management continues to be critical for the success of the Group's strategy.
- *Good corporate governance*. The Company believes that robust corporate governance is a source of value creation for its shareholders. Management believes that alignment of the interests of shareholders and management by awarding long-term deferred share awards to the Group's senior executives enhances value creation.
- *Liquidity is important*. In order for the Group's strategy to succeed, the Group will be disciplined in unlocking the value of companies in which it invests and which it manages. In particular, it is crucial to set an exit strategy prior to making an investment. The Group considers various types of exit options, including initial public offerings and trade sales.

History and Development

The Group has been the investment arm of BGEO Group PLC and will continue to be prior to the Demerger. The BGEO Group's principal banking business, the Bank, traces its roots to 1903 and is the successor to the former state-owned Binsotsbank, which was privatised in 1994. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange. In 2004, the Bank replaced its senior management with a team of primarily western-trained and educated professionals. Since 2004, the Bank has grown more than 30 times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. In November 2006, the Bank completed its initial public offering of GDRs, becoming the first Georgian company to list GDRs on the London Stock Exchange, which was followed by its debut Eurobond offering in 2007. In 2006, the BGEO Group's healthcare business (which was initially a subsidiary of the Bank but was

subsequently demerged to form part of GHG), opened its first polyclinics in Tbilisi to capitalise on growth opportunities in the Georgian healthcare services market and diversify its sources of revenue. In 2011, the Bank decided to focus on the development of synergistic businesses, particularly in the Georgian insurance, healthcare and real estate markets, through the vertical integration of its insurance and healthcare businesses. In March 2012, Bank of Georgia Holdings PLC (as it was known until 20 November 2015, when it changed its name to BGEO Group PLC), became the Bank's ultimate parent company following a tender offer and its shares were admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange in February 2012.

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

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

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

On 3 July 2017, the Board of BGEO Group PLC announced its intention to demerge the BGEO Group into a London-listed banking business and a London-listed investment business for strategic reasons. The Board of BGEO Group PLC believes that the Demerger will deliver additional long-term value to shareholders by creating two distinct entities which will have enhanced growth opportunities in the strongly growing Georgian economy. Both the Bank and the Issuer already lead in their respective fields. For the investment business, the benefits of the Demerger include greater flexibility to manage the Group's capital as well as freedom to pursue strategic investment options. Further, the Demerger is expected to allow the Group to seize further consolidation opportunities and value creative partnerships whilst providing clarity to investors, sharpening management's focus and aligning their incentives. The board of directors of BGEO Group approved the Demerger on 11 February 2018. As of the date of these Listing Particulars the Issuer is held by its immediate parent company, JSC BGEO Group, and the Substitute Issuer, a Georgian company, will be inserted above the Issuer as the new holding company of the Issuer. It is then intended that the Issuer will merge with the Substitute Issuer, a Georgian company which will be the surviving entity and replace the Issuer as the principal debtor under the Notes. Following the merger with the Issuer, the Substitute Issuer will have no assets other than its shares in the Portfolio Investments and the Exit Stage Portfolio Investments. In addition, as part of the Demerger, the Issuer may lend up to US$60,000,000 to JSC BGEO Group for a term of up to 24 months on arm's length terms See "*Description of Business—Demerger*".

Regulation

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

See "*Regulation of the Water Supply and Sanitation (WSS) Sector*", "*Regulation of the Real Estate Sector*", "*Regulation of the Property and Casualty Insurance Sector*" and "*Regulation of the Beverage Sector*" below for a discussion of the regulatory regime that applies to each of the Company's Portfolio Companies.

Recent Developments

On 1 March 2018, the Issuer and EBRD entered into a framework agreement (the "**Framework Agreement**") with respect to the possibility that EBRD may purchase Notes, subject to certain conditions. See "*Subscription and Sale—Other Investors*".

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

On 16 February 2018, the Issuer acquired, in return for the issue of 1,516,362 shares in the Issuer, a 19.9% stake in the Banking Business.

The Group's Utility and Energy Business (GGU)

Overview

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

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

	For the year ended 31 December	
	2017	2016(1)
	(thousands of GEL)	
Total revenue(2)	135,072	126,787
Of which:		
Water sales(2)	118,905	109,402
Electricity sales	9,755	10,112
Revenue from connection service	5,189	6,256
Other revenue	1,223	1,017

Notes:

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

(2) Gross of eliminations.

GGU's Competitive Strengths

Management believes that GGU benefits from the following competitive strengths:

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

- ***GGU's professional management delivers results in substantive efficiency improvements.*** GGU's management has introduced a set of performance metrics to measure key operational parameters including: water loss ratio, water sales ratio, the proportion of internal electricity consumption, number of network failures, and cost and length of network development. Between 2015 and 2017, GGU's management has delivered considerable improvements across all key parameters (including a 9.2% increase in water sales, a 10.1% reduction in water losses, a 9.8% reduction in electricity consumption and a 29.8% reduction in the number of water network accidents) and plans to continue to further enhance performance. Between 2015 and 2017 GGU's principal subsidiary completed four successful issuances of GEL-denominated debt securities in Georgia and secured EUR 81.5 million of long-term financing from international financial institutions

(Netherlands Development Finance Company ("**FMO**"), German Investment Corporation, and European Investment Bank), of which approximately 40% was secured in Lari, for use in the implementation of GGU's strategy.

- ***GGU is self-sufficient in its power usage for water transportation and is well positioned to develop further renewable generation capacity***. GGU owned and operated three hydropower generation facilities (and managed an additional facility) with a total capacity of 149.3 MW as of 31 December 2017. Current average annual production by GGU varies between 380 GWh and 560 GWh, depending on the level of rainfall during the year. GGU's average annual electricity consumption for its own account is up to 300 GWh, which means GGU has self-sufficient power for water transportation and it benefits from additional revenue from third-party electricity sales. During the last few years GGU has achieved efficiencies in terms of its own energy consumption, falling from 322 kWh million in 2015 to 291 kWh in 2017.
- ***GGU invests in additional capacity for electricity generation with the goal to establish a renewable energy platform***. GGU is developing new hydro power plants ("**HPP**"), as well as solar and wind power sources in Georgia through its joint venture with renewable energy specialists RP Global. Renewable projects are expected to create more value to GGU through achieving cost efficiency per MW installed capacity.

GGU's Strategy

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

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

Water sales

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

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

plant. GGU's total water production supplies approximately 560m^3 on an annual basis to the Georgian water network.

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

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

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

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

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

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

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

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

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

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

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

Source: *Internal Company data.*

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

Description	2017	2016	2015
Revenue from households	32,921	31,263	30,170
y/y growth	*5.3%*	*3.6%*	*0.4%*
Revenue from legal entities	84,893	78,139	74,587
y/y growth	*8.6%*	*4.8%*	*5.4%*

Source: *Internal Company data.*

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

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

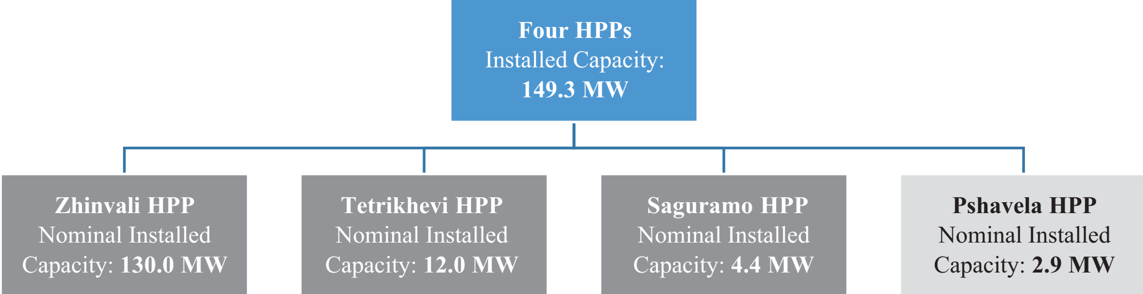
Collection rates	2017	2016	2015
Households	93.9%	94.0%	94.5%
Legal entities	97.8%	96.9%	98.0%

GGU has good receivable collection rates within the 94-98% range. During 2017, the collection rates were 98% for legal entities and 94% for households. The Georgian water utility sector has historically recorded low receivable collection rates. The latest available countrywide data relates to 2005 and indicates an average collection rate of 65% in major cities. This is because water utility companies which operate outside Tbilisi have historically not cut off electricity to residential customers for missed payments, unlike GGU. GGU's collection rate has improved significantly from 2011, due to the changes to the Georgian Law on Electricity and Natural Gas, pursuant to which electricity suppliers are required to cut off electricity if the customers do not pay their water bills. As a result, Tbilisi's electricity suppliers receive flat monetary compensation from GGU (approximately GEL1.3 million annually since 2015) for assisting in the collection process. Following these changes, GGU's collection rates improved and have remained at approximately 96%.

Electricity Sales

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

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



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

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

Saguramo HPP (commissioned in September 2016) is built on existing GGU tunnel infrastructure in the Mtskheta Region. The plant also receives water from the Zhinvali water reservoir via the Bodorna-Grmagele water supply tunnel. The HPP's installed capacity is 4.4 MW and the annual generation potential is up to 35 GWh. As this HPP was built after August 2008, it is fully deregulated and is able to sell generated electricity at market price.

GGU also has an operating lease of Pshavela HPP, which was fully refurbished in 2015 and is owned by Pshavela Ltd. Pshavela HPP is also a small run-off-river plant, with 2.9 MW of installed capacity.

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

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

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

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

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

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

Capital Expenditure

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

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

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

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

Regulation of the Water Supply and Sanitation (WSS) Sector

Overview

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

Regulatory framework for WSS sector

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

Source*: GNERC.*

Price control

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

Normative losses

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

Service Quality Rules

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

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

Overview

The Group's Real Estate Business, m^2, develops residential and commercial property, including hotels, in Georgia. In recent years, it has established itself as one of the most recognised residential housing

brands in the country, according to TNS research. m^2 outsources design while focusing on project management, construction management and sales.

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

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

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

	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			
Total revenue	121,153	102,974	61,150	98.1%
Of which:				
Revenue from sale of apartments	93,470	96,372	44,917	108.1%
Income from operating leases	3,650	2,832	1,883	93.8%
Revaluation of m_2's investment property	24,033	3,770	14,350	67.5%

m^2's Competitive Strengths

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

- ***m^2 has a proven track record of sales and benefits from high brand awareness in Georgia.*** As a result of m^2's proven track record of timely project completion, turn-key apartment developments and reputation for cost-effective, energy-efficient developments, m^2 has a loyal customer base and 92% brand awareness among real estate developers in Georgia, according to TNS research conducted in 2016. m^2 also benefits from well-developed sales and communication channels and has a vertically-integrated product offering that can deliver projects from development and construction through to sales and provide property management services.
- ***m^2 has a cost advantage through the vertical integration of its construction, project management and sales platforms.*** Owing to its vertical integration, m^2 has control over the largest part of a development's cost base, which enables m^2 to achieve construction and project development efficiencies. This cost advantage has translated into an ability to offer highly competitive products to its customers, as well as IRRs of between 31% and 329% on completed projects.
- ***m^2 has a well diversified funding base and enjoys fast track access to financing from its track record of successfully prepaying debt funding raised from various international financial institutions.*** m^2 has raised, and prepaid in full, debt from FMO and IFC. m^2 has also been active in local fixed income instruments and has issued US dollar-denominated bonds in the local market. Since its establishment in 2011, m^2 has raised approximately US$ 100 million of debt financing.

m^2's Strategy

m^2 primarily follows an asset light strategy, which involves unlocking land value by developing housing projects, developing third party land in connection with the franchising of the m^2 brand, growing a yielding asset portfolio (which includes commercial rental space and hotels), and taking advantage of underdeveloped housing supply and a shortage of hotels in a growing tourism market in Georgia, and the key elements of m^2's business strategy are set out below:

- m^2 will seek to enhance its income-generating asset portfolio by incorporating commercial elements in its residential developments and opportunistically acquiring and/or developing high street retail, commercial and office space. In addition, m^2 plans to leverage the value of the m^2 brand by developing land owned by third parties under franchise agreements and generate fees

by offering design and construction management services and sales of real estate developed on behalf of third parties. In line with its "asset light" strategy, m^2 signed its largest ever franchise agreement in 2017 according to which m^2 will construct and develop a residential complex under the m^2 brand name on a third-party land plot in a densely populated Tbilisi suburb. It intends to build a residential complex with a total area of 190,000 square meters and expects it to be built in ten phases over the course of four to five years.

- m^2 also plans to develop three and four-star Ramada hotels aimed at travellers in Georgia in the next seven years in Tbilisi, Kutaisi and other parts of Georgia under its exclusive development arrangements with Wyndham. Some of these hotels are expected to be mixed-use, and will be part financed through pre-sales of residential units in the developments.

- In June 2017, m^2 acquired a construction company, together with accompanying plant and machinery, and intends to further enhance the vertical integration of its business model by carrying out construction work on its properties, which is currently predominantly outsourced to third parties.

Residential developments

In the residential property market, m^2 targets mass market customers by offering affordable, high quality and comfortable housing. m^2 primarily focuses on "mixed use" developments with large residential components. m^2 has a land bank with a book value of GEL72.9 million as of 31 December 2017, as compared to GEL72.3 million as of 31 December 2016 and GEL76.6 million as of 31 December 2015, with the capacity to build approximately 4,690 apartments (in addition to 2,893 apartments in those development projects that have been completed or are under development) as of 31 December 2017. As of 31 December 2017, m^2 has completed sales of 1,676 apartments generating total revenue of US$ 144.3 million in seven separate development projects since 2011. m^2 has four on-going development projects which are currently at the construction phase and has already pre-sold some of the apartments in these new developments. m^2 is targeting the completion of 883 units in October 2018, 303 units in November 2018 and 16 units in May 2019. m^2's management estimates the total value of the housing market in Tbilisi to be between US$ 800 million and US$ 1 billion (based on the total value of housing transactions in Tbilisi in 2015 according to data from the NPRG, Colliers and m^2's internal research).

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

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

Source: *Internal company data.*

Notes:

(1) Pre-sales are sales before project completion.

(2) Off-plan sales are sales before commencement of construction.

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

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

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

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

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

Commercial property

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

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

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

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

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

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

m^2 mainly relies on pre-sales of its properties (and aims to sell approximately 20-30% of the units off-plan) and has used loans from IFIs and listed bonds to fund its developments. In December 2011, m^2 procured US$ 20 million in funding from FMO to proceed with a development project which was completed in 2014. In May 2013, IFC, a member of the World Bank Group, with the support of the Government of Canada, agreed to provide m^2 with a revolving loan of up to US$ 14.0 million

(including up to US$ 4.0 million from the IFC-Canada Climate Change Programme) to support green housing construction and job creation in Georgia. The facility has helped m^2 to develop energy-efficient, affordable and quality housing projects in Georgia. As of 31 December 2017, both loans have been successfully prepaid. In October 2016, m^2 successfully issued US$ 25.0 million of debt securities that were admitted to listing on the Georgian Stock Exchange. Between 2016 and 2018, m^2 raised US$ 30 million in funding from IFC under two loan agreements which are outstanding as of the date of these Listing Particulars.

Regulation of the Real Estate Sector

Overview

Obtaining building permits for new development projects and commissioning a building after construction is completed are regulated activities in Georgia. Obtaining a building permit for a new project generally involves four stages:

Land zoning parameter submissions

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

Architectural project (full set of drawings) submissions

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

Construction permit issuance

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

Commissioning

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

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

Overview

Aldagi is the leader in property and casualty insurance (excluding health insurance) in Georgia with a 39% market share for the nine months ended 30 September 2017 according to the Insurance State Supervision Service of Georgia. Aldagi benefits from diverse income streams including insurance revenue, interest income, fees and commission income and other operating income. For the twelve months ended 31 December 2017, Aldagi's products generated net revenue of GEL52.1 million, which comprised of GEL24.3 million from motor vehicle insurance, GEL8.6 million from property insurance, GEL7.9 million from credit life insurance and GEL11.3 million from other insurance business lines (including cargo and agricultural insurance and other lines). Aldagi's operations generated gross insurance profit of GEL27.0 million for the twelve months ended 31 December 2017. Aldagi provides insurance services to retail and corporate clients.

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

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

Aldagi's Competitive Strengths

Management believes that Aldagi benefits from the following competitive strengths:

- ***Aldagi is well placed to take advantage of the developing insurance market in Georgia.*** When gross written premiums are compared against GDP the Georgian property and casualty market had a penetration rate of 0.6% in 2017, 0.6% in 2016, and 0.6% in 2015 according to the Insurance State Supervision Service of Georgia. Aldagi's leadership position in the property and casualty insurance market in Georgia, with a 39% market share, means that it is well positioned to benefit from anticipated growth in this sector. This is bolstered by the pre-eminence of Aldagi's client base in Georgia. Aldagi provides insurance to a majority of domestic and overseas holders of strategic assets in Georgia including: British American Tobacco, Commerzbank, Marriott (GMT Hotels), NRC, McDonalds, Nestle, Sheraton (Nurol), Phillip Morris, Bosch, Socar, and TNT. The introduction of compulsory local third party liability motor vehicle insurance in 2019 is expected by Management to lead to increased sales of motor third party liability and motor vehicle mandatory and voluntary insurance policies in Georgia, products in which Aldagi already benefits from a 46.0% and 40.0% market share, respectively, according to the Insurance State Supervision Service of Georgia.
- ***Aldagi benefits from its experienced management team who understand the complexity of emerging market demands and respond quickly to them.*** The expertise of Aldagi's management team has led to a track record of increasing market share and superior returns as evidenced by a ROAE of 38.5% for 2017. This was primarily achieved by pursuing solid underwriting practices and rigorous claims reimbursement procedures to maintain a combined ratio of 75.2% for 2017.
- ***Aldagi has established diverse sales channels enabling it to reach the majority of the Georgian population and Georgia's businesses.*** As at 31 December 2017, Aldagi's sales network included 130 full-time sales personnel and 547 sales agents. Further, Aldagi had partnerships with eight auto dealerships and 14 brokers, banks and microfinance organisations. The diversity of these sales channels has enabled Aldagi to grow its retail customer base by 38% from 32,994 clients in 2016 to 45,598 clients in 2017.
- ***Aldagi's class risk management practices and procedures are industry leading.*** Aldagi has employed the head of the Georgian Actuarial Association as the head of its underwriting unit. Furthermore, Aldagi has established partnerships with approximately 30 reinsurers to manage its exposure to risk. The majority of Aldagi's reinsurers have ratings of A and A+, including Chubb European Group Limited, Allianz Global, HDI Gerling, Everest, Catlin, China re, Trans re, Hannover re. Moreover, Aldagi has implemented a robust claims reimbursement process with the aim of ensuring that potentially fraudulent claims are detected as early as possible. This approach has allowed Aldagi to maintain a healthy combined ratio of 78% in 2015, 73% in 2016, and 75% in 2017.

Aldagi's Strategy

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

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

Products

Overview

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

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

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

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

business lines (including cargo and agricultural insurance and other lines). Aldagi's operations generated operating profit of GEL19.1 million for the twelve months ended 31 December 2017.

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

Motor vehicle insurance

For the nine months ended 30 September 2017, Aldagi's combined retail and corporate market share in motor insurance was 41% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This represents 22,552 active retail motor insurance clients and 1,097 active corporate clients. Aldagi's core retail product offerings are casco motor insurance and third party liability motor insurance, which together constituted 44% of Aldagi's total retail revenue and 29% of Aldagi's total corporate revenue as of 31 December 2017. Aldagi has a 41% market share in motor vehicle insurance in Georgia, according to the Insurance State Supervision Service of Georgia. Aldagi's motor vehicle insurance is offered with a number of different features including cover for risks such as road accidents, fire, explosion, vandalism, natural disasters, theft, hijack or robbery as well as third party liability cover insurance and driver and passenger accident insurance.

Property insurance

For the nine months ended 30 September 2017, Aldagi's combined retail and corporate market share was also 41% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This consisted of 11,450 active retail clients and 871 active corporate clients. Key products within the property segment are commercial property, household and machinery breakdown insurance. Property insurance is Aldagi's core product offering for its corporate clients which constituted 34% of Aldagi's total corporate revenue in 2017. By comparison, property insurance constituted 10% of Aldagi's total retail revenue in the same period. Aldagi's property insurance market share based on current customer policies increased by 54% to approximately 41% for the nine months ended 30 September 2017 from approximately 19% in 2016. Aldagi is also looking to explore offering home insurance to a greater proportion of the holders of its existing 11,450 active retail customer policies.

Credit life insurance

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

Liability insurance

For the nine months ended 30 September 2017, Aldagi's combined retail and corporate market share in liability insurance was 44% by earned gross premiums, according to the Insurance State Supervision Service of Georgia. This accounts for 518 active retail clients and 511 active corporate clients. Liability insurance policies constituted 21% of Aldagi's total corporate revenue as of 31 December 2017. Aldagi's liability insurance products include cover for financial risk, employer's liability, professional indemnity, general third party liability insurance, freight and forward liability ("**FFL**") insurance, household general third party liability insurance, CMR liability insurance, product liability insurance.

Other (Agro, Cargo) insurance

In 2017, Agro insurance policies constituted 18% of Aldagi's total retail revenue. Aldagi has a 54% market share in Agro insurance in Georgia, according to the Insurance State Supervision Service of Georgia. The number of Aldagi's Agro written retail customer policies increased by 46% to 13,118 as of 31 December 2017 from 7,038 as of 31 December 2016. Aldagi's Agro insurance products comprise insurance against unforeseen risks such as hail, prolonged rain, storms, autumn frosts and for products, including cereals, legumes, vegetables, horticultural crops and fruit trees. The Aldagi Agro

insurance program is conducted in conjunction with the Ministry of Agriculture and the Agriculture Projects Management Agency. As part of this program, in order to stimulate Agro insurance, the government pays a contribution towards the insurance premiums for farmers and Agro-based industries.

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

Brands and marketing

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

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

Customers and Customer Retention

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

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

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

Pricing and analytics

As at 31 December 2017, Aldagi had a dedicated pricing team of 17 full-time employees supported by two developers. Aldagi believes that a key to its success has been a data-driven approach to pricing. Customer information is translated into rating variables that are used to refine and improve its pricing methodologies. Aldagi applies daily price and competitiveness tracking across all segment

categories. Additionally, Aldagi uses a range of statistical predictive assessments, a defined timetable to refresh and rebuild models, embedded peer review and a model review committee. Aldagi's agile pricing capability allows it to make prompt changes to its methodologies, enabling it to quickly adapt in response to changes in the market. Aldagi has been able to refine its pricing methodologies by applying a database of customer and quote information and its proprietary technologies.

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

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

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

Aldagi's Underwriting function

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

- *Fraud detection:* Aldagi believes that the most effective counter-fraud systems run throughout the operation, from the point of quotation to analysis of claims. Aldagi has invested in proprietary systems to validate the risks presented by customers.
- *Risk pricing*: Aldagi uses state of the art risk pricing tools to regularly review the adequacy of its price level at both book and segment level. These tools take into account the mix of business written, company loss trends, market loss trends, company actions and market actions. Aldagi believes that it has created a market leading pricing scheme by combining the use of sophisticated statistical tools with extensive market knowledge and rapid execution, which have resulted in a higher conversion for rate decreases, and lower estimated cost of claims incurred per exposure.
- *Reinsurance:* Aldagi employs both proportional (quota share) and non-proportional (excess of loss) structures in order to maximise return on equity, provide balance sheet protection and minimise volatility of profits.
- *Claims handling:* The claims handling department has two core objectives, (i) delivering straightforward quality service to Aldagi's customers following an incident, and (ii) minimising payments to third parties through efficient, pro-active case management.
- *Reserving:* Aldagi conducts quarterly reserve reviews at a product and peril level. These reviews are conducted utilising accepted actuarial procedures. In addition, Aldagi validates its claims reserves through an independent third-party actuarial opinion every six months.

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

Aldagi generates underwriting revenue from: (i) net earned premiums from insurance policies underwritten by the underwriting department (consisting of gross earned premiums received less reinsurance); (ii) investment income (consisting of income and gains from the Aldagi's investment portfolio); and (iii) profit commission, (consisting of performance-based payments from reinsurers

based on contractual performance targets). Underwriting contributed GEL28.6 million of gross profit and GEL19.1 million of operating profit in the twelve months ended 31 December 2017.

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

Investment portfolio

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

Reinsurance

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

Claims department

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

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

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

Capital and risk management

Internal controls

Aldagi's internal controls are managed by its internal control unit ("**ICU**"). The ICU is an independent unit under the supervision of the CEO of Aldagi. The ICU assesses potential risks to Aldagi's business and the adequacy of internal controls implemented to mitigate such risks. Further, the ICU assesses the reliability of financial information, recommends improvements to Aldagi's processes, and ensures that Aldagi's resources are safeguarded. The ICU operates on a risk-based

approach where higher risk processes are given higher importance. Any potential risks are evaluated and internal quality controls are implemented. The ICU may audit any Aldagi process and access any information deemed necessary. All Aldagi employees are required by the ICU charter to cooperate with the ICU. If any wrongdoing is detected, the ICU may identify the responsible employee and discuss the penalty with management. Any findings or subsequent recommendations are presented to relevant members of management.

Regulatory Capital

Aldagi's compliance with regulatory capital and solvency requirements is overseen by the ICU. Since Aldagi was acquired by the Bank in 2004, Aldagi has at all times maintained the required minimum capital requirements, solvency ratio and all other regulatory requirements imposed by the Insurance State Supervisory Service of Georgia (the "**ISSSG**"). As at 31 December 2017, Aldagi had GEL20.5 million in regulatory capital reserves and its solvency ratio was 180% (on the basis of a total solvency capital requirement of GEL11.4 million). For more information regarding the solvency and capital requirements applicable to Aldagi see "*—Regulation of the Property and Casualty Insurance Sector—Additional Regulations Applicable to Insurance Businesses—Reserve Requirements*" and "*—Regulation of the Property and Casualty Insurance Sector-Additional Regulations Applicable to Insurance Business—Regulatory capital*" below.

Fraud prevention and detection

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

Regulation of the Property and Casualty Insurance Sector

Overview

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

Key Regulatory Authority

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

Regulated Activities in the Insurance Industry

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

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

Licensing of insurance companies

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

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

Additional Regulations Applicable to Insurance Businesses

Reserve Requirements

Under implementing legislation adopted by the ISSSG, insurance providers must keep insurance reserves (which are offsetting assets to cover future liabilities if they are required to pay out under any insurance policy). Insurance providers that provide non-life insurance and life insurance (other than contributory and refundable life insurance and private pension insurance) must keep a reserve for unearned premium (''**UPR**''), a reserve for RBNSs and a reserve for IBNRs. Insurance providers that provide contributory and refundable life insurance must keep a life insurance reserve. Insurance providers who provide insurance for private pension liabilities must keep a private pension insurance reserve.

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

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

Regulatory Capital

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

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

Reporting Requirements

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

Corporate Governance

Under the Insurance Law, all directors, members of supervisory boards and significant shareholders of insurance providers must meet the ''fit and proper'' requirements set by the law. Compliance with this requirement is a precondition for issuing a valid insurance activities licence. In particular, a person may not be appointed as a director or a supervisory board member, or be a significant shareholder, if such person: (a) has been declared legally incapable by a court; (b) has been convicted of any grave or especially grave crime including money laundering, terrorism financing and/or any other economic crime; (c) is a first or second ranking heir (such as a spouse, parent, son, daughter or sibling) of a director, or member supervisory board, of an insurance company, or a person connected to that member and having a commercial interest; (d) is a director, or a member of the supervisory board, in more than five Georgian companies, or is a director in the same insurance company; (e)

does not have relevant education and/or experience; (f) is a director or a member of the supervisory board of another insurance provider (except where this other insurance provider is controlling or controlled by such insurance company); (g) has previously held, either directly or indirectly, 10% or more of the shares in an insurance company, or served as a director or supervisory board member, and during that time, that insurance company was declared bankrupt; or (h) is prohibited from carrying out insurance activities by a court decision. For these purposes, the term "significant shareholder" means any person who holds either directly or indirectly a 10% or more of the authorised or paid up share capital of an insurance company (a "**Significant Interest**").

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

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

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

Anti-Money Laundering Legislation

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

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

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

Insolvency, Liquidation and Compulsory Administration of Insurance Companies

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

ISSSG is authorised to supervise the conduct of the insurance provider's insolvency and liquidation procedures. During the bankruptcy process, claims are settled in the following order of priority: (i) expenses incurred in connection with the appointment of the bankruptcy manager and performance of its obligations, as well as any obligations incurred by the insurance provider following the revocation of its insurance licence; (ii) secured creditors (except for those secured by a tax lien); (iii) claim arising out of life insurance and private pension insurance contracts, the amount of life insurance liabilities

for contributory and refundable types of life insurance being the amount of the life insurance reserve; (iv) claims arising out of accident insurance contracts; (v) all other claims arising out of other insurance contracts; (vi) indebtedness to the state budget, including claims secured by tax liens; and (vii) all other claims against the insurance provider and belatedly submitted claims.

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

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

As part of the Demerger, the intermediary and ultimate holding companies of Aldagi will change and all indirect transfers of Aldagi shares have been approved by the ISSSG.

The Group's Beverage Business (Teliani)

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

- The production and sale of wine. Teliani has a winery in East Georgia and distributes its own wine in Georgia as well as exporting to 14 countries. During 2017, Teliani exported approximately 1.5 million litres of wine or 65% of its production.
- Teliani launched beer production in June 2017, having distributed Heineken beer in Georgia since 2006. Teliani sold 9,186 thousand litres of beer in Georgia in 2017.
- The distribution of its own beverages and third party brands within Georgia.

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

	For the years ended 31 December			
	2017	**2016**	**2015**	**2015-2017**
	(thousands of GEL)			*% change*
Total revenue	55,441	29,793	29,527	87.8%
Of which:				
Revenue from wine sales	22,156	17,675	17,825	24.3%
Revenue from beer sales	16,406	—	—	—
Revenue from distribution of imported goods and other beverage revenue	16,879	12,118	11,702	44. 2%

Teliani's Competitive Strengths

Management believes that Teliani benefits from the following competitive strengths:

- ***Teliani's extensive domestic and international distribution network.*** As at 31 December 2017, Teliani had one of the widest distribution franchise in Georgia, covering up to 6,700 sales points and strong export channels to 14 countries including all countries of the former Soviet Union, Poland, Sweden, USA, Canada and China. This enables Teliani to accelerate the growth of its distribution portfolio and achieve distribution cost efficiencies.

- ***Teliani has a strong management team with a proven track record of growth.*** The current Teliani management team has built a strong sales franchise and has established itself as a leading Georgian distributor in the wine and sparkling wine segment by achieving a market share of 35% in premium hotels, restaurants and cafes and a modern trade segment based on bottled wine sales in 2017.
- ***Teliani's ten-year exclusive partnership and support agreement with Heineken Group and advanced brewery facilities.*** As a result of its successful sales track record of imported Heineken beer, Teliani secured a five year exclusivity licence with Heineken in May 2015 which Teliani has an option to extend for a futher five years, and began mainstream beer production in June 2017. Teliani's brewery is equipped with advanced technologies, which meet the highest standards of beer production and has the capacity to double its current levels of production without further material capital investments. Since commencing beer production in June 2017, Teliani has obtained a 22.0% market share in the domestic beer market by selling over 68,459 hectolitres of mainstream-branded beer.

Teliani's Strategy

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

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

Wine business

Teliani currently sells approximately 2.3 million litres of wine per annum. The following table sets out the total litres of wine sold between 2013 and 2017:

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

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

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

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

Beer business

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

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

Beverage distribution

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

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

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

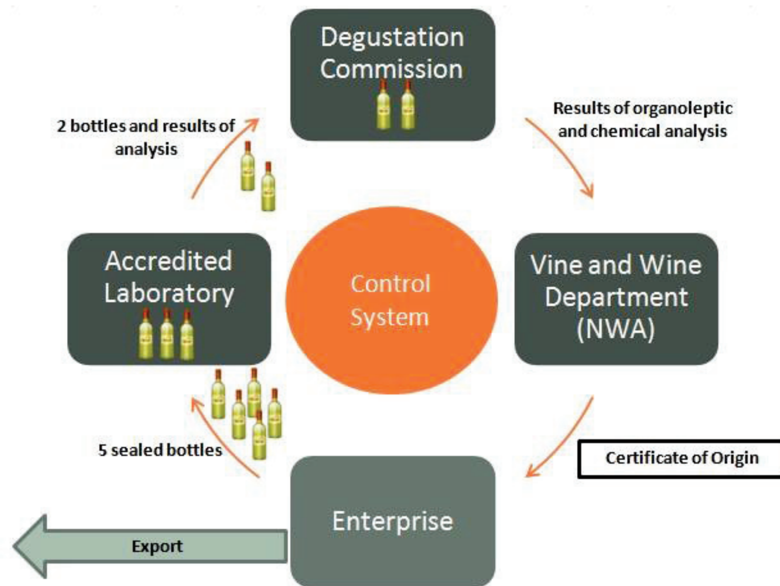
Regulation of the Beverage Sector

Overview

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

Key Legislation

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



Source: *Ministry of Agriculture of Georgia.*

As at 31 December 2017, Georgia had 18 PDOs: 14 in Kakheti, 2 in Racha-Lechkhumi, and 1 each in Inner Kartli and Imereti. PDO wines are subject to strict control procedures and are regulated from initial grape production to the export stage. Georgia is taking further significant steps to protect its wines with intellectual property. The National Intellectual Property Centre of Georgia and the Wine Association aim to promote a competitive market for Georgian wine and look to protect the Georgian wine industry from counterfeiting both in the country and abroad. In 2013, the Georgian government implemented several measures in support of the wine sector, including the subsidisation of grape purchases and the provision of cheap credit. As part of the Preferential Agrocredit Project ("**PAP**"), wineries that purchase grapes for GEL 1/kg or more will be eligible for 15-month term loans at a 11.5-15% interest rate, of which 8.5% will be covered by the government. The government also provides a subsidy of GEL 0.35/kg for Rkatsiteli and Kaxuri Mtsvane, if grapes purchased for at least GEL 0.7/kg and with the objective of producing Grappa and GEL 2.0/kg for Aleksandrouli and Mujuretuli, if acquired from the Racha-Lechkhmuni region.

