JSC m2 Real Estate

Consolidated financial statements

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

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Independent auditor's report

To the Shareholder and the Supervisory Board of JSC M2 Real Estate

Opinion

We have audited the consolidated financial statements of JSC M2 Real Estate and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated 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 consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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 consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Recognition of revenue related to sales of inventory property, revenue from construction services and revenue from hospitality services was a key audit matter due to the significance of revenue to the consolidated financial statements, the degree of management judgment involved in the determination of transition of control to customers as well as the complexity and judgmental nature of estimation process and assumptions used when measuring progress towards satisfaction of performance obligation satisfied over time. The disclosures related to the recognition of revenue under IFRS 15 Revenue from Contracts with Customers (IFRS 15) are presented in notes 3.1 and 5 to the consolidated financial statements.	We obtained an understanding of the estimation and recognition process for significant revenue streams. We assessed the design of controls over recognition and measurement process of revenue. In relation to sales of inventory properties we inspected, on a sample basis, sales agreements, bank statements and other supporting documents and assessed the effectiveness of controls related to completeness and accuracy of sales contracts and payments databases. We analysed contract terms against revenue recognition requirements set out in IFRS 15. We inspected, on a sample basis, primary documents related to the recognition of construction revenue, and revenue from sales of inventory properties. We assessed the calculation of percentage of completion for performance obligations under contracts with customers satisfied over time. We compared hospitality revenue recognized by the Group to the estimated expected value determined with reference to average daily rate, occupancy rate and the ratio between rooms and food and beverages revenue developed by an independent valuation expert. We assessed the disclosures related to revenue recognition.

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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 and land plots with a currently undetermined future use or with a view of future redevelopment. The measurement of investment property and investment property under construction at fair value was one of the matters 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 consolidated financial statements and the complexity and judgmental nature of estimation processes and assumptions used. Notes 3.2, 11 and 12 to the consolidated financial statements disclose the information about investment properties 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, square meters to be developed, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

In preparing the consolidated 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.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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.

- 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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 the Supervisory Board 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 the Supervisory Board 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.

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From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated 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

5 April 2019

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2018	2017
Sales of inventory property	5	94,916	92,643
Cost of sales – inventory property	6	(85,471)	(84,607)
Gross profit on sale of inventory property		**9,445**	**8,036**
Rental income	5	5,467	3,599
Property operating expense		(879)	(557)
Net rental income		**4,588**	**3,042**
Revenue from construction services	5	27,864	–
Cost of construction services	6	(23,637)	–
Gross profit from construction services		**4,227**	**–**
Revenue from hospitality services	5	5,151	–
Cost of hospitality services	6	(3,206)	–
Gross profit from hospitality services		**1,945**	**–**
Net gain from revaluation of investment property	11	19,648	1,183
Net gain from revaluation of investment property under construction	12	14,391	21,380
Net gain from revaluation		**34,039**	**22,563**
Other revenue	5	209	277
Administrative employee benefits expense	7	(6,018)	(2,818)
Other general and administrative expenses	8	(4,860)	(2,906)
Depreciation	14	(972)	(508)
Marketing and advertising expense		(3,544)	(2,855)
Non-recurring expenses	9	(7,557)	(128)
Operating profit		**31,502**	**24,703**
Finance income		517	816
Finance expense		(4,035)	(186)
Net foreign exchange loss		(1,570)	(117)
Net other non-operating income		219	–
Profit before income tax expense		**26,633**	**25,216**
Income tax expense	10	–	(1,554)
Profit for the year		**26,633**	**23,662**
- *attributable to the shareholder of the Company*		*26,629*	*23,662*
- *attributable to non-controlling interests*		*4*	–
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Revaluation gain on shares of the parent held for settlement of the Group's cash-settled share based transactions		–	(51)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of properties transferred to investment properties		490	–
Exchange difference on translation of operations to presentation currency		6,727	(1,027)
Total other comprehensive income		**7,217**	**(1,078)**
Total comprehensive income for the year		**33,850**	**22,584**
- *attributable to the shareholder of the Company*		*33,507*	*22,584*
- *attributable to non-controlling interests*		*343*	–

Signed and authorised for release on behalf of the management of the Group

Chief Executive Officer — Irakli Burdiladze

Chief Financial Officer — Giorgi Natroshvili

5 April 2019

The accompanying notes on pages 6-46 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	*2018*	*2017*
Assets			
Non-current assets			
Investment property	11	160,158	115,143
Investment property under construction	12	117,376	35,000
Inventory property	13	64,487	8,865
Property and equipment	14	8,404	49,641
Long-term loans issued	16	6,250	–
Long-term contract assets with customers	16	1,620	–
Prepayments and other assets	15	9,824	7,400
		368,119	**216,049**
Current assets			
Inventory property	13	36,129	50,818
Prepayments and other assets	15	62,052	44,430
Investment securities	16	557	3,329
Short-term loans issued	16	1,071	–
Short-term contract assets with customers	16	966	1,008
Trade and other receivables	16	6,528	330
Time deposits with credit institutions	16	3,974	114
Cash at bank	16	34,573	34,751
		145,850	**134,780**
Total assets		**513,969**	**350,829**
Equity	17		
Share capital		5,091	4,180
Share premium		119,710	82,793
Translation and other reserves		21,338	14,460
Retained earnings		69,311	52,779
Total shareholders' equity		**215,450**	**154,212**
Non-controlling interests		10,761	10,418
Total equity		**226,211**	**164,630**
Non-current liabilities			
Loans received	16	146,325	42,885
Debt securities issued	16	19,609	64,121
Retention payable to general contractor	16	2,797	2,400
		168,731	**109,406**
Current liabilities			
Short-term portion of long-term loans received	16	4,301	16,107
Debt securities issued	16	67,697	1,001
Deferred revenue	5	23,010	46,660
Trade and other payables	16	12,380	6,970
Retention payable to general contractor	16	2,497	2,361
Accruals for employee compensation		3,267	1,500
Other liabilities		5,875	2,194
		119,027	**76,793**
Total liabilities		**287,758**	**186,199**
Total equity and liabilities		**513,969**	**350,829**

The accompanying notes on pages 6-46 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Translation and other reserves*	*Retained earnings*	*Total equity attributable to the shareholder of the Company*	*Non-controlling interests*	*Total equity*
At 31 December 2016	**4,180**	**85,467**	**15,538**	**28,498**	**133,683**	–	**133,683**
Effect from early adoption of IFRS 15	–	–	–	619	**619**	–	**619**
At 1 January 2017 (restated)	**4,180**	**85,467**	**15,538**	**29,117**	**134,302**	**–**	**134,302**
Profit for the year	–	–		23,662	**23,662**	–	**23,662**
Other comprehensive income for the year	–		(1,078)	–	**(1,078)**	–	**(1,078)**
Total comprehensive income for the year	–	–	**(1,078)**	**23,662**	**22,584**	**–**	**22,584**
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	**–**	10,562	**10,562**
Acquisition of non-controlling interest	–	–	–	–	**–**	(144)	**(144)**
Compensation to the ultimate parent for acquired treasury shares	–	(7,956)	–	–	**(7,956)**	–	**(7,956)**
Share-based payments (Note 17)	–	5,282	–	–	**5,282**	–	**5,282**
At 31 December 2017	**4,180**	**82,793**	**14,460**	**52,779**	**154,212**	**10,418**	**164,630**
Effect from adoption of IFRS 9 (Note 3)	–	–	–	(97)	**(97)**	–	**(97)**
At 1 January 2018 (restated)	**4,180**	**82,793**	**14,460**	**52,682**	**154,115**	**10,418**	**164,533**
Profit for the year	–	–	–	26,629	**26,629**	4	**26,633**
Other comprehensive income for the year	–	–	6,878	–	**6,878**	339	**7,217**
Total comprehensive income for the year	**–**	**–**	**6,878**	**26,629**	**33,507**	**343**	**33,850**
Issue of share capital (Note 17)	911	31,457	–	–	**32,368**	–	**32,368**
Dividends paid (Note 17)	–	–	–	(10,000)	**(10,000)**	–	**(10,000)**
Share-based payments (Note 17)	–	5,460	–	–	**5,460**	–	**5,460**
At 31 December 2018	**5,091**	**119,710**	**21,338**	**69,311**	**215,450**	**10,761**	**226,211**

