JSC m2 Real Estate Group

Consolidated financial statements

For the year ended 31 December 2013
with independent auditors' report

Contents

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Independent auditor's report

To the shareholders and Supervisory Board of JSC m2 Real Estate -

We have audited the accompanying consolidated financial statements of JSC Real Estate and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC m2 Real Estate and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year 2013 in accordance with International Financial Reporting Standards.

EY Georgia LLC

13 March 2014

Consolidated statement of comprehensive income

For the year ended 31 December

(Thousands of Georgian Lari)

	Notes	2013	2012
Sales of inventory property	5	7,347	12,044
Cost of sales - inventory property	6	(5,848)	(10,056)
Profit on sale of inventory property		1,499	1,988
Rental income	5	1,315	1,331
Property operating expense		(16)	(89)
Net rental income		1,299	1,242
Net gain from revaluation of investment property	10	7,168	-
Net gain from investment property		7,168	-
Other revenue	5	151	245
Employee benefits expense	7	(1,282)	(795)
Other general and administrative expenses	8	(1,094)	(1,168)
Marketing and selling expenses		(940)	(687)
Depreciation		(216)	(121)
Non-recurring expenses		(808)	-
Operating profit		5,777	704
Finance income	5	1,131	453
Net foreign exchange gain/(loss)		215	(230)
Non-operating income		-	2,073
Profit before income tax expense		7,123	3,000
Income tax expense	9	(279)	(423)
Profit for the year		6,844	2,577
Other comprehensive income		-	-
Total comprehensive income for the year		6,844	2,577

Signed and authorised for release on behalf of the Management Board of the Company

Chief Executive Officer Giorgi Vakhtangishvili

Chief Financial Officer Emzar Otkhozoria

13 March 2014

Consolidated statement of financial position

As at 31 December

(Thousands of Georgian Lari)

	Notes	2013	2012
Assets			
Non-current assets			
Investment property	10	18,796	25,245
Inventory property	11	16,849	27,213
Deferred tax assets	9	1,555	1,671
Other non-current assets		2,069	598
		39,269	54,727
Current assets			
Inventory property	11	48,891	1,661
Prepayments and other assets	12	9,593	6,417
Trade and other receivables	13	1,612	899
Amounts due from credit institutions		-	15,475
Investment securities available for sale		1,165	1,145
Cash and cash equivalents	14	12,624	7,469
		73,885	33,066
Total assets		113,154	87,793
Equity and liabilities	15		
Share capital		2,782	3,301
Share premium		53,544	52,098
Treasury shares		-	(519)
Accumulated losses		(2,244)	(9,088)
Total equity		54,082	45,792
Non-current liabilities			
Long-term loans		-	14,178
Deferred revenue	16	6,562	23,653
Deferred tax liabilities	9	163	-
Retention guarantee payable to constructor		2,149	-
		8,874	37,831
Current liabilities			
Short-term loans		-	1,896
Deferred revenue	16	46,846	-
Trade and other payables	17	3,352	2,274
		50,198	4,170
Total liabilities		59,072	42,001
Total equity and liabilities		113,154	87,793

Signed and authorised for release on behalf of the Management Board of the Company:

Chief Executive Officer — Giorgi Vakhtangishvili

Chief Financial Officer — Emzar Otkhozoria

13 March 2014

Consolidated statement of changes in equity

For the year ended 31 December

(Thousands of Georgian Lari)

	Share capital	*Treasury shares*	*Share premium*	*Accumulated losses*	*Total equity*
At 31 December 2011	**2,976**	**(406)**	**48,708**	**(11,665)**	**39,613**
Total comprehensive income for the year	–	–	–	2,577	**2,577**
Issuance of shares (Note 15)	325	–	4,678	–	**5,003**
Purchase of treasury shares (Note 15)	–	(113)	(1,633)	–	**(1,746)**
Share based payments (Note 15)	–	–	345	–	**345**
At 31 December 2012	**3,301**	**(519)**	**52,098**	**(9,088)**	**45,792**
Total comprehensive income for the year	–	–	–	6,844	**6,844**
Cancelation of treasury shares (Note 15)	(519)	519	–	–	**–**
Share based payments (Note 15)	–	–	1,446	–	**1,446**
At 31 December 2013	**2,782**	**–**	**53,544**	**(2,244)**	**54,082**