Summary of Exit Stage Portfolio Investments

GHG

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

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

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

Note:

(1) Net of intersegment transaction and consolidation adjustment.

Overview of GHG's Main Lines

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

Banking Business

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

The following tables set forth selected combined figures relating to the Banking Business as of the dates and for the periods specified:

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	4,979,430	12,907,678	11,123,358	9,051,397
Loans to customers and finance lease receivables, net	2,986,429	7,741,420	6,681,672	5,366,764
Client deposits and notes	2,730,522	7,078,058	5,755,767	5,011,269
Total invested capital	**598,990**	**1,552,702**	**1,352,502**	**1,248,727**

	As of 31 December			
	2017		2016	2015
	(thousands of US Dollars)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Profit for the year	142,552	369,522	295,696	261,792

Overview of the Banking Business's Main Lines

- ***Retail Banking.*** The Banking Business is the leader in retail banking in Georgia in terms of its distribution network, with 286 branches and 850 ATMs as at 31 December 2017. As of 31 December 2017, the Bank had a 34.6% market share based on deposits from individuals and a 35.5% market share in retail loans (based on loans to individuals), according to information published by the NBG. The Banking Business's management believes that it offers the most comprehensive range of financial products in the Georgian retail market. Through its client-centric, multi-brand strategy, the Banking Business reaches the entire spectrum of retail customers. The Banking Business's retail banking products and services include retail lending, deposit accounts, ATM services, internet, telephone and SMS banking, utility bill payments and money transfer services. For the years ended 31 December 2017 and 31 December 2016, the Banking Business's retail banking business generated profit of GEL249.7 million (US$96.3 million) and GEL209.3 million, respectively, corresponding to 67.6% and 70.8%, respectively, of the Banking Business's total profit for the respective periods.

- ***Corporate Investment Banking (CIB)***. The Banking Business's combined corporate banking and investment management unit consists of the Bank's corporate banking unit, the Banking Business's investment management business and the Bank's Georgian leasing subsidiary. The Bank has one of the leading corporate banking in Georgia, with a market share of 33.1% based on total customer deposits (based on deposits from legal entities) and 28.9% based on total corporate loans (based on loans to legal entities) as of 31 December 2017, according to information published by the NBG. The Bank provides corporate lending and finance leasing (principally in US Dollars), in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. The Banking Business's investment management arm consists of the Bank's wealth management and the Banking Business's brokerage firm, Galt & Taggart, which is a Co-Manager. The Bank's wealth management provides private banking services to high net worth individuals from more than 75 countries and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Galt & Taggart is a leading provider of investment banking and investment management services in Georgia and offers corporate advisory, private equity and brokerage services under one brand. For the years ended 31 December 2017 and 31 December 2016, the Banking Business's corporate investment banking generated profit of GEL105.9 million (US$40.9 million) and GEL88.3 million, respectively, corresponding to 28.7% and 29.9%, respectively, of the Banking Business's total profit for the respective periods.

- ***Belarusky Narodny Bank (BNB)***. Through BNB, its 99.98% owned subsidiary, the Banking Business provides small and medium enterprises ("**SME**") and retail banking services in Belarus. For the year ended 31 December 2017 and 31 December 2016, BNB generated profit of GEL10.3 million (US$4.0 million) and GEL2.7 million, respectively, corresponding to 2.8% and 0.9%, respectively, of the Banking Business's total profit for the respective periods.

Strategy and Strategy of Exit Stage Portfolio Investments

Strengths of GHG

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

Strategy

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

- *double 2015 healthcare services revenue from hospitals by the end of 2018.* This is expected to be achieved by increasing GHG's hospital footprint in Tbilisi, expanding GHG's emergency treatment services, adding to GHG's elective surgery offering and filling other existing service gaps.
- *achieve market share above 15% in polyclinics market by the end of 2018*. This is expected to be achieved by accelerating the launch of additional outpatient clusters, increasing the proportion of polyclinic revenue generated by corporate clients, and entering into state-funded primary healthcare programmes.

- *increase the EBITDA Margin of GHG's pharmaceutical goods business above 8%.* This is expected to be achieved by the extraction of synergies between GPC and Pharmadepot, cross-selling to GHG's polyclinics, growing wholesale revenues in hospitals and drugstores by signing new corporate accounts, increasing customer loyalty programmes and expanding its retail footprint.
- *increase synergies between GHG's medical insurance business, polyclinics and pharmaceutical goods business*. This is expected to be achieved by ensuring that policyholders are referred to GHG's polyclinics and pharmacies.
- *achieve a medical insurance combined ratio of less than 97% by the end of 2018*. This is expected to be achieved by repricing the insurance business' portfolio and not renewing contracts with loss making clients.

Strengths of the Banking Business

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

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

- *Track record of profitable growth while reducing risk.* The Banking Business's gross loans have increased from GEL5,567.9 million as of 31 December 2015 to GEL8,020.5 million, as of 31 December 2017, or by 44.1%, and client deposits and notes have increased by 41.2% from GEL5,011.3 million as of 31 December 2015 to GEL7,078.1 million, as of 31 December 2017, or. From the year ended 31 December 2015 to the year ended 31 December 2017, the Banking Business's profit grew from GEL261.8 million to GEL369.5 million and ROAE increased from 22.2% to 25.2%.

- *Galt & Taggart is a market leader in the region for investment banking.* Having underwritten GEL1,025 of local capital markets issuances, it regularly provides research papers on the Georgian market, as well as Belarus, Ukraine, Azerbaijan, Armenia and Kazakhstan. It also regularly participates in debt financing syndications.

- *Transparency and robust corporate governance*. BGEO Group PLC and the Existing BGEO Group have, and the Banking Business will continue to have, a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Guidance and Transparency Rules since November 2006, when the Bank became the first Georgian entity to list its global depositary receipts ("**GDRs**") on the London Stock Exchange. Moreover, BGEO Group PLC has complied in all material respects with the robust corporate governance standards for a premium listed company since 2011, when the shares of its UK incorporated holding company, BGEO Group PLC, were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities

- *Experienced management with a deep understanding of the local market.* Bank of Georgia Group PLC's senior management team is comprised of experienced, primarily Western-educated and trained professionals with significant domestic banking and international investment banking expertise.

- *Strong institutional investor support.* The ultimate parent company of the Existing BGEO Group, BGEO Group PLC has strong institutional investor support with shareholdings of 8.32%, 4.86% and 3.28% held by Harding Loevner Management LP, Schroders Investment Management and LGM Investments Ltd, respectively, as of 31 December 2017. This indicates support for the strategy of the Banking Business.

Strategy of the Banking Business

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

- *Increase its product to client ratio.* The Bank aims to increase its product to client ratio in its mass retail segment from 1.7 in 2015 to 3.0 by the end of 2019 by shifting to a client-centric model, which includes rolling out branches redesigned in consultation with a global management consulting firm, an independent consultant; providing a more client-centric service by training front office personnel to sell and service the Banking Business's entire product range and freeing up their time by moving processes that are not client-facing to the back office; and developing client-centric digital channels.

- *Grow its premier banking and SME businesses.* As of 31 December 2017 the Bank had over 32,000 Solo clients and intends to increase this number of clients in the mass affluent segment to 40,000 by the end of 2018 and generate customer loyalty by improving the Solo offering. The Bank also intends to increase the number of its SME customers and continue to cross-sell Solo banking services to the owners and executives of its SME customers, and Retail Banking services to their employees.

- *Grow fee income.* The Bank aims to focus on further increasing fees and commission income from corporate banking customers, and in particular from its trade finance franchise, which the Bank believes is the strongest in the region.

- *Become regional private banking hub.* Investment (wealth) management of the Banking Business provides private banking services to high net worth individuals from up to 75 countries and offers investment (wealth) management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Bank of Georgia Group PLC believes that Georgia is well placed to become the regional private banking hub due to its relatively sophisticated regulatory system, high standards of customer protection and favourable tax laws.

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

- *Gain leading position in the growing and still under-penetrated Georgian banking market.* The Bank intends to continue to focus on growth, with particular emphasis on retail banking, and has set a target loan portfolio comprising 65% retail and 35% corporate loans (which it has already achieved). The Bank believes that the Bank has completed the customer acquisition phase of its development and is now focused on increasing the "share of wallet", or product to client ratio. The Bank intends to increase its mass retail product-per-client ratio from 1.8 as of 31 December 2017 to 3.0 as of 31 December 2019 through an expanded product offering and cross-selling.
- *Increase the Bank's loan portfolio while maintaining asset quality*. The Bank will seek to expand its loan portfolio and deposit base, by expanding its retail and corporate portfolios, capturing a part of the previously unbanked or underbanked population and targeting mass affluent customers (that is, customers with a monthly income in excess of GEL3,000 who are not investment (wealth) management customers) and SME customers (that is, businesses that have a total annual turnover of less than GEL5.0 million and/or that are applying to borrow up to US$500,000).
- *Improve cost and operating efficiency.* The Banking Business maintained a relatively stable cost to income ratio of 35.5% in the year ended 31 December 2015 and 37.7% in the year ended 31 December 2017. In line with the Bank's aim to improve its cost efficiency, in part, through operating efficiencies resulting from centralising back office functions, the Bank intends to continue and is focusing on expanding its Express Banking strategy, which entails the roll-out of cost-efficient smaller express branches to further shift towards electronic channels and away from standard and flagship branches. Management considers the acquisition of Privatbank in 2015 to have been in line with the Express growth strategy.

Health, Safety and Environmental Matters

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

Intellectual property

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

IT systems

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

Insurance IT systems

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

Property

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

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

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

Litigation and Other Proceedings

Other than as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the

12 months preceding the date of these Listing Particulars which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

Imedi

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

Management believes that the claim is without merit and the shares in Insurance Company Imedi L were acquired by Insurance Company Aldagi BCI at a fair price on the basis of *bona fide* agreements. However, if the claim is decided in favour of the claimants, the relevant Group subsidiaries would be required to pay to the claimants' damages in the amount as determined by the court.

Rustavi Azoti

In 2016, following the default by Rustavi Azoti LLC ("**Rustavi Azoti**") and its parent company Agrochim S.A. (the borrowers) on loans made by the Bank, the Bank initiated the sale of collateral pledged by Rustavi Azoti. The collateral assets were sold to a third party unrelated to the Bank at a public auction in Tbilisi. On 15 November 2016, East-West United Bank S.A., and Sistema Holding Limited (which were creditors of Agrochim's holding company) and Agrochim initiated proceedings against the Bank, JSC BGEO Group, the purchaser of the assets, Rustavi Azoti and one individual director of Rustavi Azoti, in the Tbilisi City Court, requesting damages of approximately US$93.6 million and alleging that the Bank used fraudulent agreements to misappropriate the Rustavi Azoti assets, thereby depriving other creditors of the opportunity to be repaid. The related claims also sought the annulment of the borrower's acknowledgment of its debt to the Bank, and the annulment of the results of the auction that resulted in the sale of the collateral. As of the date of these Listing Particulars, the City Court has not considered the claims and the first hearing has been set for 12 March 2018. The Issuer considers the claims against the Bank to be without merit and intends to vigorously contest them. In addition, the Issuer is aware that Roman Pipia, the previous beneficial owner of Rustavi Azoti, has issued a claim against BGEO Group PLC and certain of its officers, two of whom are members of the Board of Directors of the Issuer, in the Commercial Court in England and Wales but to the best of the Issuer's knowledge no claim has been served on either of the officers or the Issuer to date. The Group has not created any reserves in respect of the Rustavi Azoti litigation.

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

Macroeconomic Overview

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

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

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

	Nominal GDP, US$ billion	Real GDP growth, %
2012	15.8	6.4
2013	16.1	3.4
2014	16.5	4.6
2015	14.0	2.9
2016	14.4	2.8
2017	15.1	4.8
2018F	16.7	4.2
2019F	18.0	4.5
2020F	19.5	5.0
2021F	21.2	5.5
2022F	23.0	5.5

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

Georgia's key economic drivers

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

Maintaining healthy economic growth is high on the political agenda. Georgia has experienced high GDP growth rates for the past decade. GDP growth rates were on average 4.5% annually from 2007 to 2017, and total GDP reached US$ 15.1 billion in 2017 according to Geostat's preliminary estimates. GDP per capita increased more than fourfold to US$ 4,069 in 2017 from US$ 919 in 2003. Georgia is expected to continue to grow, with the IMF forecasting growth between 4.2% and 5.5% between 2018 and 2022. The Georgian government continues to implement low-regulation, low-tax, free market policies including privatising state entities and strengthening competition laws. After an initial increase in social spending when the new government took office in 2013, current expenditure has been contained and commitment to fiscal discipline is high on the political agenda. In 2017, Georgia's public debt to GDP ratio was 44.7% of GDP and the fiscal deficit reached 3.9% of GDP according to the IMF. In 2017, Georgia's public debt to GDP ratio was 44.7% of GDP and based on preliminary estimates by IMF, the fiscal deficit reached 2.9% of GDP (0.5% lower than projected) under the ongoing IMF programme.

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

Stabilisation of the political environment. In 2013 Georgia further underscored its commitment to European values by passing constitutional amendments to enhance governing responsibility of Parliament and reduce the powers of the Presidency and by securing a democratic transfer of political power in successive parliamentary, presidential, and local elections. Georgia's economic relationship with Russia has continued to develop, although economic dependence on Russia is relatively low.

Georgia has abolished visa requirements for Russians and Russia eased visa procedures for Georgians citizens from December 2015. In 2013 trade was restored with Russia and in 2017 Russia accounted for 14.5% of Georgia's exports and 9.9% of imports. Russia has however contributed just 3.5% of cumulative Foreign Direct Investment ("**FDI**") between 2003 and the end of nine months period ended 30 September 2017.

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

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

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

Outlook for the economy

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

The Georgian government's four pillar reforms

In February 2016, the Georgian government introduced a four point reform programme aimed at enhancing the resilience of the Georgian economy, improving the investment environment within Georgia and transforming Georgia into a regional economic hub. These reforms are designed to build on Georgia's deepening economic integration with the EU and boost productivity, foreign investment and diversification. This reform agenda, known as the government's 'four pillars' details initiatives and programmes in key areas of the Georgian economy such as new tax benefits, infrastructure, governance, as well as a widespread structural overhaul of Georgia's education system.

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

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

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

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

Individual Sector Overview

Water Supply and Sanitation (WSS) Sector

Overview

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

WSS Utilities Market

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

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

Providers of WSS services are regulated by the GNERC. Both water supply and sanitation services are subject to price control policies. There are three tariff levels for the two components of WSS: water supply and waste water services. Household customers and commercial/industrial customers pay different rates. In addition, household customers' tariffs vary based on whether they are metered or pay on a per capita basis. Most household consumers pay per capita on a monthly basis. 28.5% (146,502) of GGU households are metered, with the remainder paying per capita on a monthly basis (366,677), according to GNERC's 2016 annual report.

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

Outlook and Main Growth Drivers

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

Competitive landscape

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

Renewable Power Generation Sector

Overview

Over three quarters of Georgia's electricity comes from hydro power. The remainder of electricity demand is met by thermal power plants (18.8%) and electricity imports (12.6%), mainly from Russia (according to 2017 data from ESCO). Domestic consumption increased at a rate of 7.8% year on year in 2017, and according to Georgia's ten year development plan, between 2017 and 2027 (published by JSC Georgian State Electrosystem) is projected to grow at a minimum compound annual growth rate of 3.5% over the next 10 years, reaching approximately 18 TWh annually by 2027 (up 6 TWh from the current 12TWh). In line with the growing demand for renewable energy supply and energy security, the Georgian government has made a policy decision to support and stimulate investments in the renewable energy sector. Incentive schemes have been in place since in 2008 and are still operative with a few modifications.

Power Generation Market

In 2008, the power generation market witnessed significant changes to facilitate market liberalisation. Before 2008, all HPPs in Georgia were regulated by GNERC, which set power generation tariffs. Since the liberalisation of the market, all HPPs constructed after August 2008 have been deregulated. Furthermore, the Electricity Law of Georgia was amended in 2017 to enable the deregulation of HPPs with a power generation capacity of below 40MW. HPPs constructed after August 2008 also have the option to negotiate priority access to the export line to Turkey, which is the main export market for excess electricity generated in Georgia during the summer months. Investor-friendly policies combined with favourable market conditions in Turkey and Georgia have created a favourable environment for the construction of HPPs and wind farms. Over the past decade,

approximately 500 MW of installed hydropower capacity was added to the Georgian power grid, in addition to 230 MW of natural gas power plant capacity built by Turkish Calik Enerji that is currently operated by a subsidiary of the state-owned Georgian Oil and Gas Company ("**GOGC**").

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

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

Actual and planned increases in installed power generation capacity will require the upgrade of Georgia's transmission capacity. JSC Georgian State Electrosystem, the transmission system operator, has already rolled out a comprehensive plan which is intended to significantly improve the transmission capacity over the next decade with a planned investment of approximately EUR 900 million and an additional integration capacity of 4,000 MW. Cross-border transmission capacity is also expected to increase to support the export of electricity generated in Georgia to Turkey (an increase from 700MW to 1,400MW by 2020) as well as to Armenia (an increase from 150MW to 850MW by 2020).

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

Outlook and Main Growth Drivers

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

Real Estate Sector

Overview

Georgia has an active real estate market. In 2017, the number of property registrations increased 34.1% year on year reaching 867,776 in December 2017. Of this, 29.8% were primary real estate transactions (an increase of 74.6% year on year), while the remainder were secondary transactions, an increase of 22.1% year on year in December 2017. These real estate transactions include residential and commercial properties as well as land. In the residential real estate market, Georgia benefits from

high rates of home ownership, growing numbers of new flats and a corresponding increase in the number of mortgages granted. In the commercial real estate market, the amount of leasable stock continues to grow and within the hotel sector tourism inflows are increasing while at the same time the number of hotel rooms available continues to rise.

Residential Property

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

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

Source: *Eurostat.*

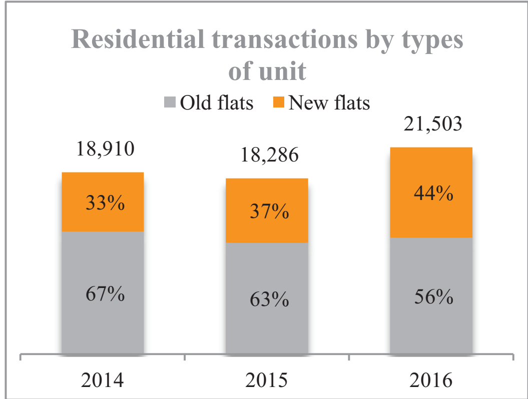
Between 1991 and 2000 there was a significant reduction in development and the bulk of housing stock was amortised by year 2000. Residential construction picked up significantly after 2003. If the current rate of development is maintained, according to IMR Research Group, 18,990 dwelling units will have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

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

The consistent growth of real estate transactions is reflected in the simultaneous annual growth of mortgages. GEL and foreign currency mortgages posted a compound annual growth rate of 33.3% over the last five years as of 30 November 2017. Total mortgage loans outstanding as of 30 November 2017, granted in national and foreign currencies, were valued at GEL3.9 billion. The ratio of outstanding mortgage debt to GDP was 9.1% in 2016, by contrast, the residential mortgage to GDP ratio was 17.1% in Lithuania in 2016, 17.5% in Latvia, 27.8% in Slovakia, 31.7% in Estonia and 34.8% in Greece according to IMF. This indicates that there is a substantial room for growth in the mortgage market in Georgia as the country develops and the economy advances.

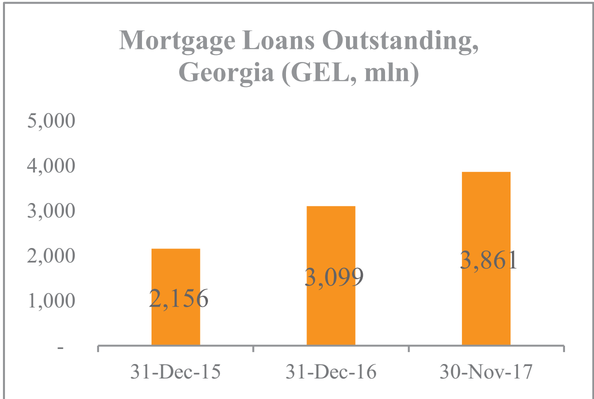
The following diagrams set out certain information on residential transactions by type of unit and mortgage loans outstanding from the periods indicated:

Figure 1: Number of real estate transactions



Source: *Colliers International.*

Figure 2: Total outstanding mortgage loans



Source: *NBG.*

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

Of the total leasable office stock in Tbilisi as of 2016, 34% of properties are classified as 'modern' and the remaining 66% as 'traditional' (old and non-refurbished Soviet era office stock). Georgia's office market is taking the initial steps toward developing modern fit-for-purpose facilities. The Georgian office market's share of owner occupied stock is significant. According to Colliers International, 50% of the country's total stock was owner occupied in 2016, significantly higher than that found in major regional business cities such as Budapest (20% according to BRF) and Warsaw (15% according to Knight Frank). Georgia's existing business centers are characterised by their high yield when compared to eastern European cities. The average yield obtained in Tbilisi's prime estimated central business district was 12% in 2015, one of the highest yields seen among EMEA cities. By contrast, in Warsaw the yield was 6%, in Prague it was 5.8%, and in Vilnius it was 7.0%).

Hotels

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

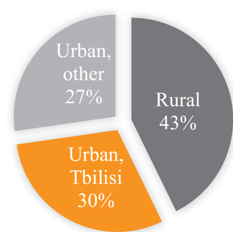
Outlook and Main Growth Drivers

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

The average monthly income per household in Georgia grew at a compound annual growth rate of 8.2% between 2010 and 2016. Household income consists of wages, remittances, income earned from self-employment, savings, pensions, scholarships and aid and real estate operations. International remittances account for approximately 10% of Georgia's GDP and this mirrors the proportion attributable to total household income in Georgia. In Georgia, 33% of remittances came from Russia as of 2017 compared to 40% in 2015 as a decreasing oil price had a negative impact on the Russian economy in 2015, which in turn resulted in a decrease in remittances from Georgians working in Russia. From the second quarter of 2016 remittances began to show signs of recovery reaching 6.6% increase year on year in 2016 and 19.8% in 2017. According to Geostat, remittances amounted to approximately 10% of Georgia's GDP. Household income growth has been outpaced by mortgage loan growth, which indicates that household spending moods are heavily weighted towards long term investment decisions.

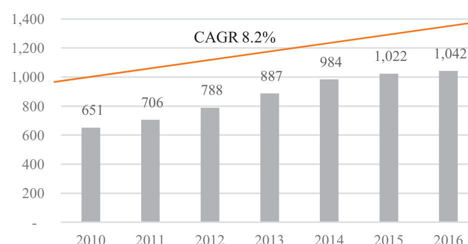
Significant changes have occurred in the demographic structure in Georgia in the past decade. According to Geostat, the rural population decreased by 23.8% in 2006- 2016 and now 57.2% of the total population of Georgia lives in urban areas with 30.0% of the total population living in Tbilisi. The number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

Figure 5: Distribution of households, 2016



Source: *Geostat.*

Figure 6: Average monthly income per household, GEL*



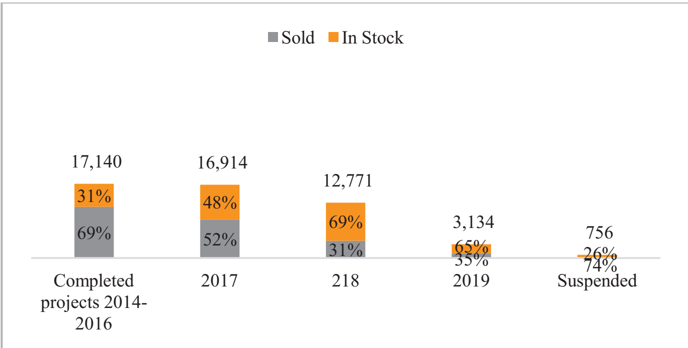
Source: *Geostat.*

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

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

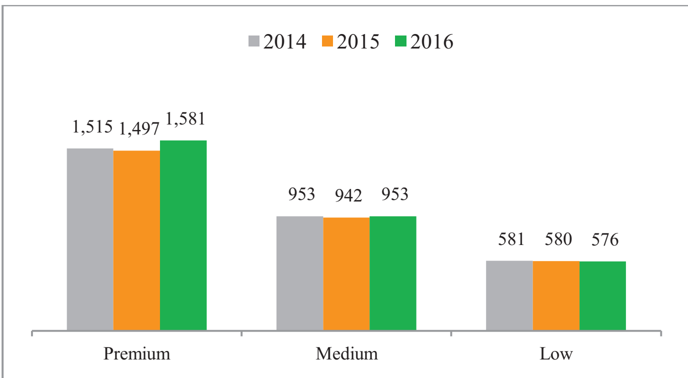
residential real estate by number of flats and the average selling price on the primary market by segments for the periods indicated:

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



Source: *Colliers International.*

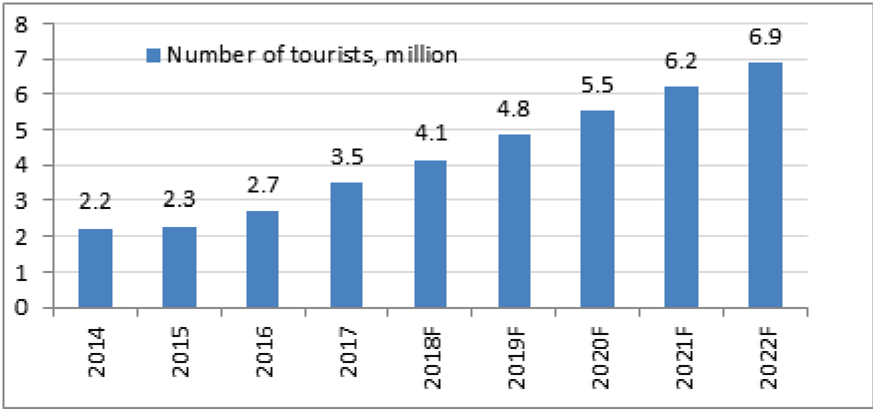
Figure 8: Average selling price on primary market by segments (US$/m^2) 2014-2016



Source: *Colliers International.*

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

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



Source: *Galt & Taggart.*

Competitive Landscape

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

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

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

Property and Casualty Insurance Sector (P&C)

Overview

From 2009 to 2016, the Georgian property and casualty insurance sector has more than doubled in size with insurance revenue increasing to GEL202.5 million in 2016. According to the Insurance State Supervision Service of Georgia, the total value of gross written premiums increased from GEL73.8 million in 2007 to GEL211.7 million in 2016, an increase of 187%. The largest six insurance providers in Georgia account for approximately 89% of the market share for the nine months ended 30 September 2017.

Outlook and main growth drivers

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

- *Favourable macroeconomic environment.* Georgia's nominal GDP increased at an average annual growth rate of 4.5% between 2007 and 2017, according to Geostat. According to the IMF's World Economic Outlook database, real GDP is expected to grow within a range of 4.2% and 5.5% between 2018 and 2022 which Management believes will increase consumer demand for insurance products.
- *Rapidly growing insurance market.* The Georgian insurance industry has significant potential for further growth. The sector demonstrates low rates of insurance penetration compared to peer countries, which is expected to provide significant opportunities for established companies that seek to increase their relative market share.
- *Supportive government policies.* The introduction of compulsory local third party liability motor vehicle insurance in 2019 is expected to lead to increased sales of mandatory and voluntary motor vehicle insurance policies in Georgia.
- *Growing consumer awareness.* Customer awareness of insurance coverage and its availability remains underdeveloped in Georgia. Technological advances along with greater sophistication in advertising are expected to accelerate general consumer awareness and sales.

Property and Casualty Insurance in Georgia

The number of property and casualty insurance policies increased from less than 350,000 in 2012 to more than 1,200,000 as of 31 December 2017. Property and casualty insurance penetration stood at 0.6% of the Georgian population for the nine months ended 30 September 2017. The table below illustrates Property and Casualty Insurance penetration records in Georgia for the periods indicated.

	Density (GPW per population))	**Penetration (GPW/GDP)**
2015	54	0.6%
2016	57	0.6%
2017	48[(1)]	0.6%[(1)]

Source: *Insurance State Supervision Service of Georgia.*
Note:
(1) Data for the nine months ended 30 September 2017.

Private Insurance Penetration

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

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

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

Note:

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

The private insurance segment remained stable during 2012-2016, peaking at GEL211.7 million of gross premiums written in 2016. The table below illustrates growth in gross premiums written in Georgia for the periods indicated.

	Gross premiums written (GPW)
	(*GEL million*)
2012	131.5
2013	126.1
2014	167.5
2015	200.7
2016	211.7
2017	178.3[(1)]

Source: *Insurance State Supervision Service of Georgia.*

Note:

(1) Data for the nine months ended 30 September 2017.

Insurance Competitive Landscape

At present 17 companies operate in the private insurance market in Georgia.

Aldagi and GPI are the leading competitors, cumulatively accounting for nearly two thirds of total market revenues. Their combined market shares were 61% both in 2016 and nine months ended 30 September 2017. The table below provides certain information on the private insurance market in Georgia in terms of gross premium revenues by company for nine months ended 30 September 2017.

	Gross Premium Revenue	Market share by GPR
	(*GEL million*)	
Aldagi	63.9	39%
GPI Holding	36.9	22%
UNISON	15.0	9%
TBC Insurance	14.1	8%
IRAO	9.7	6%
ARDI	8.0	5%
IC Group	5.0	3%
Other	13.2	8%

Source: *Insurance State Supervision Service of Georgia.*

The table below provides certain information on the private insurance market in Georgia in terms of GPW and gross claims reimbursed by company as of 30 September 2017.

	Gross Premium Revenue	Market share by GPR
	(*GEL million*)	
Aldagi	71.1	26.0
GPI Holding	32.8	15.6
TBC Insurance	19.5	6.1
UNISON	15.5	(0.7)
IRAO	10.6	2.4
ARDI	8.9	2.0
IC Group	5.6	0.9
Other	14.2	4.7

Source: *Insurance State Supervision Service of Georgia.*

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

Wine Production and Distribution Sector

Overview

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

Georgia's Wine Exports and Imports

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

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

Export Pricing

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

Outlook and Main Growth Drivers

The main growth drivers of Georgian wine sales are:

- *Increasing tourism and changes to local consumer tastes are driving demand for domestic bottled wine.* Georgia is already an established tourism destination. The number of visitors to Georgia increased at a compound annual growth rate of 14.2% between 2012 and 2017. The Government plans to enhance Georgia's position as a four season tourism location through improved connectivity between the different regions of Georgia. Wine tours are one of the major attractions for tourists in Georgia. Domestic consumers are also expected to drive local demand as they continue to switch from homemade to branded, bottled wine. This trend is expected to intensify among domestic consumers as busier lifestyles limit the time available for preparing homemade wine.

- *Increasing export potential.* The wine production sector is becoming a lucrative part of the Georgian economy, with the value of wine exports increasing more than 51.5% year on year in 2017 to US$165 million. Wine accounts for 6.1% of all Georgian exports and the sector shows significant potential to grow further. Management believes that there is significant potential to grow exports, since Russia re-opened its market for Georgian imports, following a foreign trade embargo with Georgia in place since 2006, in 2013 and as other markets (such as Ukraine, China, and the Baltic states) continue to show robust demand. Exports of bottled wine increased by a compound annual growth rate of 20% between 2013 and 2017 in Russia; 70% in China; 20% in Poland; and 13% Estonia. In addition to increasing demand, there is significant room to increase production by re-planting vines and improving grape yields by employing more advanced viticulture techniques. Management believes that the signing of a free trade agreement between Georgia and the People's Republic of China on 13 May 2017 may result in sales to the Chinese market doubling in 2018, following the ratification of the agreement which occurred in January 2018.

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

Competitive Landscape

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

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

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

Beer Production and Distribution Sector

Overview

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

Domestic beer market

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

Outlook and main growth drivers

The key drivers of beer consumption are relative disposable incomes, the size of the beer drinking population and the beer market. According to research by TBSC Consulting, per capita beer consumption in Georgia is expected to increase CAGR 9% between 2017 and 2021 (from 27.5 litres per annum to 38.5 litres per annum, respectively). The growth in the beer-consuming population is supported by the increasing number of tourists arriving in Georgia, which grew at a compound annual growth rate of 14.2% between 2012 and 2017. The current low base of beer consumption per capita in Georgia when compared to European peer countries is a further indicator of the potential for market growth.

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

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

Competitive Landscape

The Georgian beer market is highly concentrated among three producers who make up 87.6% of the market: Efes-Georgia (45.1% market share by litres), Georgian-Beer Company (30.1% market share by litres) and Teliani (22.0% market share by litres). While Efes and Georgian-Beer Company are relatively established brands on the market, Teliani only started beer production and distribution in June 2017. The contribution of small and micro-breweries to the Georgian beer industry is minor.

MANAGEMENT AND EMPLOYEES

Overview of the Company

The Company's corporate bodies are the General Meeting of Shareholders (''**GMS**'') and the board (the ''**Board of Directors**''), each having its own responsibilities and authorities in accordance with Georgian law and the Company's charter (the ''**Charter**''). The Company operates in accordance with Georgian law.

Overview of the Substitute Issuer

The Substitute Issuer's corporate bodies are the General Meeting of Shareholders (''**Substitute Issuer GMS**''), the Supervisory Board (the ''**Supervisory Board**'') and the management board (the ''**Management Board**''), each having its own responsibilities and authorities in accordance with Georgian law and the Substitute Issuer's charter (the ''**Substitute Issuer's Charter**''). The Substitute Issuer operates in accordance with Georgian law.

The Company's General Meeting of Shareholders

All shareholders registered on the share registrar on the record date of the GMS have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of these Listing Particulars, the Company has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy. A shareholder holding more than 75.0% of the Company's voting shares may pass a resolution without convening a GMS. Such decision will be equivalent to the minutes of the GMS and is considered a resolution of the GMS. In such cases the remaining shareholders (if any) are notified of the resolution. If more than one shareholder owns more than 75.0% of the Company's voting shares, convening the GMS is mandatory.

