JSC m2 Real Estate Group

Consolidated financial statements

For the year ended 31 December 2015
with independent auditors' report

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Independent Auditors' Report

To the Shareholder and the Supervisory Board of JSC m2 Real Estate

We have audited the accompanying consolidated financial statements of JSC m2 Real Estate and its subsidiaries, together referred to as "the Group", which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC m2 Real Estate and its subsidiaries as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

26 April 2016

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2015	2014 (Restated*)
Sales of inventory property	5	44,893	56,940
Cost of sales – inventory property	6	(39,744)	(46,544)
Profit on sale of inventory property		5,149	10,396
Rental income	5	1,785	1,579
Property operating expense		(251)	(55)
Net rental income		1,534	1,524
Net gain from revaluation of investment property	10	16,702	1,854
Other revenue	5	285	188
Employee benefits expense	7	(943)	(1,139)
Other general and administrative expenses	8	(2,076)	(1,726)
Depreciation		(185)	(155)
Marketing and advertising expense		(2,785)	(2,408)
Non-recurring expenses		(323)	(263)
Operating profit		17,358	8,271
Finance income		386	446
Finance expense		(1,030)	(286)
Net foreign exchange loss		(836)	(536)
Profit before income tax expense		15,878	7,895
Income tax expense	9	(2,798)	(1,137)
Profit for the year		13,080	6,758
Total comprehensive income for the year		13,080	6,758

* Certain amounts do not correspond to the 2014 consolidated financial statement as reflect the adjustments made for reorganization under common control as detailed in Note 2.

Signed on behalf of the Management Board of the Company

Chief Executive Officer — Irakli Burdiladze

Chief Financial Officer — Emzar Otkhozoria

26 April 2016

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2015*	*2014 (Restated*)*
Assets			
Non-current assets			
Investment property	10	109,855	63,313
Inventory property	11	32,921	37,971
Deferred tax assets	9	2,704	2,191
Prepayments and other non-current assets	12	20,409	8,001
		165,889	111,476
Current assets			
Inventory property	11	65,114	39,340
Prepayments and other current assets	12	18,872	8,136
Bank deposits		–	10,590
Investment securities available for sale	13	2,120	1,391
Trade and other receivables	13	2,338	501
Cash at bank	13	27,989	23,897
		116,433	83,855
Total assets		282,322	195,331
Equity	14		
Share capital		4,180	2,782
Share premium		85,003	71,813
Pooling reserve		–	742
Retained earnings		17,594	4,514
Total equity		106,777	79,851
Non-current liabilities			
Long-term loans received	13	1,107	–
Debt securities issued	17	47,050	–
Deferred revenue	15	31,861	26,880
Deferred tax liabilities	9	2,358	19
Retention payable to general contractor	13	3,198	1,475
		85,574	28,374
Current liabilities			
Short-term loans received	13	2,179	3,541
Debt securities issued	17	1,258	29,179
Deferred revenue	15	72,577	48,157
Current income tax liabilities		1,484	1,917
Trade and other payables	13	6,533	1,389
Retention payable to general contractor	13	2,073	1,241
Other current liabilities		3,867	1,682
		89,971	87,106
Total liabilities		175,545	115,480
Total equity and liabilities		282,322	195,331

* Certain amounts do not correspond to the 2014 consolidated financial statement as reflect the adjustments made for reorganization under common control as detailed in Note 2.

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Pooling reserve*	*Share premium*	*(Accumulated losses) / Retained earnings*	*Total equity*
At 1 January 2014	2,782	–	53,544	(2,244)	54,082
Total comprehensive income for the year	–	–	–	6,758	6,758
Reorganization under common control (Note 2)	–	742	17,140	–	17,882
Share based payments (Note 14)	–	–	1,129	–	1,129
At 31 December 2014 (Restated*)	2,782	742	71,813	4,514	79,851
Total comprehensive income for the year	–	–	–	13,080	13,080
Issue of shares in reorganization under common control (Note 14)	742	(742)	–	–	–
Contribution of assets by entities under common control (Note 14)	656	–	10,987	–	11,643
Share based payments (Note 14)	–	–	2,203	–	2,203
At 31 December 2015	4,180	–	85,003	17,594	106,777

* Certain amounts do not correspond to the 2014 consolidated financial statement as reflect the adjustments made for reorganization under common control as detailed in Note 2.

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	*2015*	*2014 (Restated*)*
Operating activities			
Profit before income tax expense		15,878	7,895
Non-cash adjustments to reconcile profit before income tax expense to operating profit before changes in working capital:			
Gain from valuation of investment property	10	(16,702)	(1,854)
Loss from foreign exchange differences		836	536
Depreciation		185	155
Finance income		(386)	(446)
Finance expense		1,030	286
Share based payments		112	57
Other		3	106
Operating profit before changes in working capital		956	6,735
Working capital adjustments:			
Change in inventory property		(15,964)	11,071
Change in deferred revenue		29,401	21,629
Change in retention payable to the constructor		2,555	(1,582)
Change in prepayments and other current and non-current assets		(19,677)	(3,705)
Change in trade and other payables		2,260	1,311
Change in trade and other receivables		(1,837)	1,111
Cash flows (used in) / from operations		(2,306)	36,570
Interest received		386	152
Interest paid		(6,299)	(116)
Income tax paid		(1,566)	–
Net cash flows (used in) / from operating activities		(9,785)	36,606
Investing activities			
Acquisition of investment property	10	(11,075)	(46,696)
Capital expenditure on investment property	10	(2,546)	(62)
Capital expenditure on investment property under construction		(937)	(828)
Acquisition of property, plant and equipment		(584)	(80)
Acquisition of investment securities available for sale		(729)	(226)
Placement of bank deposits		–	(9,743)
Redemption of bank deposits		13,101	–
Net cash flows used in investing activities		(2,770)	(57,635)
Cash flows from financing activities			
Proceeds from debt securities issued		44,707	25,656
Repayment of debt securities issued		(33,972)	–
Proceeds from short-term loans received		–	3,322
Proceeds from borrowings		–	8,696
Repayment from borrowings		–	(9,211)
Net cash flows from financing activities		10,735	28,463
Effect of exchange rate changes on cash and cash equivalents		5,912	3,839
Net increase in cash and cash equivalents		4,092	11,273
Cash and cash equivalents at 1 January	13	23,897	12,624
Cash and cash equivalents at 31 December	13	27,989	23,897