The accompanying notes on pages 6-46 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2018	2017
Operating activities			
Profit before income tax expense		26,633	25,216
Non-cash adjustments to reconcile profit before income tax expense to operating profit before changes in working capital			
Net gain from revaluation of investment property and investment property under construction	11, 12	(34,039)	(22,563)
Loss from foreign exchange differences		1,570	117
Depreciation and amortization		972	508
Finance income		(517)	(816)
Finance expense		4,035	186
Share-based payments		4,877	286
Other		–	(269)
Operating cash (outflow) inflow before changes in working capital		**3,531**	**2,665**
Change in inventory property		16,876	61,796
Change in deferred revenue	5	(23,650)	(30,374)
Change in retention payable to the constructor	16	533	2,767
Change in prepayments and other current assets		(13,749)	(10,779)
Change in contract assets with customers		(1,578)	(1,008)
Change in trade and other payables		7,848	3,123
Change in other current liabilities		5,448	(1,951)
Change in trade and other receivables		(6,198)	366
Change in time deposits with credit institutions	16	(3,860)	–
Cash flows used in operations		**(14,799)**	**26,605**
Interest received		517	816
Interest paid		(12,216)	(10,681)
Income tax paid		–	(4,854)
Net cash flows (used in)/from operating activities		**(26,498)**	**11,886**
Investing activities			
Acquisition of investment property	11	(32,225)	(1,401)
Acquisition of investment property under construction		(21,017)	–
Proceeds from sale of investment property	11	670	–
Capital expenditure on investment property		(10,169)	(2,341)
Acquisition of property and equipment		(952)	(339)
Capital expenditure on investment property under construction		(20,005)	(9,483)
Capital expenditure on property and equipment		–	(15,792)
Acquisition of investment securities		–	(1,019)
Acquisition of subsidiaries		–	(12,748)
Issue of loans	16	(7,321)	–
Net cash flows used in investing activities		**(91,019)**	**(43,123)**
Cash flows from financing activities			
Issue of shares		32,368	
Proceeds from debt securities issued	16	19,609	–
Repayment of debt securities issued	16	–	(34,099)
Proceeds from borrowings	16	137,412	32,117
Repayment of borrowings	16	(61,669)	(16,908)
Dividend paid	17	(10,000)	–
Compensation to the ultimate parent for acquired treasury shares	17	–	(7,956)
Net cash flows from financing activities		**117,720**	**(26,846)**
Effect of exchange rate changes on cash and cash equivalents		(381)	(376)
Net decrease in cash and cash equivalents		**(178)**	**(58,459)**
Cash and cash equivalents at 1 January	16	34,751	93,210
Cash and cash equivalents at 31 December	16	**34,573**	**34,751**

The accompanying notes on pages 6-46 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

Material non-cash transactions

In 2018 year the Group incurred borrowings costs with total amount GEL 17,624 (2017: GEL 11,036) of which GEL 3,464 (2017: GEL 3,396) has been capitalized as a part of investment property, GEL 7,445 (2017: GEL 6,643) was capitalized as a part of inventory property, GEL 2,680 (2017: GEL 552) was capitalized as a part of investment property under construction, GEL 0 (2017: GEL 259) was capitalized as part of property and equipment and GEL 4,035 (2017: GEL 186) recognized in the consolidated statement of comprehensive income.

Out of total employee share based compensation expense incurred in 2018 and 2017, GEL 449 (2017: GEL 2,760) has been capitalized as a part of inventory property, GEL 2,622 (2017: GEL 2,826) has been capitalized as a part of investment property and investment property under construction and GEL 1,099 (2017: GEL 286) recognized in the consolidated statement of comprehensive income.

In 2018 land and buildings with total amount of GEL 49,623 (2017: GEL 1,864) was transferred from investment property to inventory property (Note 11), GEL 793 (2017: GEL 3,005) was transferred from investment property to property and equipment (Note 11),GEL 18,761 (2017: nil) was transferred from property and equipment to investment property (Note 14), GEL 24,224 (2017: nil) was transferred from property and equipment to investment property under construction (Note 14), GEL 3,730 (2017: nil) was transferred from inventory property to investment property under construction (Note 13), GEL 5,857 were transferred from inventory property to investment property (2017: GEL 706) (Note 13).

The accompanying notes on pages 6-44 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Background

JSC m2 Real Estate (the "Company") is a joint stock company incorporated on 27 September 2006. The legal address of the Company is 29, I. Chavchavadze Ave, 0179, Tbilisi, Georgia. The Company, together with subsidiaries indicated in this note, is referred to as the "Group". The Group's principal activities are development and sales of residential apartments, investment property management, construction and hospitality.

JSC Georgia Capital is a 100% shareholder of the Company. The Group is ultimately owned and controlled by Georgia Capital plc ("the GCAP"), a premium listed company incorporated in the United Kingdom.

The Group includes the following subsidiaries:

Subsidiary	*31 December 2018*	*31 December 2017*	*Country*	*Date of establishment*	*Date of acquisition*	*Industry*
LLC Tamarashvili 13	100.00%	100.00%	Georgia	3 November 2011	n/a	Real estate
LLC m2 at Kazbegi	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Nutsubidze	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Tamarashvili	100.00%	100.00%	Georgia	21 May 2013	n/a	Real estate
LLC m2 at Hippodrome	100.00%	100.00%	Georgia	6 July 2015	n/a	Real estate
LLC m2 Skyline	100.00%	100.00%	Georgia	24 July 2013	n/a	Real estate
LLC M Square Park	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Saburtalo	100.00%	100.00%	Georgia	15 September 2015	n/a	Real estate
LLC Optima Isani	100.00%	100.00%	Georgia	25 July 2014	n/a	Real estate
LLC M2	100.00%	100.00%	Georgia	12 February 2014	n/a	Hospitality/ Real estate
LLC m2 Residential	100.00%	100.00%	Georgia	17 August 2015	n/a	Real estate
LLC m2 Hospitality	100.00%	100.00%	Georgia	17 August 2015	n/a	Hospitality/ Real estate
LLC Caucasus Autohouse	100.00%	100.00%	Georgia	29 March 2011	n/a	Real estate
LLC Land	100.00%	100.00%	Georgia	3 October 2014	n/a	Real estate
LLC m2 at Vake	100.00%	100.00%	Georgia	3 August 2016	n/a	Real estate
LLC m2 at Chavchavadze	100.00%	100.00%	Georgia	5 September 2016	n/a	Real estate
LLC m2 Commercial Properties	100.00%	100.00%	Georgia	1 March 2016	n/a	Property management
LLC m2 at Melikishvili	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC m2 Kutaisi	100.00%	100.00%	Georgia	15 May 2017	n/a	Hospitality
LLC BK Construction	100.00%	100.00%	Georgia	18 May 2017	2 June 2017	Construction
LLC Kass 1	60.00%	60.00%	Georgia	16 October 2014	26 December 2017	Hospitality
LLC Vere Real Estate	100.00%	11.00%	Georgia	4 March 2010	6 August 2018	Real estate
LLC m2 Zugdidi	100.00%	–	Georgia	7 November 2018	n/a	Hospitality
LLC m2 Svaneti	100.00%	–	Georgia	14 November 2018	n/a	Hospitality
LLC m2 Commercial Assets	100.00%	–	Georgia	10 April 2018	n/a	Property management
LLC Kakheti Wine and Spa	100.00%	–	Georgia	23 April 2018	n/a	Hospitality
LLC m2 at Gudauri	100.00%	–	Georgia	24 April 2018	n/a	Hospitality
LLC Melikishvili Business Center	100.00%	–	Georgia	12 April 2018	n/a	Property management

(Thousands of Georgian Lari)

2. Basis of preparation

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, investment property under construction and investment securities, 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.

3. Summary of significant accounting policies

Functional, reporting currencies and foreign currency translation

The consolidated 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 inventory and 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 consolidated 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 consolidated 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 included in Net foreign exchange gain/(loss).

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

Adoption of new or revised standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

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

IFRS 9 Financial Instruments:

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

The Group adopted the new standard from the effective date by 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 details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's accounts receivables, cash and cash equivalents, amounts due from credit institutions and loans disbursed. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under IAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's investment in equity instruments were classified as AFS financial assets. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Net gains and losses, including any interest or dividend income from financial assets at FVPL, are recognised in profit or loss Under IAS 39, the Group's quoted equity securities were classified as AFS financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by IAS 39.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans disbursed and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For contract assets and accounts receivable, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

For other debt financial assets (i.e., amounts due from credit institutions and loans at amortised cost and debt securities at FVOCI), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's contract assets and accounts receivable with customers by GEL 97. The increase in allowance resulted in corresponding adjustment to retained earnings as at 1 January 2018. Effect of IFRS 9 impairment requirements on other debt financial assets (cash and cash equivalents, time deposits with banks 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 Group's consolidated financial statements.

Other newly adopted or revised standards which did not affect the Group 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 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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.

Revenue recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The transfer occurs when the customer obtains control.

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.

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.

Revenue from sales of inventory property

Revenue from sale of developed real estate property is recognized over the time based on the progress towards complete satisfaction of a performance obligation using input method (proportion of costs incurred up to date to total expected project cost). Percentage of completion calculated based on total costs of the building is applied to apartment selling price to recognize revenue from apartment sale. Payment arrangements of the sale of developed real estate property usually include advance payment of part of transaction price and progress payments during the construction by the customer, such contract liabilities are recognized as deferred revenue in the consolidated statement of financial position. Significant financing component is usually immaterial..

Revenue from construction services

Revenue from construction services is recognized over the time based on the progress towards complete satisfaction of a performance obligation using output method based on the completion level reflected in monthly completion reports. Payment arrangements for construction services usually include advance payment of part of transaction price (usually up to 10%) and monthly progress payments during the construction by the customer, 5% from each monthly progress payment is usually retained by the customer as guarantee for a year after the completions of construction. Significant financing component is usually immaterial. Contract liabilities related to prepayments received are presented as deferred revenue in the consolidated statement of financial position.