Under Georgian law and the Charter, shareholders are authorised to pass resolutions, *inter alia*, on the following issues at a GMS:

- approval of amendments to the Charter;
- changing the share capital of the Company;
- liquidation of the Company;
- any merger, division or transformation of the Company into another legal entity;
- full or partial cancellation of pre-emptive rights during an increase of share capital;
- distributions of profits;
- appointment and dismissal of the members of the Board of Directors and determination of their term of service and remuneration;
- approval of the reports of the Board of Directors and control of the activities of its members;
- selection of auditors;
- approval of participation in litigation against Board of Directors members, including the appointment of a representative in such litigation;
- acquisition, sale, transfer, exchange (or related transactions) or encumbrances of the Company's assets, with the value exceeding 25.0% of the total assets of the Company;
- approval of the annual accounts of the Company;
- approval of related party transactions, with a value exceeding 2% of the Company's assets; and
- other matters provided by law and the Charter.

According to the Charter, decisions on all other issues are made by the Board of Directors within its capacities.

The Board of Directors

In accordance with the Charter, the Board of Directors is responsible for management of the Company (with the exception of certain functions reserved for the GMS). Responsibilities of the Company's Board of Directors include:

- approval of the Company's policies and other regulatory documents;
- determination and approval of internal policies and procedures for lending, investing, foreign exchange, asset and liability management and adequate provisioning and classification;
- inspection of the Company's books, including without limitation, inspection of the conditions of the Company's cash, securities and goods personally, or through members or advisors;
- approval of the annual budget, business plan and development strategy of the Company;
- approval of any acquisition or disposal of a stake in other companies if the amount of such stake / share exceeds 50% (fifty percent) of the total equity of such company or the volume of the transaction exceeds GEL20 million or equivalent in any other currency;
- approval of an acquisition, transfer or encumbrance of real estate and property rights, if the value of such transaction exceeds GEL20 million or equivalent in any other currency;
- approval of investments, the partial or total amount of which exceeds GEL20 million or equivalent in any other currency;
- approval of borrowing funds or providing security for loans in excess of GEL20 million or equivalent in any other currency;
- establishment and liquidation of branches and subsidiaries; and
- any other matters which may be assigned to the Board of Directors by the GMS or as provided by law.

The Company's Board of Directors currently consists of the members listed below.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Irakli Gilauri	41	CEO (General Director)	May 2019
Avtandil Namicheishvili	43	Deputy CEO (Deputy General Director)	May 2019
Ekaterina Shavgulidze	35	Deputy CEO (Deputy General Director)	May 2019

Each member of the Board of Directors was appointed by the sole shareholder on 7 August 2015. The business address of all members of the Board of Directors is at the registered address of the Issuer.

Irakli Gilauri was appointed as Executive Director of BGEO Group PLC on 24 October 2011 and has been re-elected by shareholders at each AGM thereafter. Mr Gilauri has served as CEO of BGEO Group PLC since his appointment in 2011, and was appointed Chairman of the Bank in September 2015, having previously served as CEO of the Bank since May 2006. Mr Gilauri also serves as CEO of JSC BGEO Group, JSC BGEO Investment and JSC BG Financial Group. He is also currently Chairman of the Supervisory Board for: m^2 Real Estate and Georgian Renewable Power Company. He is also a member of the Supervisory Board of Georgia Global Utilities and Agron Group. In addition, Mr Gilauri is the Chairman of Georgia Healthcare Group PLC and Chairman of the supervisory board of JSC Georgia Healthcare Group. He is also a member of the Supervisory Board of Georgia Global Utilities and Agron Group. Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the CASS Business School of City University, London, where he obtained his MSc in Banking and International Finance.

Avtandil Namicheishvili became a member of the Board of Directors of JSC BGEO Group on 28 May 2015. He previously served as Deputy CEO (Legal) of JSC Bank of Georgia from July 2008, prior to which he served as the Bank's general counsel from March 2007. Before joining the Bank, Mr. Namicheishvili was a partner at Begiashvili &Co. Limited, a leading Georgian law firm, where he acted as external legal adviser for the Bank from 2004. He has undergraduate degrees in law and international economic relations from Tbilisi State University and a graduate degree (LLM) in international business law from Central European University, Hungary.

Ekaterina Shavgulidze became a member of the Board of Directors of JSC BGEO Group on 26 April 2016. She serves as Group head of Investor Relations and Funding and Ms. Shavgulidze previously served at various executive positions (including as a member of the supervisory board of Aldagi and

GHG) from 2011. Before her employment with the Group, Ms. Shavgulidze was an Associate Finance Director at AstraZeneca, UK for two years, where she worked on finance projects in Eastern Europe, including her assignment as Chief Financial Officer and co-leading the reorganisation of AstraZeneca's Central Asian business. Ms. Shavgulidze received her undergraduate degree in Business Administration from the European School of Management in Georgia and an MBA from Wharton Business School, majoring in Finance and Entrepreneurship.

The Substitute Issuer's General Meeting of Shareholders

All shareholders registered on the share register on the record date of the Substitute Issuer's GMS have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the general meeting of shareholders, unless the charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Substitute Issuer's Charter, holders of preferred shares are not entitled to voting rights at the general meeting of shareholders. As of the date of these Listing Particulars, the Substitute Issuer has not issued any preferred shares. Shareholders may be represented at the Substitute Issuer GMS by a proxy. A shareholder holding more than 75.0% of the Substitute Issuer's voting shares may pass a resolution without convening a Substitute Issuer GMS. Such decision will be equivalent to the minutes of the Substitute Issuer GMS and is considered a resolution of the Substitute Issuer GMS. In such cases the remaining shareholders (if any) are notified of the resolution. If more than one shareholder owns more than 75.0% of the Substitute Issuer's voting shares, convening the general meeting of shareholders is mandatory to pass resolutions.

Under Georgian law and the Substitute Issuer's Charter, shareholders are authorised to pass resolutions, *inter alia*, on the following issues at a general meeting of shareholders:

- approval of amendments to the Substitute Issuer's Charter;
- changing the share capital of the Substitute Issuer;
- liquidation of the Substitute Issuer;
- any merger, division or transformation of the Substitute Issuer into another legal entity;
- full or partial cancellation of pre-emptive rights during an increase of share capital;
- distributions of profits;
- appointment and dismissal of the members of the Supervisory Board and determination of their term of service and remuneration;
- approval of the reports of the Supervisory Board and the Management Board;
- selection of auditors;
- approval of participation in litigation against Supervisory Board and Management Board members, including the appointment of a representative in such litigation;
- acquisition, sale, transfer, exchange (or related transactions) or encumbrances of the Substitute Issuer's assets, with the value exceeding 25.0% of the total assets of the Substitute Issuer;
- approval of the annual accounts of the Substitute Issuer;
- approval of related party transactions, with a value exceeding 2% of the Substitute Issuer's assets; and
- other matters provided by law and the Substitute Issuer's Charter.

According to the Substitute Issuer's Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective capacities.

The Supervisory Board

In accordance with the Substitute Issuer's Charter, it is the responsibility of the Supervisory Board to supervise the Management Board. The Supervisory Board consists of at least three and at most of 15 members, each of whom is elected by the Substitute Issuer GMS. The Supervisory Board members are required to act in the best interests of the Substitute Issuer and its business when performing their duties.

The responsibilities of the Supervisory Board, *inter alia*, include:

- supervising the activities of the Management Board;

- appointing and dismissing the CEO and other directors, concluding and terminating service contracts with them, as well as establishing a code of conduct for the members of the Management Board;
- approving and amending the Substitute Issuer's policy and other regulatory requirements;
- inspecting the Substitute Issuer's accounts and property, including inspection of conditions of cash desk, securities and assets, personally or with the help of invited experts;
- requesting reports of the Substitute Issuer's activities from the Management Board (including information concerning associated companies and subsidiaries) and reviewing the information provided by internal audit or external inspections;
- convening extraordinary general meetings, if necessary;
- reviewing annual reports and the proposals of the Management Board on profit distribution;
- representing the Substitute Issuer in proceedings against the Substitute Issuer's CEO and other directors;
- approving the annual budget; and
- making decisions in other cases provided by applicable laws.

The members of the Supervisory Board members are listed below.

The Substitute Issuer's Supervisory Board currently consists of the members listed below.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Irakli Gilauri	41	Deputy Chairman	May 2019
Avtandil Namicheishvili	43	Member	May 2019
Ekaterina Shavgulidze	35	Chairman	May 2019
Giorgi Alpaidze	31	Member	August 2018

Each member of the Supervisory Board was appointed by the sole shareholder on 22 December 2017. The business address of all members of the Supervisory Board is at the registered address of the Issuer.

Irakli Gilauri has served as a member of the Supervisory Board since 22 December 2017. See "—*The Board of Directors*".

Avtandil Namicheishvili has served as a member of the Supervisory Board since 22 December 2017. See "—*The Board of Directors*".

Ekaterina Shavgulidze has served as a member of the Supervisory Board since 22 December 2017. See "—*The Board of Directors*".

Giorgi Alpaidze was appointed as CFO of JSC BGEO Group in September 2017, prior to which he served as Head of the Group's Finance, Funding and Investor Relations teams. Mr Alpaidze has extensive international experience in banking, accounting and finance. He joined the Group in August 2016 from Ernst & Young LLP's Greater New York City's assurance practice, where he was a senior manager serving Ernst & Young's financial services clients. Giorgi started his career at Ernst & Young Georgia in 2005 and moved to Ernst & Young's United States practice in 2010. Giorgi is a U.S. Certified Public Accountant and received his undergraduate degree in Business Administration from the European School of Management in Georgia.

The Management Board

The Management Board is an executive body that is responsible for the day-to-day management of the Substitute Issuer (with the exception of those functions reserved to the Substitute Issuer GMS and the Supervisory Board) and consists of the CEO and not less than two directors. The Management Board is accountable to the shareholders and the Supervisory Board and its members are appointed and dismissed by the Supervisory Board. The Supervisory Board approves the remuneration and other conditions of employment for each member of the Management Board. Certain resolutions of the Management Board are subject to the prior approval of the Supervisory Board.

The Management Board is managed by the CEO, who, together with the Supervisory Board, allocates the responsibilities of the Management Board among its members.

The responsibilities of the Management Board include:

- conducting the Substitute Issuer's day-to-day activities;
- reviewing agenda items for the Substitute Issuer GMS or Supervisory Board meetings, obtaining all the necessary information, preparing proposals and draft resolutions;
- drafting and presenting to the Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and the Company's investments plan);
- ensuring the fulfilment of resolutions passed at the Substitute Issuer GMS and the Supervisory Board;
- developing policies, by-laws and other regulatory documents which are approved by the Supervisory Board and ensure compliance with such policies, by-laws and regulatory documents;
- deciding on the appointment, dismissal, training and remuneration of staff;
- convening extraordinary general meetings; and
- any other issues which may be assigned to the Management Board by the Supervisory Board and/or the Substitute Issuer GMS.

The following activities may be carried out by the Management Board only with the approval of the Supervisory Board:

- the acquisition and disposal of shares in other companies if the amount of such shares exceeds 50.0% of the total equity of such company or the value of the transaction exceeds 2.5% of the Substitute Issuer 's equity value as at the end of the previous calendar month
- the acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Company and the value of such transaction exceeds 2.5% of the Substitute Issuer's equity value as at the end of the previous calendar month;
- the establishment and liquidation of branches;
- investments, the partial or total amount of which exceeds 2.5% of the Substitute Issuer's equity value as at the end of the previous calendar month;
- borrowing funds in excess of 2.5% of the Substitute Issuer's equity value as at the end of the previous calendar month;
- securing credits and loans, if they fall outside the scope of routine economic activity;
- launching a new type of banking activity or terminating or suspending the existing type of banking activity;
- adopting general principles of business strategy and the business plan of the Substitute Issuer and approving the annual budget and incurrence of long-term liabilities;
- determination of the remuneration and/or additional benefits for the Substitute Issuer's senior management (CEO, other members of the Management Board and any other senior managers so selected by the Supervisory Board);
- the appointment and dismissal of trade representatives;
- the approval of an agreement or contract pursuant to which the expenditure of the Substitute Issuer (payable by single or several tranches) exceeds 1.0% of the Substitute Issuer's equity value as at the end of the previous calendar month;
- the determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;
- the redemption of the Substitute Issuer's shares in cases envisaged by the applicable laws, including the redemption of treasury shares; and
- other activities that may be prescribed by applicable laws.

The Management Board currently consists of the members listed below.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Irakli Gilauri	41	CEO	May 2019
Avtandil Namicheishvili	43	Deputy CEO	May 2019
Giorgi Alpaidze	31	Deputy CEO	August 2018

The business address for all of the Management Board members is at the registered address of the Substitute Issuer.

Remuneration and Benefits

The aggregate remuneration (including benefits) of the members of the Board of Directors was US$ 5.8 million for the year ended 31 December 2017. The amount of remuneration paid to members of the Board of Directors is determined by the GMS. None of the members of the Board of Directors received compensation from the Issuer. None of the members of the Supervisory Board or the Management Board received compensation from the Substitute Issuer. Irakli Gilauri receives compensation from the Bank (in his capacity as chairman of the Bank's Supervisory Board), and from the Company's ultimate parent BGEO Group PLC (in his capacity as the CEO). Avtandil Namicheishvili receives compensation from the Issuer's parent JSC BGEO Group (in his capacity as Group Legal Counsel). Ekaterina Shavgulidze receives compensation from the Bank (in her capacity as Head of Business Development). The amount of compensation stated below is given taking into account the total compensation received by members of the Board of Directors from BGEO Group PLC and its subsidiaries.

The approved levels of compensation (cash salary) for members of the Board of Directors as of 31 December 2017 set out in the following table.

Member of the Board of Directors	Approved gross annual compensation (cash salary)
	(US Dollars)
Irakli Gilauri	437,500
Avtandil Namicheishvili	150,000
Ekaterina Shavgulidze	150,000

The table below sets out the aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Group in respect of services provided by the key management personnel of the Group for the year ended 31 December 2017.

	For the year ended 31 December 2017	
	(thousands of US Dollars)	*(thousands of Lari)*
Salaries and other benefits	1,739	4,508
Share-based payments compensation	4,803	12,450
Long-term benefits	865	2,243
Total	**7,407**	**19,201**

Loans to Management

There were no net loans issued to members of the Board of Directors and the Supervisory Board outstanding as of 31 December 2017.

Interests of Board of Directors, Supervisory Board and Management Board

The following table sets out the direct and indirect shareholdings and stock options in the shares of the Issuer's parent company BGEO Group PLC held by members of the Board of Directors, the Supervisory Board and the Management Board as of the date of these Listing Particulars.

Holders	Number of vested BGEO shares	Number of nil-cost options over BGEO shares and shares (gross) (awarded but not yet vested)	Number of granted but un-awarded nil-cost options over BGEO shares (gross)
Irakli Gilauri	303,115	312,950	135,548
Ekaterina Shavgulidze	—	43,250	18,000
Avtandil Namicheishvili	61,895	125,000	30,000
Giorgi Alpaidze	—	7,334	—

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors of the Company towards the Company and their private interests and/or other duties.

There are no potential conflicts of interest between any duties of the members of the Supervisory Board, or the Management Board of the Substitute Issuer towards the Substitute Issuer and their private interest and/or other duties.

After the Demerger, there will be no cross-directorships with the Bank.

Litigation Statement

As of the date of these Listing Particulars, no member of the Board of Directors of the Company or the Supervisory Board or the Management Board of the Substitute Issuer or executive officer of either for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Employees

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

The following table sets out the Group's employees by subsidiary and by segment as of 31 December 2017.

Subsidiary and segment	Number of all full-time employees
JSC Georgia Capital	—
JSC Georgia Capital Group	—
GGU	**2,631**
Utility	2,465
Energy	166
M^2	**156**
Development	122
Construction	34
Aldagi	**328**
Corporate Centre	198
Retail Insurance	84
Corporate Insurance	46
Teliani Valley	**585**
Beer segment	363
Wine segment	99
Distribution segment	123
Other subsidiaries total	**4**
Total Excluding Duplication	**3,548**

The Group places significant emphasis on the professional development of its employees. The Group's employees are offered training opportunities at special training centres and various educational institutions. Middle and high level managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

None of the Group companies currently has any agreements with any employee trade unions.

The Group's Georgian entities are required to withhold income tax at the flat rate of 20.0% on the gross compensation of its employees in Georgia as well as on certain type of business income of natural persons. There are no other mandatory contributions.

In line with the amendments to Georgian employment law in 2013, the Group's Georgian entities have begun to renew employment contracts with its employees to bring these new contracts in line with the new mandatory requirements of the law. The adjustments made to the standard employment contracts are related to the duration of the contracts, maximum working hours (up to 40 hours per week, with any additional hours classified as overtime work), grounds for termination of employment (not allowing the termination of employment by the employer without cause), and the amount of severance payments in certain cases of termination (equal to up to two months' salary).

Pensions

It is expected that the Group will approve remuneration policies similar to the remuneration policies of BGEO Group PLC.

At the level of BGEO Group PLC, every employee contributes 1.0% of his or her salary to a pension fund and the Group matches the employee's contribution to the pension fund. The BGEO Group PLC matches on a 0.2 to 1 basis additional employee pension fund contributions up to 1.0% of the employee's gross monthly salary. In addition to a pension fund, each full-time employee of the BGEO Group PLC receives health insurance, is permitted to use an overdraft of up to 90% of his or her salary, may benefit from certain discounts on banking products and may be eligible to receive an annual bonus, subject to the BGEO Group PLC's annual profit and the employee's performance.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the Company's shares as of 31 December 2017:

Owner	Shares Owned	
	Number	**%**
JSC BGEO Group	10,000,000	100.0%
Total shares outstanding as of 31 December 2017 (unaudited)	**10,000,000**	**100.0%**

As of 31 December 2017, the shareholders of record of the Company's ultimate parent company, BGEO Group PLC were:

Name of Shareholder	Amount disclosed	% of total
Harding Loevner Management LP	3,275,324	8.32%
Schroders Investment Management	1,914,428	4.86%
LGM Investments Ltd	1,290,202	3.28%
Norges Bank Investment Management	1,224,590	3.11%
Other shareholders	31,680168	80.43%
Total BGEO Group PLC shares	**39,384,712**	**100.0%**

None of the Company's shareholders have voting rights different from any other holders of shares.

Following the completion of the Demerger, the Issuer expects that its ultimate controlling shareholder will be Georgia Capital PLC, a UK company which is seeking admission of its shares to the London Stock Exchange. See "*Description of Business—Demerger*".

Related party transactions

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, all managers and senior personnel of the Group, companies affiliated with the Group and certain shareholders and managers of such affiliated companies. Furthermore, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. The Group seeks to conduct all related party transactions on market terms and at market prices.

According to the Charter, any transaction with related parties of the Company is subject to the prior approval of the Board of Directors. If the value of such transaction exceeds 2% of the Company's assets, the transaction must be approved by the GMS. The Board of Directors may delegate this authority to the General Director, provided that the latter may not participate in discussions or adopt decisions with respect to transactions where the General Director has a conflict of interest.

Pursuant to Georgian securities law applicable to reporting companies such as subsidiaries of the Company, including m^2 and GWP certain approval and transparency requirements apply to transactions in which the members of the governing bodies of a reporting company and direct or indirect owners of 20% or more of its shares are regarded as "interested parties" (as such term is defined in the law). A transaction involving "interested parties" must be approved by a board of directors or a general meeting of shareholders. Transactions exceeding 10% of the value of the assets of a reporting company must be approved by a general meeting of shareholders.

The following tables show volumes of related party transactions, outstanding balances at the period end and related party expense and income for the periods indicated. For further details of certain transactions, see Note 32 (*Related Party Disclosures*) to the Historical Financial Statements.

	Year ended 31 December			
	2017		2016	2015
	Entities Under Common Control[2]	Management[1]	Entities under common control	Entities under common control
	(*thousands of Lari*)		(*thousands of Lari*)	
Assets				
Cash and cash equivalents	334,659	—	309,210	238,336
Amounts due from credit institutions	18,450	—	55,207	15,498
Accounts receivable	—	—	—	181
Derivative financial assets	—	—	6,277	—
Insurance premiums receivable	281	—	1,967	1,654
Investment securities	31,721	—	1,572	—
Prepayments	32	—	600	—
Other assets	12,435	—	9,006	99
	397,578	**—**	**383,839**	**255,768**
Liabilities				
Borrowings	50,970	—	33,190	36,621
Debt securities issued	53,209	—	5,271	4,662
Deferred income	—	1,740	52,752	—
Accounts payable	—	—	40	67
Derivative financial liabilities	1,091	—	1,144	—
Other liabilities	74	—	82	1,129
	105,344	**1,740**	**92,479**	**42,479**
Income and expenses				
Net insurance premiums earned	2,745	—	3,061	2,984
Gross real estate profit	977	1,924	629	—
Gross other profit	360	—	139	423
Fee and commission expense	(100)	—	(219)	(645)
Salaries and other employee benefits	(943)	—	(787)	(672)
Administrative expenses	(545)	—	(1,484)	(1,689)
Interest income from amounts due from credit institutions	6,309	—	2,211	1,550
Interest income from loans	48	—	—	—
Interest income from investment securities	2,458	—	—	—
Interest expense from borrowings	(6,579)	—	(5,494)	(13,317)
Interest expenses from debt securities issued	(2,636)	—	(1,584)	(1,784)
Net foreign currency (loss)/gain	(6,954)	—	6,277	—
	(4,860)	**1,924**	**2,749**	**(13,150)**

Notes:

(1) Management personnel include members of the Board of Directors, Chief Executive officer and deputies of the Issuer and CEOs of subsidiaries.

(2) Entities of the Banking Business.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions in the form in which they will be endorsed on the Notes:

The issue of US$300,000,000 6.125% Notes due 2024 (the "**Notes**", which expression shall include any further Notes issued pursuant to Condition 18 (*Further Issues*) and consolidated and forming a single series therewith) was authorised by resolutions of the Board of Directors of Joint Stock Company Georgia Capital (the "**Issuer**") passed on 19 February 2018 and 7 March 2018. The Notes are constituted by a Trust Deed (the "**Trust Deed**", which expression includes any such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 9 March 2018 between the Issuer, Joint Stock Company Georgia Capital Group (the "**Substitute Issuer**") and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed, and of the Agency Agreement (the "**Agency Agreement**", which expression includes any such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 9 March 2018 relating to the Notes between the Issuer, the Substitute Issuer, the Trustee, Citibank N.A., London Branch as the initial principal paying agent, transfer agent (the "**Transfer Agent**"), and Citibank Global Markets Deutschland AG as registrar (the "**Registrar**"), and any other agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (for the time being, at Citigroup Centre, Canada Square, London E14 5LB, United Kingdom) and at the specified offices of the principal paying agent for the time being (the "**Principal Paying Agent**"), the Transfer Agent and the Registrar. "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed pursuant to the Agency Agreement from time to time with respect to the Notes. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed, the absence of any such meaning indicating that such term is not applicable to the Notes.

1. FORM, SPECIFIED DENOMINATION AND TITLE

The Notes are issued in registered form, without interest coupons attached, and shall be serially numbered. Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or (ii) to QIBs (as defined in the Trust Deed) in reliance on Rule 144A under the U.S. Securities Act, will be issued in the denominations of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same holder.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered.

2. TRANSFERS OF NOTES

(a) **Transfer**: One or more Notes may be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by

the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer or Exercise Free of Charge**: Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(b), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The Issuer shall ensure that at all times the claims against it under the Notes and the Trust Deed rank at least *pari passu* in right of payment with the claims of all other unsecured and unsubordinated creditors of the Issuer (subject to Condition 4(a)), save for those claims that are preferred by mandatory provisions of applicable law.

4. COVENANTS

(a) **Negative Pledge**: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not directly or indirectly, create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably with such other Indebtedness or Guarantee of Indebtedness or have the benefit of such security or other arrangements, as the case may be, as are satisfactory to the Trustee or are approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) **Continuance of Business, Maintenance of Authorisations and Legal Validity**:

(i) The Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its or their respective corporate existence (except as otherwise permitted by Condition 4(c) (*Mergers and Consolidations*)), and its or their respective business, and the use of all material intellectual property relating to its or their respective business and the Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of all consents, licences, approvals and authorisations necessary in that regard.

(ii) The Issuer shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Georgia to enable it lawfully to perform its obligations under the Notes and the Trust Deed and ensure the legality, validity, enforceability or admissibility in evidence in Georgia of the Notes and the Trust Deed.

(c) **Mergers and Consolidations**:

(i) The Issuer shall not, without the prior written consent of the Trustee, (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the Issuer's properties or assets (determined on a consolidated basis), unless, in any case:

(A) immediately after the transaction referred to in (x) or (y) above:

(x) the resulting or surviving person or the transferee (the "**Successor Entity**") shall be the Issuer or, if not the Issuer, the Successor Entity shall expressly assume by a deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee, executed and delivered to the Trustee, all the rights and obligations of the Issuer under the Notes, the Trust Deed and the Agency Agreement; and

(y) the Successor Entity (if not the Issuer) shall retain or succeed to all of the rights and obligations of the Issuer under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(B) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(C) the relevant transaction referred to in (x) or (y) above shall not result in a Material Adverse Effect.

(ii) The Issuer shall procure that no Material Subsidiary shall, without the prior written consent of the Trustee, (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the relevant Material Subsidiaries' properties or assets, unless, in any case:

(A) immediately after the transaction referred to in (x) or (y) above:

(x) such Material Subsidiary shall be the Successor Entity; or

(y) the Successor Entity (if not such Material Subsidiary) shall retain or succeed to all of the rights and obligations of the relevant Material Subsidiary under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(B) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(C) the relevant transaction referred to in (x) or (y) above shall not result in a Material Adverse Effect.

(iii) Notwithstanding the foregoing, any Material Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all of its assets to the Issuer or another Subsidiary of the Issuer (which after such transaction will be deemed to be a Material Subsidiary for purposes hereof).

(iv) In connection with this Condition 4(c) (*Mergers and Consolidations*) the Trustee shall:

(A) be entitled to rely, without further enquiry, on any certificate provided to it by two directors of the Issuer (or, if applicable, the Successor Entity) confirming that the requirements set out in Condition 4(c)(i)(A)(y), Condition 4(c)(i)(B), Condition 4(c)(ii)(A)(y) or Condition 4(c)(ii)(B) are satisfied and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing; and/or

(B) have no obligation to determine whether any relevant transaction referred to in Condition 4(c)(i)(A) or Condition 4(c)(ii)(A) shall result in a Material Adverse Effect but shall be entitled either:

(x) to rely, without further enquiry, on any opinion of a Financial Adviser which confirms that, in the opinion of such Financial Adviser, the relevant transaction would not result in a Material Adverse Effect and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing; or

(y) to refrain from taking any action or providing any consent to the Issuer in the absence of a direction from the Noteholders (by way of Extraordinary Resolution).

(v) Notwithstanding the foregoing, and without prejudice to Condition 4(c)(i), the Issuer may, without the prior written consent of the Trustee, consolidate with, merge into or convey, transfer or lease all or substantially all of its assets to the Substitute Issuer at any time following the acquisition by the Substitute Issuer of all of the Issuer's issued share capital as part of the Demerger (the "**Merger**") and at the time and date of the Merger (the "**Merger Effective Date**") the Substitute Issuer shall (A) assume all of the rights of the Issuer under or in respect of the Notes, the Trust Deed and the Agency Agreement, (B) perform, undertake and discharge all of the obligations of the Issuer under the Notes, the Trust Deed and the Agency Agreement, and (C) be bound by the provisions of the Trust Deed as if it had been named therein as principal debtor in respect of the Notes in place of the Issuer and references in these Conditions to the "Issuer" shall be read and construed accordingly.

Each of the Issuer and the Substitute Issuer will deliver to the Trustee a certificate signed by two Directors in which it certifies it has met all the requirements of Clause 2 of the Trust Deed at least two Business Days before the Merger Effective Date. The Trustee shall be entitled to rely on each such certificate without incurring any liability whatsoever and shall be under no obligation to act.

Within five Business Days of the Merger Effective Date, the Substitute Issuer will immediately notify the Trustee and the Noteholders. The Trustee shall be entitled to rely on such notice and shall be under no obligation to act.

(d) **Disposals**:

(i) Except as otherwise permitted by these Conditions and without prejudice to the provisions of Condition 4(c) (*Mergers and Consolidations*), Condition 4(e) (*Transactions with Affiliates*) and Condition 4(g) (*Restricted Payments*), the Issuer shall not, and shall ensure that none of its Material Subsidiaries will, sell, convey, transfer, lease or otherwise dispose of, to a Person other than the Issuer or a Subsidiary of the Issuer, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or assets, unless:

(A) each such transaction is on arm's-length terms for Fair Market Value;

(B) with respect to any such transaction providing for a disposal of revenues or assets constituting more than 20% of Adjusted Shareholders' Equity, the Issuer shall, prior to the disposal, provide the Trustee with a written opinion from an Independent Appraiser to the effect that the transaction is at Fair Market Value and fair, from a financial point of view, to the Issuer and/or the relevant Subsidiary, as the case may be (such written opinion not being required for any disposal concluded through an initial public offering on a recognised international stock exchange); and

(C) the proceeds thereof are used either (i) to acquire or invest in a business or entity with substantially all of its operations in Georgia; and / or (ii) declare or pay any dividend in cash or otherwise or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital; and / or (iii) directly or indirectly voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Issuer or, prior to its scheduled maturity or scheduled repayment, any subordinated debt (except for the repayment of inter-company debt owed by any Subsidiary of the Issuer to the Issuer or to any other Subsidiary of the Issuer from time to time), in the case of (ii) and (iii) above, provided that such action would otherwise comply with Condition 4(g)(*Restricted Payments*).

(ii) This Condition 4(d) shall not apply to (A) any transaction between the Issuer and any of its wholly-owned Subsidiaries; (B) any sale, lease, transfer or other disposal of any assets or property (including cash and securities) constituting a Permitted Security Interest or (C) any transaction carried out as part of the Demerger.

(e) **Transactions with Affiliates**:

(i) The Issuer shall not, and shall ensure that none of its Material Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Issuer or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or any of its Material Subsidiaries and such terms are in compliance with all applicable laws and regulations.

(ii) With respect to an Affiliate Transaction or a series of related Affiliate Transactions involving aggregate payments or value in excess of 2% of Adjusted Shareholders' Equity, the Issuer shall, prior to the relevant Affiliate Transaction, deliver to the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) is at Fair Market Value and is fair from a financial point of view to the Issuer or the relevant Material Subsidiary, as the case may be.

(iii) The following items, so long as they are in compliance with all applicable laws and regulations, shall not be deemed to be Affiliate Transactions and therefore shall not be subject to the provisions of (i) and (ii) above:

(A) any employment agreement entered into by a member of the Group in the ordinary course of business and consistent with the past practice of such member of the Group;

(B) transactions between or among the Issuer and its Subsidiaries;

(C) payment of reasonable directors fees to Persons who are not otherwise Affiliates of the Issuer;

(D) a Restricted Payment permitted to be made pursuant to Condition 4(g) (*Restricted Payments*);

(E) any non-interest bearing loans from any member of the Group to the Holding Company, provided that the aggregate amount outstanding under all such non-interest bearing loans shall not, at any time, exceed the greater of US$20,000,000 or 2.0% of Adjusted Shareholders' Equity; and

(F) any transaction carried out as part of the Demerger.

(f) **Payment of Taxes and Other Claims**: The Issuer shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all Tax, assessments and governmental charges levied or imposed upon or upon the income, profits or property of the Issuer and/or its Material Subsidiaries, provided that neither the Issuer nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim (a) the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) the amount of which, together with all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed the greater of US$3,000,000 or 0.2% of the Adjusted Shareholders' Equity.

(g) **Restricted Payments**: The Issuer shall not, (a) declare or pay any dividend in cash or otherwise or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Issuer or any of its Subsidiaries (and, if a Subsidiary is not a wholly-owned Subsidiary of the Issuer, to the other holders of its share capital on a *pro rata* basis); or (b) directly or indirectly voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Issuer or, prior to its scheduled maturity or scheduled repayment, any subordinated debt (except for the repayment of inter-company debt owed by any Subsidiary of the Issuer to the Issuer or to any other Subsidiary of the Issuer from time to time) (any such action in (a) or (b) being, a "**Restricted Payment**"), if:

(i) at the time of such payment an Event of Default or Potential Event of Default has occurred and is continuing or would result therefrom;

(ii) such Restricted Payment, when aggregated with all other Restricted Payments previously made on or after 1 January 2017 (including, for the avoidance of doubt, any payment made on or after 1 January 2017, but prior to the Issue Date, which, if made on or after the Issue Date, would have been a Restricted Payment) and excluding the Share Buyback, exceeds 60% of the sum of the consolidated net profit of the Issuer and gains from sales of interests in existing subsidiaries, each determined by reference to the most recent Group Financial Information and (calculated in accordance with IFRS) aggregated on a cumulative basis during the period beginning on 1 January 2017 and ending on the last day of the immediately preceding annual or semi-annual financial period, provided, however, that the Issuer may make Restricted Payments, without limitation as to the amount thereof, if it maintains cash and Temporary Investments in an amount at least equal to the sum of US$100,000,000 plus (without duplication) the Interest Coverage Amount but only if immediately after making such Restricted Payment Net Debt is no greater than 45% of Adjusted Shareholders' Equity; or

(iii) such Restricted Payment would cause or result in a breach of one or more of the covenants contained in Condition 4(n) (*Financial Covenants*) or otherwise result in a Material Adverse Effect,

save that the payment of Permitted Share Plan Contributions (as defined below) shall not be considered to be a Restricted Payment for the purposes of this Condition 4(g).

"**Permitted Share Plan Contributions**" means payment of contributions to acquire shares to satisfy existing and future awards under employee share plans to members of the Group's management and employees (including members of the board of directors and employees of the Group's ultimate parent company after the Demerger) in the amount of up to greater of US$20,000,000 or 2% of Adjusted Shareholders' Equity in any given calendar year (the "**Maximum Permitted Annual Share Plan Contribution**") plus, to the extent that the Issuer makes contributions below the Maximum Permitted Annual Share Plan Contribution in any year from 1 January 2018 (a "**Shortfall Amount**"), the aggregate amount of all such

Shortfall Amounts (if any) on a cumulative basis. For the avoidance of doubt, the Issuer shall not be permitted to apply the Shortfall Amount in respect of any year more than once.