The accompanying notes on pages 6-24 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	2013	2012
Operating activities			
Profit before income tax expense		7,123	3,000
Non-cash adjustments to reconcile profit before income tax: expense to operating profit before changes in working capital:			
Depreciation		216	121
Gain from valuation of investment property	10	(7,168)	–
Share based bonus payment to management		1,446	345
(Gain)/loss from foreign exchange differences		–	103
Impairment charge on receivables	13	150	101
Operating profit before changes in working capital		**1,767**	**3,670**
Working capital adjustments:			
Increase in trade and other receivables		(863)	(339)
(Increase)/decrease in prepayments		(3,176)	89
Increase in intangible assets		–	(20)
Increase in inventory property		(22,988)	(9,848)
Increase/(decrease) in trade and other payables		1,078	(3,123)
Increase in other long-term liabilities		2,149	–
Increase in deferred revenue		29,755	16,465
Cash flows from / (used in) operations		**7,722**	**6,894**
Interest paid		(335)	(615)
Net cash flows from / (used in) operating activities		**7,387**	**6,279**
Investing activities			
Purchase of investment property		(84)	(460)
Capital expenditure on investment property		(392)	(1,595)
Amounts due from banks placements		–	(15,475)
Amounts due from banks redemption		15,475	–
Acquisition of other non-current assets		(1,707)	–
Disposal of a subsidiary		–	(2,128)
Net cash flows from / (used in) investing activities		**13,292**	**(19,658)**
Cash flows from financing activities			
Proceeds from share issue	15	–	3,370
Repurchase of treasury shares	15	–	(113)
Proceeds from borrowings		–	16,074
Repayment of borrowings		(15,739)	–
Net cash flows from financing activities		**(15,739)**	**19,331**
Effect of exchange rate changes on cash and cash equivalents		215	1
Net increase in cash and cash equivalents		5,155	5,953
Cash and cash equivalents at 1 January		7,469	1,516
Cash and cash equivalents at 31 December	14	**12,624**	**7,469**

Non-cash transactions

In 2013 the Group reclassified land plots to be used in development projects with total value of GEL 14,093 from investment property to inventories.

(Thousands of Georgian Lari)

1. Corporate information

JSC m2 Real Estate Group (the “Company” or “m2”) is a joint stock company incorporated on 27 September 2006. Before 6 March 2013 the Company’s official name was JSC SB Real estate. The registered office is located at 3-5 Tatishvili str., 0179, Tbilisi, Georgia. The Company’s principal activities include development and sales of mainly residential apartments and investment property management. The Company, together with subsidiaries indicated in note 2, is referred to as the “Group”.

Shareholder	*31 December 2013, %*	*31 December 2012, %*
JSC Bank of Georgia (“the BOG”)	93.90%	93.90%
JSC Galt and Taggart Holdings	6.10%	6.10%
Total	**100.00%**	**100.00%**

The Group is ultimately owned and controlled by Bank of Georgia Holdings PLC (“the BGH”).

2. Basis of preparation

General

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

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

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

Reclassifications

In 2013 the Group reconsidered presentation of its consolidated statements of financial position and comprehensive income, presentation of comparative figures as of andfor the year ended 31 December 2012 has been adjusted accordingly:

Consolidated statement of financial position	*As previously reported*	*Reclassification*	*As reclassified*
Property and equipment	398	(398)	–
Intangible assets	45	(45)	–
Other non-current assets	155	443	598

Consolidated statement of comprehensive income	*As previously reported*	*Reclassification*	*As reclassified*
Revenues	13,620	(13,620)	–
Sales of inventory property	–	12,044	12,044
Rental income	–	1,331	1,331
Other revenue	–	245	245
Property operating expense	–	(89)	(89)
Employee benefits expense	–	(795)	(795)
Depreciation	–	(121)	(121)
General and administrative expenses	(1,767)	599	(1,168)
Other income/(expenses)	1,667	(1,667)	–
Non-operating income	–	2,073	2,073