Revenue from hospitality services

Revenue from hospitality operations is generated through hotel room and meeting space rental and sale of foods and beverages. Revenue is recognized when the Group satisfies a performance obligation, i.e. over the time the customer stays in the hotel and food and beverages are delivered to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring the goods and services to a customer.

Finance income

Finance income 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. Finance income is included in finance income in . profit or loss.

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 10). 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. Withholding tax payable in respect of dividend distribution to the shareholders of the Company is recognized as deduction from equity in the consolidated statement of changes in equity.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Taxation (continued)

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 and is reported as Operating taxes within Other general and administrative expenses in consolidate statement of comprehensive income.

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

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, for example, evidenced by commencement of (or firm commitment to enter) an operating lease. Transfers are made from investment property to inventory 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

Investment property under construction is measured at fair value, unless (for certain properties at early stages of construction) fair value cannot be determined reliably, in which case it is measured at cost. Gains or losses arising from changes in the fair values are charged to profit or loss.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated profit or loss as an expense.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	5-10
Computers and other office equipment	5
Heavy construction equipment	5
Motor vehicles	5

The asset's residual value, useful life and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated profit or loss in the period the asset is derecognised.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Assets under construction comprises costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are ready for use.

Leasehold improvements are amortized over the life of the related leased asset or expected lease term, if lower.

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

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

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

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

Date of recognition

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables, amounts due from credit institutions and loans disbursed included under other assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Fair value measurements (continued)

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.

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 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.

Financial liabilities

Financial liabilities that the Group has, including loans received, debt securities issued, 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 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 for the construction materials, including cost of subcontractors and direct labour costs;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, insurance expenses, construction overheads, administrative 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 with reference to 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group's ultimate parent, the Parent, and in the equity instruments of the Company. Grants are made by both the Parent and the Group. Grants settled in equity instruments of the Company and those grants that the Group does not have a liability to settle are accounted as equity-settled transactions (even if the Group may subsequently recharge the cost of the award to the settling entity, which 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 share premium 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. Settlements to the Parent for the shares granted to the employees of the Group are accounted as a reduction in share premium.

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 re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

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.

Preferred shares

Preferred shares are classified as 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.

(Thousands of Georgian Lari)

3.1 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.

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, inventory property or property, plant and equipment:

- Investment property comprises land and buildings (principally hotels, 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;
- Property, plant and equipment comprises owner occupied buildings, construction equipment, office furniture and fixtures, computer equipment, transport and leasehold improvements used to support Group's ordinary business activities.

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 Group 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 Notes 11 and 12. 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 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 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.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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

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

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

During 2018, the Group has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

Impact on the consolidated statement of financial position as at 1 January 2019 is as follows:

	1 January 2019
Right of use assets (included to property and equipment)	2,762
Total assets	**2,762**
Current lease liabilities	1,116
Total current liabilities	**1,116**
Non-current lease liabilities	1,646
Total non-current liabilities	**1,646**
Total liabilities	**2,762**

Other issued but not yet effective which are not expected to affect the Group 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*.

In March 2019, IFRS Interpretations Committee adopted the final agenda decision in relation to recognition of borrowing costs in arrangements to sell properties (units in a building) where the property is transferred over time under IFRS 15. According to the agenda decision, capitalization of borrowing costs under to cost of sold or unsold units would not be appropriate under IAS 23. As the result of new interpretation arising from the IFRS Interpretations Committee decision, the Company considers changing its existing accounting policy in relation to borrowing costs capitalization to cost of inventory property. The change, if adopted, will be applied on a retrospective basis. The Group is currently estimating the effect of the expected change in accounting policy.

(Thousands of Georgian Lari)

5. Revenue

	2018	*2017*
Revenue from the sale of inventory property	**94,916**	**92,643**
Residential area	90,462	90,735
Parking lot area	4,454	1,908
Revenue from construction services	**27,864**	**–**
Commercial properties	16,786	–
Hotel	11,078	–
Revenue from hospitality services	**5,151**	**–**
Rooms	3,907	–
Food and beverage	1,188	–
Other	56	–
Other revenue	**209**	**277**
Total revenue from contracts with customers	**128,140**	**92,920**
Recognized over time	122,989	92,920
Recognized point in time	5,151	–
Rental income	5,467	3,599
Total revenue	**133,607**	**96,519**

The Group recognised GEL 40,876 revenue in the current reporting period (2017: GEL 20,531) that relates to carried-forward contract liabilities included to deferred revenue as at 1 January.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2019	*In the year ending 31 December 2020*	*In the year ending 31 December 2021*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	23,010	–	–	–	–	**23,010**

	In the year ending 31 December 2018	*In the year ending 31 December 2019*	*In the year ending 31 December 2020*	*In 3 to 5 years*	*In 5 to 10 years*	*Total*
Revenue expected to be recognized on active contracts with customers	40,876	5,784	–	–	–	**46,660**

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

Contract assets and liabilities

The Group recognized the following assets and liabilities related to contracts with customers:

	2018	*2017*
Trade and other receivables related to contracts with customers	5,691	–
Contract assets	2,586	1,008
Deferred revenue	23,010	46,660

(Thousands of Georgian Lari)

5. Revenue (continued)

Trade and other receivables comprise:

	2018	*2017*
Construction services	3,834	–
Other receivables	1,857	–
Trade and other receivables from contracts with customers	**5,691**	**–**
Rent receivables	837	330
Total trade and other receivables	**6,528**	**330**

Trade receivables from construction services are mostly denominated in USD and are due from 1 to 2 months from the reporting date.

Allowance for impairment included to trade and other receivables amounted to GEL 131 (2017: GEL 97). No significant trade and other receivable are either past due or impaired as at 31 December 2018 and 2017.

Significant changes in trade receivables during the period are mostly attributable to new construction services contracts entered during the period, as well as recognition of receivables in relation to unconditional payments due from customers under contracts to sell inventory properties following completion of construction.

Contract assets comprise:

	2018	*2017*
Sales of inventory properties	966	1,008
Construction services	1,620	–
Total contract assets	**2,586**	**1,008**

Contract assets related to sales of inventory properties are denominated in USD and are due within 3 to 12 months from the reporting date. Contract assets related to construction services are denominated in USD and are due within 1 to 5 years from the reporting date.

Significant changes in contract assets during the period are mostly attributable to new construction services contracts where part of consideration is retained until passage of certain period after completion of construction.

Deferred revenue comprise:

	2018	*2017*
New Hippodrome	7,625	31,034
Kazbegi 15	8,963	13,280
Chavchavadze	266	2,346
Melikishvili 10	2,754	–
Deferred revenue from sales of inventory property	**19,608**	**46,660**
Deferred revenue from construction projects	3,402	–
Current deferred revenue	**23,010**	**46,660**
Deferred revenue	**23,010**	**46,660**

Deferred revenue of the Group consists of advances received from customers, net of VAT, for purchase of residential property. Significant changes in deferred revenue during the period are mostly attributable to recognition to revenue from sales of inventory properties in the consolidated statement of comprehensive income following satisfaction of performance obligation over time, and advance payments received under construction services contracts and contracts to sell inventory properties.

(Thousands of Georgian Lari)

6. Cost of sales

	2018	*2017*
Cost of inventory property*	**85,471**	**84,607**
Residential area cost of sales	80,410	82,076
Parking lot cost of sales	5,061	2,531
Cost of hospitality services	**3,206**	**–**
Food and beverage	381	–
Salaries	1,293	–
Other costs	1,532	–
Cost of construction services	**23,637**	**–**
Materials	16,202	–
Direct labour	4,275	–
Subcontractor costs	2,968	–
Other	192	–
Cost of operating leases	879	557
Total cost of sales	**113,193**	**85,164**

* *Included cost of inventory property was employee benefit expense in amount of GEL 1,047 (2017: GEL 3,154)*

7. Salary and employee benefits expenses

	2018	*2017*
Share-based compensation expense	4,170	6,192
Salary and other employee benefits	15,097	3,822
Cash bonus	3,960	1,500
Total employee benefits	**23,227**	**11,514**
Administrative employee benefits expense	6,018	2,818
Employee benefits capitalized in inventory	1,713	2,028
Employee benefits capitalized in investment property (Note 11 and Note 12)	7,697	3,514
Employee benefits recognized in cost of inventory property	1,047	3,154
Employee benefits recognized in cost of hospitality services	1,293	–
Employee benefits recognized in cost of construction services	4,275	–
Other employee benefits expensed during the period	1,184	–
Total employee benefits	**23,227**	**11,514**

8. Other general and administrative expenses

	2018	*2017*
Rent	1,022	567
Legal and other professional services	787	734
Charity	736	301
Repair and maintenance	567	112
Office supplies	342	191
Corporate hospitality	305	306
Personnel training and recruitment	252	53
Security	129	72
Communication	117	75
Business trip expense	89	122
Insurance	82	105
Utility	77	81
Operating taxes	57	113
Other	298	74
Total other general and administrative expenses	**4,860**	**2,906**

(Thousands of Georgian Lari)

8. Other general and administrative expenses (continued)

Auditor's remuneration

Remuneration of Group's auditor for the years ended 31 December 2018 and 2017 comprises (net of VAT):

	2018	*2017*
Fees for the audit of the Group's annual financial statements for the year ended 31 December	240	237
Expenditures for other assurance services	75	47
Total fees and expenditures	**315**	**284**

9. Non-recurring items

List of events or transactions segregated by the Group from the results of regular operations and included under non-recurring revenue and expenses as at 31 December 2018 and 2017 are presented below :

	2018	*2017*
Share based payment acceleration effect (Note 17)	3,778	–
Loan derecognition loss	1,325	–
College construction	2,422	–
Gain from bargain purchase	–	(260)
Other	32	388
Total non-recurring items	**7,557**	**128**

After demerger of BGEO Group plc in May 2018, all outstanding unvested share awards under old service agreements made in BGEO shares were converted into 1 Georgia Capital PLC share vesting according to original schedule and 1 BOGG PLC share vesting immediately per each BGEO share. The related share-based payment expense in amount of GEL 3,778 that has not been recognized in profit or loss as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed.