(h) **No Limitations on Dividends from Material Subsidiaries**:

(i) The Issuer shall procure and ensure that none of its Material Subsidiaries (for the avoidance of doubt, for the purposes of this Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*) only, as defined in paragraph (b) of the definition thereof) shall create, assume or otherwise permit to subsist or become effective any encumbrance or restriction on the ability of such Subsidiaries to:

(A) pay any dividends or make any other payment or distribution on or in respect of its shares; or

(B) make payments in respect of any Indebtedness owed to the Issuer or any other Subsidiary.

(ii) The provisions of this Condition 4(h) (*No Limitations on Dividends from Material Subsidiaries*) will not prohibit:

(A) solely with respect to Condition 4(h)(i)(A), any such encumbrance or restriction, which is limited to the payment of dividends or other payments or distributions in any period in an amount up to 50% of the relevant Material Subsidiary's net profit determined by reference to the most recent Group Financial Information for such period; or

(B) any such encumbrance or restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement, which was entered into prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such encumbrance or restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and which remains in effect on such date;

(C) any such encumbrance or restriction that is as a result of applicable law or regulation; or

(D) any such encumbrance or restriction that is already in existence as at the Issue Date.

(i) **Limitation on Indebtedness**:

(i) The Issuer shall not create, incur, assume or otherwise become liable in respect of any Indebtedness, unless, after giving effect to the incurrence of such Indebtedness and the application of the proceeds thereof:

(A) Net Debt is no greater than 45% of Adjusted Shareholders' Equity; and

(B) no Event of Default or Potential Event of Default would occur or be continuing.

(ii) This Condition 4(i) shall not restrict the incurrence of any Indebtedness pursuant to, or as a result of, any Repo transaction, provided that any such Indebtedness shall not exceed 5% of Adjusted Shareholders' Equity.

(j) **Financial Information:**

(i) The Issuer hereby undertakes that it will deliver to the Trustee, within 120 days after the end of each of its financial years, copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the audit report of the Auditors thereon.

(ii) The Issuer hereby undertakes that it will deliver to the Trustee within 90 days after the end of the second quarter of each of its financial years, copies of the Issuer's unaudited consolidated financial statements for the six month period then ended, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the review report of the Auditors thereon (if any).

(iii) The Issuer hereby undertakes that it will deliver to the Trustee, at the same time as it delivers any financial information required under paragraphs (i) and (ii) above, and at such other times upon request by the Trustee, a Net Debt Covenant Compliance Certificate upon which the Trustee may rely without inquiry and shall suffer no liability for so doing.

(iv) The Issuer hereby undertakes that it will deliver to the Trustee, upon request and without delay, such additional information regarding the financial position or the business of the Issuer, any of its Subsidiaries and/or the Group as the Trustee may request.

(k) **Maintenance of Property**: The Issuer will, and shall procure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Issuer or any such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

(l) **Maintenance of Insurance**: The Issuer shall, and shall procure that its Material Subsidiaries shall, keep those of their properties which are of an insurable nature insured with insurers, believed by the Issuer or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdiction.

(m) **Compliance with Applicable Laws**: The Issuer shall, and shall procure that each of its Material Subsidiaries shall, at all times comply, in all material respects, with all provisions of applicable laws, including directives of governmental authorities and regulations.

(n) **Financial and Regulatory Covenants**:

(i) The Issuer shall, and shall procure that each Material Subsidiary shall (except as otherwise specifically provided or agreed by the Trustee) at all times comply with any and all prudential norms or other regulations applicable to it under relevant industry regulations and standards, except to the extent that failure to comply could not be reasonably expected to have a Material Adverse Effect.

(ii) The Issuer shall, at all times, maintain an amount in cash and Temporary Investments at least equal to the Interest Coverage Amount.

(o) **Change of Business**:

(i) The Issuer shall not, and shall procure that no Material Subsidiary shall, make any material change to the general nature of the business of the Issuer, the relevant Material Subsidiary or the Group, as the case may be, from that carried on at the Issue Date.

(ii) The Substitute Issuer confirms that it has and will have no business other than to give effect to the Demerger, until the Merger Effective Date (when it succeeds the Issuer as issuer of the Notes pursuant to Condition 4(c)(v)). The Substitute Issuer shall take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of all consents, licences, approvals and authorisations necessary in that regard.

(p) **Role of the Trustee:** Notwithstanding anything to the contrary contained in these Conditions:

(i) at no time shall the Trustee have any obligation to determine whether any relevant transaction, event, breach, disposal or payment would result in, or could be reasonably expected to cause or to have caused, a Material Adverse Effect and, at all times, the Trustee shall be entitled:

(A) to rely, without further enquiry, on any opinion of a Financial Adviser which confirms that, in the opinion of such Financial Adviser, the relevant transaction, event, breach, disposal or payment would result in, or could be reasonably expected to cause or have caused, a Material Adverse Effect and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing; and/or

(B) to refrain from taking any action or providing any consent to the Issuer or the Substitute Issuer (if applicable) in relation to any relevant transaction, event, breach, disposal or payment under this Condition 4 in the absence of a direction from the Noteholders (by way of Extraordinary Resolution);

(ii) the Trustee may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed by any two Directors of the Issuer or the Substitute Issuer (if applicable) and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any losses or liabilities that may be occasioned by it or any other person acting on such certificate;

(iii) the Trustee shall be entitled to rely, without further enquiry, on any written opinion from the Auditors or from an Independent Appraiser delivered to the Trustee and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing and

(iv) at no time shall the Trustee have any obligation to review any information provided to it under Condition 4(j) (*Financial Information*) or to perform any calculations in relation to figures provided in such financial statements or to monitor whether the Issuer or any of its Subsidiaries has complied or is complying with the provisions of this Condition 4 and, in the absence of express written notice to the contrary, shall be entitled to assume that the Issuer and each of its relevant Subsidiaries has complied in full with its obligations under this Condition 4 (*Covenants*).

5. INTEREST

Each Note bears interest from and including the Issue Date at the rate of 6.125% *per annum* payable semi-annually in arrear on 9 March and 9 September in each year (each an "**Interest Payment Date**"), commencing on 9 September 2018. Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

6. REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation and Other Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee and the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Georgia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation

cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two members of the Issuer's management board stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

(c) **Optional Redemption at Make Whole**: At any time prior to the Maturity Date, the Issuer may, at its option, on giving not less than 25 nor more than 60 days' irrevocable notice (the "**Call Option Notice**") to the Trustee and the Noteholders redeem the Notes in whole but not in part, at the price which shall be the following:

(i) the aggregate principal amount of the outstanding Notes; ***plus***

(ii) interest and any additional amounts or other amounts that may be due thereon (if any) accrued but unpaid to but excluding the date on which the call option is to be settled (the "**Call Settlement Date**"); ***plus***

(iii) the Make Whole Premium.

The Call Option Notice shall specify the Call Settlement Date.

(d) **Purchase**: The Issuer and its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or whether any required threshold for Noteholder directions or instructions has been met for the purposes of Condition 12(a) (*Meetings of Noteholders*) or Condition 13 (*Enforcement*) or the relevant provisions of the Trust Deed.

(e) **Cancellation**: All Certificates representing Notes purchased by or on behalf of the Issuer (provided the aggregate principal amount of such Notes is not less than US$1,000,000) may be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. PAYMENTS

(a) **Method of Payment**:

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest and principal on each Note shall be made by transfer to an account maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Appointment of Agents**: The Principal Paying Agent, the Registrar, and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Agent, the Registrar, or any Transfer Agent and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(d) **Delay in Payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day, if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(e) **Non-Business Days**: If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

(a) **Other connection**: by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Georgia other than the mere holding of the Note; or

(b) **Exemption**: by or on behalf of a holder who is able to avoid such taxes, duties, assessments or governmental charges in respect of such Note by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or

(c) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of this Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of this Condition 8) any law implementing an intergovernmental approach thereto.

In these Conditions, "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender; and any reference to principal or interest shall be deemed to include any premium which may be payable by the Issuer under Condition 6.

9. EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been indemnified and/or pre-funded and/or secured to its satisfaction), give written notice to the Issuer that the Notes are, and they shall immediately become, due and payable at 100% of their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: the Issuer fails to pay the principal of, any interest or any other sum due on any of the Notes or due pursuant to the Trust Deed when due and such failure to pay is not remedied within five days of the due date for payment; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations (other than those in Condition 9(a)) in the Notes or the Trust Deed which default is incapable of remedy or, in the opinion of the Trustee, if it is capable of remedy, it is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness of the Issuer or any Material Subsidiary for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any present or future Guarantee for, or in respect of, any Indebtedness; ***provided that*** the aggregate amount of the relevant Indebtedness and Guarantees in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US$25,000,000 or its equivalent in any other currency; or

(d) **Insolvency**:

(i) the occurrence of any of the following events: (A) the Issuer or any Material Subsidiary seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission, temporary administration or a similar officer; (B) the presentation or filing of a petition in respect of the Issuer or any Material Subsidiary in any court or arbitration forum or before any Agency alleging its bankruptcy, insolvency, dissolution or liquidation or adoption of any resolution by any Agency in respect of any of the foregoing, except, in the case of any presentation or filing of a petition, where such presentation or filing is (x) initiated by any Person which is not a member of the Group or a Holding Company of any member of the Group; and (y) discharged or dismissed within 60 days from the date of presentation or filing; (C) the institution of supervision, temporary administration, external management, liquidation, rehabilitation or bankruptcy management to the Issuer or any Material Subsidiary; (D) the convening of a meeting of creditors of the Issuer or any Material Subsidiary for the purposes of considering an amicable settlement; or (E) any extra-judicial liquidation or analogous act in respect of the Issuer or any Material Subsidiary by any Agency in or of Georgia; or

(ii) the Issuer or any Material Subsidiary: (A) fails or is unable to pay its debts generally as they become due; or (B) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (C) an Agency or court of competent jurisdiction declares the Issuer to be insolvent or bankrupt or enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer or any Material Subsidiary or any part of their respective property; or

(iii) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer; or

(e) **Unsatisfied Judgments, Governmental or Court Actions**: the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Issuer or any Material Subsidiary exceeds US$25,000,000 or the equivalent thereof in any other currency or currencies, or any such unsatisfied

judgment, decree or order results in (a) the management of the Issuer or any Material Subsidiary being wholly or partially displaced or the authority of the Issuer or any Material Subsidiary in the conduct of its business being wholly or partially curtailed or (b) all or a majority of the issued shares of the Issuer or any Material Subsidiary or the whole or any part (the book value of which is 20% or more of Adjusted Shareholders' Equity) of the revenues or assets of the Issuer or such Material Subsidiary, as the case may be, which are being seized, nationalised, expropriated or compulsorily acquired; or

(f) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Condition 9(d) (*Insolvency*) or Condition 9(e) (*Unsatisfied Judgments, Governmental or Court Actions*); or

(g) **Execution and Distress**: any execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Issuer or any Material Subsidiary; or

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, decree, approval, authorisation, exemption, filing, licence, order, recording, registration or other authority) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its material rights and perform and comply with its payment obligations under the Notes and the Trust Deed, its obligations under Condition 4 (*Covenants*) and its other material obligations under the Notes, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Agency Agreement admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) **Validity and Illegality**: the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer denies any of its obligations under the Notes, the Trust Deed or the Agency Agreement or it is, or will become, unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or the Agency Agreement or any of such obligations becomes unenforceable or ceases to be legal, valid and binding.

The Issuer has undertaken in the Trust Deed that it will promptly upon becoming aware of the same inform the Trustee of the occurrence of any Event of Default or event or circumstance that would, with the giving of notice, lapse of time and/or issue of a certificate, become an Event of Default (a "**Potential Event of Default**").

The Issuer has also undertaken in the Trust Deed that it shall, within 14 days of its annual audited financial statements being made available to its members, within 14 days of each Interest Payment Date and also within 14 days of any request by the Trustee, send to the Trustee a certificate of the Issuer signed by any two of its Directors confirming that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "**Certification Date**") not more than five days before the date of the certificate, no Event of Default or Potential Event of Default has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event has occurred, giving details of it and that, during the period from and including the Certification Date of the last such certificate or (if none) the date of the Trust Deed, the Issuer has complied with all its obligations contained in these Conditions and the Trust Deed (including Condition 4 (*Covenants*) or (if such is not the case) specifying the respects in which it has not complied.

The Trustee shall be entitled to rely conclusively upon such certificates and shall not be liable to any person by reason thereof

10. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by

the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification or abrogation of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding (as defined in the Trust Deed). The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes, *inter alia*, consideration of the following proposals: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes (except where such alteration is, in the opinion of the Trustee, bound to result in an increase) or the date for any such payment; (iv) to change the amount of principal and interest payable in respect of the Notes; (v) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other entity; (vi) to change the currency of payments under the Notes; (vii) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (viii) to alter the governing law of the Conditions or the Trust Deed; or, (ix) without prejudice to the rights under Condition 12(b) (*Modification of the Trust Deed and Waiver*) below, change the definition of "Events of Default" under these Conditions, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than three-quarters in principal amount of the Notes outstanding will for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of the Trust Deed, Waiver and Determination**: The Trustee may agree with the Issuer, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or may determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such provided that, in any such case, it is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation, waiver or determination shall be binding on the Noteholders and, if the Trustee so requires, such modification, authorization, waiver or determination shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**: Without prejudice to a Merger occurring under Condition 4(c)(v), the Trust Deed contains provisions permitting the Trustee to agree with the Issuer, subject to the conditions provided for in the Trust Deed (including that the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution) and to

such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree with the Issuer, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Notes of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Notes, and provided that such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Notes.

(d) **Entitlement of the Trustee**: In connection with the exercise of its trusts, powers, authorities, discretions and other functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the general interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders (whatever their number) and, in particular but without limitation, the Trustee shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*).

13. ENFORCEMENT

The Trustee may, at any time, at its discretion and without further notice, institute such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings and/or other steps or action unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or pre-funded and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for it to be paid its costs and expenses in priority to the claims of the Noteholders and for its relief from responsibility and liability towards the Issuer and Noteholders, including *inter alia* (i) provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer or any if its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any auditors, independent appraiser, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

15. NOTICES

Notices to the holders of Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. DEFINITIONS

Expressions used in these Conditions shall have the following meanings:

"**Adjusted Shareholders' Equity**" means the shareholders' equity of the Issuer, determined by reference to the most recent Group Financial Information, ***less*** the shareholders' equity of each Listed Subsidiary and Listed Associate determined by reference to the consolidated or standalone (as the case may be) balance sheet of such Listed Subsidiary and Listed Associate prepared in accordance with IFRS to the extent attributable to the Issuer, ***plus*** the higher of (a) the market capitalisation of each Listed Subsidiary and Listed Associate as published on the website of the relevant stock exchange on which the shares of such Listed Subsidiary and Listed Associate are listed and/or admitted to trading to the extent attributable to the Issuer, or (b) the shareholders' equity of each Listed Subsidiary attributable to the Issuer or carrying value of each Listed Associate, as the case may be, determined by reference to the consolidated or standalone (as the case may be) balance sheet of such Listed Subsidiary and Listed Associate prepared in accordance with IFRS, in each case (for all relevant purposes of this definition of Adjusted Shareholders' Equity) as at the end of the most recent IFRS Fiscal Period; provided that for all times prior to the date on which the Group's financial statements for the first accounting period following the acquisition by the Issuer of the Banking Business are published, the net asset value of the 19.9% stake in the Banking Business shall be added to the total;

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a);

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Associate**" of any specified Person (the "**first Person**") means any other Person (the "**second Person**") of which the first Person owns directly or indirectly between 20 and 50 per cent. of the capital, Voting Stock or other right of ownership;

"**Banking Business**" means JSC Bank of Georgia and JSC BG Financial;

"**Business Day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including in foreign exchange and foreign currency deposits) in New York City, London and Tbilisi and, in the case of presentation or surrender of a Certificate, in the place of the specified office of the Registrar or relevant Agent, to whom the relevant Certificate is presented or surrendered;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

"**Demerger**" means the series of transactions whereby, amongst other steps:

(i) the Issuer may lend up to US$60,000,000 to JSC BGEO Group for a term of up to 24 months on arm's length terms;

(ii) the Substitute Issuer will be inserted above the Issuer as the new holding company of the Issuer;

(iii) the Issuer will be merged into the Substitute Issuer;

(iv) subject to the approval of shareholders of BGEO Group at a court meeting and a general meeting of BGEO Group shareholders, Bank of Georgia Group PLC will be inserted above BGEO Group as the new holding company of BGEO Group pursuant to a court approved scheme of arrangement;

(v) the Substitute Issuer will be transferred to Bank of Georgia Group PLC and Bank of Georgia Group PLC will then, subject to certain conditions precedent, transfer the Substitute Issuer to Georgia Capital PLC;

(v) Bank of Georgia Group PLC will issue 19.9% of its then issued share capital to the Substitute Issuer in exchange for the transfer by the Issuer of 19.9% of the Banking Business to Bank of Georgia Group PLC; and

(vi) Georgia Capital PLC shares will then be admitted to the Official List and trading on the London Stock Exchange,

and any transactions incidental thereto;

"**Fair Market Value**" of a transaction means the value that would be obtained in an arm's-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A report of the Auditors of the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on the Noteholders;

"**Financial Adviser**" means an independent credit or financial services institution of international repute and appropriate expertise appointed by the Issuer and approved by the Trustee. The Trustee shall be entitled to approve (and shall suffer no liability for so approving) such credit or financial services institution if it has received a certificate from the Issuer (signed by two directors of the Issuer) stating that, in the Issuer's opinion (having made reasonable enquiries), such credit or financial services institution (a) has the necessary expertise to perform the role of Financial Advisor, (b) is of international repute and (c) is independent;

"**Group**" means the Issuer and its Subsidiaries, from time to time, taken as a whole;

"**Group Financial Information**" means:

(a) the combined historical financial information of the investment business of BGEO Group PLC as of and for the years ended 31 December 2015, 2016 and 2017 prepared in accordance with IFRS except for the application of certain conventions set out in the Annexure to SIR 2000 as it applies to the preparation of combined financial information and reported on by EY; and

(b) from 1 January 2018, the consolidated financial statements of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Holding Company**" means any Person who (a) directly or indirectly controls the affairs and policies of the Issuer or (b) owns directly or indirectly more than 50% of the capital, Voting Stock or other right of ownership of the Issuer and "**control**", as used in this definition, means the power to direct the management and the policies of the Issuer, whether through the ownership of share capital, by contract or otherwise;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Issuer or a Material Subsidiary, as the case may be, has produced Group Financial Information, which have either been audited or reviewed (or for the year ended 31 December 2017 only, reported on) by the Auditors;

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto), excluding any letters of credit, guarantees, or other similar instruments issued in the ordinary course of its insurance business;

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services;

(e) all capitalised lease obligations of such Person;

(f) all indebtedness of other Persons secured by Security Interests granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest annual financial statements (calculated in accordance with IFRS) of the Person granting the Security Interest) of such Person, whether or not such indebtedness is assumed by such Person;

(g) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;

(h) any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable;

(i) any amount raised by acceptance under any acceptance credit facility;

(j) to the extent not otherwise included in the foregoing, net obligations under any currency or interest rate hedging agreements; and

(k) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing,

and the amount of indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

"**Independent Appraiser**" means an investment banking firm or third party expert in the matter to be determined of international standing selected by the Issuer and approved by the Trustee, provided that the Issuer has confirmed to the Trustee in writing that such firm or third party appraiser is not an Affiliate of the Issuer;

"**Interest Coverage Amount**" means, as at any date, the amount of interest accrued and due and payable on the Notes on the next Interest Payment Date;

"**Issue Date**" means 9 March 2018;

"**Listed Associate**" means an Associate the shares of which are, as at the end of the most recent IFRS Fiscal Period, listed and/or admitted to trading on a recognised international stock exchange or (except for purposes of Condition 4(i)(i)) the Georgian Stock Exchange;

"**Listed Subsidiary**" means a Subsidiary the shares of which are, as at the end of the most recent IFRS Fiscal Period, listed and/or admitted to trading on a recognised international stock exchange or (except for purposes of Condition 4(i)(i)) the Georgian Stock Exchange;

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, plus any required interest payments that would otherwise be due to be paid on such Notes from the Call Settlement Date through to the Maturity Date calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Premium will be equal to zero;

"**Material Adverse Effect**" means a material adverse change in, or material adverse effect on, (a) the business, properties, condition (financial or otherwise), results of operations or prospects of the Issuer or the Group, (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed or (c) the validity or enforceability of Notes or the Trust Deed;

"**Material Subsidiary**" means, other than any Listed Subsidiary, any Subsidiary of the Issuer:

(a) the Issuer's investments in which determined by reference to the most recent Group Financial Information comprise more than 20% of Adjusted Shareholders' Equity; or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

other than, for purposes of Condition 4 only (irrespective of the revenues or assets of such Subsidiary, respectively, as a percentage of consolidated revenues or total consolidated assets of the Group), but not otherwise, any Listed Subsidiary (other than, for the purposes of Condition 4(i)(i), a Subsidiary listed or admitted to trading on the Georgian Stock Exchange;

"**Maturity Date**" means 9 March 2024;

"**NBG**" means the National Bank of Georgia;

"**Net Debt**" means the resulting amount calculated (without duplication) as follows:

(a) amounts owed to credit institutions, ***plus***

(b) debt securities issued, ***less***

(c) cash and cash equivalents, ***less***

(d) amounts due from credit institutions, ***less***

(e) debt investment securities to the extent comprising Temporary Investments,

in each case, of the Issuer on a stand-alone basis determined by reference to the Issuer's most recent Group Financial Information;

"**Net Debt Covenant Compliance Certificate**" means (i) a certificate of the Issuer, signed by two Directors of the Issuer, in form and substance satisfactory to the Trustee, setting out the Issuer's calculation of the amounts of Adjusted Shareholders' Equity and Net Debt and the required ratio, and showing, in each case, the component parts thereof, accompanied by an independent assurance report (in the event the certificate is prepared with reference to audited financial information) or an agreed upon procedures report (in the event the certificate is prepared with reference to unaudited financial information) signed by the Issuer's auditors confirming the Issuer's calculations and its compliance with paragraph (i) of Condition 4(i) (*Limitation on Indebtedness*));

"**Permitted Security Interests**" means:

(a) Security Interests in existence on the Closing Date;

(b) Security Interests granted by any Subsidiary in favour of the Issuer or any wholly-owned Subsidiary of the Issuer;

(c) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary of the Issuer or becomes a Subsidiary of the Issuer, provided that such Security Interests (i) were not created in

contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Subsidiary of the Issuer (other than those of the Person acquired and its Subsidiaries (if any));

(d) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(e) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(f) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(g) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(h) any Security Interests arising by operation of law and in the ordinary course of business including tax and other non-consensual Security Interests; and

(i) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (j), inclusive, provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed the greater of US$100,000,000 or 2% of Adjusted Shareholders' Equity, determined by reference to the most recent Group Financial Information;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event or circumstance which could, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9, become an Event of Default;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Restricted Payment**" has the meaning given to it in Condition 4(g);

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Share Buyback**" means the buyback and cancellation of shares of the Issuer's ultimate parent company following the Demerger in an amount of up to US$50,000,000 pursuant to its capital return policy;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) of which the first Person owns directly or indirectly more than 50 per cent. of the capital, Voting Stock or other right of ownership and "**Control**", as used in this definition, means the power to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise, "**Controlled**" being construed accordingly;

"**Temporary Investments**" means any of the following:

(a) any investment in direct obligations of a member of the European Union, the United States or any agency thereof or obligations guaranteed by a member of the European Union or the United States or any agency thereof;

(b) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of a member of the European Union or the United States or any state thereof and outstanding debt rated "A" (or such similar equivalent rating) or higher by at least one internationally recognised rating agency;

(c) any investment in repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (a) above entered into with a bank meeting the qualifications described in paragraph (b) above;

(d) any investment in commercial paper issued by a corporation (other than an Affiliate of the Issuer) organised and in existence under the laws of a member of the European Union or the United States with a rating at the time as at which any investment therein is made of "P1" / "A1" (or such similar equivalent rating or higher) by at least one internationally recognised rating agency;

(e) any investment in securities issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union or the United States, or by any political subdivision or taxing authority thereof, and rated at least "A" (or such similar equivalent rating) or higher by at least one internationally recognised rating agency;

(f) any investment in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by any Georgian bank having a rating from at least two internationally recognised rating agencies that is at least equivalent to that of B1 (Moody's) or B+ (Standard & Poor's);

(g) any investment in internationally issued and placed securities issued by or guaranteed by the government of Georgia or the NBG up to a limit of U.S.$50,000,000 at any time; and

(h) any investment in money market funds that invest substantially all their assets in securities of the types described in paragraphs (a) through (g) above;

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used; and

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions of the Notes in all respects (or in all respects except the issue price, issue date and/or first payment of interest on such securities) and so that such further issue is consolidated and forms a single series with the Notes or upon such other terms as the Issuer may determine at the time of their issue. References in these conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant

to this Condition and forming a single series with the Notes. Any further securities forming a single series with the Notes constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

19. GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Any dispute which may arise out of or in connection with the Trust Deed or the Notes (including any claim, dispute or difference as to (i) the existence of the Notes, (ii) termination or validity of the Trust Deed or the Notes, (iii) any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes, (iv) the consequences of the nullity of the Trust Deed or the Notes, or (v) this Condition 19(b)) (each, a "**Dispute**") shall be finally settled by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**") as at present in force and as modified by this Condition 19(b), which Rules shall be deemed incorporated into this Condition 19(b). The number of arbitrators shall be three. Each party shall appoint one arbitrator in the Request for Arbitration or the Response, as the case may be. The third arbitrator, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators. If such nomination is not made within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated or either party fails to nominate an arbitrator in the Request for Arbitration or Response, as applicable, then such nomination shall be chosen by the LCIA court. The seat of arbitration shall be London, England and the language of arbitration shall be English. The arbitrators shall have power to award on a provisional basis any relief that they would have power to grant on a final award. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Waiver of immunity**: To the extent that the Issuer or any of its assets has (on the date of issue of the Notes), or thereafter may acquire, any right to immunity from set-off, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, the Issuer hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any proceedings.

(d) **Agent for Service of Process**:

The Issuer and the Substitute Issuer irrevocably appoint Bank of Georgia Representative Office UK Limited, at 84 Brook Street, London W1K 5EH, United Kingdom as their agent in England to receive service of process in any proceedings in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer and the Substitute Issuer shall appoint a new agent for service of process in England and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. INITIAL ISSUE OF CERTIFICATES

The Regulation S Notes shall be represented by a permanent Regulation S Global Certificate, in fully registered form without interest coupons, deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes shall be represented by a permanent Rule 144A Global Certificate, in fully registered form without interest coupons, deposited with Citibank N.A. as custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company (''**DTC**'').

Upon the registration of the Regulation S Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Regulation S Global Certificate to the common depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Regulation S Global Certificate.

Upon the registration of the Rule 144A Global Certificate in the name of Cede & Co. as nominee of DTC and delivery of the Rule 144A Global Certificate to the custodian for DTC, DTC will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Rule 144A Global Certificate.

2. RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note represented by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3. EXCHANGE FOR DEFINITIVE CERTIFICATES

The following will apply in respect of transfers of Notes held in DTC, Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2(b) (*Delivery of New Certificates*) may only be made in part:

(i) if the Global Certificate is held by or on behalf of DTC, Euroclear or Clearstream, Luxembourg and such clearing system notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Certificate or ceases to be a ''clearing agency'' registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or

(ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Issuer Management Board is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date specified in the notice.

''**Exchange Date**'' means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent is located.

4. AMENDMENT TO CONDITIONS

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Terms and Conditions of the Notes set out in these Listing Particulars. The following is an overview of certain of those provisions:

4.1 Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificates shall (unless the Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

4.3 Trustee's Powers

In considering the interests of Noteholders while the Global Certificates are held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

5. TRUSTEE'S POWERS

Subject as provided in the Trust Deed, each person who is for the time being shown in the records of DTC and/or Euroclear and/or Clearstream, Luxembourg as entitled to a particular principal amount of the Notes represented by the Global Certificates (in which regard any certificate or other document issued by DTC, Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such principal amount of such Notes for all purposes other than with respect to payments of principal and interest on the Notes for which purpose the registered holder of this Global Certificate shall be deemed to be the holder of such principal amount of the Notes in accordance with and subject to the terms of this Global Certificate and the Trust Deed.

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or DTC, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC (as the case may be) for communication to the relative accountholders provided that all requirements of any relevant stock exchange have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg or DTC (as the case may be) as aforesaid.

Whilst any Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder may be given by such Noteholder to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, in such a manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg or DTC, as the case may be, may approve for this purpose.

TAXATION

The following is a general description of certain material United States Federal, EU, and Georgian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the United States, the United Kingdom, the EU and Georgia or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law in effect on the date of these Listing Particulars and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Certain Material United States Federal Income Tax Considerations

The following is a general overview of certain U.S. federal income tax consequences arising from the acquisition, ownership and disposition of the Notes by a U.S. Holder (as defined below). This overview deals only with initial purchasers of the Notes at the "issue price" (the first price at which a substantial amount of the Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the Notes by particular investors (including consequences under the alternative minimum tax), and does not address state, local, non-U.S. or other tax laws. This overview also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions, conversion transactions or other integrated transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the US Dollar).

As used herein, the term U.S. Holder means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This overview is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE OVERVIEW OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

It is anticipated, and this discussion assumes, that the Notes will be issued with no more than a de minimis amount of original issue discount. Interest on a Note (including any tax withheld and additional amounts paid in respect of any such tax withholding) will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale, Retirement and Other Taxable Disposition of the Notes

A U.S. Holder will generally recognise gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realised on the disposition and the U.S. Holder's adjusted tax basis of the Note. A U.S. Holder's adjusted tax basis in a Note will generally be its US Dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations.

If a Georgian tax is withheld on the sale, retirement or other taxable disposition of a Note, the amount realised by a U.S. Holder will include the gross amount of the proceeds of that sale or other disposition before deduction of the Georgian tax withheld. Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for any Georgian income taxes withheld by the Issuer. Gain or loss realised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be U.S. source income for U.S. foreign tax credit purposes. Therefore, in the case of gain from the disposition of a Note that is subject to Georgian tax, a U.S. Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any Georgian tax imposed on the sale or disposition. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex. Prospective purchasers should consult their tax advisers as to the foreign tax credit or foreign tax deduction implications of the sale, retirement or other taxable disposition of Notes.

Medicare Tax

Certain individuals, trusts and estates are subject to an additional tax of 3.8% on the lesser of (i) "net investment income", or (ii) the excess of modified adjusted gross income over a threshold amount. A U.S. Holder's net investment income will generally include such U.S. Holder's interest income and net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders are encouraged to consult with their tax advisers regarding the possible application of this tax on their investment in Notes in light of their particular circumstances.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the Internal Revenue Service ("**IRS**") and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding.

Backup withholding is not an additional tax. Any backup withholding from a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of the Notes, including requirements related to the holding of certain foreign financial assets.

Certain non-corporate U.S. Holders are required to report information with respect to their investment in Notes not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors regarding the possible implications of the foregoing on their investment in Notes.

Recent Tax Reform Legislation

On 22 December 2017, the "Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (the "**2017 Tax Act**"), which was originally introduced in the United States House of Representatives as the "Tax Cuts and Jobs Act", was enacted into law. The 2017 Tax Act amends the Internal Revenue Code of 1986. Most of the provisions of the 2017 Tax Act take effect in 2018. The 2017 Tax Act made sweeping tax changes (including changes to the tax rates applicable to corporate and non-corporate Holders) that will impact individuals and businesses. In light of the sweeping nature and complexities of the tax changes in the 2017 Tax Act, the IRS is expected to issue implementing and clarifying guidance on many of these changes (the "**Implementing Guidance**"). U.S. Holders are strongly encouraged to consult with their tax advisers as to the impact of the 2017 Tax Act and the Implementing Guidance on an investment in the Notes, in light of their particular circumstances.

Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to the Notes prepared in accordance with Georgian tax legislation as of the date of these Listing Particulars. As with other areas at Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation in Georgia, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of these Listing Particulars. Each prospective purchaser of Notes should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with its purchase, holding and sale of Notes.

Withholding Tax on Interest

Payments of interest on Notes will be exempt from withholding tax and such payments of interest shall not be included in the gross taxable income of Noteholders (whether they are individuals (physical persons) or legal entities), so long as the Notes are issued by the Georgian resident and listed and admitted to trading on a "recognised foreign stock exchange". For these purposes, the Irish Stock Exchange is a "recognised foreign stock exchange" under Georgian law.

Enforceability of Tax Gross-up under the Terms and Conditions of the Notes

Pursuant to Condition 8 (*Taxation*), in the case of withholding or deduction of any taxes (subject to certain customary exceptions) in respect of any payment on the Notes, the Issuer is required to increase the amount of the relevant payment by such amount as would result in the receipt by the relevant Noteholder of the amount which would have been received by it had no such withholding or deduction been required. The Tax Code neither prohibits nor permits the inclusion of tax gross-up clauses (such as that set out in Condition 8 (*Taxation*)) in agreements or instruments made by Georgian companies. In practice, however, such gross-up provisions are widely respected by the tax authorities in Georgia.

Taxation of sale of Notes by Non-Resident Legal Entity Noteholders

Non-resident legal entities will be assessed profit tax on the difference between the initial purchase and subsequent sale price and the relevant non-resident entity will be under an obligation to properly report and pay such profit tax to the Georgian tax authorities. If the sale is carried out through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the seller is registered in an offshore jurisdiction. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian profit tax may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of sale of Notes by Non-Resident Individual Noteholders

Individuals in Georgia are subject to income tax at a current rate of 20%, with the tax base being calculated after permitted deductions. For the non-resident individuals the income tax will be assessed on the difference between the initial purchase and subsequent sale price. A relevant non-resident individual will be under an obligation to properly report and pay such income tax to the Georgian tax authorities. If the sale is done through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the seller is registered in an offshore jurisdiction. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian income tax may be affected by a double tax treaty between Georgia and the country of residency of the seller individual.

Certain exemptions may also be available to individual Noteholders if such individuals maintain ownership of Notes for more than two calendar years.

