m2 Commercial Assets LLC

Carve-out financial statements

For the year ended 31 December 2018
with independent auditor's report

Contents

Independent auditor's report

Carve-out financial statements

Carve-out statement of comprehensive income ... 1
Carve-out statement of financial position ... 2
Carve-out statement of changes in invested capital ... 3
Carve-out statement of cash flows ... 4

Notes to the carve-out financial statements

1. Background ... 5
2. Basis of preparation ... 5
3.1. Summary of significant accounting policies ... 6
3.2. Significant accounting judgements, estimates and assumptions ... 12
4. Standards issued but not yet effective ... 13
5. Rental income ... 14
6. Property operating expense ... 14
7. Income tax ... 14
8. Investment property ... 15
9. Investment property under construction ... 17
10. Prepayments, other assets and trade receivables ... 18
11. Financial instruments ... 18
12. Invested capital ... 19
13. Fair value measurements ... 20
14. Related party transactions ... 21
15. Events after the reporting period ... 21

EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Participant and the Management of m2 Commercial Assets LLC

Opinion

We have audited the carve-out financial statements of m2 Commercial Assets LLC and its subsidiaries (the Group), which comprise the carve-out statement of financial position as at 31 December 2018, and the carve-out statement of comprehensive income, carve-out statement of changes in equity and carve-out statement of cash flows for the year then ended, and notes to the carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Group as at 31 December 2018, and its carve-out financial performance and its carve-out cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the carve-out financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the carve-out financial statements of the current period. These matters were addressed in the context of our audit of the carve-out financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the carve-out financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the carve-out statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying carve-out financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment property and investment property under construction	
Investment property and investment property under construction include completed assets and those buildings under construction held for earning rental income. The measurement of investment property and investment property under construction at fair value was the matter of most significance in our audit because of the significance of the balances of investment property and investment property under construction and respective revaluation gains to the carve-out financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 3.2, 8 and 9 to the carve-out financial statements disclose the information about investment property and investment property under construction, including the fair valuation and significant assumptions.	We obtained an understanding of internal controls implemented around the estimation process. We evaluated the competence, capabilities and objectivity of the external experts involved by the Group's management in the valuation of investment properties and investment properties under construction. We evaluated, with involvement of our valuation experts, valuation inputs and assumptions used (such as, rental income, discount rate, market prices per square meter, and valuation adjustments) by comparing them to available information about listing and transaction prices for comparable properties and official registry records. We analyzed the disclosures in the carve-out financial statements in respect of the fair value of investment property and investment property under construction.

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Annual Report other than the carve-out financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the carve-out financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the carve-out financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the carve-out financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management for the carve-out financial statements

Management is responsible for the preparation and fair presentation of the carve-out financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the carve-out financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the carve-out financial statements

Our objectives are to obtain reasonable assurance about whether the carve-out financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these carve-out financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the carve-out financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Building a better
working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the carve-out financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the carve-out financial statements, including the disclosures, and whether the carve-out financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the carve-out financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the carve-out financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

30 April 2019

A member firm of Ernst & Young Global Limited

Carve-out statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2018	2017
Rental income	5	5,192	3,628
Property operating expense	6	(1,164)	(615)
Net rental income		4,028	3,013
Net gain from revaluation of investment property	8	3,482	805
Net gain from revaluation of investment property under construction	9	3,650	21,380
Net gain from revaluation		7,132	22,185
Employee benefits expense		(112)	(268)
Other general and administrative expenses		(272)	(274)
Operating profit		10,776	24,656
Finance expense	11	(781)	–
Net foreign exchange loss		(45)	–
Profit before income tax expense		9,950	24,656
Income tax expense	7	–	–
Profit for the year		9,950	24,656
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of operations to presentation currency		4,332	1,617
Total comprehensive income for the year		14,282	26,273

Signed and authorised for release on behalf of the management of the Company.