Loan derecognition loss relates to early repayment of a borrowing from unrelated party due to its refinancing by the loan from the Parent.

In 2018 the Group was engaged in construction of a college in the Zestaponi Municipality . The Company does not have a legal title or any ownership interest in college, but expects to employ some of the college graduates within its construction arm.

10. 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 corporate income tax charge comprises:

	2018	*2017*
Current income tax charge	–	(1,554)
Deferred tax expense relating to origination and reversal of temporary differences	–	–
Total income tax charge	–	**(1,554)**

(Thousands of Georgian Lari)

10. Income tax (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2018	*2017*
Net dividends / profit before tax	**10,000**	**–**
Statutory tax rate	15/85	15/85
Theoretical income tax expense at the statutory rate	**(1,765)**	**–**
Offset against income tax paid related to 2008-2016	1,235	–
Non-taxable dividends paid within Georgia	530	–
Tax accrued on intra-group dividends	–	(622)
Correction of prior year declaration	–	(932)
Non-deductible expenditures less non-taxable income	–	–
Income tax expense	**–**	**(1,554)**

11. Investment property

The table below shows movements in investment property during 2018:

	2018				
	Yielding assets	*Vacant land*	*Hotel*	*Other*	*Total*
At 1 January	**55,267**	**59,137**	**–**	**739**	**115,143**
Acquisitions	12,493	19,732	–	–	**32,225**
Disposals	(670)	—	–	–	**(670)**
Net gain from revaluation	3,371	585	15,692	–	**19,648**
Capital expenditure	928	779	8,875	–	**10,582**
Borrowing costs	–	3,142	322	–	**3,464**
Transfer from/(to) property and equipment (Note 14)	(793)	–	18,761	–	**17,968**
Transfer from/(to) inventory property (Note 13)	5,381	(49,623)	–	476	**(43,766)**
Currency translation effect	3,641	(767)	2,626	64	**5,564**
At 31 December	**79,618**	**32,985**	**46,276**	**1,279**	**160,158**

The table below shows movements in investment property during 2017:

	2017			
	Yielding assets	*Vacant land*	*Other*	*Total*
At 1 January	**55,168**	**56,525**	**746**	**112,439**
Acquisitions	–	1,401	–	**1,401**
Net gain from revaluation	673	505	5	**1,183**
Capital expenditure	70	3,514	–	**3,584**
Borrowing costs	–	3,396	–	**3,396**
Transfer to property and equipment (Note 14)	(220)	(3,005)	–	**(3,225)**
Transfer from/(to) inventory property (Note 13)	706	(1,864)	–	**(1,158)**
Currency translation effect	(1,130)	(1,335)	(12)	**(2,477)**
At 31 December	**55,267**	**59,137**	**739**	**115,143**

Yielding assets represent office, retail, warehouses and other commercial buildings, including underlying land held for rent-generating purposes. 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 2018 and 2017.

As at 31 December 2018, investment property of GEL 46,276 and investment property under construction of GEL 1,132 was pledged as collateral under the guarantees and undrawn loan commitments received from Georgian banks (Note 16). As at 31 December 2017, investment property of GEL 112,035 and investment property under construction of GEL 6,488 was pledged as collateral under the loans received from international financial institution.

(Thousands of Georgian Lari)

11. Investment property (continued)

In 2018, the Group reclassified a hotel property previously classified as property and equipment in the consolidated statement of financial position (Note 14) to investment property as the result of commencement of a fixed rate operating lease agreement with an entity under common control (Note 20). The fair value of the reclassified property at reclassification date amounted to GEL 18,761.

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.

For the purpose of fair value disclosures, the Group identified four classes of investment properties – yielding assets, vacant land, hotel and other properties. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2018:

Class of investment properties	***Fair value 2018***	***Valuation technique***	***Significant unobservable inputs***	***Range (weighted average)***
Yielding assets	44,059	Income approach (DCF method)	Rent price per square meter, USD Capitalization rate	0.17-1.65 (0.83) 10-11% (10.7%)
	34,824	Market approach	Price per square meter, USD	0.52-2.27 (1.40)
	735	Market approach/ income approach	Rent price per square meter, USD Capitalization rate	0.93 (0.93) 11% (11%)
Total yielding assets	**79,618**			
Vacant land	32,985	Market approach	Price per square meter, USD	0.06-3.13(0.72)
Hotel	46,276	Income approach (DCF method)	Average daily rate (ADR), USD Occupancy rate	75-105 (94) 55-70% (68%)
Other	1,279	Market approach	Price per square meter, USD	0.06-2.03(0.77)
Total	**160,158**			

(Thousands of Georgian Lari)

11. Investment property (continued)

Fair value measurement of investment property (continued)

Class of investment properties	*Fair value 2017*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets	15,194	Market approach	Price per square meter, USD	0.02-1.2 (0.9)
	19,456	Market approach/ income approach	Price per square meter, USD Capitalization rate	0.03-1.20 (0.9) 8.50-10.50% (9%)
	3,111	Income approach	Price per square meter, USD Capitalization rate	0.11 (0.11) 8.00% (8.00%)
	17,506	Income approach	Capitalization rate	9.00-9.50% (9.00%)
Total yielding assets	**55,267**			
Vacant land	59,137	Market approach	Price per square meter, USD	0.08-0.20 (0.1)
Other	739	Market approach	Price per square meter, USD	0.02-0.03 (0.03)
Total	**115,143**			

Increase (decrease) in the rent rate per square meter, decrease (increase) in the capitalization rate, increase (decrease) in ADR and occupancy rate would result in increase (decrease) in fair value. .

12. Investment property under construction

A summary of movement in investment property under construction during 2018:

	Yielding assets under construction	*Kinder-gartens*	*Hotels*	*Other*	*Total*
At 1 January	**31,907**	**1,522**	–	**1,571**	**35,000**
Acquisitions	–	–	18,579	–	**18,579**
Net gain from revaluation	2,280	1,370	10,741	–	**14,391**
Capital expenditure	–	–	12,937	–	**12,937**
Borrowing costs	–	–	2,680	–	**2,680**
Transfer from/(to) property and equipment (Note 14)	(211)	–	24,224	–	**24,013**
Transfer from/(to) inventory property (Note 13)	3,558	–	–	172	**3,730**
Currency translation effect	1,360	81	4,544	61	**6,046**
At 31 December	**38,894**	**2,973**	**73,705**	**1,804**	**117,376**

The table below shows movements in investment property under construction during 2017:

	Yielding assets under construction	*Kinder-gartens*	*Other*	*Total*
At 1 January	**1,390**	–	–	**1,390**
Net gain from revaluation	21,223	157	–	**21,380**
Capital expenditure	7,048	1,238	1,442	**9,728**
Borrowing costs	405	69	78	**552**
Currency translation effect	1,841	58	51	**1,950**
At 31 December	**31,907**	**1,522**	**1,571**	**35,000**

(Thousands of Georgian Lari)

12. Investment property under construction (continued)

For the purpose of fair value disclosures, the Group identified four classes of investment properties under construction – yielding assets under construction, hotels, kindergartens and other. The following table shows descriptions of significant unobservable inputs to valuation as well as sensitivity of the inputs for 2018:

Class of investment properties	*Fair value 2018*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets under construction	19,149	Income approach (DCF method)	Rent price per square meter, USD Capitalization rate	0.79-4.10 (2.44) 10% (10%)
	10,456	Market approach	Price per square meter, USD	0.81-1.34 (1.15)
	9,289	Market approach/ Income approach	Price per square meter, USD Capitalization rate	2.25 (2.25) 10% (10%)
Total yielding assets under construction	**38,894**			
	1,261	Income approach (DCF method)	Rent price per square meter, USD Capitalization rate	0.57 (0.57) 10% (10%)
Kindergartens	1,712	Market approach	Price per square meter, USD	0.58 (0.58)
Total kindergartens	**2,973**			
Hotels	43,142	Income approach (DCF method)	Average daily rate, USD Occupancy rate	63-91 (77) 33-70% (60%)
	3,500	Market approach	Price per square meter, USD	0.44 (0.44)
Other	1,804	Market approach	Price per square meter, USD	10.43 (10.43)
Total investment property under construction at fair value	**90,313**			
Hotels under construction carried at cost	27,063			
Total investment property under construction	**117,376**			

Class of investment properties under construction	*Fair value 2017*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average)*
Yielding assets	31,907	Market approach	Price per square meter, USD	0.76-3.38 (2.01)
Kindergartens	1,522	Market approach	Price per square meter, USD	0.38-0.52 (0.45)
Other	1,571	Market approach	Price per square meter, USD	0.24 (0.24)
Total	**35,000**			

As at 31 December 2018 GEL 27,063 (2017: nil) of hotels at under early stages of construction were measured at cost due to inability to determine their fair value reliably.