* Certain amounts do not correspond to the 2014 consolidated financial statement as reflect the adjustments made for reorganization under common control as detailed in Note 2.

Non-cash transactions

In 2015 year the Group incurred borrowings costs with total amount of GEL 6,419 (2014: GEL 4,332), out of which GEL 1,750 (2014: 2,777) was capitalized on inventory property (Note 11), GEL 3,639 (2014: GEL 1,269) was capitalized on investment property (Note 10) and GEL 1,030 (2014: GEL 286) was expensed in the statement of comprehensive income.

In 2015 the Group offset VAT prepayment of GEL 2,884 (2014: GEL 11,032) with VAT payable related to revenue from sale of investment property recognized during the year.

Please refer to Note 14 for significant non-cash contributions of assets by entities under common control.

(Thousands of Georgian Lari)

1. Corporate information

JSC m2 Real Estate Group (the "Company" or "m2 RE") is a joint stock company incorporated on 27 September 2006. The registered office is located at 3-5, Tatishvili str., 0179, Tbilisi, Georgia. The Company's principal activities include development and sales of mainly residential apartments and investment property management.
The Company, together with subsidiaries indicated in Note 2, is referred to as the "Group".

Shareholder	*31 December 2015*	*31 December 2014*
JSC BGEO Investments	100.00%	–
JSC Bank of Georgia	–	93.90%
JSC Galt and Taggart Holdings	–	6.10%
Total	100.00%	100.00%

The Group is ultimately owned and controlled by the BGEO Group PLC ("the BGEO"), previously known as the Bank of Georgia Holdings PLC ("the BGH"). The BGEO is incorporated in the United Kingdom and listed on the London Stock Exchange.

2. Basis of preparation

General

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for Investment property and investment securities available for sale, which are carried at fair value.

The consolidated financial statements are presented in Georgian Lari and all values are rounded to the nearest thousand except as otherwise indicated.

These consolidated financial statements have not yet been approved by the Supervisory Board. The Supervisory Board has the power and authority to amend the consolidated financial statements after the issuance.

Subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiary	*31 December 2015*	*31 December 2014*	*Country*	*Date of incorporation*	*Industry*
LLC Tamarashvili 13	100.00%	100.00%	Georgia	3 November 2011	Real estate
LLC m2 at Kazbegi	100.00%	100.00%	Georgia	21 May 2013	Real estate
LLC m2 at Nutsubidze	100.00%	100.00%	Georgia	21 May 2013	Real estate
LLC m2 at Tamarashvili	100.00%	100.00%	Georgia	21 May 2013	Real estate
LLC m2 at Hippodrome	100.00%	–	Georgia	6 July 2015	Real estate
LLC m2 Skyline	100.00%	–	Georgia	24 July 2015	Real estate
LLC M Square Park	100.00%	–	Georgia	15 September 2015	Real estate
LLC Optima Saburtalo	100.00%	–	Georgia	15 September 2015	Real estate
LLC Optima Isani	100.00%	100.00%	Georgia	25 July 2014	Real estate
LLC M2	100.00%	100.00%	Georgia	12 February 2014	Real estate
LLC m2 Residential	100.00%	–	Georgia	17 August 2015	Real estate
LLC m2 Hospitality	100.00%	–	Georgia	17 August 2015	Real estate
LLC Caucasus Autohouse	100.00%	–	Georgia	29 March 2011	Real estate
LLC Land	100.00%	–	Georgia	3 October 2014	Real estate

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries (continued)

On 28 January 2015, the Company acquired 100% holding in JSC m2 (subsequently reorganized to LLC m2) from an entity under common control. The Company accounted for acquisitions of subsidiary under common control using pooling of interest method with restatement of comparative financial information as if the acquired subsidiary had been always part of the Group in accordance with accounting policy disclosed in Note 3.1 below. The reconciliation of previously reported amounts for the effect of common control business combinations is disclosed below:

Consolidated statement of comprehensive income for the year ended 31 December 2014	*The Group before reorganization for the year ended 31 December 2014*	*Effect of reorganization under common control*		*The Group after reorganization for the year ended 31 December 2014*
		Results of operations of JSC m2	*Intragroup eliminations*	
Sales of inventory property	56,940	–	–	56,940
Cost of sales – inventory property	(46,544)	–	–	(46,544)
Profit on sale of inventory property	10,396	–	–	10,396
Rental income	1,465	114	–	1,579
Property operating expense	(29)	(26)	–	(55)
Net rental income	1,436	88	–	1,524
Net gain from revaluation of investment property	–	1,854	–	1,854
Other revenue	206	58	(76)	188
Employee benefits expense	(1,139)	–	–	(1,139)
Other general and administrative expenses	(1,673)	(53)	–	(1,726)
Depreciation	(155)	–	–	(155)
Marketing and advertising expenses	(2,249)	(159)	–	(2,408)
Non-recurring expenses	(217)	(46)	–	(263)
Operating profit	6,605	1,742	(76)	8,271
Finance income	1,134	–	(688)	446
Finance expense	(286)	–	–	(286)
Net foreign exchange gain/(loss)	2,162	(2,613)	(85)	(536)
Profit/(Loss) before income tax expense	9,615	(871)	(849)	7,895
Income tax (expense)/benefit	(1,395)	131	127	(1,137)
Profit/(Loss) and total comprehensive income for the year	8,220	(740)	(722)	6,758

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries (continued)

Consolidated statement of financial position as at 31 December 2014	*The Group before reorganization as at 31 December 2014*	*Effect of reorganization under common control*		*The Group after reorganization as at 31 December 2014*
		Financial position of JSC m2	*Intragroup eliminations*	
Assets				
Non-current assets				
Investment property	19,540	44,546	(773)	63,313
Inventory property	9,608	28,439	(76)	37,971
Deferred tax assets	1,921	143	127	2,191
Prepayments and other non-current assets	4,222	3,779	–	8,001
	35,291	76,907	(722)	111,476
Current assets				
Inventory property	39,340	–	–	39,340
Prepayments and other current assets	8,106	30	–	8,136
Bank deposits	10,590	–	–	10,590
Short-term loans issued	27,697	–	(27,697)	–
Investment securities available for sale	1,391	–	–	1,391
Trade and other receivables	501	–	–	501
Cash at bank	19,254	4,643	–	23,897
	106,879	4,673	(27,697)	83,855
Total assets	142,170	81,580	(28,419)	195,331
Equity				
Share capital	2,782	17,882	(17,882)	2,782
Share premium	54,655	18	17,140	71,813
Pooling reserve	–	–	742	742
Retained earnings	5,976	(740)	(722)	4,514
Total equity	63,413	17,160	(722)	79,851
Non-current liabilities				
Deferred revenue	19,784	7,096	–	26,880
Deferred tax liabilities	19	–	–	19
Retention payable to general contractor	1,217	258	–	1,475
	21,020	7,354	–	28,374
Current liabilities				
Short-term loan received	3,541	27,697	(27,697)	3,541
Debt securities issued	–	29,179	–	29,179
Deferred revenue	48,157	–	–	48,157
Current income tax liabilities	1,905	12	–	1,917
Trade, other payables and other current liabilities	2,893	178	–	3,071
Retention payable to general contractor	1,241	–	–	1,241
	57,737	57,066	(27,697)	87,106
Total liabilities	78,757	64,420	(27,697)	115,480
Total equity and liabilities	142,170	81,580	(28,419)	195,331

As JSC m2 was established on 12 February 2014, the reorganization under common control did not affect the consolidated statement of financial position of the Group as at 1 January 2014. Consolidated statement of cash flows for the year 2014 was restated to account for reorganization under common under the same principles as the consolidated statement of comprehensive income and consolidated financial position as presented above.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies

Adoption of new or revised standards and interpretations

No new or revised IFRS during the year had an impact on the Group's financial position or performance.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, 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 Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- 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 Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Subsidiaries are consolidated from the date on which control is transferred to the Group 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 Group.

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 Group 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.

Common control business combinations

Combinations of businesses under common control are accounted for using the pooling of interest method. Under this method, amounts are presented in the financial statements after the business combination as combined amounts of the two entities from the beginning of the earliest period presented. Assets and liabilities of an acquired entity are recognised in the financial statements of a combined entity similarly to consolidation of the corresponding items of a subsidiary in the financial statements of a parent company after eliminating all intergroup balances and transactions. Any difference between the combined amounts and consolidated amounts of assets and liabilities determined under the pooling of interest method is recognised as changes in equity. No goodwill arises on the combination of businesses under common control accounted for under the pooling of interest method.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all of the revenue arrangements, it has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognized.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Rental income

The Group 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 terms and is included in revenue in the income statement due to its operating nature.

Sales of inventory property

Sales of inventory property agreements are considered as an arrangements for sale of goods thus respective revenue from sale of inventory is recognized when all of the following conditions are satisfied:

- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

It is the Group's common practice to market developments before the start of construction and this activity then continues throughout the construction period. A typical arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction. In certain cases, respective conditions are met before the transfer of legal ownership on an inventory property to a buyer is completed.

Finance income

Finance income is mostly represented by interest on loans issued and bank deposits and is recognized as it accrues using the effective interest rate (EIR) method. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the functional currency of the Company and its subsidiaries. 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 translated into Georgian Lari at official exchange rates of the National Bank of Georgia ("NBG") at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are charged to income statement to 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.

Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

Investment property under construction

Units of commercial spaces in construction projects in progress that are designated for renting out are classified as investment property under construction and are carried at cost as fair value of such units cannot be reliably estimated until completion of the construction.

Operating leases

Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, 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 IAS 39 are classified as either loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Financial assets (continued)

Loans and receivables

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.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for sale financial assets are measured at fair value with unrealized gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is charged to profit or loss.

Fair value measurements

The Group measures certain financial instruments such as investment securities available for sale, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in the financial statements.