Chief Executive Officer Giorgi Natroshvili

30 April 2019

The accompanying notes on pages 5-21 are an integral part of these carve-out financial statements.

Carve-out statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	2018	2017
Assets			
Non-current assets			
Investment property	8	58,895	41,172
Investment property under construction	9	41,870	33,428
Prepayments and other assets	10	1,390	–
		102,155	74,600
Current assets			
Prepayments and other assets	10	1,856	910
Trade and other receivables	10	875	342
Cash at bank	11	19,978	–
		22,709	1,252
Total assets		124,864	75,852
Invested capital			
Charter capital		2,650	–
Other invested capital		88,920	75,605
		91,570	75,605
Non-current liabilities			
Loans received	11	11,033	–
Debt securities issued	11	19,596	–
		30,629	–
Current liabilities			
Trade and other payables		99	126
Loans received	11	1,096	–
Debt securities issued	11	13	–
Other liabilities		1,457	121
		2,665	247
Total liabilities		33,294	247
Total invested capital and liabilities		124,864	75,852

The accompanying notes on pages 5-21 are an integral part of these carve-out financial statements.

Carve-out statement of changes in invested capital

For the year ended 31 December

(Thousands of Georgian Lari)

	Charter capital	Other invested capital	Total invested capital
At 31 December 2016	–	41,442	41,442
Net profit	–	24,656	24,656
Other comprehensive income	–	1,617	1,617
Total comprehensive income for the year	–	26,273	26,273
Net capital contribution from the Parent (Note 12)	–	10,362	10,362
Deemed profit distribution (Note 12)	–	(2,609)	(2,609)
Share-based payments	–	137	137
At 31 December 2017	–	75,605	75,605
Net profit	–	9,950	9,950
Other comprehensive income	–	4,332	4,332
Total comprehensive income for the year	–	14,282	14,282
Incorporation of the Company (Note 12)	2,650	–	2,650
Net capital contribution to the Parent (Note 12)	–	2,677	2,677
Deemed profit distribution (Note 12)	–	(3,663)	(3,663)
Share-based payments	–	19	19
At 31 December 2018	2,650	88,920	91,570

The accompanying notes on pages 5-21 are an integral part of these carve-out financial statements.

Carve-out statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2018	2017
Operating activities			
Profit before income tax expense		9,950	24,656
Net gain from revaluation of investment property and investment property under construction	8, 9	(7,132)	(22,185)
(Gain)/loss from foreign exchange differences		45	
Share-based payments		19	137
Finance costs		781	–
Operating profit before changes in working capital		3,663	2,608
Working capital adjustments			
(Decrease)/increase in prepayments and other assets		(946)	(679)
Decrease/(increase) trade and other receivables		(533)	(38)
Decrease in trade and other payables		(27)	(352)
Increase/(decrease) in other current liabilities		1,336	(166)
Cash flows from operations		3,493	1,373
Interest paid		(698)	–
Net cash flows from operating activities		2,795	1,373
Investing activities			
Purchase of investment property	8	(12,494)	–
Capital expenditure on investment property		–	(70)
Capital expenditure on investment property under construction		(1,390)	(8,760)
Net cash flows used in investing activities		(13,884)	(8,830)
Cash flows from financing activities			
Proceeds from borrowings	11	11,068	–
Proceeds from debt securities issued	11	19,609	–
Charter capital increase	12	2,650	–
Deemed profit distribution	11	(3,663)	(2,609)
Net contribution from the Parent	12	1,448	10,066
Net cash flows from financing activities		31,112	7,457
Effect of exchange rate changes on cash and cash equivalents		(45)	–
Net increase in cash and cash equivalents		19,978	–
Cash and cash equivalents at 1 January		–	–
Cash and cash equivalents at 31 December	11	19,978	–

The accompanying notes on pages 5-21 are an integral part of these carve-out financial statements.