Taxation of sale of Notes by Resident Individual Noteholders

Georgian resident individual Noteholders will become liable to pay income tax at 20% upon the disposal of the Notes. The income tax will be assessed on the difference between the initial purchase and subsequent sale price. If the sale is done through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax. Certain exemptions may be available to Georgian resident individual Noteholders if such individuals maintain ownership of Notes for more than two calendar years.

Taxation of sale of Notes by Resident Legal Entity Noteholders

Georgian resident legal entities (except commercial banks, credit unions, insurance companies, microfinance organisations and pawnshops, until 1 January 2019) will be subject to a 15% corporate profit tax on any gain (the difference between initial purchase and subsequent sale price) received from the disposal of the Notes after they distribute profit.

Until 1 January 2019, the gain received from the sale of the Notes (i.e., the difference between the initial purchase price and subsequent sale price of the Notes) by commercial banks, credit unions, insurance companies, microfinance organisations and pawnshops will be included in their gross taxable income and after the permitted deductions will be subject to profit tax at the rate of 15%.

See "*Risk Factors—Macroeconomic and Political Risks Related To Georgia—Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against the Group and there may be changes in current tax laws and policies*".

Value Added Tax

Sales (supply) of the Notes are exempt from Value Added Tax in Georgia.

Other Considerations

The Tax Code expressly provides for ability of the tax inspection to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements. *See* "*Risk Factors—Risks Relating to the Notes—The uncertainties of the Georgian tax system could have a material adverse effect on the taxation of the Notes, in particular, the sale of the Notes*".

TRANSFER RESTRICTIONS

Rule 144A Securities

Each purchaser of Rule 144A Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It is (i) a QIB; (ii) acquiring the Notes for its own account or for the account of one or more QIBs; (iii) not acquiring the Notes with a view to further distribute such Notes; and (iv) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(b) It understands that such Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (ii) in reliance on Rule 144A to a person that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction in accordance with Regulation S; (iv) pursuant to Rule 144 under the U.S. Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, in each case, in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Notes offered and sold hereby in the manner set forth in paragraph (a) are ''restricted securities'' within the meaning of Rule 144(a)(3) under the U.S. Securities Act and are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Notes.

(d) It understands that any offer, sale, pledge or other transfer of such Notes made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.

(e) It understands that such Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **U.S. SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT (**RULE 144A**) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A **QIB**) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT (**REGULATIONS S**) OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALES OF THIS NOTE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED.

If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does

make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Registrar, the Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

It understands that the Notes offered in reliance on Rule l44A will be represented by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Regulation S Securities

Each purchaser of Regulation S Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It understands that such Notes have not been and will not be registered under the U.S. Securities Act, and such Notes are being offered and sold in accordance with Regulation S.

(b) It or any person on whose behalf it is acting is, or at the time such Notes are purchased will be, the beneficial owner of such Notes and (i) it is purchasing such Notes in an offshore transaction (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(c) It will not offer, sell, pledge or otherwise transfer Notes, except in accordance with the U.S. Securities Act and any applicable securities laws of any state of the United States.

(d) The Issuer, the Registrar, the Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

SUBSCRIPTION AND SALE

Each Manager has, pursuant to a Subscription Agreement dated 7 March 2018, severally (and not jointly) agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the aggregate principal amount of the Notes listed next to its name in the table below at the issue price of 98.770%. The Issuer has agreed that it will pay a management and underwriting commission and selling concession to each of the Joint Lead Managers pursuant to separate arrangements as to fees in relation to the issue of the Notes, as set out in separate letters to each of the Joint Lead Managers. The Issuer has also made separate arrangements as to fees and expenses with the Co-Manager. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Managers	**Principal Amount of the Notes**
Citigroup Global Markets Limited	US$133,570,000
J.P. Morgan Securities plc	US$133,570,000
Renaissance Capital (Cyprus) Limited	US$3,000,000
JSC Galt & Taggart	US$29,860,000
Total	US$300,000,000

Galt & Taggart (a wholly owned subsidiary of BGEO Group PLC), a Co-Manager, is an established leader in the provision of investment banking and investment (wealth) management services in Georgia, offers corporate advisory, private equity and brokerage services under one brand, working in exclusive partnership with SAXO Bank which enable clients of Galt & Taggart to access global capital markets and invest on a multi asset basis. Galt & Taggart Research currently covers the Georgian and Azeri economies and publishes Georgian sectoral research.

Other Investors

On 1 March 2018, the Issuer and EBRD, an existing lender to the Group, entered into the Framework Agreement with respect to the possibility that EBRD may purchase Notes in EBRD's sole and absolute discretion and subject to certain conditions described therein. Among other things, the EBRD Framework Agreement includes certain undertakings by the Issuer to comply with EBRD's environmental and social requirements if EBRD acquires any Notes and for as long as EBRD holds any such Notes. EBRD is under no obligation to acquire any Notes notwithstanding the Issuer and EBRD having entered into the EBRD Framework Agreement.

Affiliates of the Issuer intend to purchase up to US$27 million of the Notes in the Offering.

General

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Notes, or possession or distribution of any other offering relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief with all applicable laws and regulations in each jurisdiction in which it offers or sells any Notes or distributes or publishes these Listing Particulars or any such other material.

Prohibition of Sales to European Economic Area Retail Investors

Each Manager has severally and not jointly represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area.

For the purposes of this provision:

(a) the expression ***retail investor*** means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II;

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression ***offer*** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold or delivered within the United States except in certain transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act. Each Manager has severally represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States, except as permitted by the Subscription Agreement. The Notes are being offered and sold by the Managers outside the United States in accordance with Regulation S.

The Subscription Agreement provides that the Managers may offer and sell the Notes within the United States to QIBs in reliance on Rule 144A. Any offers and sales by the Managers in the United States will be conducted by broker-dealers registered with the SEC.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in reliance on Rule 144A or another available exemption from registration under the U.S. Securities Act.

United Kingdom

In the United Kingdom, these Listing Particulars may be distributed only to and may be directed only at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities falling within Article 49(2) (a) to (d) of the Order; or (c) other persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). Neither these Listing Particulars nor any other offering material have been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Notes may not be offered or sold to persons in the United Kingdom except to "qualified investors" as defined in section 86(7) of the Financial Services and Markets Act 2000, as amended (the "**FSMA**").

Each Manager has severally represented and agreed that:

i. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

ii. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Notes or distribution or publication of this these Listing Particulars or any other offering material or advertisement; persons into whose possession these Listing Particulars comes should inform themselves about and observe any restrictions on the distribution of these Listing Particulars and the offer of the Notes applicable in such EEA Member State.

Georgia

Each Manager has agreed that the Notes shall not be offered or sold in the territory of Georgia in a public offering without a prior or simultaneous delivery/publication of a final prospectus approved by the NBG in accordance with the Law of Georgia on Securities Market. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer or other person to at least 100 persons or to an unspecified number of persons. In the event, however, that the securities of the Issuer are placed/listed on the Irish Stock Exchange, which is a "recognised stock exchange of the foreign country", the Notes may be issued and offered in Georgia in a public offering without approval of these Listing Particulars by the NBG, provided that the NBG is notified about the public offering of the Notes in accordance with Georgian law.

Each Manager has represented and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Georgia.

Other Relationships

The Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. The Managers or their respective affiliates from time to time have provided in the past, and may provide in the future investment banking financial advisory and/or commercial banking services to, the Issuer and its affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Managers and their affiliates may receive allocations of the Notes. Each of the Managers (or their respective affiliates) may be a lender and/or agent bank and/or security agent under existing lending arrangements with the Issuer and/or the bank, in connection with which the Managers may each receive customary fees and commissions for these roles. The Managers and their respective affiliates may, in the future, act as hedge counterparties to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Galt & Taggart is a wholly owned subsidiary of BGEO Group PLC and an affiliate of the Issuer.

GENERAL INFORMATION

1. Application has been made to the Irish Stock Exchange plc ("**Irish Stock Exchange**") for the Notes to be admitted to the Official List ("**Official List**") and trading on its Global Exchange Market, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the Global Exchange Market.

2. It is expected that the listing of the Notes on the Irish Stock Exchange and the admission of the Notes to trading on the Irish Stock Exchange's Global Exchange Market for listed securities will take place on or about 9 March 2018, subject to the issuance of the Global Notes.

3. EY Georgia LLC is the auditor of the Issuer and the Substitute Issuer, and has been the only auditor of the Company since its incorporation. EY Georgia LLC is included in the register of the Georgian Federation of Professional Accountants and Auditors with the right to perform statutory and non-statutory audits.

4. Ernst & Young LLP is the reporting accountant for the Historical Financial Information and has given its consent to the inclusion of its accountant's report on pages F-2–F-3 of these Listing Particulars in the form and context in which it appears and has authorised the contents of this report for the purposes of rule 2A.13.1 of the Global Exchange Market Listing and Admission to Trading Rules for Debt Securities. Ernst & Young LLP is registered to perform audit work by the Institute of Chartered Accountants in England and Wales and its registered office is 1 More London Place, London SE1 2AF.

5. The Issuer has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 19 February 2018 and 7 March 2018 and shareholder's resolutions passed on 19 February 2018 and 7 March 2018.

6. The Substitute Issuer has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Supervisory Board of the Substitute Issuer passed on 19 February 2018 and 7 March 2018 and shareholder's resolutions passed on 19 February 2018 and 7 March 2018.

7. There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2017 and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2017.

8. In the previous 12 months, there have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, a significant effect on the Issuer and/or the Group's financial position or profitability.

9. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg for the Regulation S Notes and DTC for the Rule 144A Notes. The Common Code, ISIN and CUSIP number, as applicable, for the Regulation S Notes and the Rule 144A Notes are as follows:

   - ***Regulation S Notes:***
   - ISIN: XS1778929478
   - Common Code: 177892947
   - ***Rule 144A Notes:***
   - ISIN: US373143AA49
   - Common Code: 178546554
   - CUSIP: 373143AA4

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States.

10. The Company was incorporated on 7 August 2015 as a joint stock company with the name JSC BGEO Investments and registered in Georgia with registered number 404498913. The Company changed its name to JSC Georgia Capital on 9 January 2017. The Company is the holding company of the Group. The issued and fully paid up capital of the Company was GEL10,000,000 as at the date of these Listing Particulars.

11. The Substitute Issuer was incorporated on 22 December 2017 as a joint stock company and registered in Georgia with registered number 404549690. Following the merger with the Issuer, the Substitute Issuer will have no assets other than its shares in the Portfolio Investments and the Exit Stage Portfolio Investments. See "*Description of Business—Demerger*".

12. For as long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market physical copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the contractual period of the Notes from the date of publication of these Listing Particulars at the offices of the Issuer:

    (a) The Trust Deed (which includes the form of the Global Certificates and the Definitive Certificates);

    (b) the Issuer's Charter;

    (c) combined historical financial information of the investment business of BGEO Group PLC for each of the three years ended 31 December 2017, 2016 and 2015 prepared in accordance with IFRS except for the application of certain conventions set out in the Annexure to SIR 2000 as it applies to the preparation of combined financial information and reported on by EY beginning on pages F-2 to F-74 of these Listing Particulars;

    (d) Discussion of Banking Business Results and Discussion of Investment Business Results-Healthcare Business sections of the BGEO Preliminary Financial Information, incorporated by reference;

    (e) *pro forma* financial information, set out on page 39 of these Listing Particulars; and

    (f) a copy of these Listing Particulars together with any Supplement to these Listing Particulars or any further Listing Particulars.

These Listing Particulars will also be published on the website of the Irish Stock Exchange at: http://www.ise.ie/.

DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

Aldagi	Joint Stock Company Aldagi, a company incorporated under the laws of Georgia with registered number 404476189 and whose registered office is at 3 Pushkini street, 0105 Tbilisi, Georgia and the operating entity of the Company's P&C Insurance Business.
Bank	JSC Bank of Georgia.
Banking Business	JSC Bank of Georgia and JSC BG Financial.
Beverage Business	The Group's beverage business, as operated by Teliani, a producer of beer and wine products and distributor of third party brands in Georgia.
BGEO Group	BGEO Group PLC, a company incorporated under the laws of England and Wales with company number 07811410 and whose registered office is 84 Brook Street, London, W1K 5EH.
BGEO Loan	The loan of US$105 between JSC BGEO Group and the Issuer used for the acquisition of GGU.
Board of Directors or Directors	The board of directors of the Company and "Director" means any member of the Board of Directors.
Certificates	Registered certificates representing the Notes.
CIS	Commonwealth of Independent States.
Clearstream, Luxembourg	Clearstream Banking, S.A.
Closing Date	9 March 2018.
Co-Manager	Galt & Taggart.
Company, Issuer	Joint Stock Company Georgia Capital, a company incorporated under the laws of Georgia with registered number 404498913 and whose registered office is at 3-5 Kazbegi Street, 0179 Tbilisi, Georgia.
Definitive Certificates	Regulation S Definitive Certificates and Rule 144A Definitive Certificates.
Demerger	The proposed demerger of the investment business from BGEO Group PLC and the listing of its investment business on the premium segment of the London Stock Exchange.
DTC	The Depositary Trust Company.
EBITDA	Earnings before interest, taxation, depreciation and amortisation.
EBRD	European Bank for Reconstruction and Development.
EEA	The European Economic Area.
EU	European Union.
EU Association Agreement	The association agreement between the EU and the Georgian government signed on 27 June 2014.
EY	Ernst & Young LLP.
Euroclear	Euroclear Bank S.A./N.V.
Euros, Euro, €	The lawful currency of the European Economic and Monetary Union.
Exit Stage Portfolio Investments	As of the date of these Listing Particulars refers to the Issuer's stakes in GHG and the Banking Business.
FDI	Foreign direct investment.
Fitch	Fitch Ratings Ltd.
FMO	Netherlands Development Finance Company.
GDP	Gross domestic product.

GDRs	Global depositary receipts.
GEL	Georgian Lari.
Geostat	Legal Entity of Public Law National Statistics Office of Georgia.
GGU	Georgian Global Utilities Ltd, a company incorporated under the laws of the British Virgin Islands with registered number 1425971 and whose registered office is at Skelton Bay Lot, Building No. 10, 1st Floor, P.O. Box 3169, PMB 103, Fish Bay, Tortola VG1110, British Virgin Islands, being the parent of Georgia Capital's Utility and Energy Business whose operating entity is GWP, a wholly owned subsidiary of GGU.
GHG	Georgian Healthcare Group PLC a company incorporated under the laws of England and Wales with registered number 09752452 and whose registered office is at 84 Brook Street, London W1K 5EH.
Group	The Company or the Issuer and its subsidiaries and subsidiary undertakings from time to time holding or operating the investment business.
Global Certificates, Global Notes	Regulation S Global Certificate and Rule 144A Global Certificate.
Global Exchange Market	The Irish Stock Exchange's Global Exchange Market
GNERC	The Georgian National Energy and Water Supply Regulatory Commission.
GPW	gross premiums written.
GWP	Georgian Water and Power LLC, being the principal operating subsidiary of GGU.
Historical Financial Information	Combined historical financial information of the investment business of BGEO Group PLC as of and for the years ended 31 December 2017, 2016 and 2015 prepared in accordance with IFRS except for the application of certain conventions set out in the Annexure to SIR 2000 as it applies to the preparation of combined historical financial information and reported on by EY.
HPP	Hydro power plants.
IBNR	Incurred but not reported claims.
IFC	International Finance Corporation.
IFRS	The International Financial Reporting Standards, as adopted by the European Union.
IMF	International Monetary Fund.
Investment Group	A group of companies which represent a continuation of the investment business activities of BGEO Group PLC.
IRR	Internal rate of return.
ISE	Irish Stock Exchange plc.
ISSSG	Insurance State Supervisory Service of Georgia.
JSC Bank of Georgia	Joint Stock Company Bank of Georgia, a company incorporated under a company incorporated under the laws of Georgia with registered number 204378869 and whose registered office is at 29a Gagarini Street, Tbilisi 0160, Georgia.
JSC BG Financial	Joint Stock Company BG Financial, a company incorporated under a company incorporated under the laws of Georgia with registered number 402018918 and whose registered office is at 79 D. Agmashenebeli Avenue, 0102 Tbilisi, Georgia.

JSC Georgia Capital Group	Joint Stock Company Georgia Capital Group, a company incorporated under a company incorporated under the laws of Georgia with registered number 404549690 and whose registered office is at 3-5 Kazbegi Street, 0179 Tbilisi, Georgia.
Joint Bookrunners	Citigroup Global Markets Limited and J.P. Morgan Securities plc.
Joint Lead Managers	Citigroup Global Markets Limited, J.P. Morgan Securities plc and Renaissance Capital (Cyprus) Limited.
LCIA	London Court of International Arbitration.
m^2	Joint Stock Company m^2, a company incorporated under the laws of Georgia with registered number 204517399 and whose registered office is at 29 I. Chavchavadze avenue, 3rd floor, 0179 Tbilisi, Georgia and the operating entity of the Real Estate Business.
Management	The Company's Board of Directors.
Moody's	Moody's Investors Service Limited.
New York Convention	United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
Noteholders	Holders of Notes.
Notes	The US$300,000,000 6.125% Notes due 2024.
Official List	The Official List of the Irish Stock Exchange.
P&C Insurance Business	The Group's property and casualty insurance business, as operated by Aldagi, a provider of property and casualty insurance products in Georgia.
Portfolio Companies	As of the date of these Listing Particulars refers to GGU, m^2, Aldagi and Teliani.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003, as amended.
Qualified Institutional Buyers, QIBs	Qualified Institutional Buyers as defined in Rule 144A.
Real Estate Business	The division of the Group, operated by m^2, which develops residential and commercial property in Georgia as well as managing a yielding real estate asset portfolio.
Regulation S	Regulation S under the US Securities Act.
Regulation S Notes	Notes that are being offered and sold in accordance with Regulation S.
Regulation S Definitive Certificates	Definitive notes in respect of beneficial interests in the Regulation S Global Certificate.
Regulation S Global Certificate, Regulation S Global Note	Global certificate representing the Regulation S Notes.
ROAE	Profit for the period attributable to shareholders divided by average total equity of the period attributable to shareholders (calculated as the sum of equity at the start and at the end of the relevant period, divided by two).
Rule 144A	Rule 144A under the U.S. Securities Act.
Rule 144A Notes	Notes that are offered and sold in reliance on Rule 144A.
Rule 144A Definitive Certificates	Definitive notes in respect of beneficial interests in the Rule 144A Global Certificate.
Rule 144A Global Certificate, Rule 144A Global Note	Restricted global certificate representing beneficial interests in Rule 144A Notes.
Significant Interest	A direct or indirect interest in shares of or ability to exercise voting rights over at least 10%, 25% or 50% (or such other percentages as a regulatory authority may determine from time to time) in any regulated group company.

Stabilising Manager	Citigroup Global Markets Limited.
S&P	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.
Substitute Issuer	JSC Georgia Capital Group.
Teliani	Joint Stock Company, Teliani Valley, a company incorporated under the laws of Georgia with registered number 203855444 and whose registered office is at 3 Tbilisi highway, 0172 Telavi, Georgia, being the principal operating entity of the Group's Beverage Business.
Trustee	Citibank N.A., London Branch.
U.S.	United States of America.
US Dollars, dollars, US$	The US dollar, the lawful currency of the United States of America.
U.S. Exchange Act	U.S. Securities Exchange Act 1934, as amended.
U.S. Securities Act, Securities Act	U.S. Securities Act 1933, as amended.
Utility and Energy Business	The division of Georgia Capital which supplies potable water, generates electricity and provides wastewater services under the GGU brand, principally via GGU's operating subsidiary, GWP.
UWSCG	United Water Supply Company of Georgia.
WHO	World Health Organisation.
WSS	Water Supply and Sanitation.

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HISTORICAL FINANCIAL INFORMATION

Combined historical financial information of the investment business of BGEO Group PLC as of and for the years ended 31 December 2017, 2016 and 2015.

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Accountant's Report F-2–F-3

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The Directors
JSC Georgia Capital
Kazbegi street 3-5
Tbilisi
Georgia

7 March 2018

Dear Sirs

Investment Business of BGEO Group PLC

We report on the financial information of the Investment Business of BGEO Group PLC set out on pages F-4 to F-74 (the "Combined Historical Financial Information") as at and for the years ended 31 December 2015, 2016 and 2017 (the "Financial Information"). This financial information has been prepared for inclusion in the listing particulars ("Listing Particulars") dated 7 March 2018 of JSC Georgia Capital on the basis of the accounting policies set out in note 2 of the Financial Information. This report is required by item 2A.11.1 of the Global Exchange Market Listing and Admission to Trading Rules and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 2A.13.1 of Global Exchange Market Listing and Admission to Trading Rules, consenting to its inclusion in the Listing Particulars.

Responsibilities

The Directors of JSC Georgia Capital are responsible for preparing the Financial Information in accordance with the basis of preparation set out in note 2 of the Financial Information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give

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reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the Financial Information gives, for the purposes of the Listing Particulars dated 7 March 2018, a true and fair view of the state of affairs of the Investment Business of BGEO Group PLC as at the dates stated and of its profits, other comprehensive income, cash flows and changes in invested capital for the periods then ended in accordance with the basis of preparation set out in note 2 of the Financial Information.

Yours faithfully

Ernst & Young LLP

COMBINED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Assets				
Cash and cash equivalents	8	374,299	401,970	292,955
Amounts due from credit institutions	9	38,141	178,425	34,069
Investment securities		33,060	3,672	1,784
Accounts receivable	10	35,341	122,300	73,321
Insurance premiums receivable		30,855	48,390	40,881
Inventories	11	80,132	179,534	117,713
Investment properties	12	159,989	140,254	110,945
Property and equipment	13	657,635	967,461	464,778
Goodwill	14	21,935	73,643	39,641
Intangible assets		5,457	18,965	6,540
Income tax assets	16	1,374	4,557	6,792
Prepayments		88,027	58,120	37,998
Other assets	15	73,537	90,010	113,824
Assets of disposal group held for sale	6	1,148,584	-	-
Total assets		**2,748,366**	**2,287,301**	**1,341,241**
Liabilities				
Accounts payable		46,479	109,146	44,071
Insurance contracts liabilities	17	46,403	67,871	55,846
Borrowings	18	657,109	717,876	142,460
Debt securities issued	19	77,835	122,263	82,522
Income tax liabilities	16	860	3,895	34,334
Deferred income	20	73,066	84,770	102,846
Other liabilities	15	63,469	164,303	85,699
Liabilities of disposal group held for sale	6	619,029	-	-
Total liabilities		**1,584,250**	**1,270,124**	**547,778**
Invested capital attributable to shareholders of the parent	22	**866,551**	**788,363**	**590,533**
Non-controlling interests		297,565	228,814	202,930
Invested capital		**1,164,116**	**1,017,177**	**793,463**
Total liabilities and invested capital		**2,748,366**	**2,287,301**	**1,341,241**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED INCOME STATEMENTS

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Net insurance premiums earned		52,147	43,115	40,856
Net insurance claims incurred		(25,098)	(17,858)	(20,114)
Gross insurance profit	23	**27,049**	**25,257**	**20,742**
Real estate revenue		121,153	102,974	61,150
Cost of real estate		(85,765)	(81,098)	(39,721)
Gross real estate profit	23	**35,388**	**21,876**	**21,429**
Utility and energy revenue		127,569	56,486	-
Cost of utility and energy		(39,198)	(17,806)	-
Gross utility and energy profit	23	**88,371**	**38,680**	**-**
Beverage revenue		55,441	29,793	29,527
Cost of beverage		(32,313)	(15,373)	(14,624)
Gross beverage profit	23	**23,128**	**14,420**	**14,903**
Other income		7,435	8,371	1,331
Gross profit		**181,371**	**108,604**	**58,405**
Salaries and other employee benefits	24	(34,548)	(16,279)	(11,800)
Administrative expenses	24	(38,351)	(21,057)	(15,798)
Other operating expenses		(1,892)	(1,863)	(367)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	25	(3,417)	(1,004)	(1,121)
		(78,208)	**(40,203)**	**(29,086)**
EBITDA		**103,163**	**68,401**	**29,319**
Profit from associates		-	4,074	4,050
Depreciation and amortisation		(28,237)	(10,061)	(2,393)
Net foreign currency (loss) gain		(4,938)	(3,132)	8,158
Interest income		12,971	4,260	2,563
Interest expense		(30,014)	(13,526)	(2,167)
Net operating income before non-recurring items		**52,945**	**50,016**	**39,530**
Net non-recurring items	26	(624)	32,104	(1,125)
Profit before income tax expense from continuing operations		**52,321**	**82,120**	**38,405**
Income tax expense	16	(5,749)	(7,812)	(4,500)
Profit for the year from continuing operations		**46,572**	**74,308**	**33,905**
Profit from discontinued operations	6	47,351	60,099	14,680
Profit for the year		**93,923**	**134,407**	**48,585**
Total profit attributable to:				
– shareholders of the parent		69,778	106,893	45,125
– non-controlling interests		24,145	27,514	3,460
		93,923	**134,407**	**48,585**
Profit from continuing operations attributable to:				
– shareholders of the parent		50,382	74,170	35,653
– non-controlling interests		(3,810)	138	(1,748)
		46,572	**74,308**	**33,905**
Profit from discontinued operations attributable to:				
– shareholders of the parent		19,396	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,351	**60,099**	**14,680**
Basic and diluted earnings per share:	22	**1.7717**	**2.7141**	**1.1457**
– earnings per share from continuing operations		1.2792	1.8832	0.9052
– earnings per share from discontinued operations		0.4925	0.8309	0.2405

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Profit for the year		93,923	134,407	48,585
Other comprehensive (loss) income from continuing operations				
Other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		267	-	-
– Realised gain on available-for-sale securities reclassified to the combined income statement		(2)	-	-
– (Loss) gain from currency translation differences		(7,162)	14,248	(28)
Income tax impact	16	165	1,119	(455)
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		**(6,732)**	**15,367**	**(483)**
Other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
Impact of income tax changes on associates		-	5,580	-
Net other comprehensive income from continuing operations not to be reclassified to profit or loss in subsequent periods		**-**	**5,580**	**-**
Other comprehensive (loss) income for the year, net of tax		**(6,732)**	**20,947**	**(483)**
Total comprehensive income for the year from continuing operations		39,840	95,255	33,422
Total comprehensive income for the year from discontinued operations		47,351	60,099	14,680
Total comprehensive income for the year		**87,191**	**155,354**	**48,102**
Total comprehensive income attributable to:				
– shareholders of the parent		63,915	129,611	44,650
– non-controlling interests		23,276	25,743	3,452
		87,191	**155,354**	**48,102**
Total comprehensive income from continuing operations attributable to:				
– shareholders of the parent		44,519	96,888	35,178
– non-controlling interests		(4,679)	(1,633)	(1,756)
		39,840	**95,255**	**33,422**
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the parent		19,396	32,723	9,472
– non-controlling interests		27,955	27,376	5,208
		47,351	**60,099**	**14,680**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CHANGES IN INVESTED CAPITAL

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Invested capital		
	Attributable to the equity holders of the parent	*Non-controlling interests*	*Total Invested capital*
1 January 2015	**379,247**	**41,250**	**420,497**
Profit for the year	45,125	3,460	48,585
Other comprehensive loss for the year	(475)	(8)	(483)
Total comprehensive income for the year	**44,650**	**3,452**	**48,102**
Increase in invested capital arising from share-based payments	2,445	896	3,341
Net capital contribution	59,292	-	59,292
Dilution of interests in subsidiaries (Note 2)	109,430	125,160	234,590
Transactions costs recognised directly in invested capital (Note 2)	(13,379)	-	(13,379)
Acquisition and sale of non-controlling interests in existing subsidiaries (Note 2)	12,015	2,386	14,401
Non-controlling interests arising on acquisition of subsidiaries (Note 5)	-	29,786	29,786
Contributions under share-based payment plan (Note 27)	(3,167)	-	(3,167)
31 December 2015	**590,533**	**202,930**	**793,463**
Profit for the year	106,893	27,514	134,407
Other comprehensive income (loss) for the year	22,718	(1,771)	20,947
Total comprehensive income for the year	**129,611**	**25,743**	**155,354**
Increase in invested capital arising from share-based payments	5,155	3,815	8,970
Net capital contribution	65,682	-	65,682
Dilution of interests in subsidiaries	(2,788)	2,409	(379)
Acquisition of non-controlling interests in existing subsidiaries	2,616	(6,083)	(3,467)
Contributions under share-based payment plan (Note 27)	(2,446)	-	(2,446)
31 December 2016	**788,363**	**228,814**	**1,017,177**
Effect of early adoption of IFRS 15 (Note 3)	(18,223)	-	(18,223)
1 January 2017	**770,140**	**228,814**	**998,954**
Profit for the year	69,778	24,145	93,923
Other comprehensive loss for the year	(5,863)	(869)	(6,732)
Total comprehensive income for the year	**63,915**	**23,276**	**87,191**
Net capital contribution	430	-	430
Increase in invested capital arising from share-based payments	11,202	1,495	12,697
Buyback and cancelation of parent's shares (Note 22)	(12,186)	-	(12,186)
Sale of interests in existing subsidiaries*	71,980	36,623	108,603
Dilution of interests in subsidiaries	506	1,547	2,053
Increase in share capital of subsidiaries	-	14,493	14,493
Acquisition of non-controlling interests in existing subsidiaries	(18,409)	(43,919)	(62,328)
Non-controlling interests arising on acquisition of subsidiary (Note 5)	-	35,236	35,236
Contributions under share-based payment plan	(21,027)	-	(21,027)
31 December 2017	**866,551**	**297,565**	**1,164,116**

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

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Cash flows from operating activities				
Insurance premiums received		45,108	41,245	40,945
Insurance claims paid		(22,325)	(19,195)	(17,937)
Utility and energy revenue received		133,728	58,714	-
Cost of utility and energy revenue paid		(36,616)	(19,156)	-
Beverage revenue received		49,868	29,312	31,676
Cost of beverage revenue paid		(43,728)	(13,150)	(14,004)
Real estate revenue received		97,262	90,534	67,808
Cost of real estate revenue paid		(78,954)	(101,504)	(74,757)
Net realised loss from foreign currencies		(776)	(733)	341
Net other income received		6,928	651	2,195
Salaries and other employee benefits paid		(17,040)	(13,666)	(11,153)
General, administrative and operating expenses paid		(36,959)	(27,727)	(15,899)
Interest received		12,922	4,259	4,903
Interest paid		(40,077)	(15,903)	(6,899)
Other changes		(9,588)	4,973	3,717
Net cash flows from operating activities from continuing operations before income tax		**59,753**	**18,654**	**10,936**
Income tax paid		(6,339)	(6,422)	(1,869)
Net cash flows from operating activities from continuing operations		**53,414**	**12,232**	**9,067**
Net cash flows from operating activities from discontinued operations		27,832	19,409	22,016
Net Cash flow from operating activities		**81,246**	**31,641**	**31,083**
Cash flows used in investing activities				
Net withdrawals (placement) of amounts due from credit institutions		116,408	(129,804)	49,058
Loans (issued) repaid		(101)	3,244	(985)
Acquisition of subsidiaries, net of cash acquired	5	(17,844)	(160,453)	-
Repayment of remaining holdback amounts from previous year acquisitions		116	-	(3,092)
(Purchase of) proceeds from sale of investment securities		(31,112)	111	(631)
Proceeds from sale of investment properties	12	402	4,144	-
Purchase of investment properties	12	(17,199)	(8,776)	(15,220)
Proceeds from sale of property and equipment and intangible assets		6,348	4,989	1,101
Purchase of property and equipment and intangible assets		(269,913)	(79,870)	(4,058)
Dividends received		-	3,242	-
Net cash flows used in (from) investing activities from continuing operations		**(212,895)**	**(363,173)**	**26,173**
Net cash flows used in investing activities from discontinued operations		(133,142)	(179,791)	(131,936)
Net cash flows used in investing activities		**(346,037)**	**(542,964)**	**(105,763)**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015

(Thousands of Georgian Lari)

	Notes	*2017*	*2016*	*2015*
Cash flows from financing activities				
Proceeds from borrowings		329,043	421,207	5,481
Repayment of borrowings		(160,691)	(13,748)	(2,226)
Proceeds from debt securities issued		40,000	38,863	42,755
Redemption of debt securities issued		(45,322)	(7,015)	(34,651)
Buyback and cancelation of parent's shares	22	(12,186)	-	-
Contributions under share-based payment plan	27	(21,027)	(3,521)	(3,167)
Increase in share capital of subsidiaries		14,493	7,948	4,150
Net capital (reduction) contribution		(87,301)	142,619	23,790
Proceeds from sale of interests in existing subsidiaries		108,603	-	17,111
Net cash from financing activities from continuing operations		**165,612**	**586,353**	**53,243**
Net cash from financing activities from discontinued operations		136,819	39,069	181,902
Net cash from financing activities		**302,431**	**625,422**	**235,145**
Effect of exchange rates changes on cash and cash equivalents		(16,471)	(5,084)	36,985
Net increase in cash and cash equivalents		**21,169**	**109,015**	**197,450**
Cash and cash equivalents, beginning of the year	8	**401,970**	**292,955**	**95,505**
Cash and cash equivalents of disposal group held for sale	6	**48,840**	**-**	**-**
Cash and cash equivalents, end of the year	8	**374,299**	**401,970**	**292,955**

The accompanying notes on pages 7 to 63 are an integral part of these combined historical financial information.

(Thousands of Georgian Lari)

1. Principal Activities

This combined historical financial information is prepared for the investment business activities of BGEO Group PLC (the "Group"). The Group principally operates in a) water utility and renewable energy, b) property and casualty insurance, c) residential and commercial property construction and development and d) wine and beer production businesses. The Group is also currently consolidating healthcare and pharmacy businesses, has been classified as disposal group held for sale and discontinued operations of the Group as at 31 December 2017.

On 3 July 2017 BGEO Group PLC ("BGEO") announced its intention to demerge the business activities of BGEO Group PLC into a London-listed banking business (the "Banking Business"), Bank of Georgia Group PLC, and a London-listed investment business (the "Investment Business"), Georgia Capital PLC ("Georgia Capital"), by the end of the first half of 2018.

2. Basis of Preparation

General

The Group did not comprise a separate legal entity or group of legal entities during the three years ended 31 December 2017 and therefore the historical financial information of the Group (the "Historical Financial Information") combines the results, assets and liabilities of the entities set out within note 2 along with certain assets, liabilities and transactions of the holding companies BGEO Group PLC and JSC BGEO. During the year ended 31 December 2017, the Group's investment in Georgia Healthcare Group PLC ("GHG") was classified as a disposal group held for sale, and the results of GHG's operations have been classified as discontinued operations for all periods presented.