(Thousands of Georgian Lari)

13. Inventory property

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

	2018	*2017*
Dighomi	56,473	–
Optima Saburtalo	8,014	7,530
Melikishvili ave. 10	–	1,335
Non-current inventory property	**64,487**	**8,865**
Kazbegi ave. 15	20,874	17,179
New Hippodrome	14,853	20,993
Melikishvili ave. 10	318	-
Chubinashvili 69	60	58
Optima Isani	24	69
Skyline	–	8,250
Chavchavadze ave.50	–	4,221
Tamarashvili. 13	–	48
Current inventory property	**36,129**	**50,818**
Inventory property	**100,616**	**59,683**

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

	2018	*2017*
Balance at 31 December	**59,683**	**113,009**
Effect from early adoption of IFRS 15	–	(31,182)
Balance at 1 January	**59,683**	**81,827**
Land and building transferred from investment property (Note 11)	49,623	1,864
Construction costs incurred	69,316	51,571
Borrowing costs	7,445	6,643
Employee benefits capitalized (Note 7)	2,760	5,182
Inventory reclassified to investment property (Note 11)	(5,857)	(706)
Inventory reclassified to investment property under construction (Note 12)	(3,730)	–
Currency translation effect	6,847	(2,091)
Disposals recognized in cost of sales (Note 6)	(85,471)	(84,607)
Balance at 31 December	**100,616**	**59,683**

As of 31 December 2018 the Group had commitments of GEL 31,686 (2017: GEL 124,174) relating to completion of five (2017: four) construction projects.

(Thousands of Georgian Lari)

14. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Construction equipment*	*Leasehold improvements*	*Assets under construction*	*Total*
Gross book value								
1 January 2017	**78**	**479**	**877**	**235**	**–**	**1,202**	**5,263**	**8,134**
Additions	–	42	101	57	21	10	16,158	**16,389**
Acquisitions through business combination	–	–	–	44	2,446	–	20,365	**22,855**
Transfer from investment property (Note 11)	220	–	–	–	–	–	3,005	**3,225**
Translation effect	8	(9)	(15)	(2)	167	(25)	659	**783**
31 December 2017	**306**	**512**	**963**	**334**	**2,634**	**1,187**	**45,450**	**51,386**
1 January 2018	**306**	**512**	**963**	**334**	**2,634**	**1,187**	**45,450**	**51,386**
Additions	–	439	471	138	3,215	–	–	**4,263**
Disposals	–	(203)	(142)	(84)	–	(3)	–	**(432)**
Transfer from/to investment property and investment property under construction (Note 11, Note 12)	1,004	–	–	–	–	—	(42,985)	**(41,981)**
Translation effect	10	53	55	18	199	39	(2,465)	**(2,091)**
31 December 2018	**1,320**	**801**	**1,347**	**406**	**6,048**	**1,223**	–	**11,145**
Accumulated depreciation								
1 January 2017	**6**	**280**	**577**	**127**	**–**	**94**	–	**1,084**
Depreciation charge	–	70	118	39	239	9	–	**475**
Translation effect	–	13	24	6	30	113	–	**186**
31 December 2017	**6**	**363**	**719**	**172**	**269**	**216**	**–**	**1,745**
1 January 2018	**6**	**363**	**719**	**172**	**269**	**216**	–	**1,745**
Depreciation charge	96	79	110	24	521	110	–	**940**
Translation effect	—	12	23	6	8	7	–	**56**
31 December 2018	**102**	**454**	**852**	**202**	**798**	**333**	**–**	**2,741**
Net book value								
1 January 2017	**72**	**199**	**300**	**108**	**—**	**1,108**	**5,263**	**7,050**
31 December 2017	**300**	**149**	**244**	**162**	**2,365**	**971**	**45,450**	**49,641**
31 December 2018	**1,218**	**347**	**495**	**204**	**5,250**	**890**	**–**	**8,404**

(Thousands of Georgian Lari)

15. Prepayments and other assets

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

	2018	*2017*
Prepayments for investment properties	9,545	6,529
Intangible assets, net	182	145
Other non-current assets	93	–
Prepayments for inventory properties	4	726
Prepayments and other assets, non-current	**9,824**	**7,400**
VAT prepayment	22,562	16,753
Prepayments for inventory properties	15,985	18,306
Prepayments for investment properties	14,519	–
Prepayments made in relation to construction services contracts	7,320	–
Other current assets	1,666	6,060
Prepayments for property and equipment	–	3,311
Prepayments and other assets, current	**62,052**	**44,430**
Total prepayments and other assets	**71,876**	**51,830**

16. Financial instruments

Financial instruments overview

Investment securities

As of 31 December 2018 included into investment securities are shares of GCAP held for settlement of the Group's cash-settled share based transactions with fair value of GEL 557 (including revaluation effect of GEL 61) (2017: BGEO shares of GEL 2,054 ((including revaluation effect of GEL 235)). GCAP's shares are categorized within Level 1 of the fair value hierarchy (2017: BGEO shares Level 1).

Time deposits with credit institutions

As at 31 December 2018 amounts due from credit institutions included restricted cash of GEL 3,498 (2017: nil) placed in local commercial banks, expected to be fully redeemed within 3 months to 2 years. Additionally, amounts due from credit institutions as at 31 December 2018 are represented by short term placements of GEL 476 (2017: GEL 114). Interest earned on time deposits with credit institutions during the period amounted to GEL 410 (2017: GEL 816).

Loans issued

Loans issued comprise:

	2018
Convertible loan to a joint venture	1,034
Total loans at fair value through profit or loss	**1,034**
Other loans	6,287
Total loans at amortized cost	**6,287**
Total loans issued	**7,321**
Current portion	1,071
Non-current portion	6,250

Convertible loans were issued to the Group's joint venture entity that the Group plans to construct and develop a residential and hospitality projects under m2 brand name on a third-party land plot (Note 20).

Other loans at amortized cost are denominated in USD and are issued in connection with the planned land acquisition transactions.

Interest income earned on the loans issued amounted to GEL 107 (2017: nil).

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Loans received

	Currency	*Maturity*	*31 December 2018*	*31 December 2017*
Borrowing from international financial institutions	USD	December 2019	–	44,243
Borrowing from international financial institutions	USD	December 2016	–	12,473
Borrowing from local commercial bank	USD	July 2016	–	2,276
Borrowing from the Parent	USD	January 2024-February 2024	150,626	–
Total borrowings			**150,626**	**58,992**

As at 31 December 2018 the Group had undrawn loan commitment of EUR 8,000 (GEL 24,561) from local commercial bank (2017: USD 1,900 (GEL 4,925) from international financial institutions). Investment property with carrying value of GEL 46,276 was pledged as collateral under this loan commitment (Note 11).

Debt securities issued

Debt securities issued comprise:

	2018	*2017*
USD-denominated 2021 bonds	19,609	–
USD-denominated 2019 bonds	67,697	65,122
Total debt securities issued	**87,306**	**65,122**
Current portion	67,697	1,001
Non-current portion	19,609	64,121

In December 2018 the Group 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*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*31 December 2018*
Loans and borrowings	**58,992**	137,412	(61,669)	11,007	4,884	**150,626**
Debt securities issued	**65,122**	19,609	–	2,051	524	**87,306**
Total liabilities from financing activities	**124,114**	**157,021**	**(61,669)**	**13,058**	**5,408**	**237,932**

	1 January 2017	*Cash inflows*	*Cash outflows*	*Foreign exchange movement*	*Change in accrued interest*	*31 December 2017*
Loans and borrowings	**42,818**	32,117	(16,908)	454	511	**58,992**
Debt securities issued	**103,077**	–	(34,099)	(3,700)	(156)	**65,122**
Total liabilities from financing activities	**145,895**	**32,117**	**(51,007)**	**(3,246)**	**355**	**124,114**

Retention payable to general contractor

Included in retention payable to general contractor as of 31 December 2018 and 2017 are performance and guarantee retentions related to the Group's on-going construction projects.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Financial instruments overview (continued)

Performance 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 2018 current portion of performance guarantee retention comprised GEL 2,497 (2017: GEL 2,361) whilst non-current portion of performance guarantee retention comprised nil (2017: nil).

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 2018 current portion of guarantee retention comprised nil (2017: nil) whilst non-current portion of guarantee retention comprised GEL 2,797 (2017: GEL 2,400).

Trade and other payables

Trade and other payables of the Group are mostly comprised of construction payables for projects under development and payables for acquisition of investment property. These payables are mostly denominated in USD and are due from 3 to 6 months from the reporting date.