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 Group 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 Group 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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities of the Group, including debt securities issued, loans received, trade and other payables and retention payable to general contractor, 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.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or future redevelopment, is held as inventory and is measured at the lower of cost and net realisable value. Cost includes:

- cost of land; when land is reclassified from investment property its fair value as of reclassification date regarded as its cost;
- amounts payable to the contractor for construction;
- borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, insurance expenses, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined as a sum of the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

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 Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group’s ultimate parent, the BGEO. Grants are made by both the BGEO and the Group. Grants for which the Group does not have a liability to settle are accounted as equity-settled transactions (where the Group subsequently compensates the cost of the award to the settling entity, this is recognized as equity deduction at respective payment date). Other grants are accounted for as cash-settled transactions.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, 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 recognized 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.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date based on market. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

(Thousands of Georgian Lari)

3.1. Summary of significant accounting policies (continued)

Segment reporting

As at 31 December 2015, the chief operating decision maker evaluates the whole Group as a single operating segment, real estate business. The chief operating decision maker evaluates performance based on revenue, profit before tax and net profit measured in accordance with IFRS. Segment assets and liabilities are measured in accordance with IFRS.

All of Group's assets and liabilities are concentrated in Georgia and revenue from external customers is received from the operations in Georgia. There were no external customers that accounted for more than 10% of Group's revenue in 2015 and 2014.

Share capital

Ordinary shares

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

Contribution of assets

The Parent or entities under common control, from time to time, contributes land plots and buildings to the capital of the Group in exchange for the Company's shares. The Group measures the property received, and the corresponding increase in equity at the fair value of the land plots and buildings received.

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 Group 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.

Operational cycle

The Group's normal operating cycle is not clearly identifiable therefore it is assumed to be twelve months. Assets and liabilities are classified as current if they are expected to be realised or settled within twelve months after the reporting date. All other assets and liabilities are classified as non-current.

3.2. Significant accounting judgements, estimates and assumptions

The preparation of the Group'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.

(Thousands of Georgian Lari)

3.2. Significant accounting judgments, estimates and assumptions (continued)

Judgements other than estimates

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of property

The Group determines whether a property is classified as investment property or inventory property:

- Investment property comprises land and buildings (principally offices and retail property) that are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income, capital appreciation or for future redevelopment before exact details of use are not yet determined.
- Inventory property comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.

Estimates

Valuation 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 appraisers is 31 December 2015. Refer to Note 10 for details on fair value measurements of investment properties.

Deferred tax assets for unused tax losses

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 9.

4. Standards issued but not yet effective

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

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. 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 balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 on its consolidated financial statements.

Other standards and interpretations issued but not yet effective are not expected to have an impact on the Group.

5. Revenue

	2015	*2014*
Proceeds from the sale of inventory property		
- Residential area	43,792	53,114
- Commercial area	461	2,410
- Parking lot area	640	1,416
	44,893	56,940
Rental income	1,785	1,579
Other revenue	285	188
Revenue	46,963	58,707

6. Cost of sales – inventory property

	2015	*2014*
Residential area cost of sales	37,352	37,812
Commercial area cost of sales	228	867
Parking lot cost of sales	2,164	7,865
Total cost of sales	39,744	46,544

7. Salary and employee benefits expenses

	2015	*2014*
Share-based compensation expense	2,628	1,521
Salary	1,623	1,287
Cash bonus	870	569
Total employee benefits	5,121	3,377
Employee benefits expense	943	1,139
Employee benefits capitalized in inventory (Note 11)	4,178	2,238
Total employee benefits	5,121	3,377

(Thousands of Georgian Lari)

8. Other general and administrative expenses

	2015	*2014*
Rent	711	394
Legal and other professional services	401	173
Office supplies	192	127
Charity	167	50
Security	131	158
Communication	92	57
Insurance	84	77
Utility	65	135
Personnel training and recruitment	65	34
Operating taxes	43	187
Corporate hospitality	43	92
Repair and maintenance	41	182
Other expenses	41	60
Total other general and administrative expenses	2,076	1,726

9. Income tax

Georgian legal entities must individually file tax declarations. The income tax rate applicable to the Group's income is 15%. Per Tax Code of Georgia the Group is eligible to use tax losses to reduce its taxable income during 5 years after its origination. Respective 5 year period can be prolonged for another 5 years based on the Group's request.

Income tax expense of GEL 2,798 (2014: 1,137) for the year ended 31 December 2015 comprised of deferred tax expense of GEL 1,826 (2014: deferred tax benefit of GEL 780) and of current income tax expense of GEL 972 (2014: GEL 1,917).

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2015 and 2014 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2015	*2014*
Profit before income tax expense	15,878	7,895
Statutory tax rate	15%	15%
Theoretical income tax expense	(2,382)	(1,184)
Non-deductible expenses less non-taxable income	(41)	47
Expiration of tax losses carried forward	(375)	–
Income tax expense	(2,798)	(1,137)

(Thousands of Georgian Lari)

9. Income tax (continued)

Deferred tax assets and liabilities as at 31 December 2015 and 31 December 2014 and their movements for the respective years is as follows:

	1 January 2014	*Origination and reversal of temporary differences in statement of comprehensive income*	*31 December 2014*	*Origination and reversal of temporary differences in statement of comprehensive income*	*31 December 2015*
Tax effect of deductible temporary differences					
Inventory property	1,490	(676)	814	4,776	5,590
Trade and other receivables	(91)	97	6	(6)	–
Tax loss carry forward	2,556	(516)	2,040	504	2,544
Trade and other payables	18	86	104	–	104
Gross deferred tax asset	3,973	(1,009)	2,964	5,274	8,238
Tax effect of taxable temporary differences					
Investment property	(2,187)	1075	(1,112)	(2,505)	(3,617)
Inventory property	–	–	–	–	–
Deferred Revenue	(394)	714	320	(4,329)	(4,009)
Trade and other receivables	–	–	–	(266)	(266)
Deferred tax liability	(2,581)	1,789	(792)	(7,100)	(7,892)
Net deferred tax asset/(liability)	1,392	780	2,172	(1,826)	346