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Subsidiaries

These consolidated financial statements include the following subsidiaries:

	Ownership/voting, %				
Subsidiary	***31 December 2013***	***31 December 2012***	***Country***	***Date of incorporation***	***Industry***
Tamarashvili 13 LLC	100.0%	100.0%	Georgia	3 November 2011	Real estate
m2 at Kazbegi LLC	100.0%	–	Georgia	21 May 2013	Real estate
m2 at Nutsubidze LLC	100.0%	–	Georgia	21 May 2013	Real estate
m2 at Tamarashvili LLC	100.0%	–	Georgia	21 May 2013	Real estate

3.1. Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment had no impact on the Group's financial position, performance or presentation as the Group has no other comprehensive income in 2013 and 2012.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 ***Financial Instruments: Presentation*** clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 ***Income Taxes***. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements for the Group, as, in accordance with local tax code, there are no tax consequences attached to cash or non-cash distribution.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendments had no impact on the Group's financial position or performance since the Group does not operate a defined benefit plan.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. The Group does not offset financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements thus the amendment has no impact on the Group.

(Thousands of Georgian Lari)

3.1. Adoption of new or revised standards and interpretations (continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 ***Consolidated and Separate Financial Statements*** that dealt with consolidated financial statements and SIC-12 ***Consolidation – Special Purpose Entities***. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 ***Interests in Joint Ventures*** and SIC-13 ***Jointly-controlled Entities – Non-monetary Contributions by Venturers***. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of IFRS 11 has not impacted the reported financial position or performance of the Group as it has no JCEs and investments in associates

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. The resulting calculations under IFRS 13 affected the principles that the Group uses to assess the fair value, but theassessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed.

IFRS 13 mainly impacts the disclosures of the Group. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards. IFRS 13 disclosures are provided in notes 10 and 20.

The disclosure requirements of IFRS 13 apply prospectively and need not be provided for comparative periods before initial application. Consequently, comparatives of these disclosures have not been provided.

In addition to the above-mentioned amendments and new standards, IFRS 1 ***First-time Adoption of International Financial Reporting Standards*** was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3.2. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. 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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

(Thousands of Georgian Lari)

3.2. Summary of significant accounting policies (continued)

Revenue recognition

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

Rental income

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature.

Sale of completed inventory property and investment property

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognized only when all the significant conditions are satisfied.

Sales of inventory property under development

It is the Group's common practice to market developments well before the start of construction and this activity then continues throughout the construction period. A typical off-plan arrangement will involve a buyer entering into a sales agreement with a developer to acquire a specific unit upon completion of construction. Respective agreements are considered as an arrangement for sale of goods thus respective revenue is recognized when all of the following conditions are satisfied:

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

In certain cases respective conditions are met before the transfer of legal ownership on an inventory property to a buyer is completed.

Finance income

Finance income is recognised 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 the income statement.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency of the Group and of all of its subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are charged to income statement as gains less losses from foreign currencies – translation differences. 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.

(Thousands of Georgian Lari)

3.2. Summary of significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Group operates.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both.

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.

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.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are charged to profit or loss in the year of retirement or disposal.
Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

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

Operating leases

Where the Group is a lessee 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. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

(Thousands of Georgian Lari)

3.2. Summary of significant accounting policies (continued)

Financial assets (continued)

Accounts receivable

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

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

Fair value measurements

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits with an original maturity of three months or less at bank as well as petty cash.

(Thousands of Georgian Lari)

3.2. Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities that the Group has are usually within the scope of IAS 39 and are classified as loans and borrowings or trade and other payables. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities carried at amortized cost are recognized initially at fair value plus directly attributable transaction costs.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Inventory property

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

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Non-refundable commissions paid to sales or marketing agents on the sale of real estate units are expensed when paid.

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.

Share-based payment transactions

Senior executives of the Company receive share-based remuneration, whereby employees render services as consideration for the equity instruments of the Company's ultimate parent, BGH. The Company has no liability to settle the awards made by the ultimate parent thus respective share-based remuneration plans are treated as equity 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.