The combined historical financial information of the Group for the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 has been prepared specifically for the purposes of this Prospectus and in accordance with the Prospectus Directive Regulation (No 2004/809/EC) and in accordance with this basis of preparation. The combined Historical Financial Information of the Group may not be indicative of its future performance and does not necessarily reflect what the results of operations, financial position and cash flows would have been had the Group operated as a stand-alone group during the periods presented.

This basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs') except as described below

IFRSs do not provide for the preparation of combined historical financial information and accordingly, in preparing the combined Historical Financial Information certain accounting conventions commonly applied for the purposes of preparing historical financial information for inclusion in investment circulars, as described in the Annexure to SIR 2000 (Investment Reporting Standards applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board, have been applied. The application of these conventions results in the following material departures from IFRS. In all other respects, IFRSs have been consistently applied.

- The Group's Historical Financial Information is not prepared on a consolidated basis and therefore does not comply with the requirements of IFRS 10 *Consolidated Financial Statements*. The combined Historical Financial Information has been prepared on a basis that combines the results and assets and liabilities of each of the entities that constitutes the Group, derived from the accounting records of those entities, by applying the principles underlying the consolidation procedures of IFRS 10 for each of the three years ended 31 December 2017, 31 December 2016 and 31 December 2015 and as at these dates.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

General (continued)

The following summarises the key accounting and other principles applied in preparing the combined Historical Financial Information:

- The Group has not previously formed a separate legal group and therefore, it is not meaningful to present share capital or an analysis of reserves. The excess of assets over liabilities of all combining entities in the Group as of 31 December 2017, 31 December 2016 and 31 December 2015 are representative of the cumulative investment of BGEO in the Group, shown as "Invested Capital".
- Certain assets, liabilities and transactions of the holding companies BGEO Group PLC and JSC BGEO are included in the Historical Financial Information where they specifically relate to the investment business activities undertaken by the Group. These include all cash balances, investment in associates of the Investment business, US$100 million of the US$350 million 6.00 per cent. Notes due 2023 issued by JSC BGEO and borrowings from local financial institutions to fund investments in the subsidiaries of the Investment Business.
- Transactions and balances between entities within the Group have been eliminated. All intra-group balances, transactions, income and expenses and profits and losses, including unrealised profits arising from intra-group transactions, have been eliminated on combination
- Transactions and balances between the Group and the rest of the BGEO group represent third-party transactions and balances from the perspective of the Group. They have been presented alongside all other third-party transactions and balances in the appropriate financial statement line items of the combined Historical Financial Information to which such transactions and balances relate and disclosed as related party transactions
- Goodwill recognised within BGEO's consolidated financial statements that is directly attributable to the entities within the Group has been reflected in the combined balance sheets in the Historical Financial Information and included in the financial information at the beginning of the comparative period (with a corresponding credit taken to Invested Capital). As permitted by IFRS 1, the deemed cost of this goodwill has been derived from that previously reported in the consolidated financial statements of BGEO under IFRS.
- Dividends paid by the Banking Business are treated as capital contributions in the Historical Financial Information. External dividend payments by BGEO are recorded as capital reductions. Net capital contributions and capital reductions of these nature are reported as "net capital contribution (reduction)" in the combined statement of cash flows and the combined statement of changes in invested capital.

The accounting policies applied and disclosed in note 3 are consistent with those to be used by Georgia Capital PLC in its next annual financial statements and these policies have been applied consistently to all periods presented, unless stated otherwise. The Historical Financial Information is presented in Georgian Lari (GEL), the Group's presentation currency and all values are in thousands, unless otherwise noted.

The combined Historical Financial Information has been prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, infrastructure assets, and investment properties;
- the measurement of inventories at lower of cost and net realisable value.

The preparation of the combined Historical Financial Information requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses, as set out in note 4. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Basis of Preparation (continued)

Going concern

The Board of Directors of Georgia Capital has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the Historical Financial Information has been prepared on a going concern basis.

Subsidiaries and associates

The combined Historical Financial Information as at 31 December 2017, 31 December 2016 and 31 December 2015 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held							
Subsidiaries	*31 December 2017*	*31 December 2016*	*31 December 2015*	*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*
⇒ JSC m2 Real Estate	100.00%	100.00%	100.00%	Georgia	4 Freedom Square, Tbilisi, 0105	Real estate	27/9/2006	–
⇒ m2 Residential, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
⇒ Optima ISANI, LLC	100.00%	100.00%	100.00%	Georgia	16 a Moscow ave., Tbilisi	Real estate	25/7/2014	–
⇒ Tamarashvili 13, LLC	100.00%	100.00%	100.00%	Georgia	13 Tamarashvili Str., Tbilisi, 0179	Real estate	3/11/2011	–
⇒ m2 at Hippodrome, LLC	100.00%	100.00%	100.00%	Georgia	10 Givi Kartozia st., Tbilisi	Real estate	6/7/2015	–
⇒ m2 Skyline, LLC	100.00%	100.00%	100.00%	Georgia	3 Maro Makashvili st., Tbilisi	Real estate	23/7/2015	–
⇒ m2 at Kazbegi, LLC	100.00%	100.00%	100.00%	Georgia	25 Kazbegi Ave., Tbilisi, 0160	Real estate	21/5/2013	–
⇒ m2 at Tamarashvili, LLC	100.00%	100.00%	100.00%	Georgia	6 Tamarashvili Str., Tbilisi, 0177	Real estate	21/5/2013	–
⇒ m2 at Nutsubidze, LLC	100.00%	100.00%	100.00%	Georgia	71 Vaja Pshavela Ave., 0186	Real estate	21/5/2013	–
⇒ M Square Park, LLC	100.00%	100.00%	100.00%	Georgia	1 Marshal Gelovani ave., Tbilisi	Real estate	15/9/2015	–
⇒ Optima Saburtalo, LLC	100.00%	100.00%	100.00%	Georgia	2 Mikheil Shavishvili st, Tbilisi	Real estate	15/9/2015	–
⇒ m2 at Vake, LLC	100.00%	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	3/8/2016	–
⇒ m2 Hospitality, LLC	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi st., Tbilisi, 0179	Real estate	17/8/2015	–
⇒ m2, LLC (formerly JSC m2)	100.00%	100.00%	100.00%	Georgia	#3-5 Kazbegi Street, Tbilisi	Real estate	12/2/2014	–
⇒ m2 Kutaisi, LLC	100.00%	-	-	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ m2 at Melikishvili, LLC	100.00%	-	-	Georgia	10 Melikishvili ave., Tbilisi	Real estate	17/5/2017	–
⇒ Kass 1, LLC	60.00%	-	-	Georgia	20 Merab Kostava st., Tbilisi	Real estate	16/10/2014	27/12/2017
⇒ m2 at Chavchavadze LLC	100.00%	100.00%	-	Georgia	50 I. Chavchavadze ave., Tbilisi	Real estate	5/9/2016	–
⇒ m2 Commercial Properties LLC	100.00%	100.00%	-	Georgia	77 Zh. SHartavai st, Tbilisi	Real estate	1/3/2016	–
⇒ Caucasus Autohouse, LLC	100.00%	100.00%	100.00%	Georgia	80 Aghmashenebeli ave., Tbilisi, 0102	Real estate	29/3/2011	–
⇒ Land, LLC	100.00%	100.00%	100.00%	Georgia	Between university and Kavtaradze st.,Tbilisi	Real estate	3/10/2014	–
⇒ BK Construction, LLC	100.00%	-	-	Georgia	80 Agmashenebeli ave., Tbilisi	Real estate	18/5/2017	2/6/2017
⇒ JSC Georgian Renewable Power Company	65.00%	100.00%	100.00%	Georgia	79 David Agmashenebeli Ave, 0102, Tbilisi	Renewable Energy	14/9/2015	–
⇒ JSC Geohydro	85.00%	85.00%	85.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	11/10/2013	–
⇒ JSC Svaneti Hydro	100.00%	65.00%	65.00%	Georgia	29a, Gagarin Street, Tbilisi 0160	Renewable Energy	6/12/2013	–
⇒ JSC Zoti Hydro	100.00%	65.00%	100.00%	Georgia	79, d.Agmashenebeli ave. Tbilisi 0102	Renewable Energy	20/8/2015	–
⇒ JSC Caucasian Wind Company	100.00%	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	14/9/2016	–
⇒ JSC Caucasian Solar Company	100.00%	100.00%	-	Georgia	79 D.Agmashenebeli Ave, Tbilisi, 0102	Renewable Energy	27/10/2016	–
⇒ JSC Insurance Company Aldagi	100.00%	100.00%	100.00%	Georgia	#9 Ana Politkovskaya str., Tbilisi	Insurance	31/7/2014	–
⇒ JSC Insurance Company Tao	100.00%	100.00%	100.00%	Georgia	Old Tbilisi, Pushkini str #3, Tbilisi	Insurance	22/8/2007	21/1/2015
⇒ Aliance, LLC	100.00%	100.00%	100.00%	Georgia	1 Sanapiro street, Tbilisi	Various	3/1/2000	5/1/2012
⇒ Green Way, LLC	100.00%	100.00%	100.00%	Georgia	Village Ratevani, Bolnisi District	Various	9/8/2008	5/1/2012
⇒ Premium Residence, LLC	100.00%	100.00%	100.00%	Georgia	King Parmavaz Str. # 48, Batumi	Hotel	9/7/2010	1/5/2012
⇒ JSC AMF	100.00%	-	-	Georgia	20 I. Chavchavadze ave., Tbilisi	Insurance	17/11/2017	–
⇒ Georgia Healthcare Group PLC (a)	57.05%	65.03%	67.70%	United Kingdom	84 Brook Street, London, W1K 5EH	Healthcare	27/8/2015	28/8/2015
⇒ JSC Georgia Healthcare Group	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	29/4/2015	–
⇒ JSC Insurance Company Imedi L (Formerly known as JSC Insurance Company Aldagi BCI)	100.00%	100.00%	100.00%	Georgia	3-5 Kazbegi street, Tbilisi	Insurance	22/6/2007	–
⇒ Biznes Centri Kazbegze, LLC	-	-	100.00%	Georgia	44 Al. Kazbegi ave, Tbilisi, 0177	Various	22/6/2010	10/1/2011
⇒ JSC GEPHA (Formerly known as JSC GPC)	67.00%	100.00%	-	Georgia	Old Tbilisi, Sanapiro str. #6, Tbilisi	Healthcare	19/10/1995	4/5/2016
⇒ JSC ABC Pharamcia (Armenia)	100.00%	-	-	Armenia	Kievnaia sts. #2/8, 2/10, Erevan	Pharmaceutical	28/4/2013	6/1/2017
⇒ ABC Pharmalogistics, LLC	100.00%	-	-	Georgia	Sanapiro Str.#6, Tbilisi	Pharmaceutical	24/2/2004	6/1/2017
⇒ JSC Medical Corporation EVEX	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Healthcare	31/7/2014	–
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.70%	66.70%	66.70%	Georgia	85 Djavakhishvili street, Kutaisi, 4600	Medical services	5/5/2003	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.70%	66.70%	66.70%	Georgia	83 A Djavakhishvili street, Kutaisi	Medical services	15/10/2004	12/9/2011
⇒ Tskaltubo Regional Hospital, LLC	66.70%	66.70%	66.70%	Georgia	16 Eristavi street, Tskhaltubo	Medical services	29/9/1999	12/9/2011
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital	96.87%	96.87%	96.87%	Georgia	9 Paolo Iashvili street, Kutaisi	Medical services	3/11/2000	20/5/2008

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	*Proportion of voting rights and ordinary share capital held*							
	31 December 2017	*31 December 2016*	*31 December 2015*	*Country of incorporation*	*Address*	*Industry*	*Date of incorporation*	*Date of acquisition*
⇒ Patgeo, LLC	100.00%	100.00%	0.00%	Georgia	Gldani Nadzaladevi district, Mukhiani, II mcr. District, Building #22, 1a, Tbilisi	Medical services	13/10/2010	27/9/2016
⇒ GN KO, LLC	50.00%	50.00%	50.00%	Georgia	Chavchavadze ave. N 16, Tbilisi	Medical services	6/4/2001	5/8/2015
⇒ High Technology Medical Center, LLC	100.00%	100.00%	100.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	16/4/1999	5/8/2015
⇒ Geolab, LLC	50.00%	50.00%	50.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	3/5/2011	5/8/2015
⇒ Nephrology Development Clinic Center, LLC	80.00%	80.00%	80.00%	Georgia	Tsinandali str. N 9, Tbilisi	Healthcare Service	28/9/2010	5/8/2015
⇒ Catastrophe Medicine Pediatric Center, LLC	100.00%	100.00%	100.00%	Georgia	U. Chkeidze str. N 10	Medical services	18/6/2013	5/8/2015
⇒ JSC Pediatria	76.00%	76.00%	-	Georgia	U. Chkeidze str. N 10, Tbilisi	Medical services	5/9/2003	5/7/2016
⇒ Emergency Service, LLC	100.00%	100.00%	-	Georgia	#2, D. Uznadze st., Tbilisi	Medical services	28/7/2009	6/1/2016
⇒ JSC Poti Central Hospital	100.00%	100.00%	-	Georgia	Guria str. 171, Poti	Medical services	29/10/2014	1/1/2016
⇒ Deka, LLC	97.20%	95.00%	95.00%	Georgia	Bakhtrioni Str. 8B, Tbilisi	Medical services	12/1/2012	11/6/2015
⇒ EVEX-Logistics, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	2/2/2015	–
⇒ EVEX Collection, LLC	100.00%	100.00%	0.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	25/3/2016	–
⇒ Unimed Achara, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Samtskhe, LLC	100.00%	100.00%	100.00%	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ Unimedi Kakheti, LLC	100.00%	100.00%	100.00%	Georgia	20 Chavchvadze ave Tbilisi	Medical services	29/6/2010	1/5/2012
⇒ M. Iashvili Children's Central Hospital, LLC	100.00%	100.00%	66.70%	Georgia	2/6 Lubliana Street, Tbilisi	Medical Service	3/5/2011	19/2/2014
⇒ Institute of Pediatrics, Alergology and Rheumatology Centre, LLC	100.00%	100.00%	100.00%	Georgia	5 Lubliana Street 5, Tbilisi	Medical Service	6/3/2000	19/2/2014
⇒ Iv Bokeria Tbilisi Referral Hospital	100.00%	-	-	Georgia	Kindzmarauli I turn, N1 , Isan-Samgori, Tbilisi	Medical Service	16/3/2017	–
⇒ Referral Centre of Pathology, LLC	100.00%	100.00%	100.00%	Georgia	40 Vazha-Pshavela Ave., Tbilisi	Medical services	29/12/2014	–
⇒ EVEX Learning Center	100.00%	100.00%	100.00%	Georgia	#83A, Javakhishvili street, Tbilisi	Education	20/12/2013	–
⇒ JSC Mega-Lab	100.00%	-	-	Georgia	23 Kavtaradze str., Tbilisi	Medical services	6/6/2017	–
⇒ New Clinic, LLC	100.00%	-	-	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	1/3/2013	26/7/2017
⇒ Alliance Medi, LLC	100.00%	-	-	Georgia	Vazha Pshavela ave. #40, Tbilisi	Medical services	7/7/2015	26/7/2017
⇒ Medical Center Alimedi, LLC	100.00%	-	-	Georgia	17 R. Tabukashvili str., Tbilisi	Medical services	27/9/2003	8/11/2017
⇒ JSC Polyclinic Vere	97.80%	-	-	Georgia	18-20 Kiacheli str.,Tbilisi	Medical services	22/11/2017	25/12/2017
⇒ Georgian Global Utilities, LLC	100.00%	100.00%	25.00%	British Virgin Islands	33 Porter Road, PO Box 3169 PMB 103, Road Town, Tortola	Utilities	16/08/2007	31/12/2014
⇒ Georgian Water and Power, LLC	100.00%	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	25/06/1997	31/12/2014
⇒ Rustavi Water, LLC	100.00%	100.00%	100.00%	Georgia	5, St. Nino St., Rustavi	Utilities	31/08/1999	31/12/2014
⇒ Gardabani Sewage Treatment, LLC	100.00%	100.00%	100.00%	Georgia	33, Kostava st. 1st Lane, Tbilisi	Utilities	20/12/1999	31/12/2014
⇒ JSC Teliani Valley	75.75%	71.66%	71.44%	Georgia	3 Tbilisi highway, Telavi.	Winery	30/6/2000	28/2/2007
⇒ Teliani Trading (Georgia), LLC	100.00%	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Distribution	10/1/2006	27/3/2007
⇒ Teliani Trading (Ukraine), LLC	100.00%	100.00%	100.00%	Ukraine	18/14 Khvoiki St. Kiev	Distribution	3/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.00%	100.00%	100.00%	Georgia	2 Marshal Gelovani St, Tbilisi	Cognac Production	23/9/2006	20/3/2007
⇒ Kupa, LLC	70.00%	70.00%	70.00%	Georgia	3 Tbilisi highway, Telavi	Oak Barrel Production	12/10/2006	20/3/2007
⇒ Global Beer Georgia, LLC	100.00%	100.00%	100.00%	Georgia	Vazisubani IV M/R, I KV, Building N21, App. N12, Tbilisi	Production and distribution of alcohol and non-alcohol beverages	24/12/2014	–
⇒ JSC Liberty Consumer	98.28%	98.25%	87.64%	Georgia	74a Chavchavadze Ave, Tbilisi, 0162	Investments	24/5/2006	–
⇒ JSC Intertour	99.94%	99.94%	99.94%	Georgia	49a, Chavchavadze Ave, Tbilisi, 0162	Travel agency	29/3/1996	25/4/2006
⇒ JSC Prime Fitness	100.00%	100.00%	100.00%	Georgia	78 Chavchavadze Ave, Tbilisi, 0162	Fitness centre	7/3/2006	–
⇒ Global Coffee Georgia, LLC	100.00%	-	-	Georgia	29a Gagarini street, Tbilisi	Coffee Distribution	26/12/2016	15/2/2017
⇒ New Coffee Company, LLC	100.00%	-	-	Georgia	Tskneti Highway, №16/18, app. 36	Coffee Distribution	23/9/2009	15/2/2017

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Associates	Proportion of voting rights and ordinary share capital held 31 December 2017	31 December 2016	31 December 2015	Country of incorporation	Address	Industry	Date of incorporation	Date of acquisition
#5 Clinic hospital, LLC	35.00%	35.00%	-	Georgia	Temka XI M/D, Q.1, Tbilisi, Georgia	Healthcare	16/9/1999	8/2/2016

(a) Georgia Healthcare Group PLC and its subsidiaries are classified as disposal group held for sale

In 2015, as a result of issuing GHG's new shares, the Group raised GEL 220,529 net proceeds (GEL 233,908 gross proceeds less GEL 13,379 transaction costs) and recognized GEL 124,503 non-controlling interests and GEL 96,026 unrealized gain on dilution of interests in subsidiaries. As a result of selling the existing shares in GHG through an over-allotment option, the Group received GEL 20,670 and recognized GEL 12,450 non-controlling interests and GEL 8,220 unrealized gain on sale of non-controlling interests in existing subsidiaries.

In May 2017, the Group sold 7.21%% equity interests in Georgia Healthcare Group PLC, received net proceeds of GEL 96,998 and recognized GEL 63,382 unrealized gain on sale of interests in existing subsidiaries.

3. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Group in preparing its combined historical financial information:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the combined income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

Fair value measurement

The Group measures financial instruments, such as investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the combined historical financial information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the combined historical financial information on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented separately in the statement of cash flows.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within ninety days of the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method less impairment.

Derivative financial instruments

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the combined income statement as net foreign currency gain (loss).

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in the combined profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the combined profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the combined profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the combined income statement.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Borrowings

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the combined income statement when borrowings are derecognised as well as through the amortisation process.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of such asset. All other borrowing costs are expensed in the year in which they occur.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the combined statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the combined statement of income.

Reinsurance receivables, included in other asset, primarily comprise of balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the combined income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the combined income statement by establishing an unexpired risk provision.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Deferred acquisition costs

Deferred acquisition costs ("DAC"), included in insurance premiums receivable, are capitalised costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortised on a straight-line basis over the life of the contract.

Investment properties

Investment property is a land or building or a part of a building held to earn rental income or for capital appreciation purposes and which is not used by the Group or held for sale in the ordinary course of business. Property that is under construction, is being developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualifications and who have recent experience in valuation of property of similar location and category. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in the period in which they arise.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Investment properties are derecognized either when they have been disposed of or they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the combined income statement in the period of derecognition.

Property and equipment

Property and equipment, except for infrastructure assets, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Infrastructure assets are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increase in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and initially recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost infrastructure assets are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough (market value changes are monitored at least once in a year) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the combined income statement, in which case the increase is recognised in the combined income statement. A revaluation deficit is recognised in the combined income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Depreciation of an asset commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	Up to 100
Infrastructure assets	10-40
Factory and equipment	7-30
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventory includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition including borrowing costs. The cost of inventory is determined on a weighted average basis for beverages and inventory in healthcare segment (discontinued) and first in first out basis ("FIFO") in the pharma segment (discontinued). The cost of inventory in real estate segment is determined with reference to the specific costs incurred on the property sold and allocated non-specific costs based on the relative size of the property sold.

Intangible assets

The Group's intangible assets include computer software and licenses and exclusive rights.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Goodwill Impairment

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Contingencies

Contingent liabilities are not recognised in the combined statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the combined statement of financial position but disclosed when an inflow of economic benefits is probable.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby they render services and receive equity instruments of the Group and BGEO ('equity settled transactions') as consideration for the services provided.

Equity-settled transactions

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

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The combined income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGEO Group PLC's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Dividend income

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

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

Insurance premium income

For property & casualty and health insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Income and expense recognition healthcare and pharma revenue (discontinued)

The Group recognizes healthcare revenue when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. Healthcare revenue is recognized net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state), to recognize revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the corrections and rebates is subsequently resolved. Healthcare revenue comprises the fair value of the consideration received or receivable for providing inpatient and outpatient services and includes the following components:

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

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

3. Summary of Significant Accounting Policies (continued)

Utility and energy revenue

The Group recognizes revenue from utility when the Group satisfies a performance obligation at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer. The following specific recognition criteria must be met before revenue is recognized:

- Revenue from water supply – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the Group recognizes revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.
- Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for the general population.
- Revenue from connection and water meter installation – includes non-refundable amounts billed upfront for connecting customers to water system and providing them with the access to water supply. Revenue from connection and water meter installation is recognized over the time in line with the satisfaction of performance obligation over the life of water meters.

Revenue from electric power sales is recognised on the basis of metered electric power transferred.

Real estate revenue

Gross real estate profit comprises revenue from sale of developed real estate property and revaluation gains on such developed properties.

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognize revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such payments are recognized as deferred income. Significant financing component is usually immaterial.

Beverage revenue

Revenue from the sale of beverages is recognised when the group satisfies the performance obligation, i.e. when the control of the goods has passed to the buyer, usually on delivery of the goods. For the finished goods sold on consignment basis, revenue is recognized when the goods are transferred to the end-customer or on expiration of specified period. Revenue recognized in connection to the sale of finished goods reflects an adjustment for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer)

Revenue from customer loyalty program

Customer loyalty program points accumulated in the business are treated as deferred revenue and recognized in revenues gradually as they are earned. The Group recognizes gross revenue earned from customer loyalty program when the performance obligation is satisfied i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Whereas, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At reach reporting date the Group estimates portion of accumulated points that is expected to be utilized by customers based on statistical data. These points are treated as liability in the statement of financial position and are only recognized in revenues when points are earned or expired.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

EBITDA

The Group separately presents EBITDA on the face of the combined income statement. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's profit before income tax expense but excluding the following line items: depreciation and amortisation, interest income, interest expense, net foreign currency (loss) gain, profits from associates and net non-recurring items.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Group and its subsidiaries operate.

The annual profit earned by entities is not taxed in Georgia. Corporate income tax is paid on dividends, donations, abnormal losses, non-business related disbursements, etc. The corporate income tax arising from the payment of dividends is accounted for as a liability and expensed in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

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

Functional, reporting currencies and foreign currency translation

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in Net foreign currency gain (loss). The official NBG exchange rates at , 31 December 2017, 31 December 2016, 31 December 2015 were as follows:

	Lari to GBP	*Lari to USD*	*Lari to EUR*
31 December 2017	3.5005	2.5922	3.1044
31 December 2016	3.2579	2.6468	2.7940
31 December 2015	3.5492	2.3949	2.6169

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the combined income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies

The nature and the effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.

The Group early adopted new revenue recognition standard effective from 1 January 2017 using modified retrospective approach. The impact of early adoption was GEL 18,223 decrease to retained earnings, with corresponding increase of other liabilities, inventories and accounts receivables.

The Group's revenue streams affected by transition to IFRS 15 included real estate revenue and connection fees from utility services. For revenue streams, part of the revenue was deferred under IFRS 15 requirements until satisfaction of respective performance obligations, which is expected over the settlement or expiration of bonus points under loyalty programs, completion progress and estimated connection service period.

The details of adjustments to opening retained earnings and other account:

	31-Dec-16	**Effect of IFRS 15 adoption**	**1-Jan-17**
Assets			
Accounts receivable	122,300	(2,041)	120,259
Inventories	179,534	(30,578)	148,956
Other	1,985,467	-	1,985,467
Total assets	**2,287,301**	**(32,619)**	**2,254,682**
Liabilities			
Income tax liabilities	3,895	-	3,895
Deferred income	84,770	(14,396)	70,374
Other	1,181,459	-	1,181,459
Total liabilities	**1,270,124**	**(14,396)**	**1,255,728**
Invested capital	**1,017,177**	**(18,223)**	**998,954**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Group's consolidated income statement and financial position for the year ended 31 December 2017 were as follows:

Extract from Consolidated Income Statement for the year end 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Real estate revenue	121,153	44,697	76,456
Cost of real estate	(85,765)	(16,274)	(69,491)
Gross real estate profit	**35,388**	**28,423**	**6,965**
Beverage revenue	55,441	60,328	(4,887)
Cost of beverage	(32,313)	(30,950)	(1,363)
Gross beverage profit	**23,128**	**29,378**	**(6,250)**
Other income	7,435	8,661	(1,226)
Other	115,420	115,420	-
Gross profit	**181,371**	**181,882**	**(511)**
Administrative expenses	(38,351)	(44,282)	5,931
Other	(39,857)	(39,857)	-
EBITDA	**103,163**	**97,743**	**5,420**
Profit for the year from continuing operations	**46,572**	**41,152**	**5,420**
Profit from discontinued operations	**47,351**	**47,066**	**285**
Healthcare and pharma revenue	691,971	691,686	285
Cost of healthcare and pharma services	(491,732)	(491,732)	-
Gross healthcare and pharma profit	**200,239**	**199,954**	**285**
Profit for the year	**93,923**	**88,218**	**5,705**

Extract from Consolidated Statement of Financial Position as at 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Assets			
Accounts receivable and contract assets	35,341	37,134	(1,793)
Inventories	80,132	179,728	(99,596)
Assets of disposal group held for sale:			
Accounts receivable	123,388	124,143	(755)
Other	2,509,505	2,509,505	-
Total assets	**2,748,366**	**2,850,510**	**(102,144)**
Liabilities			
Income tax liabilities	860	860	-
Deferred income	73,066	162,692	(89,626)
Other	1,510,324	1,510,324	-
Total liabilities	**1,584,250**	**1,673,876**	**(89,626)**
Invested capital	**1,164,116**	**1,176,634**	**(12,518)**

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

IAS 12 Income Taxes

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. The Group evaluated the impact and concluded that the amendment has no effect on the Group's financial position and performance as the Group has no deductible temporary differences on assets that are in the scope of the amendments.

IAS 7 Statement of Cash Flows

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the information for current period in Note 18.

Standards issued but not yet effective

Up to the date of approval of the combined historical financial information, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

Introduction
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group will adopt the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all aspects of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. Based on the data as at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity at 1 January 2018 of approximately 13,630.

(a) Classification and measurement
The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required. The equity shares in listed and non-listed companies are intended to be held for the foreseeable future. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact. Debt securities currently classified as available for sale instruments, are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

(b) Impairment
IFRS 9 is expected to fundamentally change the current loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans, receivables and other debt financial assets not held at FVPL, together with financial guarantee contracts. IFRS 9 requires the Group to record expected credit losses either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade and other receivables. The Group has determined that, due to the unsecured nature of its trade and other receivables, the loss allowance for accounts receivables will increase by 13,630 of which GEL 6,962 relates to assets of disposal group held for sale.

(c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, it will replace IFRS 4 Insurance Contracts that was issued in 2005. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts covering all relevant accounting aspects. IFRS 17 is effective for reporting periods starting on or after 1 January 20121, with comparative figures required. Early application is permitted using either a full retrospective or a modified retrospective approach, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently evaluating the impact.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. IFRS 16 can be adopted using either a full retrospective or a modified retrospective approach. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a "right of use" asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Leases must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Lessor accounting remains substantially the same as in IAS 17. The Group does not anticipate early adoption of IFRS 16 and is currently assessing the impact of IFRS 16 on its financial statements.

IFRS 2 Share-based Payments

On 20 June 2016, the IASB issued amendments to IFRS 2 Share Based Payment that clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

Annual Improvements 2015-2017 Cycle

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, at fair value through profit or loss, is available for each investment in as associate or joint venture on an investment by investment basis, upon initial recognition. The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018. The Group is currently evaluating the impact.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates

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

Measurement of fair value of investment properties and property and equipment

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

The Group performs valuation of its investment properties and infrastructure assets included in property and equipment with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in notes 12 and 13, while valuation inputs and techniques are presented in note 29. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Impairment of insurance premiums receivable, accounts receivable and other assets

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

The amount of allowance for impairment of the trade and other receivables as at 31 December 2017 was GEL 4,003 (31 December 2016: GEL 2,292 31 December 2015: 6,935). Refer to Note 25.

The amount of allowance for impairment of insurance premiums receivable as at 31 December 2017 was GEL 4,243 (31 December 2016: GEL 8,762 31 December 2015: GEL 7,031). Refer to Note 25.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. Refer to Note 17.

Ownership and recognition of infrastructure assets

The Group's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Group in supply of water and wastewater services and that have been transferred to the Group as a result of the privatization transaction. Due to the lack of required documents and timing for registration, the Group was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these combined historical financial information. However, based on the provisions of privatization agreement, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Group and could only be used by the Group (as a sole provider of water and water supply services in Tbilisi, Rustavi and Mtskheta) there is high probability that the Group will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Group or disputes on ownership, management recognized infrastructure assets as the Group's property, plant and equipment.

5. Business Combinations

Acquisitions during the year ended 31 December 2017

JSC ABC Pharmacy

On 6 January 2017 JSC GEPHA ("GEPHA"), a wholly owned subsidiary of GHG, classified as disposal group held for sale, acquired 67% of LTD ABC Pharmacy ("ABC"), a pharmaceutical company operating in Georgia, from individual investors.

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

	Fair value recognised on acquisition
Cash and cash equivalents	4,184
Accounts receivable [1]	8,050
Prepayments	1,413
Inventories	44,572
Property and equipment	10,986
Intangible assets	322
Other assets	1,315
	70,842
Accounts payable	27,525
Accruals and deferred income	1,861
Other liabilities	1,122
	30,508
Total identifiable net assets	**40,335**
Non-controlling interests [3]	(13,312)
Goodwill arising on business combination	46,796
Consideration given [2]	**73,819**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(32,501)
Cash acquired with the subsidiary	4,184
Net cash outflow	**(28,317)**

The Group decided to increase its presence and investment in the pharmaceuticals segment through the acquisition of ABC. Management considers that the acquisition will have a positive impact on the value of the Group.

Since the acquisition, ABC has recorded GEL 139,812 and GEL 15,354 of revenue and profit, respectively. As the acquisition took place on 6 January 2017, it would not have material effect on Group's profit if the combination had taken place at the beginning of the period. Since GHG is classified as disposal group held for sale the acquisition did not have impact on the Group's revenues from continued operations.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

[1] The fair value of the receivables from sales of pharmaceuticals amounted to GEL 8,050. The gross amount of receivables is GEL 9,452. GEL 1,402 of the receivables has been impaired.
[2] Consideration for the acquisition was GEL 73,819, of which, a) GEL 10,347 was fair value of 33% equity shares of JSC GPC transferred to former shareholders of ABC, b) GEL 32,501 was cash payment and c) a holdback amount was GEL 30,971 at fair value.
[3] As part of the acquisition, the selling shareholders have a put option to sell their 33% share in the combined pharma business to GHG. The Group recognised a GEL 55 million liability to purchase the remaining 33% share and the non-controlling interest arising from the consolidated pharma business of GHG was fully de-recognised. The difference between the redemption liability and non-controlling interest was recognised in equity through other reserves. The redemption liability is carried at amortized cost and interest is unwound on each reporting date.

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC New Coffee Georgia

On 15 February 2017 JSC BGEO Investments ("BGEO Investment"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC New Coffee Georgia ("New Coffee Georgia"), a coffee distribution company, which has exclusive rights to import and distribute Lavazza coffee in Georgia, from individual investors.

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

	Fair value recognised on acquisition
Cash and cash equivalents	208
Accounts receivable [1]	600
Property and equipment	895
Intangible assets arising on acquisition	1,120
Other assets	776
	3,599
Accounts payable	67
Amounts due to credit institutions	651
	718
Total identifiable net assets	**2,881**
Goodwill arising on business combination	2,836
Consideration given [2]	**5,717**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(5,304)
Cash acquired with the subsidiary	208
Net cash outflow	**(5,096)**

The Group decided to increase its presence in the beverage market by acquiring New Coffee Georgia. Management considers that the purchase will have a positive impact on the value of the Group's beverage business.

Since the acquisition, New Coffee Georgia recorded GEL 2,405 and GEL 20 of revenue and loss, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 364,156 and GEL 93,986 of revenue and profit, respectively.

[1] The fair value of the receivables amounted to GEL 600. The gross amount of receivables is GEL 764. GEL 164 of the receivables was impaired as at the acquisition date.
[2] Consideration comprised GEL 5,717, which consists of cash payment of GEL 5,304 and a holdback amount with a fair value of GEL 413.