(Thousands of Georgian Lari)

1. Background

JSC m2 Real Estate (the "Parent") is a joint stock company incorporated on 27 September 2006. The legal address of the Parent is 29, I. Chavchavadze Ave, 0179, Tbilisi, Georgia. The Parent, together with subsidiaries, is referred to as the "Group". The Group's principal activities included development and sales of mainly residential apartments and investment property management. The Group's ultimate parent as at 31 December 2017 was BGEO Group plc ("BGEO"), a UK-incorporated entity listed on London Stock Exchange. As at 31 December 2018, following BGEO's demerger of its investment business in May 2018, the Company's ultimate parent became Georgia Capital plc, a UK-incorporated entity listed on London Stock Exchange.

In 2018, the Group initiated a corporate reorganization in order to legally separate its yield-generating segment with view of issuance of local bonds secured by the Group's portfolio of yield-generating properties. In April 2018, the Parent established a 100% owned subsidiary m2 Commercial Assets LLC ("the Company") and initiated a plan to transfer properties of the Group's yield-generating segment from various Group's subsidiaries to the Company, completed in February 2019. The legal address of the Company is 29, I. Chavchavadze Ave, 0179, Tbilisi, Georgia.

As at 31 December 2018, the Company has a fully owned subsidiary Melikishvili Business Center LLC established on 12 April 2018.

In December 2018 the Company issued local bonds listed on Georgian Stock Exchange. The Group's reorganization was completed in February 2019 (Note 15) and had been outstanding as at 31 December 2018. In order to reflect the effects of the Group's planned reorganization through the separation of its yield-generating business segment, the management of the Parent prepared these carve-out financial statements of the Company for the year ended 31 December 2018.

2. Basis of preparation

Basis of carve-out

Until April 2018, the Company operated as part of the Parent and not as a standalone company. These carve-out financial statements have been prepared by separating yield-generating segment out of the Group's consolidated financial statements prepared in accordance with IFRS based on the criteria and assumptions further discussed in this note below assuming that the Company's date of transition to IFRS is the initial date of transition to IFRS of the Parent.

The Company applied the same criteria and assumptions to allocate the assets and liabilities, income and expenses and cash flows and as at 31 December 2018 and 31 December 2017 and for the years then ended. All significant transactions between the Company and the Parent have been included in these carve-out financial statements.

Carve-out assumptions

Those investment properties, investment properties under construction have been included in these carve-out financial statements that are already owned by, or are due to be transferred to the Company, together with respective rental income, property operating expense, valuation gains and losses, as well as trade receivables and payables, prepayments and other assets and liabilities directly attributable to operations of those properties (for example rent receivables, utilities and other costs payable or prepaid).

Employee benefits expense were recognized in these carve-out financial statements to the extend attributable to specific employees responsible for operations of the yield-generating segment, and a portion of other employee benefits (e.g. those of the Group's head office employees) recognized in the consolidated financial statements of the Group pro rata to yield-generating segment's share in total revenue of the Group.

General and administrative expenses were included to these carve out financial statements pro rata to yield-generating segment's share in total revenue of the Group.

Income tax expense was estimated based on statutory tax rate, adjusted as appropriate for the effects of known non-taxable and non-deductible items reported in the carve-out income statement as described above.

Cash flows directly attributable to acquisition, construction and operating of the properties reported in the carve-out statement of financial position (including respective capital expenditures incurred reported under investing cash flows) are reported in the carve-out statement of cash flows, with balancing movement "Net cash contribution by the Parent" reported under financing cash flows.

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Carve-out assumptions (continued)

The difference between yield-generating segment's assets and liabilities is presented as "Invested capital" in the carve-out statement of financial position. The Company discloses movements in invested capital in carve-out statement of changes in invested capital, showing separately capital investments (e.g. acquisitions of properties due to be transferred to the Company, and capital expenditures incurred on their construction) and invested capital withdrawals (e.g. reallocation of net cash generated by the properties to the Parent company).