	2018	*2017*
Construction payables	9,245	6,653
Payable for acquisition of investment property	2,438	–
Marketing and advertising	697	317
Trade and other payables	**12,380**	**6,970**

Risks arising from financial instruments

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

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

<u>Cash at bank and time deposits with credit institutions</u>

As at 31 December 2018 GEL 32,753 (2017: GEL 26,570) was kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. Nil (2017: GEL 1,974) was kept with local commercial banks having a ratings of "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/B" from Fitch Ratings. Remaining GEL 1,820 (2017: GEL 6,207) was kept with local commercial bank with no available credit ratings. Respective bank accounts do not bear any interest except current accounts on which annual interest 1.00% was accrued on USD accounts during the 2018. The Group's cash at bank is immediately available upon demand. Time deposits with credit institutions in amount of GEL 3,974 were kept with local commercial banks having a ratings of "Ba3/Ba2" (LC) from Moody's and "BB-" from Fitch Ratings. No significant increase in credit risk occurred on the Group's cash and time placements with banks.

<u>Trade and other receivables, contract assets and loans issued</u>

Trade and other receivables, contract assets and loans issue do not have internal credit grading. The Group can repossess the properties sold in case the customer defaults on its payment obligations in relation to trade receivables and contract assets related to sales of inventory properties. Receivables, contract assets related to construction services and loans issued are not collateralized.

No material amounts of trade and other receivables, contract assets and loans issued are overdue as at 31 December 2018 and 2017.

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 analysed and managed by the Group's management.

(Thousands of Georgian Lari)

16. Financial instruments (continued)

Risks arising from financial instruments (continued)

The table below summarizes the maturity profile of the Group'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	1,842	19,215	110,844	81,031	**212,932**
Trade and other payables	10,899	1,481	–	–	**12,380**
Debt securities issued	362	73,042	22,556	–	**95,960**
Retention payable to general contractor	–	2,497	2,797	–	**5,294**
Total	**13,103**	**96,235**	**136,197**	**81,031**	**326,566**

Financial liabilities ***As at 31 December 2017***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Loans received	103	20,834	43,122	8,789	**72,848**
Trade and other payables	6,970	–	–	–	**6,970**
Debt securities issued	–	4,859	69,666	–	**74,525**
Retention payable to general contractor	–	2,361	2,400	–	**4,761**
Total	**7,073**	**28,054**	**115,188**	**8,789**	**159,104**

17. Equity

As at 31 December 2018 issued share capital comprised 417,994,663 common shares (2017: 417,994,663), 91,054,852 Class “A” preferred shares (2017: nil) and 20,000,000 Class “B” shares (2017: nil). As at 31 December 2018 all of common shares and Class “A” preferred shares were fully paid. Class “B” shares were issued for no consideration. Each share has a nominal value of 0.01 Georgian Lari.

Shares issued and outstanding as at 31 December 2018 are described below:

	Common shares	***Class "A" preferred shares***	***Class "B" shares***
31 December 2016	417,994,663	–	–
31 December 2017	417,994,663	–	–
Issue of shares	–	91,054,852	20,000,000
31 December 2018	**417,994,663**	**91,054,852**	**20,000,000**

In August 2018 the Group issued 57,052,691 Class “A” preferred shares with total placement price of USD 8,000 (GEL 19,588). Share issue price was USD 0.1402 (GEL 0.3433) per share.

In December 2018, the Group had issued 34,002,161 Class “A” preferred shares with total placement price of USD 4,800 (GEL 12,780). Share issue price was USD 0.1412 (GEL 0.376).

Preferred Class “A” shareholders have a higher claim on distributions in case of liquidation that ordinary shares and have no voting rights.

Class “B” shares entitle shareholders to dividends and liquidations proceeds of the company similar to those of common shares shareholders, and provide limited voting rights on the annual shareholders meeting. Class “B” shares can only be sold to existing shareholders of the Group.

Dividends

In December 2018, the Group announced and paid GEL 10,000 dividends. Dividend per share amounted to GEL 0.02 (USD 0.01).

(Thousands of Georgian Lari)

17. Equity (continued)

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 not subject to any externally imposed capital requirements as at 31 December 2018.

Share-based payments

Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group's ultimate parent, the GCAP, and in equity instruments of the Company. Grants are made by both the GCAP and the Group. Grants settled in in equity instruments of the Company and those grants that the Group does not have a liability to settle are accounted as equity-settled transactions (even if the Group may subsequently recharge the cost of the award to the settling entity, which 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. Settlements to the Parent for the shares granted to the employees of the Group are accounted as a reduction in share premium.

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 re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

Awards made in the Parent's shares

CEO and certain employees of the Group were granted awards in shares of BGEO in 2017. Shares awarded are subject to two or three year vesting with continuous employment being the only vesting condition for the award.

After demerger of BGEO Group plc in May 2018, all outstanding unvested share awards made in BGEO shares were converted into 1 Georgia Capital PLC share vesting according to original schedule and 1 BOGG PLC share vesting immediately per each BGEO share. The related share-based payment expense in amount of GEL 3,778 was recognized in profit or loss as of the termination date as non-recurring expense (Note 9).

The Group accounts for the awards made in the Parent shares as either equity-settled or cash-settled depending on whether it has an obligation to settle the award.

In 2017, the Group contributed GEL 7,956 to BGEO to compensate the cost of the shares purchased for the purpose of settlement of the Group's share-based awards made in BGEO shares.

Awards made in the Company's shares

In 2017 the Group introduced new employee remuneration scheme for its key executives. Under this scheme, executives are awarded a) long-term deferred securities and b) equity compensation securities represented by equity instruments of the Company (Class "B" shares).

(Thousands of Georgian Lari)

17. Equity (continued)

Share-based payments (continued)

Both long-term deferred securities and equity compensation securities awards consist of guaranteed component, where the number of awarded shares is determined with reference to net asset value (NAV) growth for respective year, and discretionary component, determined annually by the Supervisory Board. Shares are awarded in 30 days after the completion of the annual audit. Long-term deferred securities vest in 5 years with only vesting condition being continued employment in the Parent's Group. Equity compensation securities vest immediately. Executive has a put option to sell shares to the controlling shareholder of the Group during 7 years following the vesting. After expiration of the put option, the controlling shareholder has a call option over the shares for further 12 months. Price for both put and call options is defined as NAV divided by number of shares based on latest annual audited financial statements. If neither of the options are exercised, class B shares are converted to common shares of the Company.

The Group accounts for the awards under this scheme as equity-settled share-based transaction.

In 2017, new service agreements were signed with some of Group's executives that set out the terms of the awards under this scheme. The Group determines Group's NAV per share based on contractual characteristics of Class "B" shares as fair value of the awards.

Summary

The following table summarizes information about financial impact of the Group's share-based arrangements as at 31 December 2018:

	2018	*2017*
Awards in the Parent's shares	**4,895**	**3,153**
Cash-settled charge	2,042	910
Equity-settled charge	2,853	2,243
Awards in the Company's shares	**2,607**	**3,039**
Equity-settled charge	2,607	3,039
Total share-based payment charge	**7,502**	**6,192**
Expensed in profit or loss	4,877	286
Capitalized to cost of assets	2,625	5,906

Liability related to cash-settled transactions amounted to GEL 557 as at 31 December 2018 (2017: GEL 544), included in other liabilities in consolidated statement of financial position.

The following table summarizes information about movements in awarded but not vested shares related to the Group's share-based arrangements made in the Parent's shares:

	2018	2017
Unvested awarded shares as at 1 January	**16,500**	**5,833**
New shares granted (weighted average share price: GEL 124.3 (2017: GEL 98.31) per share)	8,350	29,100
Vested shares	(9,033)	(18,433)
Unvested awarded shares as at 31 December 2018	**15,817**	**16,500**

The following table summarizes information about movements in outstanding shares related to the Group's share-based arrangements made in the Company's shares (in thousands of shares):

	2018	2017
Unvested awarded shares as at 1 January	**34,323**	**–**
New shares granted (weighted average share price: GEL 0.40 (2017: GEL 0.34) per share)	8,422	34,323
Vested shares	(6,445)	–
Remeasurement of number of shares to be vested	(3,833)	–
Unvested awarded shares as at 31 December 2018	**32,467**	**34,323**

(Thousands of Georgian Lari)

18. Fair value measurements

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy. It also includes a comparison by class of the carrying amounts and fair values of the Group'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	–	–	160,158	**160,158**	160,158	–
Investment property under construction	–	–	117,376	**117,376**	117,376	–
Investment securities	557	–	–	**557**	557	–
Loan issued		1,034		**1,034**	1,034	
Assets for which fair values are disclosed						
Trade and other receivables	–	6,528	–	**6,528**	6,528	–
Time deposits with credit institutions	–	3,974	–	**3,974**	3,974	–
Loans issued	–	6,287	–	**6,287**	6,287	–
Cash and cash equivalents	–	34,573	–	**34,573**	34,573	–
Liabilities for which fair values are disclosed						
Loans received	–	155,787	–	**155,787**	150,626	(5,161)
Debt securities issued	–	88,116	–	**88,116**	87,306	(810)
Trade and other payables	–	12,380	–	**12,380**	12,380	–
Retention payable to general contractor	–	5,294	–	**5,294**	5,294	–

	Level 1	*Level 2*	*Level 3*	*Total fair value 2017*	*Carrying value 2017*	*Unrecognised gain (loss) 2017*
Assets measured at fair value						
Investment properties	–	–	115,143	**115,143**	115,143	–
Investment property under construction	–	–	35,000	**35,000**	35,000	–
Investment securities	2,054	–	–	**2,054**	2,054	–
Assets for which fair values are disclosed						
Trade and other receivables	–	–	330	**330**	330	–
Cash at bank	–	34,751	–	**34,751**	34,751	–
Liabilities for which fair values are disclosed						
Loans received	–	60,316	–	**60,316**	58,992	(1,324)
Debt securities issued	–	64,753	–	**64,753**	65,122	369
Trade and other payables	–	–	6,970	**6,970**	6,970	–
Retention payable to general contractor	–	–	4,297	**4,297**	4,761	464

(Thousands of Georgian Lari)

18. Fair value measurements (continued)

Fair value of financial instruments

For a description of the determination of fair value for investment properties and investment securities please refer to Notes 11,12 and 16.