5. Business Combination (continued)

LLC BK construction

On 2 June 2017 JSC m² Real Estate ("m²"), a 100% owned subsidiary of the Group, acquired 100% of the shares of LLC BK Construction ("BK Construction"), a construction company operating in Georgia from individual investors.

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

	Fair value recognised on acquisition
Property and equipment	2,446
Total identifiable net assets	**2,446**
Gain on bargain purchase	(260)
Consideration given [1]	**2,186**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(2,186)
Cash acquired with the subsidiary	-
Net cash outflow	**(2,186)**

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

Acquisition of BK did not have material impact on revenue and profit of the Group.

[1] Consideration was paid fully in cash.

(Thousands of Georgian Lari)

5. Business Combination (continued)

LLC Kass 1

On 26 December 2017, m² Hospitality LLC ("m²"), a 100% owned subsidiary of the Group, signed a share purchase agreement with JSC Kass Group, to acquire 50% of the shares of LLC Kass 1 ("Kass"). Kass is currently developing a boutique hotel in Tbilisi with target to complete the construction in 2019. Further m² made additional investment in Kass in amount of GEL 4,921 resulting in increase in equity interests in Kass to 60%.

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

	Provisional fair value recognised on acquisition
Accounts receivable	14
Investment property	-
Property and equipment	20,409
Prepayments	803
	21,226
Accounts payable	103
	103
Total identifiable net assets	**21,124**
Non-controlling interests	(10,562)
Consideration given [1]	**10,562**

The net cash outflow on acquisition was as follows:

	31 December 2017
Cash paid	(10,562)
Cash acquired with the subsidiary	-
Net cash outflow	**(10,562)**

The acquisition is in line with m²'s strategy to pursue hotel development and capitalise on growing tourist activities in Georgia. Management considers that the deal will have a positive impact on the value of the Group.

The net assets presented above are estimated provisionally as at the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

As the acquisition took place on 26 December 2017, it did not have material effect on Group's revenue and profit.

If the combination had taken place at the beginning of the period, it would not have material effect on the Group's revenue and profit.

[1] Consideration given comprises of cash payment.

(Thousands of Georgian Lari)

5. Business Combination (continued)

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

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

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

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

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

The net cash outflow on acquisition was as follows:

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

Since the acquisition, acqurees have recorded GEL 3,159 and GEL 1,260 of revenue and profit, respectively. As GHG is classified as disposal group held for sale, the acquisitions did not have impact on the Group's revenues from continued operations.

The net assets presented above are estimated provisionally as of the acquisition date. The Group continues a thorough examination of these net assets and if identified, adjustments will be made to the net assets and amount of the goodwill during the 12-month period from the acquisition date, as allowed by IFRS 3 'Business Combinations'.

[1] The fair value of the receivables amounted to GEL 460. The gross amount of receivables is GEL 460.
[2] Consideration given comprises of cash payment.

(Thousands of Georgian Lari)

5. Business Combination (continued)

Acquisitions during the year ended 31 December 2016

Acquisition of Georgian Global Utilities LLC

On 21 July 2016, the Group acquired remaining 75% equity stake in Georgian Global Utilities LLC ("GGU"), its utilities and energy business. As a result of this buy-out, Group owns 100% of GGU.

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

	Fair value recognized on acquisition
Cash and cash equivalents	3,760
Amounts due from credit institutions	2,922
Accounts receivable [1]	27,304
Inventories	4,429
Investment properties (note 12)	19,417
Property and equipment (note 13)	304,932
Intangible assets	1,060
Income tax assets	2,033
	365,857
Borrowings	84,632
Income tax liabilities	390
Other liabilities	24,969
	109,991
Total identifiable net assets	**255,866**
Gain on bargain purchase (note 26)	(36,915)
Consideration given[2]	**218,951**

The net cash inflow on acquisition was as follows:

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

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

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

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

[2] Consideration comprised of GEL 218,951 , which consists of GEL 164,213 cash payment and fair value of a previously owned 25% of GGU. At the acquisition date the Group performed fair valuation of 25% share of GGU and recognised GEL 5,145 loss in Non-recurring expenses (Note 26), the carrying value of 25% share as at the acquisition date was GEL 59,883

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisition of a Pharmaceutical Subsidiary

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

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

	Fair value recognized on acquisition
Cash and cash equivalents	1,455
Accounts receivable[1]	7,885
Inventory	31,282
Property and equipment (note 13)	8,105
Intangible assets	861
Income tax assets	552
Prepayments	1,723
Other assets	4,272
	56,135
Borrowings	15,198
Accruals	1,331
Other liabilities	37,750
	54,279
Total identifiable net assets	**1,856**
Goodwill arising on acquisition	29,025
Consideration given [2]	**30,881**

The net cash inflow on acquisition was as follows:

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

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

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

5. Business Combinations (continued)

Acquisition of Healthcare Subsidiaries

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

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

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

	Fair value recognized on acquisition
Cash and cash equivalents	74
Receivables from healthcare services [1]	1,435
Property and equipment (note 13)	15,605
Intangible assets	19
Other assets	208
	17,341
Borrowings	159
Accruals	518
Income tax liabilities	1,475
Other liabilities	4,118
	6,270
Total identifiable net assets	**11,071**
Gain on bargain purchase	(3,206)
Goodwill arising on business combination	4,124
Consideration given [2]	**11,989**

The net cash inflow on acquisition was as follows:

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

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

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

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

[1] Gross amount of receivables from healthcare services was GEL 2,006, of which, GEL 571 is not expected to be collected;

[2] Consideration comprised GEL 11,989 which consists of cash payment of GEL 2,400, a holdback amount with a fair value of GEL 2,697 and of pre-existing loans to Poti with a fair value of GEL 6,892.

5. Business Combinations (continued)

Acquisitions during the year ended 31 December 2015

Acquisition of Healthcare Subsidiaries

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

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

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

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

The net cash inflow on acquisition was as follows:

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

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

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

[1] Gross amount of receivables from healthcare services was GEL 18,271 of which GEL 9,951 is not expected to be collected;

[2] Prior to acquisition, owners of LLC Deka encountered certain financial difficulties which resulted in a lower acquisition cost and a gain from a bargain purchase in the amount of GEL (5,361), recorded in net non-recurring items;

3 Consideration comprised GEL 68,827 which consists of cash payment of GEL 47,628 and a holdback amount with a fair vaue of GEL 21,199.

(Thousands of Georgian Lari)

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

Given the expectation, in line with Georgia Capital's strategy, that it is highly probable the Group will own less than a 50% stake in its healthcare business, consisting of Georgia Healthcare Group ("GHG"), at the end 2018,the Group classified GHG as "disposal group held for sale" and its results of operations are reported under "discontinued operations" line as a single amount in the combined income statement.. The Group determined that GHG met the criteria to be classified as held for sale as at 31 December 2017 due to the following reasons:

- GHG is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- Management is committed to the plan to sell

Below are presented income statement line items of the Group attributable to discontinued operations for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017	*2016*	*2015*
Healthcare and pharma revenue	691,971	362,587	183,993
Cost of healthcare and pharma services	(479,184)	(227,725)	(103,054)
Gross healthcare and pharma profit	**212,787**	**134,862**	**80,939**
Net insurance premiums earned	50,367	57,052	55,029
Net insurance claims incurred	(35,153)	(45,564)	(42,881)
Gross insurance profit	**15,214**	**11,488**	**12,148**
Real estate revenue	729	1,316	556
Gross real estate profit	**729**	**1,316**	**556**
Other income	20,376	927	3,187
Gross profit	**249,106**	**148,593**	**96,830**
Salaries and other employee benefits	(75,429)	(39,749)	(26,573)
Administrative expenses	(50,783)	(27,894)	(10,352)
Other operating expenses	(10,945)	(963)	(709)
Impairment charge on insurance premiums receivable, accounts receivable, other assets and provisions	(4,175)	(2,332)	(3,448)
	(141,332)	**(70,938)**	**(41,082)**
EBITDA	**107,774**	**77,655**	**55,748**
Profit from associates	376	254	-
Depreciation and amortisation	(25,795)	(19,577)	(12,666)
Net foreign currency (loss) gain	(5,907)	(6,810)	2,098
Interest income	2,111	1,841	2,677
Interest expense	(27,543)	(15,577)	(22,900)
Net operating income before non-recurring items	**51,016**	**37,786**	**24,957**
Net non-recurring items	(4,779)	1,157	(1,676)
Profit before income tax expense	**46,237**	**38,943**	**23,281**
Income tax (expense) benefit	(387)	21,156	10
Profit for the year*	**45,850**	**60,099**	**23,291**

** The difference with profit from discontinued operations in combined income statements is attributable to intra-group eliminations in the net gain amount of GEL 1,501 for the year ended 31 December 2017 (2016: Nil , 2015: 8,611 net loss)*

(Thousands of Georgian Lari)

6. Discontinued Operations and Assets and Liabilities of Disposal Group Held for Sale (continued)

Assets and liabilities of disposal group held for sale as at 31 December 2017 are presented below:

	2017
Cash and cash equivalents	48,840
Amounts due from credit institutions	14,768
Investment securities	1,263
Accounts receivable	123,388
Insurance premiums receivable	21,257
Inventories	118,811
Prepayments	30,354
Property and equipment	626,476
Goodwill	114,798
Intangible assets	28,466
Income tax assets	2,026
Other assets	19,313
Total assets**	**1,149,760**
Accounts payable	97,321
Borrowings	267,010
Debt securities issued	93,493
Accruals	21,944
Insurance contracts liabilities	20,953
Income tax liabilities	72
Other liabilities	118,608
Total liabilities**	**619,401**

*** The differences with assets and liabilities of disposal group held for sale presented in combined statement of financial position are attributable to intra-group eliminations in amount of GEL 1,176 and GEL 372 , respectively.*

(Thousands of Georgian Lari)

7. Segment Information

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

GHG (Discontinued)	- Georgia Healthcare Group - principally providing wide-scale healthcare, health insurance and pharmaceutical services to clients and insured individuals;
m2	- Comprising the Group's real estate subsidiaries, principally developing, constructing and selling residential apartments and also renting out commercial properties;
GGU	- Comprising the Group's utility and energy subsidiaries – principally supplying water, electricity and providing a wastewater service;
Aldagi	- Property and Casualty Insurance business – principally providing wide-scale property and casualty insurance services to corporate and individual clients.
TV	- Beverage business - principally producing and distributing wine, beer and soft beverages.
Corporate Center	-Comprising of JSC Georgia Capital.

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the combined historical financial information.

Transactions between operating segments are on an arm's length basis in a similar manner to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017, 2016 or 2015.

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	GHG (Discontinued)	*M2*	*GGU*	*Aldagi*	*TV*	*Other IB*	*Corporate Center*	*Inter-Business Eliminations*	*Group Total*
Gross insurance profit	-	-	-	28,572	-	-	-	(1,523)	27,049
Gross real estate profit	-	35,452	-	144	-	-	-	(208)	35,388
Gross utility and energy profit	-	-	89,462	-	-	-	-	(1,091)	88,371
Gross beverage profit	-	-	-	-	23,128	-	-	-	23,128
Other income	-	92	6,414	1,001	247	-	1,305	(1,624)	7,435
Gross profit	**-**	**35,544**	**95,876**	**29,717**	**23,375**	**-**	**1,305**	**(4,446)**	**181,371**
Operating expenses and impairment	-	(8,521)	(24,178)	(12,760)	(22,189)	(302)	(11,600)	1,342	(78,208)
EBITDA	**-**	**27,023**	**71,698**	**16,957**	**1,186**	**(302)**	**(10,295)**	**(3,104)**	**103,163**
Dividend income	-	-	-	-	-	-	41,800	(41,800)	-
Net gains from disposal of investment	-	-	-	-	-	-	90,275	(90,275)	-
Depreciation and amortisation	-	(508)	(20,332)	(855)	(6,542)	-	-	-	(28,237)
Net foreign currency gain (loss)	-	41	(1,448)	208	(7,144)	14	3,391	-	(4,938)
Interest income	-	816	1,730	2,965	189	-	12,914	(5,643)	12,971
Interest expense	-	122	(13,483)	-	(3,345)	-	(19,884)	6,576	(30,014)
Net operating income (loss) before non-recurring items	**-**	**27,494**	**38,165**	**19,275**	**(15,656)**	**(288)**	**118,201**	**(134,246)**	**52,945**
Net non-recurring (expense/loss) income/gain	-	(128)	(1,122)	-	700	-	(74)	-	(624)
Profit (loss) before income tax from continuing operations	**-**	**27,366**	**37,043**	**19,275**	**(14,956)**	**(288)**	**118,127**	**(134,246)**	**52,321**
Income tax expense	-	(1,554)	(935)	(2,975)	(285)	-	-	-	(5,749)
Profit (loss) for the year from continuing operations	**-**	**25,812**	**36,108**	**16,300**	**(15,241)**	**(288)**	**118,127**	**(134,246)**	**46,572**
Profit from discontinued operations	45,850	-	-	-	-	-	-	1,501	47,351
Profit (loss) for the year	**45,850**	**25,812**	**36,108**	**16,300**	**(15,241)**	**(288)**	**118,127**	**(132,745)**	**93,923**
Revenue from continued operations	**-**	**121,309**	**135,072**	**54,815**	**55,687**	**-**	**1,305**	**(4,443)**	**363,745**
Revenue from discontinued operations	**763,443**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**763,443**
Assets and liabilities									
Cash and cash equivalents	-	34,943	70,261	4,186	17,454	28,453	219,002	-	374,299
Amounts due from credit institutions	-	114	7,657	25,968	4,401	1	-	-	38,141
Debt investment securities	-	1,145	-	4,180	-	8	45,147	(17,420)	33,060
Total assets	**1,149,760**	**348,012**	**665,750**	**137,407**	**174,102**	**33,701**	**298,476**	**(58,842)**	**2,748,366**
Borrowings	-	58,993	282,253	-	71,430	7,329	272,279	(35,175)	657,109
Debt securities issued	-	65,925	30,009	-	-	-	-	(18,099)	77,835
Total liabilities	**619,401**	**188,343**	**371,471**	**86,473**	**92,813**	**11,364**	**273,227**	**(58,842)**	**1,584,250**
Other segment information									
Property and equipment	82,271	16,437	175,813	2,440	39,316	2	-	-	316,279
Intangible assets	15,327	10	1,580	273	355	2	-	-	17,547
Capital expenditure	**97,598**	**16,447**	**177,393**	**2,713**	**39,671**	**4**	**-**	**-**	**333,826**
Depreciation & amortisation	-	(508)	(20,332)	(855)	(6,541)	(1)	-	-	(28,237)

**Dividend income of corporate center is eliminated in combined income statements.*

***Net gains from disposal of investment business of corporate center comprises of gain from sale of GHG as accounted in JSC Georgia Capitals separate income statement, related increase in combined invested capital is presented as sale of interests in existing subsidiaries in combined statement of changes in invested capital.*

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2016:

	GHG (Discontinued)	*M2*	*GGU*	*Aldagi*	*TV*	*Other IB*	*Inter-Business Eliminations*	*Group Total*
Gross insurance profit	-	-	-	25,789	-	-	(532)	25,257
Gross real estate profit	-	21,957	-	33	-	-	(114)	21,876
Gross utility and energy profit	-	-	39,075	-	-	-	(395)	38,680
Gross beverage profit	-	-	-	-	14,420	-	-	14,420
Other income	-	72	6,365	1,506	(49)	130	347	8,371
Gross profit	**-**	**22,029**	**45,440**	**27,328**	**14,371**	**130**	**(694)**	**108,604**
Operating expenses and impairment	-	(5,824)	(9,311)	(12,318)	(11,334)	(2,110)	694	(40,203)
EBITDA	**-**	**16,205**	**36,129**	**15,010**	**3,037**	**(1,980)**	**-**	**68,401**
Profit from associates	-	-	4,074	-	-	-	-	4,074
Depreciation and amortisation	-	(243)	(7,353)	(774)	(1,552)	(139)	-	(10,061)
Net foreign currency gain (loss)	-	792	696	(294)	(1,154)	(3,172)	-	(3,132)
Interest income	-	698	45	3,118	97	585	(283)	4,260
Interest expense	-	(1,633)	(11,435)	-	(862)	121	283	(13,526)
Net operating income (loss) before non-recurring items	**-**	**15,819**	**22,156**	**17,060**	**(434)**	**(4,585)**	**-**	**50,016**
Net non-recurring (expense/loss) income/gain	-	(533)	31,770	4	863	-	-	32,104
Profit (loss) before income tax from continuing operations	**-**	**15,286**	**53,926**	**17,064**	**429**	**(4,585)**	**-**	**82,120**
Income tax (expense) benefit	-	(1,880)	(2,791)	(3,319)	247	(69)	-	(7,812)
Profit (loss) for the year from continuing operations	**-**	**13,406**	**51,135**	**13,745**	**676**	**(4,654)**	**-**	**74,308**
Profit from discontinued operations	60,099	-	-	-	-	-	-	60,099
Profit (loss) for the year	**60,099**	**13,406**	**51,135**	**13,745**	**676**	**(4,654)**	**-**	**134,407**
Revenue from continued operations	**-**	**102,042**	**63,246**	**45,187**	**29,743**	**1,610**	**(1,089)**	**240,739**
Revenue from discontinued operations	**421,882**	**-**	**-**	**-**	**-**	**-**	**-**	**421,882**
Assets and liabilities								
Total assets	889,637	372,255	426,719	117,344	130,801	403,033	(52,488)	2,287,301
Total liabilities	370,222	234,382	139,254	75,541	81,624	421,589	(52,488)	1,270,124
Other segment information								
Property and equipment	110,550	643	35,624	1,241	60,264	-	-	208,322
Intangible assets	10,707	87	769	598	336	-	-	12,497
Capital expenditure	**121,257**	**730**	**36,393**	**1,839**	**60,600**	**-**	**-**	**220,819**
Depreciation & amortisation	-	(243)	(7,353)	(774)	(1,552)	(139)	-	(10,061)

(Thousands of Georgian Lari)

7. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2015:

	GHG (Discontinued)	M2	GGU	Aldagi	TV	Other IB	Inter-Business Eliminations	Group Total
Gross insurance profit	-	-	-	21,180	-	-	(438)	20,742
Gross real estate profit	-	21,399	-	30	-	-	-	21,429
Gross beverage profit	-	-	-	-	14,903	-	-	14,903
Other income	-	235	(22)	1,272	(59)	(48)	(47)	1,331
Gross profit	**-**	**21,634**	**(22)**	**22,482**	**14,844**	**(48)**	**(485)**	**58,405**
Operating expenses and impairment	-	(5,860)	(505)	(11,073)	(11,389)	(744)	485	(29,086)
EBITDA	**-**	**15,774**	**(527)**	**11,409**	**3,455**	**(792)**	**-**	**29,319**
Profit from associates	-	-	4,050	-	-	-	-	4,050
Depreciation and amortisation	-	(191)	(44)	(834)	(1,288)	(36)	-	(2,393)
Net foreign currency gain (loss)	-	(1,534)	136	993	(2,511)	2,463	8,611	8,158
Interest income	-	386	-	2,402	55	282	(562)	2,563
Interest expense	-	(1,567)	-	(71)	(1,091)	-	562	(2,167)
Net operating income (loss) before non-recurring items	**-**	**12,868**	**3,615**	**13,899**	**(1,380)**	**1,917**	**8,611**	**39,530**
Net non-recurring (expense/loss) income/gain	-	(137)	8	(701)	(297)	2	-	(1,125)
Profit (loss) before income tax from continuing operations	**-**	**12,731**	**3,623**	**13,198**	**(1,677)**	**1,919**	**8,611**	**38,405**
Income tax benefit (expense)	-	(1,974)	64	(733)	(451)	(1,406)	-	(4,500)
Profit (loss) for the year from continuing operations	**-**	**10,757**	**3,687**	**12,465**	**(2,128)**	**513**	**8,611**	**33,905**
Profit from discontinued operations	23,291	-	-	-	-	-	(8,611)	14,680
Profit (loss) for the year	**23,291**	**10,757**	**3,687**	**12,465**	**(2,128)**	**513**	**-**	**48,585**
Revenue	**-**	**61,354**	**(22)**	**42,596**	**29,468**	**(47)**	**(485)**	**132,864**
Revenue from discontinued operations	**242,765**	**-**	**-**	**-**	**-**	**-**	**-**	**242,765**
Assets and liabilities								
Total assets	759,097	275,676	56,215	101,819	40,571	116,504	(8,641)	1,341,241
Total liabilities	286,941	167,889	81	66,567	20,522	14,419	(8,641)	547,778
Other segment information								
Property and equipment	89,653	701	241	442	1,532	-	-	92,569
Intangible assets	3,531	21	60	958	12	-	-	4,582
Capital expenditure	**93,184**	**722**	**301**	**1,400**	**1,544**	**-**	**-**	**97,151**
Depreciation & amortisation	-	(191)	(44)	(834)	(1,288)	(36)	-	(2,393)

(Thousands of Georgian Lari)

8. Cash and Cash Equivalents

	2017	2016	2015
Cash on hand	627	892	389
Current accounts with financial institutions	373,672	371,954	292,566
Time deposits with financial institutions with maturities of up to 90 days	-	29,124	-
Cash and cash equivalents	**374,299**	**401,970**	**292,955**

9. Amounts Due from Credit Institutions

	2017	2016	2015
Time deposits with maturities of more than 90 days	30,485	163,187	34,069
Deposits pledged as security for open commitments	7,656	15,238	-
Amounts due from credit institutions	**38,141**	**178,425**	**34,069**

10. Accounts Receivable

	2017	2016	2015
Receivables from water supply services	20,396	16,108	-
Receivables from Beverage sales	14,497	8,064	7,415
Receivables from connection services	1,605	4,811	-
Receivables from electric power sales	1,267	1,168	-
Receivables from installation of water meters	220	1,434	-
Receivables from healthcare services	-	84,367	71,090
Receivables from sales of pharmaceuticals	-	5,105	-
Other receivables	1,359	3,535	1,751
Accounts receivable, Gross	**39,344**	**124,592**	**80,256**
Allowance	(4,003)	(2,292)	(6,935)
Accounts receivable, Net	**35,341**	**122,300**	**73,321**

11. Inventories

	2017	2016	2015
Real estate inventory	58,830	112,669	95,314
Other inventory	21,302	66,865	22,399
Inventory	**80,132**	**179,534**	**117,713**

(Thousands of Georgian Lari)

12. Investment Properties

	2017	*2016*	*2015*
At 1 January	**140,254**	**110,945**	**74,238**
Additions	17,199	13,927	19,021
Disposals	(402)	(4,144)	-
Net gains from revaluation of investment property	24,685	4,117	14,350
Business combinations (Note 5)	-	19,417	-
Transfers (to) from property and equipment and other assets*	(19,590)	(18,066)	3,336
Currency translation differences	(2,157)	14,058	-
At 31 December	**159,989**	**140,254**	**110,945**

**** Comprised of GEL 18,432 transfer to property and equipment (2016: Nil and 2015: transfers from property and equipment GEL 980 respectively), GEL 1,158 transfer to other assets - inventories (2016: transfer to other assets – inventories GEL 18,066 and 2015: transfer from other assets – inventories GEL 2,356).***

Investment properties are stated at fair value. Fair value represents the price that would be received in exchange for an asset in an arm's length transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 29 for details on fair value measurements of investment properties.

The Group pledges some of its investment property as collateral for its borrowings. The carrying amount of investment property pledged as at 31 December 2017 was GEL 113,598 (2016: 83,519, 2015: Nil).

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Office buildings	*Hospitals & clinics*	*Computers & equipment*	*Assets under construction*	*Infrastructure Assets*	*Factory and equipment*	*Other*	*Total*
Cost or revalued amount								
31 December 2016	**137,313**	**388,803**	**160,086**	**81,641**	**199,304**	**-**	**43,670**	**1,010,817**
Additions	1,876	27,708	51,782	176,567	12,621	31,986	13,739	316,279
Business combinations, Note 5	359	7,909	3,714	20,364	-	-	5,424	37,770
Disposals	(542)	(440)	(173)	(4,038)	(1,976)	(18)	(657)	(7,844)
Transfers	2,498	(456)	(1,515)	(141,903)	65,720	59,055	16,601	-
Transfers from investment properties	10,164	-	-	8,268	-	-	-	18,432
Transfers (to) from other assets	-	-	-	(9)	-	-	-	(9)
Transfer to assets of disposal group held for sale	(14,939)	(423,524)	(198,774)	(325)	-	-	(37,298)	(674,860)
Write off	-	-	(1,321)	-	-	-	-	(1,321)
Currency translation differences	55	-	150	2,236	-	-	135	2,576
31 December 2017	**136,784**	**-**	**13,949**	**142,801**	**275,669**	**91,023**	**41,614**	**701,840**
Accumulated impairment								
31 December 2016	**418**	**-**	**-**	**-**	**-**	**-**	**-**	**418**
Currency translation differences	(27)	-	23	-	-	-	-	(4)
31 December 2017	**391**	**-**	**23**	**-**	**-**	**-**	**-**	**414**
Accumulated depreciation								
31 December 2016	**3,857**	**8,554**	**19,157**	**-**	**5,738**	**-**	**5,632**	**42,938**
Depreciation charge	1,340	3,700	18,178	-	16,507	4,171	6,099	49,995
Currency translation differences	391	-	(1,071)	-	999	(284)	83	118
Transfer to assets of disposal group held for sale	(327)	(11,970)	(29,771)	-	-	-	(6,316)	(48,384)
Write off	-	-	-	-	-	-	-	-
Disposals	(13)	(284)	(179)	-	(160)	-	(240)	(876)
31 December 2017	**5,248**	**-**	**6,314**	**-**	**23,084**	**3,887**	**5,258**	**43,791**
Net book value:								
31 December 2016	**133,038**	**380,249**	**140,929**	**81,641**	**193,566**	**-**	**38,038**	**967,461**
31 December 2017	**131,145**	**-**	**7,612**	**142,801**	**252,585**	**87,136**	**36,356**	**657,635**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

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

	Office buildings	*Hospitals & Clinics*	*Computers & equipment*	*Assets under construction*	*Infrastructure Assets*	*Other*	*Total*
Cost or revalued amount							
31 December 2015	**24,482**	**332,775**	**118,392**	**2,119**	**-**	**24,094**	**501,862**
Additions	1,750	47,950	57,700	91,969	1,098	7,855	208,322
Business combinations, Note 5	109,864	13,296	2,604	21,659	169,939	11,280	328,642
Disposals	(335)	(5,412)	(608)	(917)	(670)	(2,127)	(10,069)
Transfers	1,022	194	(397)	(33,189)	28,937	3,433	-
Transfers from other assets	-	-	-	-	-	2,170	2,170
Write off	-	-	(17,720)	-	-	(3,283)	(21,003)
Currency translation differences	530	-	115	-	-	248	893
31 December 2016	**137,313**	**388,803**	**160,086**	**81,641**	**199,304**	**43,670**	**1,010,817**
Accumulated impairment							
31 December 2015	**442**	**-**	**-**	**-**	**-**	**-**	**442**
Currency translation differences	(24)	-	-	-	-	-	(24)
31 December 2016	**418**	**-**	**-**	**-**	**-**	**-**	**418**
Accumulated depreciation							
31 December 2015	**1,905**	**6,844**	**22,589**	**-**	**-**	**5,304**	**36,642**
Depreciation charge	645	1,965	14,776	-	5,738	4,542	27,666
Currency translation differences	582	-	57	-	-	117	756
Transfers	764	-	(319)	-	-	(445)	-
Write off	-	-	(17,720)	**-**	**-**	**(3,283)**	(21,003)
Disposals	(39)	(255)	(226)	-	-	(603)	(1,123)
31 December 2016	**3,857**	**8,554**	**19,157**	**-**	**5,738**	**5,632**	**42,938**
Net book value:							
31 December 2015	**22,135**	**325,931**	**95,803**	**2,119**	**-**	**18,790**	**464,778**
31 December 2016	**133,038**	**380,249**	**140,929**	**81,641**	**193,566**	**38,038**	**967,461**

The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Office buildings	*Hospitals & Clinics*	*Computers & equipment*	*Assets under construction*	*Other*	*Total*
Cost or revalued amount						
31 December 2014	**19,104**	**207,038**	**66,917**	**1,230**	**12,647**	**306,936**
Additions	1,347	24,528	56,054	563	10,077	92,569
Business combinations, Note 5	6,838	94,096	15,482	7,347	1,550	125,313
Disposals	(721)	(1,425)	(18,462)	239	(501)	(20,870)
Transfers	(11)	8,538	(1,596)	(7,260)	329	-
Transfers to investment properties	(2,074)	-	-	-	-	(2,074)
Currency translation differences	(1)	-	(3)	-	(8)	(12)
31 December 2015	**24,482**	**332,775**	**118,392**	**2,119**	**24,094**	**501,862**
Accumulated impairment						
31 December 2014	**1,107**	**-**	**-**	**-**	**-**	**1,107**
Impairment	375	**-**	-	-	-	375
Transfers to investment properties	(1,040)	**-**	-	-	-	(1,040)
31 December 2015	**442**	**-**	**-**	**-**	**-**	**442**
Accumulated depreciation						
31 December 2014	**1,558**	**2,646**	**16,586**	**-**	**2,946**	**23,736**
Depreciation charge	407	4,264	7,276	-	2,292	14,239
Currency translation differences	2	-	(3)	-	(1)	(2)
Transfers	(7)	58	(337)	-	286	-
Transfers to investment properties	(54)	-	-	-	-	(54)
Disposals	(1)	(124)	(933)	-	(219)	(1,277)
31 December 2015	**1,905**	**6,844**	**22,589**	**-**	**5,304**	**36,642**
Net book value:						
31 December 2014	**16,439**	**204,392**	**50,331**	**1,230**	**9,701**	**282,093**
31 December 2015	**22,135**	**325,931**	**95,803**	**2,119**	**18,790**	**464,778**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

Refer to Note 29 for details on fair value measurements of the Group's infrastructure assets.

The Group pledges its property as collateral for its borrowings. The carrying amount of the pledged property, excluding that of disposal group held for sale, as at 31 December 2017 was GEL 93,818 (31 December 2016: GEL 487,083, including that of disposal group held for sale, 31 December 2015: 330,224, including that of disposal group held for sale).

14. Goodwill

Movements in goodwill during the years ended 31 December 2017, 31 December 2016 and 31 December 2015, were as follows:

	2017	*2016*	*2015*
Cost			
1 January	**78,335**	**44,333**	**32,037**
Business combinations	60,138	34,002	12,296
Transfer to assets of disposal group held for sale	(111,846)	-	-
At 31 December	**26,627**	**78,335**	**44,333**
Accumulated impairment			
1 January	**4,692**	**4,692**	**4,692**
At 31 December	**4,692**	**4,692**	**4,692**
Net book value:			
1 January	**73,643**	**39,641**	**27,345**
At 31 December	**21,935**	**73,643**	**39,641**

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Property & Casualty Insurance and Teliani.

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

	2017	*2016*	*2015*
P&C Insurance	15,454	15,454	15,454
Teliani	6,481	3,644	3,644
Pharmacy	-	29,025	-
Healthcare	-	22,058	17,081
Health Insurance	-	3,462	3,462
Total	**21,935**	**73,643**	**39,641**

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from a one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGU.

The following rates were used by the Group for P&C Insurance and Teliani:

	P&C Insurance			*Teliani*		
	2017, %	*2016, %*	*2015, %*	*2017, %*	*2016, %*	*2015, %*
Discount rate	9.0%	14.5%	10.4%	12.8%	14.9%	9.4%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("WACC").

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

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

Sensitivity to changes in assumptions

Management believes that reasonable possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2017. Possible change was taken as +/-1% in discount rate and growth rate.