Amounts recognized by the Company are not necessarily representative of the amounts that would have been reflected in the financial statements had the Company operated independently of the Parent. Accordingly, none of the Parent's cash, cash equivalents or borrowings at the corporate level have been assigned to the Company in these carve-out financial statements. Only those cash and cash equivalents and borrowings that are owed to, or owed by, the Company itself are recognized in these carve-out financial statements.

Statement of compliance

These carve-out financial statements have been prepared in accordance with International Financial reporting standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

General

These carve-out financial statements have been prepared on a going concern basis and under the historical cost convention except for valuation of investment property, investment property under construction which are carried at fair value.

These carve-out financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

These carve-out financial statements have not yet been approved by the Parent. The Parent has the power and authority to amend the carve-out financial statements after the issuance.

3.1. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the carve-out financial statements are consistent with those followed in the preparation of the Company's carve-out financial statements for the year ended 31 December 2017.

The nature and the effect of these changes are disclosed below:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company adopted 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, did not restate comparative information.

The adoption of IFRS 9, including effect of IFRS 9 impairment requirements on debt financial assets (cash and cash equivalents and trade receivables), was not material at the date of transition.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company's carve-out financial statements.

3.1. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

Other newly adopted or revised standards which did not affect the Company are as follows: IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations, Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions, Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice, Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Company, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Company's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Company loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and amounts due from credit institutions that mature within three months from the date of contract origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Revenue recognition

Rental income

The Company is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Functional, reporting currencies and foreign currency translation

The carve-out financial statements are presented in Georgian Lari, which is the Company's presentation currency. The Company's functional currency is US Dollar, which is the currency of denomination of vast majority Company's rental agreements and currency in which investment properties are priced in the Georgian real estate market. The Company uses presentation currency different from its functional currency as the Company considers it provides more relevant and appropriate information to the users of the carve-out financial statements, as using Georgian Lari as presentation currency is common practice for Georgian reporters.

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 recognized in the carve-out statement of comprehensive income as net foreign exchange 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 recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are recognized in profit or loss.

The official NBG exchange rate at 31 December 2018, 31 December 2017 and 31 December 2016 were 2.6766, 2.5922 and 2.6468 GEL to 1 USD respectively.

Taxation

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 7). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes.

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

Investment property

Investment property includes buildings held for earning rental income and land plots held for a currently undetermined future use or with a view of future redevelopment for future use as investment property.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and borrowing costs.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are charged to profit or loss in the year in which they arise.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

3.1. Summary of significant accounting policies (continued)

Investment property (continued)

Investment property under construction

Investment property under construction is accounted in the same way as the completed investment property, unless its fair value cannot be determined reliably. In that case, investment property under construction is accounted at cost until the construction is complete or fair value becomes reliably measurable.

Operating leases

Where the Company is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss on a straight-line basis over the lease term.

Financial assets

Initial recognition

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes cash at bank and trade receivables.

Loans and receivables (policy applicable before 1 January 2018)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss.

Rent and other receivables are recognized at their original invoiced value. Where the time value of money is material, receivables are carried at amortized cost.

Impairment of financial assets (policy applicable from 1 January 2018)

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For short-term and long-term trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Fair value measurements

The Company measures certain non-financial assets such as investment property, at fair value at the end of each reporting period.

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 Company is able to access the principal or the most advantageous market at the measurement date.

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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs 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.

Fair value of assets included in Level 3 of the fair value hierarchy may be subject to change once and if observable relevant transactions are available.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company 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.

Financial liabilities

Financial liabilities (including loans received, debt securities issued and trade and other payables) are initially recognized at fair value plus directly attributable transaction costs.

After initial recognition, these are measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company.

Charter capital

Charter capital is classified as equity within total invested capital.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Segment reporting

As at 31 December 2018, the chief operating decision maker evaluates the whole Company as a single operating segment, yield-generating business. All of Company's assets and liabilities are concentrated in Georgia and revenue from external customers is received from the operations in Georgia. In 2018, revenue from three (2017: two) external customers amounted to more than 10% of the Company's total revenue.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs directly attributable to the acquisition or construction 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 the respective assets. All other borrowing costs are expensed in the period in which they occur.