Carrying value of cash and cash equivalents as at 31 December 2018 and 2017 approximates its fair value due to short term nature (available on demand).

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.
- *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.

19. Commitments and contingencies

Taxation

Applicable tax regulations are updated frequently and not large number of precedents have been established. This creates tax risks in Georgia, which could be 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.

Lease commitments

The Group's commitments as lessee comprise following:

	31 December 2018	*31 December 2017*
Operating lease commitments, net of VAT (lessee)		
Not later than 1 year	1,292	593
Later than 1 year but not later than 5 years	1,736	511
Total	**3,028**	**1,104**

The Group's commitments as lessor comprise following:

	31 December 2018		*31 December 2017*
	Yielding assets	*Hotel*	*Yielding assets*
Operating lease commitments, net of VAT (lessor)			
Not later than 1 year	4,443	3,403	3,912
Later than 1 year but not later than 5 years	8,861	17,508	9,397
Later than 5 years	2,914	–	8,189
Total	**16,218**	**20,911**	**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: 4 years).

(Thousands of Georgian Lari)

20. 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***	***Joint venture*[3]**	***Parent***	***Entities under common control***	***Key management personnel***
Balances as at 31 December							
Cash and cash equivalents at 31 December	–	–	–	–	–	26,570	–
Accounts receivable	–	1,857	–	–	–	–	–
Short-term loans issued (Note 16)	–	–	–	1,034	–	–	–
Deferred Income	–	–	32	–	–	–	108
Borrowings (Note 16)	150,626	–	–	–	–	–	–
Debt securities issued	–	1,491	–	–	–	9,235	524
Prepayments	–	230	–	–	–	866	–
					–		
Transactions for the year ended 31 December							
Interest expense on borrowings	10,235	–	–	–	–	–	–
Interest expense on debt securities issued	–	106	–	–	–	727	38
Revenue from sale of inventory property	–	–	500	–	–	–	143
Finance income	54	–	–	87	–	550	–
Employee benefits expense	–	–	6,543	–	–	–	6,871
Rental income	146	638	–	–	–	1,187	–
Insurance expense	–	710	–	–	–	194	–
Other general and administrative expense	–	604	–	–	–	102	–
Other revenue	–	–	–	–	–	183	–
Net other non-operating income	–	170	–	–	–	–	–

1 *As at 31 December 2018 and in the year then ended the Parent includes balances and transactions with Georgia Capital PLC and Georgia Capital JSC and as at 31 December 2017 BGEO Group PLC, JSC BGEO Group and JSC BGEO Investments.*

2 *As at 31 December 2018 and 2017 entities under common control include Georgia Capital PLC and BGEO Group PLC subsidiaries, respectively, except those included in the Parent category.*

3 *The Group invested in a joint venture in relation to the project to develop a land plot in Tbilisi, which is at design stage as at 31 December 2018. Group's share in the joint venture is 6% and the amount of investment is immaterial as at 31 December 2018 and 2017. The Group has joint control over the joint venture through a contractual arrangement with the other shareholder.*

In December 2018, the Group entered into a fixed rate lease agreement with an entity under control in relation to its hotel property classified as investment property in the consolidated statement of financial position (Note 11). No significant income has been recognized in 2018 in relation to this lease contract. Respective operating lease receivable commitments are disclosed in Note 19.

Total number of key management personnel members receiving employee benefits in 2018 amounted to 10 persons (2017: 5), CEO and 9 deputies (2016: CEO and 4 deputies). Other transactions with key management personnel include above mentioned 10 employees and total 3 members of supervisory board (2017: 5 employees and 3 members of supervisory board).

Compensation of key management personnel comprised the following:

	2018	*2017*
Share-based compensation	3,862	5,777
Salary	1,674	844
Cash bonus	1,007	250
Total	**6,543**	**6,871**

(Thousands of Georgian Lari)

21. Segment report

For management purposes, the Group is organised into business units based on its products and services and has two reportable segments, as follows:

- Housing development - the segment is engaged in offering customers affordable housing and also includes the maintenance of common areas through providing cleaning, security, etc. services at its own residential developments. Construction management relates to acquired construction arm and offering construction services. The segment also includes certain investment properties (mostly, ground floors under construction that have not yet been transferred to Hospitality and commercial real estate segment, and vacant land).
- Hospitality and commercial real estate - which includes retail properties and hotels rented out by the Group, and entails managing the portfolio of yielding assets consisting of retained commercial spaces(ground floor) at its own residential developments and the ones acquired opportunistically, as well as developing and leasing out hotels.

Presentation of the reportable segments has been changed in 2018 to align with the Parent's strategic view of the Group's business. Comparative information for the year ended 31 December 2017 and as at 31 December 2017 was restated accordingly.

Chief operating decision maker obtains information about segment's performance, assets and liabilities and cash flows to assess performance of their operating segments and allocate resources to them. Accordingly, the Group discloses respective information in its segment reporting.

All segments' non-current assets are located in Georgia and all revenues are generated in Georgia. No single customer amounted to more than 10% of the Group's revenue in 2018 and 2017.

(Thousands of Georgian Lari)

21. Segment report (continued)

Year ended 31 December 2018	Housing Development	Hospitality & Commercial Real Estate	Eliminations[1]	Total
Sales of inventory property	94,916	–	–	94,916
Cost of sales – inventory property	(85,471)	–	–	(85,471)
Profit on sale of inventory property	**9,445**	**–**	**–**	**9,445**
Rental income	–	5,467	–	5,467
Property operating expense	–	(879)	–	(879)
Net rental income	**–**	**4,588**	**–**	**4,588**
Revenue from construction services	36,377	–	(8,513)	27,864
Cost of construction services	(31,043)	–	7,406	(23,637)
Profit from construction services	**5,334**	**–**	**(1,107)**	**4,227**
Revenue from hospitality services	–	5,151	–	5,151
Cost of hospitality services	–	(3,206)	–	(3,206)
Profit from hospitality services	**–**	**1,945**	**–**	**1,945**
Net gain from revaluation of investment property and investment property under construction	5,524	27,621	894	34,039
Other revenue	156	53	–	209
Employee benefits expense	(3,500)	(2,518)	–	(6,018)
Other general and administrative expenses	(4,687)	(173)	–	(4,860)
Depreciation and amortization	(867)	(105)	–	(972)
Marketing and advertising expense	(3,394)	(150)	–	(3,544)
Other operating income (net)	–	–	–	–
Non-recurring expenses	(6,224)	(1,333)	–	(7,557)
Operating profit	**1,787**	**29,928**	**(213)**	**31,502**
Net finance expense	(900)	(2,618)	–	(3,518)
Net foreign loss	(488)	(1,082)	–	(1,570)
Net other non-operating income	–	219	–	219
Profit before income tax expense	**399**	**26,447**	**(213)**	**26,633**
Income tax expense	–	–	–	–
Profit for the year	**399**	**26,447**	**(213)**	**26,633**

(Thousands of Georgian Lari)

21. Segment report (continued)

31 December 2018	Housing Development	Hospitality & Commercial Real Estate	Eliminations[1]	Consolidated
Cash and cash equivalents	8,833	25,740	–	34,573
Time deposits with credit institutions	1,634	2,340	–	3,974
Investment securities	512	45	–	557
Accounts receivable and other loans	6,063	8,770	(984)	13,849
Contract assets with customers	2,586	–	–	2,586
Prepayments	33,976	15,711	(558)	49,132
Inventory property	105,306	–	(4,690)	100,616
Investment property	52,603	225,337	(406)	277,534
Property and equipment	8,232	172	–	8,404
Other assets	31,247	16,176	(24,676)	22,744
Total assets	**250,992**	**294,291**	**(31,314)**	**513,969**
Loans received	46,069	104,557	–	150,626
Debt securities issued	67,697	19,609	–	87,306
Deferred income	23,010	–	–	23,010
Other liabilities	46,175	10,831	(30,190)	26,816
Total liabilities	**182,951**	**134,997**	**(30,190)**	**287,758**
Total equity	**68,041**	**159,294**	**(1,124)**	**226,211**
Total liabilities and equity	**250,992**	**294,291**	**(31,314)**	**513,969**

(Thousands of Georgian Lari)