As at 31 December the Group has available GEL 16,964 (2014: GEL 13,595) of tax losses carried forward which has the following expiration schedule:

	2015	*2014*
31 December 2015	–	7,671
31 December 2016	484	484
31 December 2017	–	950
31 December 2018	–	
31 December 2019	4,529	4,490
31 December 2020	11,961	–
Tax losses carried forward	16,974	13,595

Applicable tax regulations are often unclear and few 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 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.

10. Investment property

The table below shows movements in investment property during 2015:

	2015			
	Retail properties	*Land*	*Other*	*Total*
At 1 January	24,538	38,086	689	63,313
Contribution to share capital (Note 14)	11,643	–	–	11,643
Acquisitions	2,977	8,098	–	11,075
Net gain/(loss) from revaluation	7,502	9,230	(30)	16,702
Capital expenditure	2,494	52	–	2,546
Borrowing costs	–	3,639	–	3,639
Transfer from inventory property (Note 11)	937	–	–	937
At 31 December	50,091	59,105	659	109,855

(Thousands of Georgian Lari)

10. Investment property (continued)

As of 31 December 2015 included in investment property are units of commercial space under construction amounting to GEL 937 (2014: GEL 828) that were reclassified from inventory property due to change in the Group's intention of future use. Respective items will be kept for earning rental income.

The table below shows movements in investment property during 2014:

	2014			
	Retail properties	*Land*	*Other*	*Total*
At 1 January	17,924	183	689	18,796
Reorganization under common control (Note 2)	5,786	12,096	–	17,882
Acquisitions	–	46,780	–	46,780
Transfer to inventory property (Note 11)	–	(24,074)	–	(24,074)
Net gain from revaluation	–	1,854	–	1,854
Capital expenditure	–	62	–	62
Borrowing costs	–	1,269	–	1,269
Transfer from inventory property (Note 11)	828	–	–	828
Disposal	–	(84)	–	(84)
At 31 December	24,538	38,086	689	63,313

Retail properties represent office buildings rented out. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes. Most of Group's investment properties are located in Tbilisi, Georgia as at 31 December 2015 and 2014.

Fair value measurement

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 is 31 December 2015. 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.

These methods include market comparable and cost methods.

Market comparison 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. This method of evaluation is analogical either in relation to the entire real estate or in relation to land plots. Adjustments to value are determined based on the following considerations in the order of priority: 1) funding conditions; 2) sale conditions; 3) market conditions; 4) location; and 5) physical indices.

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 discount rate that reflects risks attributable to specific property.

(Thousands of Georgian Lari)

10. Investment property (continued)

For the purpose of fair value disclosures, the Group identified three classes of investment properties – retail properties, land and other properties. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs:

Class of investment properties	*Fair value 2015*	*Valuation Technique*	*Significant unobservable inputs*	*Range (weighted average)*	*Type*	*Total area, square meters*	*Sensitivity of the input to fair value, GEL*
Retail properties	40,513	Market approach	Price per square meter, GEL	0.1-3.4 (0.2)	Building Land	22,755 273,388	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	7,840	Income approach; market approach	Rent price per square meter, USD	15.5-37 (35)	Building	3,384	Increase (decrease) in the rent rate per square meter or decrease (increase) in the capitalization rate would result in increase (decrease) in fair value
			Capitalization rate	10.0%-11.2% (10.7%)			
Land	59,105	Market approach	Price per square meter, GEL	0.1-7.1 (0.4)	Land	155,036	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Other	659	Market approach	Price per square meter, GEL	0.05-0.08 (0.05)	Building Land	489 10,766	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Total	108,117					465,818	

Class of investment properties	*2014*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average), GEL*	*Type*	*Total area, square meters*	*Sensitivity of the input to fair value, GEL*
Retail properties	14,370	Market approach	Price per square meter	2-5.5 (2.6)	Land Building	6,259 5,955	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	5,876			0.3-1.2 (0.7)	Land Building	1,157 3,003	
	3,554	Cost approach	Replacement cost per square meter	0.2-0.4 (0.3)	Building	9,195	Increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value
			Developers' profit margin	15.0%			Increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square meter	0.02-0.03 (0.03)	Land	28,327	Increase (decrease) in the price per square meter would result in increase (decrease) in fair
Land	99	Market approach	Price per square meter	0.1-0.2 (0.1)	Land	1,000	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	37,987			0.2-1.0 (0.3)	Land	135,310	
Other	689	Cost approach	Replacement cost per square meter	0.3-0.7 (0.6)	Building	581	Increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value
			Developers' profit margin	15.0%			Increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square meter	0.03-0.07 (0.04)	Land	10,766	Increase (decrease) in the price per square meter would result in increase (decrease) in fair value
Total	62,575					201,553	

(Thousands of Georgian Lari)

10. Investment property (continued)

As of 31 December 2015 included in investment property are units of commercial space under construction amounting to GEL 1,738 (2014: GEL 738) that are measured at cost due to inability to determine their fair value reliably. It is expected that the fair value of the property will be reliably measurable when construction is complete.