As the Company borrows funds specifically for the purpose of each development project, amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of property development phase.

3.2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates

Measurement of fair value of investment properties and investment properties under construction

The fair value of investment properties and investment properties under construction 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 Company performs valuation of its investment properties and investment properties under construction 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, as well as valuation inputs and techniques are presented in Note 8 and 9. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

4. Standards issued but not yet effective

Up to the date of approval of the carve-out financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted. Such standards that are expected to have an impact on the Company, or the impacts of which are currently being assessed, are as follows:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Company plans to adopt IFRS 16 using modified retrospective approach, i.e. the Company will recognize cumulative catch-up adjustment on opening balance sheet without the restatement of prior period comparatives. At transition the Company will recognise a lease liability for leases previously classified as an operating lease applying IAS 17. Lease liability will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Company will also recognise a right-of-use asset for such leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Company applies the following practical expedients:

- The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Company relies on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- The Company excludes initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

IFRS 16 is not expected to have any effect on the Company's financial position as at transition date.

Other issued but not yet effective which are not expected to affect the Company are as follows: IFRS 17 Insurance Contracts, IFRIC Interpretation 23 Uncertainty over Income Tax Treatment, Amendments to IFRS 9 Prepayment Features with Negative Compensation, Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IAS 19 Plan Amendment, Curtailment or Settlement, Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures, Annual improvements 2015-2017 cycle (issued in December 2017) which includes IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs.

(Thousands of Georgian Lari)

5. Rental income

	2018	2017
Rental income		
Office	2,595	1,656
Retail	1,866	1,282
Warehouse	731	690
	5,192	3,628

The Company's future minimum lease payments receivable under non-cancellable operating lease commitments (net of VAT) amounted to:

	2018	2017
Not later than 1 year	4,443	3,912
Later than 1 year but not later than 5 years	8,861	9,397
Later than 5 years	2,914	8,189
Total	16,218	21,498

Most of the Company's leases are priced in USD and have lease term varying from 3 months to 10 years (average term: 3 years).

6. Property operating expense

	2018	2017
Property tax	876	360
Insurance	95	88
Security	70	79
Utilities	70	53
Maintenance	53	35
Total property operating expense	1,164	615
Of which related to properties that did not generate rental income	376	174

7. Income tax

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 Income Taxes requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017. The Company did not distribute dividends or made income tax prepayments in 2018 and 2017, thus it did not incur any current income tax assets or liabilities.

Applicable tax regulations are often unclear and not large number of precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Company 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)

8. Investment property

The table below shows movements in investment property:

Investment property	Retail	Office	Warehouse	Total
At 31 December 2016	12,038	21,116	7,559	40,713
Net gain (loss) from revaluation	(157)	962	–	805
Capital expenditure	–	70	–	70
Contributions from the Parent	–	706	–	706
Currency translation effect	440	(872)	(690)	(1,122)
At 31 December 2017	12,321	21,982	6,869	41,172
Acquisitions	–	12,494	–	12,494
Net gain from revaluation	400	2,559	523	3,482
Distributions to the Parent	(792)	–	–	(792)
Currency translation effect	410	1,893	236	2,539
At 31 December 2018	12,339	38,928	7,628	58,895

In 2018, the Company acquired, on an arm's length basis, an office centre from an entity under common control for consideration of GEL 12,494.

Yielding assets represent office, retail, warehouses and other commercial buildings, including underlying land, held for rent-generating purposes. Most of Company's investment properties are located in Tbilisi, Georgia as at 31 December 2018 and 31 December 2017.

Fair value measurement of investment property

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest valuation performed by independent appraiser for investment property and investment property under construction is 31 October 2018. The valuation was performed by an accredited independent valuator with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment property being valued. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Investment property valuation belongs to Level 3 of fair value hierarchy.

Market comparison and income approaches were used to value the investment properties.

Market approach

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. Adjustments to value are determined based on difference in subject property's condition and location as compared to the reference properties.