21. Segment report (continued)

Year ended 31 December 2018	Housing Development	Hospitality & Commercial Real Estate	Eliminations[1]	Consolidated
Cash flows from operating activities				
Proceeds from sales of apartments	80,692	–	–	80,692
Cash outflows for development of apartments	(76,566)	–	1,196	(75,370)
Proceeds from hospitality services	–	6,078	–	6,078
Outflows for hospitality services	–	(3,783)	–	(3,783)
Proceeds from construction services	38,148	–	(8,559)	29,589
Outflows for construction services	(38,355)	–	–	(38,355)
Net proceeds from property management	185	5,414	–	5,599
Cash paid for operating expenses	(14,258)	(2,039)	–	(16,297)
Net cash flows from operating activities	**(10,154)**	**5,670**	**(7,363)**	**(11,847)**
Cash flows from investing activities				
Purchase of investment properties	–	(53,475)	–	(53,475)
Capital expenditure on investment property	(9,843)	(27,517)	7,363	(29,997)
Purchase of property, plant and equipment	(3,823)	(8)	–	(3,831)
VAT returns	–	8,574	–	8,574
Loans issued	(25)	(7,018)	–	(7,043)
Net cash flows used in investing activities	**(13,691)**	**(79,444)**	**7,363**	**(85,772)**
Cash flows from financing activities				
Proceeds from debt securities issued	–	19,609	–	19,609
Payments related to share-based awards	(1,280)	(82)	–	(1,362)
Proceeds from borrowings	41,615	95,797	–	137,412
Repayment of borrowings	(42,465)	(19,400)	–	(61,865)
Interest paid	(9,035)	(3,343)	–	(12,378)
Proceeds from preferred stock issued	–	32,380	–	32,380
Net intergroup loans received/(issued)	37,760	(37,760)	–	–
Dividend paid	(10,000)	–	–	(10,000)
Net cash flows from financing activities	**16,595**	**87,201**	**–**	**103,796**
Effect of exchange rate changes on cash and cash equivalents	(2,342)	(153)	–	(2,495)
Net decrease/(increase) in cash and cash equivalents	**(9,592)**	**13,274**	**–**	**3,682**
Cash and cash equivalents at the beginning of the period[2]	20,059	14,806	–	34,865
Cash and cash equivalents at the end of the period[2]	**10,467**	**28,080**	**–**	**38,547**

(Thousands of Georgian Lari)

21. Segment report (continued)

Year ended 31 December 2017	Housing Development	Hospitality & Commercial Real Estate	Consolidated
Sales of inventory property	92,643	–	92,643
Cost of sales – inventory property	(84,607)	–	(84,607)
Profit on sale of inventory property	**8,036**	**–**	**8,036**
Rental income	–	3,599	3,599
Property operating expense	–	(557)	(557)
Net rental income	**–**	**3,042**	**3,042**
Net gain from revaluation of investment property and investment property under construction	21,586	977	22,563
Other revenue	277	–	277
Employee benefits expense	(2,381)	(437)	(2,818)
Other general and administrative expenses	(2,818)	(88)	(2,906)
Depreciation	(490)	(18)	(508)
Marketing and advertising expense	(2,740)	(115)	(2,855)
Non-recurring expenses	(115)	(13)	(128)
Operating profit	**21,355**	**3,348**	**24,703**
Net finance income/(expense)	792	(162)	630
Net foreign exchange gain/(loss)	(111)	(6)	(117)
Profit before income tax expense	**22,036**	**3,180**	**25,216**
Income tax expense	(1,508)	(46)	(1,554)
Profit for the year	**20,528**	**3,134**	**23,662**

31 December 2017	Housing Development	Hospitality & Commercial Real Estate	Eliminations[1]	Consolidated
Cash and cash equivalents	19,945	14,806	–	34,751
Time deposits with credit institutions	114	–	–	114
Investment securities	3,205	124	–	3,329
Accounts receivable and other loans	333	1,599	(594)	1,338
Prepayments	36,226	3,436	(4,730)	34,932
Inventory property	59,199	–	484	59,683
Investment property	93,373	56,770	–	150,143
Property and equipment	4,214	45,427	–	49,641
Other assets	29,042	7,861	(20,005)	16,898
Total assets	**245,651**	**130,023**	**(24,845)**	**350,829**
Loans received	44,243	14,749	–	58,992
Debt securities issued	65,122	–	–	65,122
Deferred income	46,660	–	–	46,660
Other liabilities	12,952	27,318	(24,845)	15,425
Total liabilities	**168,977**	**42,067**	**(24,845)**	**186,199**
Total equity	**76,674**	**87,956**	–	**164,630**
Total liabilities and equity	**245,651**	**130,023**	**(24,845)**	**350,829**

(Thousands of Georgian Lari)

21. Segment report (continued)

Year ended 31 December 2017	Housing Development	Hospitality & Commercial Real Estate	Consolidated
Cash flows from operating activities			
Proceeds from sales of apartments	112,215	–	112,215
Cash outflows for development of apartments	(79,820)	–	(79,820)
Net proceeds from property management	–	3,042	3,042
Cash paid for operating expenses	(8,884)	(353)	(9,237)
Income tax paid	(4,854)	–	(4,854)
Net cash flows from operating activities	**18,657**	**2,689**	**21,346**
Cash flows from investing activities	–	–	–
Purchase of investment properties	–	(1,401)	(1,401)
Capital expenditure on investment property	(6,912)	(20,512)	(27,424)
Purchase of property, plant and equipment	(2,380)	(8)	(2,388)
Acquisition of subsidiaries	–	(10,562)	(10,562)
Net cash flows used in investing activities	**(9,292)**	**(32,483)**	**(41,775)**
Cash flows from financing activities			
Repayment of debt securities issued	(34,099)	–	(34,099)
Payments related to share-based awards	(7,652)	(304)	(7,956)
Proceeds from borrowings	19,421	12,696	32,117
Repayment of borrowings	(16,908)	–	(16,908)
Interest paid	(10,345)	(336)	(10,681)
Net intergroup loans received/(issued)	(18,543)	18,543	–
Intersegment capital injections	(9,773)	9,773	–
Net cash flows from financing activities	**(77,899)**	**40,372**	**(37,527)**
Effect of exchange rate changes on cash and cash equivalents	(374)	(15)	(389)
Net (decrease)/increase in cash and cash equivalents	**(68,908)**	**10,563**	**(58,345)**
Cash and cash equivalents at the beginning of the period[2]	88,967	4,243	93,210
Cash and cash equivalents at the end of the period[2]	**20,059**	**14,806**	**34,865**

[1] Inter-segment revenues and expenses (mostly represented by construction services provided by housing development segment to Hospitality & commercial real estate segment) are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column.
[2] Cash and cash equivalents at the beginning of the period and at the end of the period include time deposits with credit institutions for segment disclosure purposes.

For the purpose of segment reporting, chief operating decision maker assessed segment cash flow on a basis different from that presented in these consolidated financial statements and largely consistent with presentation of statement cash flows by the Parent. The key differences include:

1) Operating cash flows are presented using direct method and gross of VAT in segment cash flows (consolidated statement of cash flows: using indirect method)
2) Interest paid is allocated to financing cash flows in segment cash flows (consolidated statement of cash flows: in operating cash flows)
3) Changes in payables and prepayments related to investment property acquisition and construction are presented in operating cash flows in segment cash flows (consolidated statement of cash flows: under investing activities)
4) Cash and cash equivalents in segment cash flows include time deposits with credit institutions

(Thousands of Georgian Lari)

21. Segment report (continued)

Reconciliation between segment operating, investing and financing cash flows to the consolidated statement of cash flows is as follows:

	2018	2017
Total segment operating cash flows	**(11,847)**	**21,346**
Reclassification of interest paid from financing cash flows	(12,216)	(10,681)
Reclassification of change in prepayments and payables related to acquisition and construction of investment property and property and equipment from investing cash flows	8,068	–
Movements in time deposits with credit institutions	(3,860)	–
Other	(6,643)	1,221
Total IFRS operating cash flows	**(26,498)**	**11,886**
Total segment investing cash flows	**(85,772)**	**(41,775)**
Reclassification of change in prepayments and payables related to acquisition and construction of investment property and property and equipment to operating cash flows	(8,068)	–
Other	2,821	(1,348)
Total IFRS investing cash flows	**(91,019)**	**(43,123)**
Total segment financing cash flows	**103,796**	**(37,527)**
Reclassification of interest paid to operating cash flows	12,216	10,681
Other	1,708	–
Total IFRS financing cash flows	**117,720**	**(26,846)**

22. Events after the reporting period

On 8 January 2019, the Group utilized its undrawn loan commitment in amount EUR 8 mln (GEL 24.4 mln) under the loan agreement concluded with a local commercial bank on 31 December 2018.

On 6 February 2019, the Group acquired the remaining 40% equity stake in Kass 1 LLC. Total consideration for the buyout was US$ 5.2 million (GEL 13.8 mln), where US$ 0.3 million (GEL 0.8 mln) was paid in cash and US$ 4.9 million (GEL 13.0 mln) was settled through bonds issued by the Group.

On 27 March 2019, the Group obtained two long-term loans in amount EUR 1.3 mln (GEL 3.5 mln) and EUR 6.6 mln (GEL 17.7 mln) under the loan agreements concluded with a local commercial bank.