As at 31 December 2015, investment property of GEL 4,823 (2014: nil) was pledged as collateral under a loan received from Georgian bank (Note 13).

As of 31 December 2015 the Group had commitments of GEL 23,222 (2014: GEL 25,200) relating to completion of one construction project on a land plot classified as investment property.

11. Inventory property

The carrying amount of inventory property allocated to each of the Group's projects is as follows:

	2015	*2014*
New Hippodrome	20,583	12,663
Skyline	6,182	5,415
Optima Saburtalo	6,156	5,501
Tamarashvili st. 06	–	9,532
Optima Isani	–	4,860
Non-current inventory property	32,921	37,971
Chubinasvili 69	67	70
Tamarashvili st. 13	2,550	8,261
Kazbegi ave. 25	19,677	18,277
Nutsubidze (Vazha Pshavela ave. 71)	6,737	12,732
Tamarashvili st. 06	21,931	–
Optima Isani	14,152	–
Current inventory property	65,114	39,340
Inventory property	98,035	77,311

A summary of movement in inventory property is set out below:

	2015	*2014*
Balance at 1 January	77,311	65,740
Land transferred from investment property (Note 10)	–	24,074
Construction costs incurred	55,477	29,854
Borrowing costs	1,750	2,777
Employee benefits capitalized (Note 7)	4,178	2,238
Inventory reclassified to investment property (Note 10)	(937)	(828)
Disposals recognized in cost of sales (Note 6)	(39,744)	(46,544)
Balance at 31 December	98,035	77,311

As of 31 December 2015 the Group had commitments of GEL 137,731 relating to completion of five construction projects (2014: GEL 54,163 relating to three projects).

(Thousands of Georgian Lari)

12. Prepayments and other assets

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

	2015	*2014*
Prepayments for inventory properties	15,022	5,025
VAT prepayment	1,786	1,287
Property and equipment	1,370	788
Intangible assets	84	83
Other long-term assets	2,147	818
Other non-current assets	20,409	8,001
Prepayments for inventory properties	6,896	3,883
VAT prepayment	11,092	3,928
Other current assets	884	325
Current prepayments	18,872	8,136
Prepayments and other assets	39,281	16,137

VAT prepayments are expected to be recovered upon completion of respective construction projects when revenue from inventory property disposal are reported in respective tax declarations.

At 31 December 2015 VAT prepayment included current prepaid VAT related to prepayments for construction works on projects expected to be completed in 2016. Non-current VAT prepayment pertains to projects with expected completion in 2017 and further.

As of 31 December 2015 included in current prepayments of construction costs (inventory property) are the amounts paid to the constructor under the general agreement on Kazbegi, m2 at Tamarashvili and Optima Isani projects and non-current prepayments on New Hippodrome project.

13. Financial instruments

Financial instruments overview

Investment securities available for sale

As of 31 December 2015 included into investment securities available for sale:

- a minority unquoted share in a company with cost of GEL 1,145 (2014: GEL 1,145) carried at cost less impairment (2014: at fair value in Level 3 of the fair value hierarchy). In 2015, the Group transferred this unquoted equity investment from Level 3 of the fair value hierarchy due to inability to measure its fair value reliably;
- Shares of BGEO held for settlement of the Group’s cash-settled share based transactions with fair value of GEL 975 (2014: GEL 246). BGEO’s shares are categorized within Level 1 of the fair value hierarchy (2014: Level 1).

Retention payable to general contractor

Included in retention payable to general contractor as of 31 December 2015 and 2014 are performance and guarantee retentions related to the Group’s ongoing construction projects.

Performance guarantee retention represents 5% of total amount due to a constructor which is retained by the Group and is due at the project completion date. It is intended to serve as a guarantee for completion of construction activities. As of 31 December 2015 performance guarantee retention comprised GEL 2,073 (2014: GEL 1,499).

(Thousands of Georgian Lari)

13. Financial instruments (continued)

Financial instruments overview (continued)

Guarantee retention represents 5% of total amount due to a constructor which is retained by the Group and is due in one year after the project completion date. It is intended to serve as a guarantee for any subsequent faults identified in the completed project. As of 31 December 2015 guarantee retention comprised GEL 3,198 (2014: GEL 1,475).

Guarantee retention by project	*2015*	*2014*
m2 at Kazbegi LLC	1,539	651
m2 at Nutsubidze LLC	33	358
m2 at Tamarashvili LLC	840	208
Optima Isani LLC	786	258
Tamarashvili 13 LLC	–	–
Non-current retention payable to the constructor	3,198	1,475

Performance retention by project	*2015*	*2014*
m2 at Kazbegi LLC	1,112	325
m2 at Nutsubidze LLC	33	358
m2 at Tamarashvili LLC	142	–
Optima Isani LLC	786	–
Tamarashvili 13 LLC	–	558
Current retention payable to the constructor	2,073	1,241

Debt securities issued

Please refer to Note 17.

Loans received

As at 31 December 2015, the Group had a loan denominated in GEL received from a Georgian bank with a carrying amount of GEL 3,286. The loan matures in March 2017 and bears interest of 11% p.a. Short-term portion of this long-term loan amounts to GEL 2,179 as at 31 December 2015. Investment property with carrying value of GEL 4,823 was pledged as collateral under this loan (Note 10).

As at 31 December 2014, the Group had a short-term loan denominated in USD received from a Georgian bank with a carrying amount of GEL 3,541 bearing 8% interest rate.