(Thousands of Georgian Lari)

15. Other Assets and Other Liabilities

Other assets comprise:

	2017	*2016*	*2015*
Operating tax assets	29,898	45,517	15,480
Reinsurance assets	20,671	13,161	10,381
Defined contribution pension assets	18,536	16,441	13,706
Investments in associates	-	2,370	53,458
Derivative financial assets	-	6,277	-
Loans issued	102	3,723	13,560
Other	4,330	2,521	7,239
Other assets	**73,537**	**90,010**	**113,824**

Other liabilities comprise:

	2017	*2016*	*2015*
Defined contribution pension obligations	18,536	16,441	13,706
Accruals	17,395	76,987	26,262
Other taxes payable	11,058	30,672	3,599
Other insurance liabilities	11,008	8,235	9,572
Provisions	3,103	706	-
Amounts payable for share acquisitions*	413	8,491	22,075
Derivative financial liabilities	-	1,144	-
Other	1,956	21,627	10,485
Other liabilities	**63,469**	**164,303**	**85,699**

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

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax (expense) credit comprises:

	2017	*2016*	*2015*
Current income expense	(5,624)	(6,715)	(4,448)
Deferred income tax (expense) credit	(512)	20,059	(42)
Income tax (expense) credit	**(6,136)**	**13,344**	**(4,490)**
Income tax expense attributable to continuing operations	(5,749)	(7,812)	(4,500)
Income tax (expense) benefit attributable to a discontinued operation (Note 6)	(387)	21,156	10

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2017, 2016 and 2015 was as follows:

	2017	*2016*	*2015*
Currency translation differences	165	1,119	(455)
Income tax credit (expense) in other comprehensive income	**165**	**1,119**	**(455)**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which is 15% for 2017 (2016: 15%, 2015: 15%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Group considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 31 December 2016. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities. During the transitional period, between 1 January 2017 and 1 January 2019, no tax is payable on distributed profits from financial to non-financial businesses.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2017, 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2017	*2016*	*2015*
Profit before income tax expense from continuing operations	52,321	82,120	38,405
Net gain before income tax benefit from discontinued operations	47,738	38,943	14,670
Profit before income tax expense	**100,059**	**121,063**	**53,075**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(15,009)**	**(18,159)**	**(7,961)**
Non-taxable income	8,809	5,305	2,712
Correction of prior year declarations	-	(170)	1,489
Non-deductible expenses	(84)	(27)	(2,207)
Tax at the domestic rates applicable to profits in each country	148	(85)	(197)
Effects from changes in tax legislation	-	24,995	-
Other	-	1,485	1,674
Income tax (expense) benefit	**(6,136)**	**13,344**	**(4,490)**

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

(Thousands of Georgian Lari)

16. Taxation (continued)

As at 31 December 2017, 31 December 2016 and 31 December 2015 income tax assets and liabilities consist of the following:

	2017	*2016*	*2015*
Current income tax assets	365	3,201	1,841
Deferred income tax assets	1,009	1,356	4,951
Income tax assets	**1,374**	**4,557**	**6,792**
Current income tax liabilities	860	3,895	10,119
Deferred income tax liabilities	-	-	24,215
Income tax liabilities	**860**	**3,895**	**34,334**

Deferred tax assets and liabilities as at 31 December 2017, 31 December 2016 and 31 December 2015 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*				*Origination and reversal of temporary differences*		
	2014	*In the income statement*	*Business combi-nations*	*In other compre-hensive income*	*2015*	*In the income statement*	*Business combi-nations*	*In other compre-hensive income*	*2016*	*In the income statement*	*In other compre-hensive income*	*2017*
Tax effect of deductible temporary differences:												
Borrowings	11	(11)	-	-	-	-	-	-	-	-	-	-
Investment properties	980	-	-	-	980	(980)	-	3	3	-	-	3
Insurance premiums receivables	1,510	650	-	-	2,160	(952)	-	-	1,208	(721)	-	487
Allowances for impairment and provisions for other losses	198	(198)	-	-	-	-	-	-	-	-	-	-
Tax losses carried forward	1,701	2,921	-	(445)	4,177	(5,326)	-	1,149	-	-	-	-
Property and equipment	880	56	-	(49)	887	(887)	-	-	-	-	-	-
Other assets and liabilities	185	1,748	982	-	2,915	(3,539)	1,531	-	907	(351)	-	556
Deferred tax assets	**5,465**	**5,166**	**982**	**(494)**	**11,119**	**(11,684)**	**1,531**	**1,152**	**2,118**	**(1,072)**	**-**	**1,046**
Tax effect of taxable temporary differences:												
Borrowings	-	44	-	-	44	(44)	-	-	-	-	-	-
Other insurance liabilities & pension fund obligations	1,382	(1,160)	-	-	222	(222)	-	-	-	-	-	-
Property and equipment	7,458	7,372	13,443	(49)	28,224	(30,014)	1,915	37	162	(162)	-	-
Investment properties	-	-	-	-	-	163	-	-	163	2	(165)	-
Intangible assets	2,007	(459)	-	-	1,548	(1,115)	-	-	433	(433)	-	-
Other assets and liabilities	941	(589)	(17)	10	345	(511)	174	(4)	4	33	-	37
Deferred tax liabilities	**11,788**	**5,208**	**13,426**	**(39)**	**30,383**	**(31,743)**	**2,089**	**33**	**762**	**(560)**	**(165)**	**37**
Net deferred tax liabilities	**(6,323)**	**(42)**	**(12,444)**	**(455)**	**(19,264)**	**20,059**	**(558)**	**1,119**	**1,356**	**(512)**	**165**	**1,009**

17. Insurance Contract Liabilities and Reinsurance Assets

	2017			*2016*			*2015*		
	Insurance contract liabilities 2017	*Reinsurance assets 2017*	*Net 2017*	*Insurance contract liabilities 2016*	*Reinsurance assets 2016*	*Net 2016*	*Insurance contract liabilities 2015*	*Reinsurance assets 2015*	*Net 2015*
At 1 January	**67,871**	**(13,161)**	**54,710**	**55,846**	**(10,381)**	**45,465**	**46,587**	**(11,289)**	**35,298**
Premiums written during the period	126,336	(23,995)	102,341	130,506	(20,407)	110,099	124,214	(20,932)	103,282
Premiums earned during the year	(126,975)	22,938	(104,037)	(121,229)	20,530	(100,699)	(117,491)	21,168	(96,323)
Claims incurred during the period	75,806	(15,555)	60,251	74,035	(10,613)	63,422	66,562	(3,567)	62,995
Claims paid during the period	(75,682)	9,102	(66,580)	(71,287)	7,710	(63,577)	(65,677)	4,239	(61,438)
Assumed through business combination	-	-	-	-	-	-	1,651	-	1,651
Transfer to assets and liabilities of disposal group held for sale	(20,953)	-	(20,953)	-	-	-	-	-	-
At 31 December	**46,403**	**(20,671)**	**25,732**	**67,871**	**(13,161)**	**54,710**	**55,846**	**(10,381)**	**45,465**

(Thousands of Georgian Lari)

18. Borrowings

Borrowings comprise:

	2017	2016	2015
Borrowings from local financial institutions	41,559	277,424	106,770
Borrowings from international financial institutions	335,942	149,037	26,356
Other borrowings*	279,608	291,415	9,334
Borrowings	**657,109**	**717,876**	**142,460**

** Other borrowings comprise a portion of BGEO PLC's borrowings allocated to the Group.*

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants"). At 31 December 2017, 31 December 2016 and 31 December 2015 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

Material non-cash transactions

In 2017 year the Group incurred borrowings costs with total amount GEL 16,531 (2016: GEL 8,888 , 2015: GEL 5,389) of which GEL 2,206 (2016: GEL 3,990, 2015: GEL 3,639) has been capitalized as a part of investment property, GEL 6,723 (2016: GEL 4,898, 2015: GEL 1,750) was capitalized as a part of inventory property, GEL 7,602 was capitalized as part of property and equipment (2016: Nil, 2015: Nil).

Changes in liabilities arising from financing activities

	Borrowings	Debt securities
Carrying amount at 31 December 2016	**717,876**	**122,263**
Foreign currency translation	(3,314)	(3,082)
Cash proceeds	329,043	40,000
Cash repayments	(160,691)	(45,322)
Transfer to liabilities of disposal group held for sale	(187,557)	(36,024)
Other*	(38,248)	-
Carrying amount at 31 December 2017	**657,109**	**77,835**

**Reduction in borrowings as a result of capital contribution from Banking Business.*

19. Debt Securities Issued

Debt securities issued comprise:

	2017	2016	2015
USD denominated local bonds issued by m2	64,445	72,847	47,954
USD denominated local bonds issued by GHG	-	34,020	34,568
GEL denominated local bonds issued by GGU*	13,390	15,396	-
Debt securities issued	**77,835**	**122,263**	**82,522**

**JSC Georgia Capital subscribed to a portion of the GGU bond*

In December 2016, the Group's utility subsidiary Georgian Water and Power LLC completed the issuance of 5-year local bonds of GEL 30 million. The bonds were issued at par with an annual coupon rate of NBG refinancing rate plus 3.5% payable quarterly with 5% withholding tax applying to individuals.

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

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

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

(Thousands of Georgian Lari)

20. Deferred Income

	2017	2016	2015
Advances received for sale of apartments	46,195	79,593	102,846
Advances received for connection services	21,202	3,983	-
Other	5,669	1,194	-
Deferred income	**73,066**	**84,770**	**102,846**

21. Commitments and Contingencies

Legal

In the ordinary course of business, the Group and its subsidiaries are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Commitments and contingencies

As at 31 December 2017, 31 December 2016 and 31 December 2015 the Group's commitments and contingencies comprised the following:

	2017	2016	2015
Provisions	(3,103)	(706)	-
Operating lease commitments			
Not later than 1 year	4,075	14,477	2,432
Later than 1 year but not later than 5 years	10,448	65,211	2,289
Later than 5 years	9,302	1,910	-
	23,825	**81,598**	**4,721**
Capital expenditure commitments	**-**	**10,780**	**25,200**
Commitments and contingencies, net	**20,722**	**91,672**	**29,921**

Capital expenditure commitment was for purchase of property and capital repairs.

(Thousands of Georgian Lari)

22. Invested Capital

Non-controlling interest

Georgia Healthcare Group PLC ("GHG") is the only significant subsidiary of the Group that has a material non-controlling interest of 43% as of 31 December 2017 (31 December 2016: 35%, 31 December 2015:32%). The following table summarises key information before intragroup eliminations relevant to Georgia Healthcare Group PLC.

	2017	*2016*	*2015*
Total assets	1,149,644	889,637	759,097
Total Liabilities	619,398	370,222	286,941
Profit for the year	45,850	60,099	23,291
Net (decrease) increase in cash and cash equivalents	25,602	(121,914)	112,369
Profit attributable to non-controlling interest	27,955	27,376	5,208

Earnings per share

	2017	*2016*	*2015*
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the parent	69,778	106,893	45,125
Profit for the year from continuing operations attributable to ordinary shareholders of the parent	50,382	74,170	35,653
Profit for the year from discontinued operations attributable to ordinary shareholders of the parent	19,396	32,723	9,472
Weighted average number of ordinary shares outstanding during the year*	39,384,712	39,384,712	39,384,712
Earnings per share	1.7717	2.7141	1.1457
Earnings per share from continuing operations	1.2792	1.8832	0.9052
Earnings per share from discontinued operations	0.4925	0.8309	0.2405

* *Weighted average number of ordinary shares of the Group represents expected outstanding number of shares of Georgia Capital PLC.*

In 2016 the Board of Directors of BGEO Group PLC has approved a USD 50 million BGEO Group PLC's share buyback and cancellation programme over a two year period. During the year ended 31 December 2017 Group repurchased and cancelled 115,608 BGEO Group PLC's shares in exchange for GEL 12,186. Respective buyback transactions were recognized in Group's combined financial statements as reduction of invested capital

(Thousands of Georgian Lari)

23. Gross Profit

Gross Insurance Profit

Net insurance premiums earned, net insurance claims incurred and respective gross insurance profit for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	*2016*	*2015*
Total gross premiums earned on insurance contracts	75,085	63,645	62,024
Reinsurers' share of gross earned premiums on insurance contracts	(22,938)	(20,530)	(21,168)
Net insurance premiums earned	**52,147**	**43,115**	**40,856**
Gross insurance claims incurred	(40,653)	(28,471)	(23,681)
Reinsurers' share of gross insurance claims incurred	15,555	10,613	3,567
Net insurance claims incurred	**(25,098)**	**(17,858)**	**(20,114)**
Gross insurance profit	**27,049**	**25,257**	**20,742**

Gross Real Estate Profit

	2017	*2016*	*2015*
Revenue from sale of apartments	93,470	96,372	44,917
Revaluation of m^2 investment property	24,033	3,770	14,350
Income from operating leases	3,650	2,832	1,883
Real estate revenue	**121,153**	**102,974**	**61,150**
Cost of real estate	(85,765)	(81,098)	(39,721)
Gross real estate profit	**35,388**	**21,876**	**21,429**

Gross Utility and Energy Profit

	2017	*2016*	*2015*
Revenue from water supply	117,814	51,369	-
Revenue from electric power sales	9,755	5,117	-
Utility and energy revenue	**127,569**	**56,486**	**-**
Cost of water supply	(36,886)	(17,341)	-
Cost of electric power sales	(2,312)	(465)	-
Cost of utility and energy	**(39,198)**	**(17,806)**	**-**
Gross utility and energy profit	**88,371**	**38,680**	**-**

Gross Beverage Profit

	2017	*2016*	*2015*
Revenue from wine sales	22,156	17,675	17,825
Revenue from beer sales	16,406	-	-
Revenue from distribution of imported goods	12,910	12,118	11,702
Other beverage revenue	3,969	-	-
Beverage revenue	**55,441**	**29,793**	**29,527**
Cost of wine	(10,557)	(7,712)	(7,951)
Cost of beer	(8,676)	-	-
Cost of distribution	(10,814)	(7,661)	(6,673)
Cost of other beverage revenue	(2,266)	-	-
Cost of beverage	**(32,313)**	**(15,373)**	**(14,624)**
Gross beverage profit	**23,128**	**14,420**	**14,903**

(Thousands of Georgian Lari)

23. Gross Profit (continued)

Revenue from customers

The group has recognised the following amounts relating to revenue from contracts with customers in the income statement:

	2017
Total revenue from contracts with customers from continuing operations	283,469
Total revenue from contracts with customers from discontinued operations	691,971
Total revenue from contracts with customers	**975,440**

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	31-Dec-17	1-Jan-17
Deferred income	71,322	72,770
Accounts receivable* (i)	116,669	103,326
Contract assets**	1,008	-

** includes GEL 82,169 as at 31 December 2017 and GEL 71,343 as at 1 January 2017 presented in disposal group held for sale.*
(i) Accounts receivable have increased as the Group's beverage business launched its first mainstream beer production in June 2017 and accelerated its expansion into all of its three main segments.
*** Contract assets relate to our conditional right to consideration for our completed performance under the contract.*

Accounts receivable are recognized when the right to consideration becomes unconditional. Deferred revenue is recognised as revenue as we perform under the contract.

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 51,273 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts with customers from continuing operations	49,096	12,153	3,015	6,741	2,990	**73,995**
Revenue expected to be recognized on active contracts with customers from discontinued operations	906	1,042	1,046	3,100	5,000	**11,094**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

(Thousands of Georgian Lari)

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

	2017	*2016*	*2015*
Salaries and bonuses	(26,723)	(14,289)	(11,343)
Equity compensation plan costs	(7,825)	(1,990)	(457)
Salaries and other employee benefits	**(34,548)**	**(16,279)**	**(11,800)**

The average number of staff employed by the Group for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 comprised:

	2017	*2016*	*2015*
GGU	2,379	2,326	-
Teliani	481	203	199
Aldagi	303	666	623
m^2	98	62	58
Corporate Centre	19	19	11
Average total number of staff employed	**3,280**	**3,276**	**891**

	2017	*2016*	*2015*
Marketing and advertising	(11,436)	(7,452)	(8,030)
Legal and other professional services	(6,970)	(3,114)	(1,980)
Operating taxes	(5,439)	(2,327)	(422)
Occupancy and rent	(3,171)	(1,981)	(1,961)
Repairs and maintenance	(1,958)	(1,205)	(855)
Office supplies	(1,885)	(836)	(559)
Corporate hospitality and entertainment	(1,052)	(810)	(479)
Communication	(742)	(442)	(289)
Travel expenses	(604)	(296)	(222)
Security	(367)	(250)	(253)
Personnel training and recruitment	(206)	(1,007)	(119)
Insurance	(243)	(113)	(43)
Other	(4,278)	(1,224)	(586)
General and administrative expenses	**(38,351)**	**(21,057)**	**(15,798)**

(Thousands of Georgian Lari)

25. Impairment of insurance premiums receivable, accounts receivable, other assets and provisions

The movements in the allowance for healthcare services, insurance premiums receivables and other receivables are as follows:

	Insurance premiums receivable 2017	Accounts receivable 2017	Other assets 2017	Provisions 2017	Total 2017
At 1 January	**8,762**	**2,292**	**-**	**706**	**11,760**
Charge	1,110	6,171	311	2,686	10,278
Transfer to Assets of disposal group held for sale	(1,787)	(3,415)	-	-	(5,202)
Utilised	-	-	-	(289)	(289)
Write-offs	(3,227)	(1,211)	-	-	(4,438)
Currency translation differences	(615)	166	(289)	-	(738)
At 31 December	**4,243**	**4,003**	**22**	**3,103**	**11,371**

	Insurance premiums receivable 2016	Accounts receivable 2016	Other assets 2016	Provisions 2016	Total 2016
At 1 January	**7,031**	**6,935**	**-**	**-**	**13,966**
Charge	1,158	2,095	83	-	3,336
Business combinations	-	-	-	2,133	2,133
Recoveries	352	-	-	-	352
Utilised	-	-	-	(1,427)	(1,427)
Write-offs	(599)	(6,788)	(83)	-	(7,470)
Currency translation differences	820	50	-	-	870
At 31 December	**8,762**	**2,292**	**-**	**706**	**11,760**

	Insurance premiums receivable 2015	Accounts receivable 2015	Other assets 2015	Total 2015
At 1 January	**4,187**	**3,321**	**70**	**7,578**
Charge (reversal)	1,018	3,621	(70)	4,569
Recoveries	116	-	-	116
Write-offs	(87)	(7)	-	(94)
Currency translation differences	1,797	-	-	1,797
At 31 December	**7,031**	**6,935**	**-**	**13,966**

26. Net Non-recurring Items

	2017	2016	2015
Gain on bargain purchase (note 5)	260	36,915	-
Loss from remeasurement of investment in associate	-	(5,145)	-
Impairment of prepayments	-	-	(298)
Impairment of property and equipment, and intangible assets	-	-	(375)
Other	(884)	334	(452)
Net non-recurring items	**(624)**	**32,104**	**(1,125)**

(Thousands of Georgian Lari)

27. Share-based Payments

Executives' Equity Compensation Plan

BGEO PLC Plans

In 2015 the BGEO Group PLC set up Executive Equity Compensation Trustee - Sanne Fiduciary Services Limited (the "Trustee") which acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

The Members of the Georgia Capitals' management board receive ordinary shares of BGEO Group PLC as a share-based compensation for their services as the management of both BGEO Group PLC and the Group. The respective Equity Compensation Plan costs are recorded in Group's combined historical financial information based on proportionate share of respective executive's involvement in managing the Group.

Share-based compensation represents fixed and discretionary awards. Discretionary shares of BGEO PLC are subject to two and three year vesting. Under fixed share-based compensation agreements, shares are awarded in three equal instalments during the 3 consecutive years, of which each instalment is subject to a four-year vesting period. Continuous employment is the only vesting condition for both discretionary and fixed awards. Fair value of the shares granted at the measurement date is determined based on available market quotations.

Below is the summary of the BGEO PLC share-based payments for Management Board members:

	2017	*2016*	*2015*
Discretionary shares to management board			
Weighted average value at grant date, per share (GEL in full amount)	90.01	66.03	57.40
Total number of equity instruments awarded	79,450	123,500	80,500
Value at grant date, total (GEL)	**7,151**	**8,155**	**4,621**
Fixed contingent share-based compensation to management board			
Weighted average value at grant date, per share (GEL in full amount)	-	68.30	59.17
Total number of equity instruments awarded	-	60,000	574,167
Value at grant date, total (GEL)	**-**	**4,098**	**33,972**
Total share-based compensation recognised during the year (GEL)	**(11,202)**	**(5,155)**	**(2,445)**

During 2017, Georgia Capital director obtained 126,000 shares (2016:115,000, 2015:147,500) with fair value of GEL 12,049 (2016: GEL 10,760, 2015: GEL 8,251). Weighted average share price comprised GEL 95.63 per share (2016:GEL 93.57, 2015:GEL 55.94).

(Thousands of Georgian Lari)

28. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to operational risks and insurance risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Due to significance of Georgia Capital and its subsidiaries to BGEO Group PLC, governing bodies of BGEO Group PLC contribute significantly to the risk management of the Group

Risk management structure

Audit Committee

The Audit Committee of BGEO Group PLC assists the Management Board of Georgia Capital in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and IS (including cyber-security) and assessed the effectiveness of the risk management and internal control framework.

Management Board

The Management Board of Georgia Capital has overall responsibility for the Group's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Board of Directors delegate individual risk management functions to each of the various decision-making and execution bodies within the Group.

Internal Audit

The Internal Audit Department of BGEO Group PLC is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. The Group's Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits. Also the Group establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established by the use of a credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on the number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

31 December 2017	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	27,505	11,839	39,344
Insurance premiums receivable		28,947	6,151	35,098
Total		**56,452**	**17,990**	**74,442**

31 December 2016	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	102,305	22,287	124,592
Insurance premiums receivable		46,826	1,564	48,390
Total		**149,131**	**23,851**	**172,982**

31 December 2015	*Notes*	*Neither past due nor impaired*	*Past due or impaired*	*Total*
Accounts receivable	10	65,943	14,313	80,256
Insurance premiums receivable		39,305	1,576	40,881
Other financial assets	15	21,908	2,033	23,941
Total		**127,156**	**17,922**	**145,078**

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Otherwise those receivables and financial assets that are overdue for more than 30 days are considered as impaired.

The Group does not have a grading system to evaluate credit quality of neither past due nor impaired assets. Maximum exposure to credit risk is limited to carrying value of respective financial assets.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Group manages the maturities of its assets and liabilities for better matching, which helps the Group additionally mitigate the liquidity risk. The major liquidity risks confronting the Group are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

Financial liabilities* **As at 31 December 2017**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	12,011	55,633	291,775	535,704	895,123
Debt securities issued	400	6,034	87,898	-	94,332
Accounts payable	30,917	-	15,562	-	46,479
Other financial liabilities	1,770	13,533	21,041	-	36,344
Total undiscounted financial liabilities	**45,098**	**75,200**	**416,276**	**535,704**	**1,072,278**

* *Excluding discontinued operations*

Financial liabilities **As at 31 December 2016**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	90,282	58,211	280,115	353,729	782,337
Debt securities issued	28,296	40,352	56,220	29,438	154,306
Accounts payable	43,740	65,406	-	-	109,146
Other financial liabilities	66,404	15,665	20,994	-	103,063
Total undiscounted financial liabilities	**228,722**	**179,634**	**357,329**	**383,167**	**1,148,852**

Financial liabilities **As at 31 December 2015**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	48,894	22,692	83,388	9,225	164,199
Debt securities issued	2,255	5,693	85,629	-	93,577
Accounts payable	42,766	903	402	-	44,071
Other financial liabilities	36,244	8,800	16,999	-	62,043
Total undiscounted financial liabilities	**130,159**	**38,088**	**186,418**	**9,225**	**363,890**

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to Dollar.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2017		*2016*		*2015*	
EUR	12.0%	(15,569)	11.6%	(3,069)	2.9%	13
GBP	12.6%	244	15.8%	95	2.5%	1,427
USD	8.9%	(7,859)	9.3%	(6,788)	1.1%	(332)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

28. Risk Management (continued)

Insurance risk

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

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

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

	P&C Insurance		
	2017, %	*2016, %*	*2015, %*
Loss ratio	40%	36%	43%
Combined ratio	75%	72%	79%

Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, revaluation and other reserves and non-controlling interests. The Group has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.
The capital management objectives are as follows:

- to maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders of the insurance arm;
- to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders; and
- to maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants if any. To maintain or adjust the capital structure, the Group may adjust the amount of outstanding equity.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimize the risk of default and insolvency and to meet unforeseen liabilities as they arise. During the year ended 31 December 2017 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

(Thousands of Georgian Lari)

29. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	159,989	159,989
Land	-	-	*84,016*	*84,016*
Residential properties	-	-	2,168	*2,168*
Non-residential properties	-	-	*73,805*	*73,805*
Investment securities	-	31,915	1,145	33,060
Total revalued property	-	-	252,585	252,585
Infrastructure assets	-	-	*252,585*	*252,585*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	374,299	-	374,299
Amounts due from credit institutions	-	38,141	-	38,141
Liabilities for which fair values are disclosed				
Borrowings	-	77,972	579,137	657,109
Debt securities issued	-	-	81,312	81,312

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	140,254	140,254
Land	-	-	*87,155*	*87,155*
Non-residential properties	-	-	*53,099*	*53,099*
Investment securities	-	1,933	1,739	3,672
Other assets – derivative financial assets	-	6,277	-	6,277
Total revalued property	-	-	193,566	193,566
Infrastructure assets	-	-	*193,566*	*193,566*
Assets for which fair values are disclosed				
Cash and cash equivalents	-	401,970	-	401,970
Amounts due from credit institutions	-	178,425	-	178,425
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,144	-	1,144
Liabilities for which fair values are disclosed				
Borrowings	-	511,788	206,088	717,876
Debt securities issued	-	-	121,672	121,672

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2015	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	-	-	110,945	110,945
Land	-	-	*71,154*	*71,154*
Residential properties	-	-	202	*202*
Non-residential properties	-	-	*39,589*	*39,589*
Investment securities	-	639	1,145	1,784
Other assets – derivative financial assets	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	292,955	-	292,955
Amounts due from credit institutions	-	34,069	-	34,069
Liabilities for which fair values are disclosed				
Borrowings	-	125,861	16,599	142,460
Debt securities issued	-	-	84,566	84,566

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities

Certain part of investment securities are quoted debt securities. Investment securities valued using a valuation technique or pricing models consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	31 December 2014	*Purchase of AFS securities*	*At 31 December 2015*	*Purchase of AFS securities*	*At 31 December 2016*	*Sale of AFS securities*	*At 31 December 2017*
Level 3 financial assets							
Equity investment securities available-for-sale	1,145	-	1,145	594	1,739	(594)	1,145

All investment properties and revalued properties of property and equipment are level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2017		2016		2015	
Level 3 financial assets						
Equity investment securities available-for-sale	1,145	+/- 212	1,739	+/- 322	1,145	+/- 212

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**159,989**						
Land	84,016						
	70,513	Market approach	Price per square metre	12 - 2,705 (465)	Square metres, land	61 - 129,536 (109,175)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	13,503	Cost approach	Price per square metre	56 - 83 (56)	Square metres, land	2,316 - 232,777 (229,432)	Increase (decrease) in the rent rate per square meter or decrease (increase) in the capitalization rate would result in increase (decrease) in fair value
Residential properties	2,168	Market approach	Price per square metre	1,892 - 3,194 (2,623)	Square metres, building	123 - 186 (144)	increase (decrease) in price per square metre would result in increase (decrease) in fair value
Non-residential properties	73,805						
	52,260	Market approach	Price per square metre	12 - 8,756 (4,618)	Square metres	10 - 25,985 (3,489)	Increase (decrease) in the price would result in increase (decrease) in fair value
	21,545	Income approach	Capitalization rate	8% - 10% (9%)	Square metres, building	154 - 11,162 (4,948)	Increase (decrease) in the capitalisation rate would result in decrease (increase) in fair value
Property and equipment	**252,585**						
Infrastructure assets	252,585						
		Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.4%	Pipes and wells, equipment	N/A	Increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; Increase (decrease) in WACC would result in decrease (increase) in fair value;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	9.1			Increase (decrease) in the price of comparable would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Description of significant unobservable inputs to valuations of non-financial assets (continued)

	2016	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**140,254**						
Land	87,155	Market approach	Price per square metre	51 - 1,332 (477)	Square metres, land	8,288 - 230,398 (126,536)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	-	Market approach	Price per square metre	933 - 1,939 (1,405)	Square metres, building	80 - 3,251 (2,402)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	53,099						
	6,947	Market approach	Price	2.8mln	Square metres, land	18,635	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6,702	
	36,453	Income approach	Rent per square metere	29.2 - 37.1 (32.7)	Square metres, building	880 - 3,755 (2,517)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	80% - 90% (85%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
	9,699	Cost approach	Land price per square metre	67	Square metres, land	8,783	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	1,054	Square metres, building	2,293	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value
Property and equipment	**193,566**						
Infrastructure assets	193,566						
		Discounted cash flows ("DCF")	WACC; terminal period growth rate	16.6%	Pipes and wells, equipment	N/A	Increase (decrease) in terminal growth rate would result in increase (decrease) in fair value; Increase (decrease) in WACC would result in decrease (increase) in fair value;
		Cost approach, Market approach	Unit costs, comparable prices, technical parameters	84			Increase (decrease) in the price of comparable would result in increase (decrease) in fair value

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

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

Description of significant unobservable inputs to valuations of non-financial assets (continued)

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

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

(Thousands of Georgian Lari)

29. Fair Value Measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the combined historical financial information. The table does not include the fair values of non-financial assets and non-financial liabilities, or fair values of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2017	*Fair value 2017*	*Unrecognised gain (loss) 2017*
Financial assets			
Cash and cash equivalents	374,299	374,299	-
Amounts due from credit institutions	38,141	38,141	-
Financial liabilities			
Borrowings	657,109	657,109	-
Debt securities issued	77,835	81,312	(3,477)
Total unrecognised change in unrealised fair value			**(3,477)**

	Carrying value 2016	*Fair value 2016*	*Unrecognised gain 2016*	*Carrying value 2015*	*Fair value 2015*	*Unrecognised loss 2015*
Financial assets						
Cash and cash equivalents	401,970	401,970	-	292,955	292,955	-
Amounts due from credit institutions	178,425	178,425	-	34,069	34,069	-
Financial liabilities						
Borrowings	717,876	717,876	-	142,460	142,460	-
Debt securities issued	122,263	121,672	591	82,522	84,566	(2,044)
Total unrecognised change in unrealised fair value			**591**			**(2,044)**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the combined historical financial information.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

30. Maturity Analysis

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2017		
	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	374,299	-	374,299
Amounts due from credit institutions	36,382	1,759	38,141
Investment securities	1,619	31,441	33,060
Accounts receivable	35,207	134	35,341
Insurance premiums receivable	30,818	37	30,855
Prepayments	79,513	8,514	88,027
Inventories	72,096	8,036	80,132
Investment properties	-	159,989	159,989
Property and equipment	-	657,635	657,635
Goodwill	-	21,935	21,935
Intangible assets	-	5,457	5,457
Income tax assets	186	1,188	1,374
Other assets	48,383	25,154	73,537
Assets of disposal group held for sale	1,148,584	-	1,148,584
Total assets	**1,827,087**	**921,279**	**2,748,366**
Borrowings	72,473	584,636	657,109
Debt securities issued	1,350	76,485	77,835
Deffered income	49,863	23,203	73,066
Accounts Payable	35,723	10,756	46,479
Insurance contracts liabilities	39,443	6,960	46,403
Income tax liabilities	860	-	860
Other liabilities	44,328	19,141	63,469
Liabilities of disposal group held for sale	619,029	-	619,029
Total liabilities	**863,069**	**721,181**	**1,584,250**
Net	**964,018**	**200,098**	**1,164,116**

	31 December 2016			31 December 2015		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
Cash and cash equivalents	401,970	-	401,970	292,955	-	292,955
Amounts due from credit institutions	173,331	5,094	178,425	32,148	1,921	34,069
Investment securities	3,672	-	3,672	1,184	600	1,784
Accounts receivable	113,505	8,795	122,300	73,321	-	73,321
Insurance premiums receivable	48,346	44	48,390	40,832	49	40,881
Prepayments	39,435	18,685	58,120	8,825	29,173	37,998
Inventories	71,792	107,742	179,534	89,117	28,596	117,713
Investment properties	-	140,254	140,254	-	110,945	110,945
Property and equipment	-	967,461	967,461	-	464,778	464,778
Goodwill	-	73,643	73,643	-	39,641	39,641
Intangible assets	-	18,965	18,965	-	6,540	6,540
Income tax assets	3,201	1,356	4,557	1,911	4,881	6,792
Other assets	48,719	41,291	90,010	25,548	88,276	113,824
Total assets	**903,971**	**1,383,330**	**2,287,301**	**565,841**	**775,400**	**1,341,241**
Borrowings	291,488	426,388	717,876	63,842	78,618	142,460
Debt securities issued	73,174	49,089	122,263	4,534	77,988	82,522
Deffered income	13,177	71,593	84,770	69,910	32,936	102,846
Accounts Payable	109,146	-	109,146	43,669	402	44,071
Insurance contracts liabilities	62,116	5,755	67,871	51,050	4,796	55,846
Income tax liabilities	3,895	-	3,895	10,118	24,216	34,334
Other liabilities	146,379	17,924	164,303	70,165	15,534	85,699
Total liabilities	**699,375**	**570,749**	**1,270,124**	**313,288**	**234,490**	**547,778**
Net	**204,596**	**812,581**	**1,017,177**	**252,553**	**540,910**	**793,463**

(Thousands of Georgian Lari)

31. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	*2017**		*2016**	*2015**
	*Entities under common control***	*Management*	*Entities under common control***	*Entities under common control***
Assets				
Cash and cash equivalents	334,659	-	309,210	238,336
Amounts due from credit institutions	18,450	-	55,207	15,498
Accounts receivable	-	-	-	181
Derivative financial assets	-	-	6,277	-
Insurance premiums receivable	281	-	1,967	1,654
Investment securities	31,721	-	1,572	-
Prepayments	32	-	600	-
Other assets	12,435	-	9,006	99
	397,578	**-**	**383,839**	**255,768**
Liabilities				
Borrowings	50,970	-	33,190	36,621
Debt securities issued	53,209	-	5,271	4,662
Deferred income	-	1,740	52,752	-
Accounts Payable	-	-	40	67
Derivative financial liabilities	1,091	-	1,144	-
Other liabilities	74	-	82	1,129
	105,344	**1,740**	**92,479**	**42,479**
Income and expenses				
Net insurance premiums earned	2,745	-	3,061	2,984
Gross real estate profit	977	1,924	629	-
Gross other profit	360	-	139	423
Fee and commission expense	(100)	-	(219)	(645)
Salaries and other employee benefits	(943)	-	(787)	(672)
Administrative expenses	(545)	-	(1,484)	(1,689)
Interest income from amounts due from credit institutions	6,309	-	2,211	1,550
Interest income from loans	48	-	-	-
Interest income from nvestment securities	2,458	-	-	-
Interest expense from borrowings	(6,579)	-	(5,494)	(13,317)
Interest expense from debt securities issued	(2,636)	-	(1,584)	(1,784)
Net foreign currency (loss) gain	(6,954)	-	6,277	-
	(4,860)	**1,924**	**2,749**	**(13,150)**

* *Including Discontinued operations. i.e. GHG*

** *Entities under common control comprise of BGEO Group PLC's Banking Business subsidiaries.*

(Thousands of Georgian Lari)

31. Related Party Disclosures (continued)

	2017	2016	2015
Salaries and other benefits	4,508	2,294	1,576
Share-based payments compensation	12,450	2,750	206
Long-term benefits	2,243	-	-
Total key management compensation*	**19,201**	**5,044**	**1,782**

**Including compensations included in discontinued operations and capitalised compensations of key management personnel.*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 27). The number of key management personnel at 31 December 2017 was 16 (31 December 2016: 14, 31 December 2015: 16).

32. Events after the Reporting Period

Acquisition of Black Lion LLC

In February 2018, JSC Georgia Capital acquired 100% of Black Lion LLC, a craft beer producer company operating in Georgia. The total consideration for the acquisition was USD 3.2 million. The Group has not yet completed respective business combination accounting in respect of this acquisition

Contribution of 19.9% stakes in the JSC Bank of Georgia and JSC BG Financial

On 16 February 2018, 19.9% stakes in JSC Bank of Georgia and JSC BG Financial were transferred to JSC Georgia Capital as an equity contribution from JSC BGEO Group, which will be exchanged for a 19.9% stake in Bank of Georgia Group PLC following the demerger.

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Substitute Issuer

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