(Thousands of Georgian Lari)

3.2. Summary of significant accounting policies (continued)

Share-based payment transactions (continued)

The cost of equity settled transactions is recognised 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 recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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.

Treasury shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Borrowing 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.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of economic recourses will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of recourses embodying economic benefit is remote.

3.3. Significant accounting judgements, estimates and assumptions

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

(Thousands of Georgian Lari)

3.3. Significant accounting judgements, estimates and assumptions (continued)

Judgements other than estimates

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

Classification of property

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

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

Estimates

Valuation of investment property

The fair value of investment property is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 10.

Deferred tax assets for unused tax losses

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

4. Standards issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

(Thousands of Georgian Lari)

4. Standards issued but not yet effective (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have a material impact on its financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group does not expect that these amendments will have a material impact on its financial statements.

5. Revenue

	2013	***2012***
Proceeds from the sale of inventory property		
- Residential area	6,689	11,621
- Commercial area	482	71
- Parking lot area	176	352
	7,347	**12,044**
Rental income	1,315	1,331
Finance income	1,131	453
Other revenue	151	245
Revenue	**9,944**	**14,073**

The Group's rental agreement contain options to break before the end of the lease term.

6. Cost of sales

	2013	***2012***
Residential area cost of sales	5,221	9,702
Commercial area cost of sales	393	60
Parking lot cost of sales	234	294
Total cost of sales	**5,848**	**10,056**

7. Salary and employee benefits expenses

	2013	***2012***
Share-based compensation expense	1,157	276
Salary	1,026	755
Cash bonus	520	349
Personal income tax	669	335
Total employee benefits	**3,372**	**1,735**
Employee benefits expense	1,282	795
Employee benefits capitalized in inventory (Note 11)	2,090	940
Total employee benefits	**3,372**	**1,735**

(Thousands of Georgian Lari)

8. Other general and administrative expenses

	2013	*2012*
Rent	223	122
Operating taxes	167	241
Corporate hospitality	138	101
Security	118	125
Office supplies	101	37
Legal and other professional services	98	118
Insurance	68	61
Utility	64	15
Repair and maintenance	24	81
Other expenses	93	267
Total other general and administrative expenses	**1,094**	**1,168**

9. Income tax

Georgian legal entities must individually file tax declarations. The income tax rate applicable to the Group's income is 15%. Per Tax Code of Georgia the Group is eligible to use tax losses to reduce its taxable income during 5 years after its origination.

Income tax expense comprised solely of deferred tax charge in 2013 and 2012.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2013 and 2012 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows

	2013	*2012*
Profit before income tax expense	**7,123**	**3,000**
Statutory tax rate	15%	15%
Theoretical income tax expense	**(1,068)**	**(450)**
Change in unrecognized deferred tax assets	707	(75)
Share based transactions	57	52
Non-taxable interest income	(170)	(68)
Other non-deductible expenses	195	118
Income tax expense	**(279)**	**(423)**

As at 31 December the Group has available GEL 17,035 (2012: GEL 17,457) of tax losses carried forward which has the following expiration schedule:

	2013	*2012*
31 December 2013	–	1,527
31 December 2014	1,752	1,752
31 December 2015	12,744	12,744
31 December 2016	484	484
31 December 2017	950	950
31 December 2018	1,105	–
Tax losses carried forward	**17,035**	**17,457**

Applicable tax regulations are often unclear and few precedents have been established. This creates tax risks in Georgia, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

9. Income tax (continued)

Deferred tax assets and liabilities as at 31 December 2013 and 31 December 2012 and their movements for the respective years is as follows:

	2011	*Origination and reversal of temporary differences in the income statement*	*Disposal of a subsidiary*	*2012*	*Origination and reversal of temporary differences in the income statement*	*2013*
Tax effect of deductible temporary differences						
Inventory	462	274	–	736	754	1,490
Deferred revenue	8	27	(8)	27	(421)	(394)
Tax loss carry forward	3,246	(415)	(137)	2,694	(138)	2,556
Trade and other receivables	22	35	–	57	(148)	(91)
Gross deferred tax asset	**3,738**	**(79)**	**(145)**	**3,514**	**47**	**3,561**
Unrecognized deferred tax asset	(632)	(75)	–	(707)	707	–
Deferred tax asset	**3,106**	**(154)**	**(145)**	**2,807**	**754**	**3,561**
Tax effect of taxable temporary differences						
Investment property	(874)	(238)	–	(1,112)	(1,075)	(2,187)
Trade and other payables	(88)	(31)	95	(24)	42	18
Deferred tax liability	**(962)**	**(269)**	**95**	**(1,136)**	**(1,033)**	**(2,169)**
Net deferred tax asset/(liability)	**2,144**	**(423)**	**(50)**	**1,671**	**(279)**	**1,392**

10. Investment property

The table below shows movements in investment property during 2013 and 2012 years:

	2013				
	Retail properties	*Land*	*Other*	*Total*	*2012*
At 1 January	**17,527**	**7,050**	**668**	**25,245**	**29,157**
Net gain from revaluation	5	7,142	21	7,168	–
Additions	–	84	–	84	–
Capital expenditure	392	–	–	392	655
Capitalized interest expense	–	–	–	–	393
Disposal	–	–	–	–	(5,507)
Transfer to inventory property	–	(14,093)	–	(14,093)	–
Effect of early payment of long-term accounts payable	–	–	–	–	547
At 31 December	**17,924**	**183**	**689**	**18,796**	**25,245**

Retail properties represent buildings rented out. Included into other investment properties are the buildings not rented out but held for capital appreciation purposes.

Fair value measurement

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 1 October 2013. The valuation was performed by an accredited independent valuator with a recognised 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.

These methods include:

- Market comparable method;
- Cost method.

(Thousands of Georgian Lari)

10. Investment property (continued)

Fair value measurement (continued)

Market comparable method

This method is based on the direct comparison of the subject property to another property object, which has been sold or has been entered on the sale registry. This method of evaluation is analogical either in relation to the entire real estate or in relation to land plots. Adjustments to value are determined based on the following considerations in the order of priority: 1) Funding conditions; 2) Sale conditions; 3) Market conditions; 4) Location; and 5) Physical indices.

Cost method

The cost approach is based on the premise that the total property value can be derived by adding the depreciated reproduction cost or replacement cost of the improvements to the value of the underlying land.

The cost approach involves the following steps:

- Estimate land value;
- Estimate reproduction or replacement cost of the improvements;
- Estimate accrued depreciation from all sources (physical deterioration, functional obsolescence, external and economic obsolescence);
- Deduct accrued depreciation from the reproduction or replacement cost to arrive at the depreciated improvement cost;
- Estimate equipment cost and deduct depreciation;
- Add the depreciated improvement cost to depreciated equipment cost and to the land value to arrive at a total property value indication.

There were no changes in valuation techniques as compared to prior year.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

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

Class of investment properties	*2013*	*Valuation technique*	*Significant unobservable inputs*	*Range (weighted average), GEL*	*Type*	*Total area, square meters*	*Sensitivity of the input to fair value, GEL*
Retail properties	14,370	Market approach	Price per square metre	2-5.5 (2,6)	Land Building	6,259 5,955	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by 1,437
	3,554	Cost approach	Replacement cost per square metre	0.2-0.4 (0.3)	Building	9,195	10% increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value by 286
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 29
			Land price per square metre	0.02-0.03 (0.03)	Land	28,327	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by 69
Land	183	Market approach	Price per square metre	0.1-0.2 (0.1)	Land	1,000	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by 10
Other	689	Cost approach	Replacement cost per square metre	0.3-0.7 (0.6)	Building	581	10% increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value by 29
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 3
			Land price pet square metre	0.03-0.07 (0.04)	Land	10,766	10% increase (decrease) in the price per square meter would result in increase (decrease) in fair value by 39
Investment property	**18,786**						

The Group's investment property items are classified to Level 3 of the fair value hierarchy. There were no transfers among the levels of the fair value hierarchy in 2013.