As of 31 December 2015 and 2014 carrying values of the Group's financial instruments, except for debt securities issued (refer to Note 17), are reasonable approximation of their fair values mainly due to their short-term nature.

Risks arising from financial instruments

In the course of its ordinary activity the Group is exposed to currency, credit and liquidity risks. The Group's senior management oversees the management of these risks.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group's currency risk and open currency position are analyzed and managed by its ultimate parent, which uses derivatives and other instruments to manage exposures resulting from changes in foreign currencies on a consolidated level of BGEO Group.

(Thousands of Georgian Lari)

13. Financial instruments (continued)

Risks arising from financial instruments (continued)

The table below calculates the effect of a reasonably possible change of the US dollar rate against the Georgian Lari, with all other variables held constant. Positive change in currency rate represents an expectation of devaluation of national currency against US dollar. Negative effect on profit before income tax expense reflects a potential net decrease in income statement as a result of revaluation of the Group's short position in US dollars.

US Dollar	*Change in currency rate in %*	*Effect on profit and equity before income tax expense*
2015	+15.0%	(3,948)
2015	-15.0%	3,948
2014	+23.4%	(919)
2014	-23.4%	919

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 2015 the Group has no other significant financial assets subject to credit risk except for:

- Cash at bank: as at 31 December 2015 out of total cash of GEL 27,989 (2014: 23,897), GEL 27,983 (2014: 23,897) was kept with a bank under common control having a ratings of "BB-/B" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/B" from Fitch Ratings. Respective bank account does not bear any interest. The Group's cash at bank is immediately available upon demand.
- Trade and other receivables.

Trade and other receivables of the Group are mostly comprised of receivables from sale of inventory property. These receivables are mostly denominated in USD and are due from 3 to 6 from the reporting date. No significant trade and other receivable are either past due or impaired as at 31 December 2015 and 2014.

	2015	*2014*
Receivables from sale of inventory property	1,773	133
Receivables from rent	334	195
Other receivables	231	173
Total trade and other receivables	2,338	501

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. The Group's liquidity risk is analyzed and managed by the Group's management.

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

	2015		*2014*	
Financial liabilities as at 31 December	*Less than 1 year*	*Over 1 year*	*Less than 1 year*	*Over 1 year*
Short-term and long-term loans	2,381	1,130	3,703	–
Trade and other payables	6,533	–	1,389	–
Debt securities issued	4,550	50,692	30,408	–
Retention payable to general contractor	2,073	3,198	1,241	1,475
Total	15,537	55,020	36,741	1,475

(Thousands of Georgian Lari)

14. Equity

Ordinary shares issued and fully paid as at 31 December are presented below:

	Number of shares	*Share capital*
31 December 2013	278,252,320	2,782
31 December 2014	278,252,320	2,782
Issue of share capital	139,742,343	1,398
31 December 2015	417,994,663	4,180

Each share has a nominal value of 0.01 Georgian Lari as of 31 December 2015 and 2014.

On 28 January 2015 the Company issued 74,153,439 new shares as consideration paid to JSC Galt&Taggart Holdings in exchange for 100% shareholding in JSC m2 (Note 2). These shares, along with rest of JSC Galt&Taggart Holdings' holding in the Company were transferred to JSC BGEO Investment later in 2015 in course of the BGEO Group reorganization process.

On 23 October 2015 the Company issued 65,588,904 new shares as consideration to its parent JSC BGEO Investments in exchange for 100% shareholding in Caucasus Autohouse LLC. Caucasus Autohouse LLC is a single asset company that did not meet a definition of a business. Accordingly, the Group accounted for this transaction as in-kind contribution of investment property with fair value of GEL 11,642.

Capital management

The Group's objectives when managing capital (which it defines as reported net assets in its IFRS consolidated financial statements) are:

- to safeguard the Group'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 Group cost-efficient.

To achieve these goals the Group 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.

The Group was in compliance with all externally imposed capital requirements as at 31 December 2015.

Share-based payments

In February 2015 the Group's Supervisory Board resolved to award 19,000 ordinary shares of BGEO to the members of Supervisory Board of the Group. The Group estimates that the fair value of the shares awarded in February 2015 was GEL 57.41 per share. Shares awarded are subject to two-year vesting with continuous employment being the only vesting condition for the award.

In May 2015 the Group's Supervisory Board resolved to award 15,800 ordinary shares of BGEO to three employees of the Group. The Group estimates that the fair value of the shares awarded in May 2015 was GEL 64.47 per share. Shares awarded are subject to three-year vesting with continuous employment being the only vesting condition for the award.

In August 2015 the BGEO Supervisory Board resolved to award 105,000 ordinary shares of BGEO to the CEO of the Group. Shares will be formally awarded in the year following the service year in annual installments of 30,000 shares (last installment – 15,000 shares), each installment subject to four-year vesting with continuous employment being the only vesting condition for the award. The Group considers 24 August 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 24 August 2015 was Georgian Lari 59.17 per share. The Group does not have an obligation to settle this award but it is expected that the Group will compensate the cost of the BGEO shares to be purchased for its settlement.

In May 2014 the Group's Supervisory Board resolved to award 8,100 ordinary shares of BGH to three employees of the Group. Shares awarded are subject to three-year vesting with continuous employment being the only vesting condition for the award.

(Thousands of Georgian Lari)

14. Equity (continued)

Share-based payments (continued)

In February 2014 the BGH's Supervisory Board resolved to award 18,000 ordinary shares of BGH to the members of Supervisory board of the Group. Shares awarded to the members of Supervisory board are subject to 2-year vesting with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was Georgian Lari 67.90 per share.