Income approach

Income approach is a valuation method that appraisers and real estate investors use to estimate the value of income producing real estate. It is based upon the premise of anticipation i.e., the expectation of future benefits. Under the income approach, the value of property is estimated based on the income that the property can be expected to generate. Income capitalization converts anticipated cash flows into present value by "capitalizing" net operating income by a market derived "capitalization rate". A capitalization rate is a rate of return on investment. It is used by real estate investors as a benchmark for determining how much they should pay for a property.

(Thousands of Georgian Lari)

8. Investment property (continued)

Fair value measurement of investment property (continued)

For the purpose of fair value disclosures, the Company identified three classes of investment properties – retail properties, offices and warehouse. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 31 December 2018 and 31 December 2017:

Class of investment properties	Fair value 2018	Valuation technique	Significant unobservable inputs	Range (weighted average)
Retail properties	12,339	Income approach	Rent price per square meter, GEL	14.99-57.28 (37.66)
			Capitalization rate	10.00%-13.70% (11.51%)
	12,339			
Office	1,494	Market approach	Price per square meter, GEL	3.45-3.80 (3.56)
	31,008	Income approach	Rent price per square meter, GEL	18.55-64.77 (37.1)
	–		Capitalization rate	10.00%-12.20% (10.73%)
	6,426	Market approach/ Income approach	Rent price per square meter, GEL	20.34-25.70 (23.82)
			Capitalization rate	10.00%-10.00% (10.00%)
			Price per square meter, GEL	1.95-2.17 (2.09)
	38,928			
Warehouse	3,212	Market approach	Price per square meter, GEL	1.37-1.45 (1.42)
	4,416	Income approach	Rent price per square meter, GEL	5.35-5.85 (5.62)
			Capitalization rate	11%-11% (11%)
	7,628			
	58,895			

Class of investment properties	Fair value 2017	Valuation technique	Significant unobservable inputs	Range (weighted average)
Retail properties	11,315	Market approach / income approach	Price per square meter, GEL	1.60-7.15 (3.33)
			Capitalization rate	8.50%-9.50% (8.90%)
	1,006	Income approach	Capitalization rate	9.50%-9.50% (9.50%)
	12,321			
Office	1,387	Market approach	Price per square meter, GEL	2.14-3.19 (2.81)
	20,595	Market approach / income approach	Price per square meter, GEL	1.18-3.81 (2.03)
			Capitalization rate	8.50%-9.00% (8.88%)
	21,982			
Warehouse	6,869	Market approach / income approach	Price per square meter, GEL	0.07-0.28 (0.15)
			Capitalization rate	8.00%-10.50% (9.67%)
	6,869			
	41,172			

Increase in price per square meter and rent price per square meter and decrease in capitalization rate would result in increase in fair values of the investment properties.

(Thousands of Georgian Lari)

9. Investment property under construction

A summary of movement in investment property under construction:

	Retail	Offices and apartments	Kindergartens	Total
At 31 December 2016	1,390	–	–	1,390
Net gain from revaluation	16,880	4,343	157	21,380
Capital expenditure	2,693	4,355	1,238	8,286
Borrowing costs capitalized	171	233	69	473
Currency translation effect	1,360	481	58	1,899
At 31 December 2017	22,494	9,412	1,522	33,428
Net gain from revaluation	478	1,802	1,370	3,650
Capital expenditure	-	1,390	-	1,390
Contributions from/(to) the Parent	(211)	2,386	–	2,175
Currency translation effect	744	402	81	1,227
At 31 December 2018	23,505	15,392	2,973	41,870

For the purpose of fair value disclosures, the Company identified three classes of investment properties under construction– retail properties, offices and apartments and kindergartens. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2018 and 31 December 2017:

Class of investment properties	Fair value 2018	Valuation technique	Significant unobservable inputs	Range (weighted average)
Kindergarten	1,261	Income approach	Rent price per square meter, GEL	22.48-26.77 (24.36)
			Capitalization rate	10.00%-10.00% (10.00%)
	1,712	Market approach	Price per square meter, GEL	2.97-3.48 (3.16)
	2,973			
Retail	6,081	Market approach	Price per square meter, GEL	3.13-4.12 (3.61)
	17,424	Income approach	Rent price per square meter, GEL	31.85-120.71 (82.41)
			Capitalization rate	10.00%-10.00% (10.00%)
	23,505			
Offices and apartments	11,017	Income approach	Rent price per square meter, GEL	26.5-33.73 (29.90)
			Capitalization rate	10.00%-10.00% (10.00%)
	4,375	Market approach	Price per square meter, GEL	2.41-4.28 (3.40)
	15,392			
	41,870			

Class of investment properties under construction	Fair value 2017	Valuation technique	Significant unobservable inputs	Range (weighted average)
Retail	22,494	Market approach	Price per square meter, GEL	3.59-8.86 (6.29)
Office	9,412	Market approach	Price per square meter, GEL	1.97-1.97 (1.97)
Kindergarten	1,522	Market approach	Price per square meter, GEL	0.99-1.36 (1.18)
Total	33,428			

Increase in price per square meter and rent price per square meter and decrease in capitalization rate would result in increase in fair values of the investment properties.

(Thousands of Georgian Lari)

10. Prepayments, other assets and trade receivables

At 31 December prepayments and other assets comprised of the following:

	2018	2017
VAT prepayments	272	895
Prepayments for properties' maintenance	182	15
Prepayments for brokerage fee related to bonds issue	1,402	–
Prepayments and other assets, current	1,856	910
Prepayments for investment property construction	1,390	–
Prepayments and other assets, non-current	1,390	–
Total prepayments and other assets	3,246	910
Trade and other receivables, current	875	342

VAT prepayments are expected to be recovered on a monthly basis due to changes in Georgian tax legislation effective from 1 January 2017. According the changes VAT liability must be recognized on advances received from customers.

Trade and other receivables of the Company are mostly comprised of receivables from rental. These receivables are mostly denominated in USD and are due from 1 to 3 months from the reporting date. No significant trade and other receivable are either past due or impaired as at 31 December 2018 and 31 December 2017.

11. Financial instruments

Financial instruments overview

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

As of 31 December 2018 the Company has no other significant financial assets subject to credit risk except for cash at bank and trade receivables. As at 31 December 2018 GEL 19,978 (2017: nil) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during 2018. The Company's cash at bank is immediately available upon demand. No significant increase in credit risk occurred on the Company's cash at bank.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company's liquidity risk is analysed and managed by the Company's management.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations:

Financial liabilities As at 31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Loans received	270	826	4,967	12,415	18,478
Trade and other payables	99	–	–	–	99
Debt securities issued	821	1,103	22,550	–	24,474
Total	1,190	1,929	27,517	12,415	43,051

Financial liabilities As at 31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	126	–	–	–	126
Total	126	–	–	–	126

11. Financial instruments (continued)

Financial instruments overview (continued)

Loans received

As at 31 December 2018, loans received in amount of GEL 12,129 (equivalent of USD 4,550) are represented by USD-denominated borrowings from JSC Georgia Capital, a parent company of the Group, due in February 2024. Current portion of the loan amounted to GEL 1,096 and non-current portion to GEL 11,033 as at 31 December 2018.

Debt securities issued

In December 2018 the Company issued 3-year local bonds with total issue size of USD 30,000, registered on the Georgian Stock Exchange, of which USD 7,300 (GEL 19,609) have been placed among investors by 31 December 2018 and the rest of the total issue was placed in January-February 2019. The bonds were issued at par carrying 7.5% coupon rate per annum with quarterly payments.

Changes in liabilities arising from financing activities:

	1 January 2018	Cash inflows	Foreign exchange movement	Change in accrued interest	31 December 2018
Loans and borrowings	–	11,068	987	74	12,129
Debt securities issued	–	19,609	–	–	19,609
Total liabilities from financing activities	–	30,677	987	74	31,738

12. Invested capital

Capital management

The Company's objectives when managing capital (which it defines as reported net assets in its IFRS carve-out financial statements) are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Company cost-efficient.