(Thousands of Georgian Lari)

11. Inventory property

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

	2013	*2012*
Kazbegi 25	6,926	–
Tamarashvili 6	5,095	–
Vazha-Pshavela 71	4,828	–
Tamarashvili 13	–	27,213
Non-current inventory property	**16,849**	**27,213**
Chubinasvili 69	367	1,661
Tamarashvili 13	48,524	–
Current inventory property	**48,891**	**1,661**
Inventory property	**65,740**	**28,874**

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

	2013	*2012*
Balance at 1 January	**28,874**	**18,467**
Construction costs incurred	21,664	18,813
Land transferred from investment property	14,030	–
Borrowing costs	4,989	1,075
Employee benefits capitalized (Note 7)	2,090	575
Disposals recognized in cost of sales (Note 6)	(5,848)	(10,056)
Balance at 31 December	**65,799**	**28,874**

12. Prepayments and other assets

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

	2013	*2012*
VAT prepayment	7,613	3,383
Prepayments for inventory properties	1,890	2,667
Other	90	367
Total prepayments and other assets	**9,593**	**6,417**

At 31 December 2013 and 2012 VAT receivable included prepaid VAT related to Tamarashvili 13 project which is expected to be recovered upon completion of the project in 2014.

13. Trade and other receivables

	2013	*2012*
Receivables from sale of inventory property	1,338	399
Rent receivables	327	399
Other receivables	97	655
Allowance for impairment	(150)	(155)
Total receivables	**1,612**	**899**

The table below presents credit quality of the receivables:

			Past due but not impaired				
	Total	*Neither past due nor impaired*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*
2013	**1,612**	1,388	75	–	136	13	–
2012	**899**	–	89	810	–	–	–

(Thousands of Georgian Lari)

13. Trade and other receivables (continued)

Receivables from sale of inventory property are fully secured by pledge on respective residential apartments.

Rent receivables are considered for impairment at each reporting date by analyzing overdue days. As at 31 December 2013, GEL 150 allowance was applied to rent receivables (2012: GEL 155).

14. Cash and cash equivalents

As at 31 December 2013 and 2012 cash and cash equivalents comprised of cash at bank and on hand. Cash at bank earned interest at daily bank deposit rates which was 2% p.a. in 2012 and up to 1 April 2013. After 1 April 2013, current accounts in banks did not earn any interest.

15. Equity

As at 31 December 2013, issued share capital comprised 278,252,320 common shares. All of them were fully paid (31 December 2012: 330,138,809 authorised common shares, all of them were issued and fully paid). Each share has a nominal value of 0.01 Georgian Lari (31 December 2012: 0.01 Georgian Lari).

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

	Number of shares	*Share capital*
2011	**297,627,865**	**2,976**
Issue of shares	32,510,944	325
2012	**330,138,809**	**3,301**
Cancelation of treasury shares	(51,886,489)	(519)
2013	**278,252,320**	**2,782**

Treasury shares outstanding as at 31 December are presented below:

	Number of shares	*Treasury shares*
2011	**40,526,224**	**(406)**
Repurchase of treasury shares	11,360,265	(113)
2012	**51,886,489**	**(519)**
Cancelation of treasury shares (a)	(51,886,489)	519
2013	**–**	**–**

On 21 November 2013, following respective decision of its' shareholders, the Group cancelled all treasury shares and thereby reduced authorised and issued share capital.

Share-based payments

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

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

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

(Thousands of Georgian Lari)

15. Equity (continued)

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 35.48 per share in year ended 31 December 2013 (31 December 2012: Georgian Lari 26.07 per share).

The Group's total share-based payment expense for the year ended 31 December 2013 comprised GEL 1,446 (31 December 2012: GEL 345).

Below is the summary of the share-based payments related data:

	2013	2012
Total number of equity instruments granted	36,500	23,500
Weigthed average value at grant date, per share (GEL in full amount)	35.48	26.07
Value at grant date, total GEL	**1,295**	**613**

In 2013 and 2012 all the awards were exercised on the dates when vesting conditions became met; no awards were forfeited.