In February 2013 the BGH's Supervisory Board resolved to award 25,000 ordinary shares of BGH to the members of Supervisory board of the Group and 11,500 ordinary shares of BGH to three employees of the Group. Shares awarded to the members of Supervisory board are subject to four-year vesting, while shares awarded to the employees are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was Georgian Lari 35.56 per share.

In March 2012 the BGH's Supervisory Board resolved to award 23,500 ordinary shares of BGH to five employees of the Group. Shares awarded are subject to three-year vesting, with continuous employment being the only vesting condition. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was Georgian Lari 26.07 per share.

In February 2011 the BOG's Supervisory Board resolved to award 14,500 ordinary shares in the form of GDRs to the Groups' two employees. Shares awarded to the employees are subject to three-year vesting, with a continuous employment being the only vesting condition. The Group considers 21 February 2011 as the grant date. The Group estimates that the fair value of the shares awarded on 21 February 2011 was Georgian Lari 35.86 per share.

Summary

The fair value of cash settled share-based awards as of 31 December 2015 comprised Georgian Lari 64.47 per share. The Group's cash settled share-based payment expense for the year ended 31 December 2015 comprised GEL 425 (2014: GEL 392), respective liability at fair value amounted to GEL 254 (2014: GEL 392) as of 31 December 2015.

The weighted average fair value of equity settled share-based awards at the grant date comprised Georgian Lari 58.90 per share in year ended 31 December 2015 (31 December 2014: Georgian Lari 67.90 per share). The Group's equity settled share-based payment expense for the year ended 31 December 2015 comprised GEL 2,203 (31 December 2014: GEL 1,129).

Fair value of the BGEO's ordinary shares as of 31 December 2015 and as of grant dates was determined based on observable market prices adjusted for expected dividends that shall be paid off to entitled persons at vesting date.

In 2015 and 2014 all the awards were exercised on the dates when vesting conditions became met; award of 11,123 BGEO's ordinary shares was forfeited by an employee that left the Group.

15. Deferred revenue

	2015	*2014*
Tamarashvili st. 6	–	19,784
Optima Isani	–	7,096
New Hippodrome	27,782	–
Skyline	4,079	–
Non-current deferred revenue	31,861	26,880
Kazbegi 25	27,073	25,940
Vazha-Pshavela 71	3,460	17,337
Tamarashvili 13	480	4,880
Tamarashvili st. 6	31,281	–
Optima Isani	10,283	–
Current deferred revenue	72,577	48,157
Deferred revenue	104,438	75,037

Deferred revenue of the Group consists of gross advances received from customers for purchase of residential property, including 18% VAT to be settled when the construction is finalized.

(Thousands of Georgian Lari)

16. Related party transactions

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.

Total number of key management personnel members receiving employee benefits in 2015 amounted to 4 persons (2014: 3).

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

	2015			*2014*		
	The Parent – JSC Bank of Georgia[1]	*Entities under common control*	*Key management personnel*	*The Parent – JSC Bank of Georgia*	*Entities under common control*	*Key management personnel*
Balances as at 31 December						
Cash and cash equivalents at 31 December	–	27,986	–	23,897	–	–
Trade and other payables	–	27	–	29	–	–
Debt securities issued	–	2,196	192	–	–	–
Transactions for the year ended 31 December						
Interest expense on debt securities issued	–	156	14	–	–	–
Transaction costs paid related to bonds issue	–	889	–	–	–	–
Finance expenses	80	–	–	177	–	–
Employee benefits expense	–	–	3,682	–	–	2,139
Rental income	52	37	–	61	–	–
Rental expense	183	120	–	242	–	–
Other general and administrative expense	–	150	–	–	–	–
Insurance expense	–	138	–	–	77	–

[1] In 2015, transactions with the Parent are represented by transaction with JSC Bank of Georgia for the period until it ceased to be the Group's Parent as the part of the BGEO Group reorganization.

Compensation of key management personnel comprised the following:

	2015	*2014*
Salary	328	257
Termination benefits	832	–
Cash bonus	208	360
Share-based compensation	2,314	1,522
	3,682	2,139

17. Debt securities issued

In April 2014, the Group completed the issuance of 1-year local bonds of USD 5 million (GEL 8,800). The bonds were issued at par carrying 9.5% coupon rate per annum, paid at maturity. 5% withholding tax is applied to individuals.

In June 2014, the Group completed the issuance of 1-year local bonds of USD 10 million (GEL 17,600). The bonds were issued at par carrying 8.42% coupon rate per annum, paid at maturity. 5% withholding tax is applied to individuals.

Neither of these issues was registered on Georgian Stock Exchange.

In 2015, the Group repaid the bonds issued in April and June 2014 at their respective maturity dates.

(Thousands of Georgian Lari)

17. Debt securities issued (continued)

In March 2015 the Group completed issuance of 2-year local bonds of USD 20 million, registered on Georgian Stock Exchange. The bonds were issued at par carrying 9.5% coupon rate per annum with semi-annual payments, 5% withholding tax is applied to individuals.

Fair value of debt securities issued amounted to GEL 49,335 thousand (2014: GEL 29,179 thousand), categorized within Level 2 of fair value hierarchy.

18. Events after the reporting period

On 16 February 2016, the Group obtained the first tranche in amount USD 15 million under the loan agreement concluded with International Finance Corporation (IFC) on 3 November 2015 for the total amount of USD 23 million. The loan is bearing interest rate of 6m LIBOR + 6.5% and has the final maturity date in 2019.