To achieve these goals the Company performs a detailed analysis of each potential project setting an individual minimal requirement for internal rate of return considering the cost of borrowed funds and level of own capital available.

Transactions with the Parent

Contributions from and distribution to the Parent recognized as increase or decrease in invested capital mostly include costs acquisition and construction of investment property incurred by the Parent on behalf of the Company and transfers of completed properties to other business segments of the Parent, respectively. Deemed profit distribution comprises the amount of cash generated by the Company's investment properties (net of respective property operating expense), which was retained by the Parent.

(Thousands of Georgian Lari)

13. Fair value measurements

For the purpose of fair value disclosures, the company 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. It also includes a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities carried at cost:

	Level 1	Level 2	Level 3	Total fair value 2018	Carrying value 2018	Unrecognised gain (loss) 2018
Assets measured at fair value						
Investment properties	–	–	58,895	58,895	58,895	–
Investment property under construction	–	–	41,870	41,870	41,870	–
Assets for which fair values are disclosed						
Trade and other receivables	–	875	–	875	875	–
Liabilities for which fair values are disclosed						
Loans received	–	–	12,542	12,542	12,129	(413)
Debt securities issued	–	19,596	–	19,596	19,609	13

	Level 1	Level 2	Level 3	Total fair value 2017	Carrying value 2017	Unrecognised gain (loss) 2017
Assets measured at fair value						
Investment properties	–	–	41,172	41,172	41,172	–
Investment property under construction	–	–	33,428	33,428	33,428	–
Assets for which fair values are disclosed						
Trade and other receivables	–	126	–	126	126	–

Carrying value of trade and other receivables as at 31 December 2018 and 2017 approximates their fair value due to short term nature.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the consolidated financial statements:

- Assets for which fair value approximates carrying value – for financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments and those assets and liabilities originating close to the reporting date.
- 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.

Information about fair values of investment properties and investment properties under construction is disclosed in Notes 8 and 9, respectively.

(Thousands of Georgian Lari)

14. Related party transactions

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2018			2017		
	Parent[1]	Entities under common control[2]	Key management personnel	Parent	Entities under common control	Key management personnel
Balances as at 31 December						
Accounts receivable	9	22	–	15	51	–
Accounts payable	–	11	–	–	17	–
Loans received	12,129	–	–	–	–	–
Transactions for the year ended 31 December						
Employee benefits expense	–	–	139	–	–	163
Rental income	143	712	–	29	1,187	–
Rental expense	–	94	–	–	29	–
Insurance expense	–	3	–	–	7	–
Other general and administrative expense	–	–	–	–	4	–

[1] As at 31 December 2018 and 31 December 2017 and in the years then ended Parent includes balances and transactions with m2 Real Estate JSC and JSC Georgia Capital.

[2] Entities under common control include GCAP Company PLC subsidiaries (2017: BGEO Group PLC subsidiaries), except those included in Parent category.

Transactions with the Parent also include costs of acquisition and construction of investment property incurred by the Parent on behalf of the Company (Notes 8, 9).

Key management personnel of the Company is that of its Parent. Company's share of the compensation of key management personnel recognized in these carve-out financial statements comprised:

	2018	2017
Share-based compensation	82	128
Salary	33	23
Cash bonus	25	12
	139	163

15. Events after the reporting period

In January-February 2019, the Company fully placed its USD 30 million local bonds issue, raising USD 22.6 mln (GEL 60 mln).

On 28 February 2019 the Company fully repaid its loan received from JSC Georgia Capital.

In February 2019, reorganization of the Group's yield-generating business segment was finalized. The Company acquired all investment properties and investment properties under construction recognized in these carve-out financial statement from the Parent and other entities of the Group for cash consideration of GEL 56,261 which was fully paid.