16. Deferred revenue

	2013	2012
Kazbegi 25	5,248	–
Vazha-Pshavela 71	1,314	–
Tamarasvhili 13	–	23,653
Non-current deferred revenue	**6,562**	**23,653**
Tamarashvil 13	46,846	–
Current deferred revenue	**46,846**	**–**
Deferred revenue	**53,408**	**23,653**

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

17. Trade and other payables

	2013	2012
Construction payables	2,166	1,674
Bonus payable	650	443
Trade payables	79	49
Personnel income tax payable	66	28
Property tax payable	–	68
Other short-term liabilities	391	12
Total payables	**3,352**	**2,274**

(Thousands of Georgian Lari)

18. Related party transactions

In accordance with IAS 24 ***Related Party Disclosures***, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

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

	2013		***2012***	
	Parent	***Key management personnel***	***Parent***	***Key management personnel***
Finance income	1,131	–	453	–
Employee benefits expense	–	2,114	–	897
Other operating expense	139	–	–	–
Rental income	128	–	121	–
Amounts due from credit institutions at 31 December	–	–	15,475	–
Cash and cash equivalents at 31 December	11,929	–	22,278	–

Total number of key management personnel members receiving employee benefits in 2013 amounted to 4 persons (2012: 3).

Compensation of key management personnel comprised the following:

	2013	***2012***
Salary	223	274
Termination benefits	75	–
Cash bonus	320	278
Share-based compensation	1,446	345
	2,064	**897**

19. Financial risk management and capital management

The Group's principal financial liabilities are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance real estate development for resale purposes. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group's senior management oversees the management of these risks.

There have been no changes in financial risk management objectives and policies as compared to prior year.

In the course of its ordinary activity the Group is exposed to market risk (including interest rate risk and currency risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices (interest and currency rates). The financial instruments held by the Group that are affected by market risk are principally the loans and borrowings denominated in foreign currencies and bearing interest at a floating rate.

As of 31 December 2013 the Group did not have any financial instruments subject to market risk.

(Thousands of Georgian Lari)

19. Financial risk management and capital management (continued)

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.

The Group is exposed to credit risks from its development and financing activities, including deposits with banks and financial institutions.

As of 31 December 2013 the Group has no financial assets subject to credit risk except for cash and cash equivalents that was kept with the Group's parent having a ratings of "BB-/B" from Standard & Poor's, "B1/NP" (FC) & "Ba3/NP" (LC) from Moody's and "BB-/B" from Fitch Ratings.

Customer credit risk is managed by requiring customers to pay advances before transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect.

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.

As at 31 December 2013 the Group does not have any outstanding loans and have sufficient cash to meet the other financial liabilities. The Group's cash and cash equivalents are immediately available upon demand.

As at 31 December 2013 the Group had available unused limit of a total of USD 14 million (GEL 24,308) revolving loan from International Finance Corporation ("IFC") and Canada Climate Change Program ("CCCP"), of which USD 10 million (GEL 17,363) is financed by IFC and USD 4 million USD (GEL 6,945) by CCCP, having maturity in November 2020.

As at 31 December 2012 the Group had available unused limit of USD 10 million (GEL 17,363) loan from FMO having maturity in March 2017. In 2013 respective loan was redeemed in full and respective limit was terminated.

As of 31 December 2013 the Group's financial liabilities carrying values approximates their contractual undiscounted cash flows.

Capital management

The Group's objectives when managing capital 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 aviailable.

There are no externally imposed capital requirements to which the Group is subject to.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

20. Fair value of financial assets and financial liabilities

As of 31 December 2013 and 2012 the Group had no financial instruments carried at fair value except for a minority share in a real estate company with total value of 1,145 GEL classified within investment securities available for sale.

Respective investment was categorized within Level 2 of the fair value hierarchy as of 31 December 2012 and transferred to Level 3 by 31 December 2013 as market observable inputs are no longer available.

Carrying amounts of other financial instruments as of 31 December 2013 and 2012 are reasonable approximations of their fair values.

(Thousands of Georgian Lari)

21. Events after the reporting period

On February 25, 2014 the Group drew down the first tranche in the amount of USD 5 million of the USD 14 million financing raised from IFC and CCCP.