Consolidated Financial Statements and Independent Auditor's Report

Nikora Trade JSC

31 December 2017

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Independent auditor's report

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To the shareholders of Nikora Trade JSC

Opinion

We have audited the consolidated financial statements of Nikora Trade JSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017, and the consolidated statement of profit or loss and other 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Goodwill in the amount of Georgian lari 38,227 thousand is reported in the consolidated statement of financial position as at 31 December 2017 (31 December 2016: 38,227). The amount of Georgian lari 36,628 thousand included in that balance represents goodwill on acquisition of 100% of shares in Nugeshi LLC in the year 2015. Goodwill on acquisition of Nugeshi LLC was calculated as the difference between consideration paid and the book value of identifiable net assets of Nugeshi LLC at acquisition date. Such method of goodwill calculation is not in accordance with IFRS, which require calculation of goodwill as the difference between consideration paid and the fair value of identifiable net assets of the acquiree at the acquisition date. We were unable to satisfy ourselves as to the fair values of identifiable net assets of Nugeshi LLC as at acquisition date, therefore we were unable to satisfy ourselves, whether any adjustments might have been necessary with respect to the allocation of values between goodwill and property, plant and equipment, inventory, receivables and payables of Nugeshi LLC, at the acquisition date. Procedures aimed at assessment of impairment of goodwill did not indicate any impairment to be recognized in the consolidated statement of financial position as at 31 December 2017. Our audit opinion on the consolidated financial statements relating to the year ended 31 December 2016 was modified accordingly.

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 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

(the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. 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.

Goodwill impairment

Annually management performs assessment of impairment and uses budget forecasts in order to calculate the recoverable amount of goodwill. As significant management judgements are involved in this process, therefore there is a higher risk of misstatement and errors in calculation of the recoverable amount of goodwill. Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins. We also focused on the adequacy of the Group’s disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. The Group’s disclosures about goodwill are included in note 4.

Responsibilities of Management and Those Charged with Governance 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.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 on the audit resulting in this independent auditor's report is Ketevan Ghambashidze.

Vakhtang Tsabadze

Managing Partner

11 May 2018

Ketevan Ghambashidze

Registered Auditor

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- 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.
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The engagement partner on the audit resulting in this independent auditor's report is Ketevan Ghambashidze.

Vakhtang Tsabadze
Managing Partner
11 May 2018

Ketevan Ghambashidze
Registered Auditor

Consolidated statement of financial position

In thousands of Georgian lari	Note	Year ended 31 December 2017	Year ended 31 December 2016
Assets			
Non-current assets			
Goodwill	4	38,227	38,227
Property, plant and equipment	5	19,371	17,462
Intangible assets	6	1,827	1,535
		59,425	57,224
Current assets			
Inventories	8	20,813	15,174
Trade and other receivables	9	8,260	5,599
Other current assets		233	32
Current income tax assets		176	-
Cash and bank balances	10, 28	10,176	1,733
		39,658	22,538
Total assets		99,083	79,762

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Consolidated statement of financial position

In thousands of Georgian lari	Note	Year ended 31 December 2017	Year ended 31 December 2016
Equity and liabilities			
Capital and reserves			
Share capital	11	20,419	19,597
Share premium	11	6,216	-
Revaluation reserve		-	320
Accumulated profit/(loss)		(10,747)	(14,509)
		15,888	5,408
Non-controlling interest		-	-
Total equity		15,888	5,408
Non-current liabilities			
Loans and borrowings	12	13,859	18,827
Bonds	13	-	13,234
Deferred tax liabilities	7	-	-
		13,859	32,061
Current liabilities			
Trade and other payables	14	44,848	33,550
Loans and borrowings	12	11,148	8,482
Bonds	13	13,137	-
Bonds interest payable	13	137	176
Provision for bonus cards	15	66	85
		69,336	42,293
Total equity and liabilities		99,083	79,762

The consolidated financial statements were approved on 11 May 2018 by:

David Urushadze	Temur Aleksandria
Executive Director	Financial Director

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

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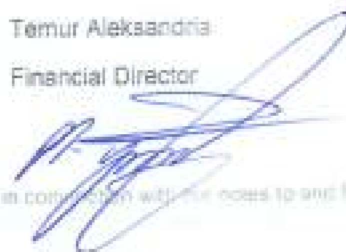
David Urushadze

Executive Director

Temur Aleksandria

Financial Director



The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Consolidated statement of profit or loss and other comprehensive income

In thousands of Georgian lari	Note	Year ended December 31 2017	Year ended December 31 2016 (Reclassified)
Revenue		268,272	218,637
Cost of sales		(201,831)	(167,781)
Gross profit		66,441	50,856
Other income		460	238
Selling and marketing expenses	16	(35,028)	(29,385)
Administrative expenses	17	(22,390)	(19,530)
Other expenses		(438)	(1,020)
Results from operating activities		9,045	1,159
Finance costs	18	(4,138)	(4,640)
Other financial items	19	929	(3,268)
Other non -operating expenses		(1,904)	(1,083)
Profit/(loss) before income tax		3,932	(7,832)
Income tax (expense)/recovery	20	(490)	153
Profit/(loss) for the year		3,442	(7,679)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property, plant and equipment		320	48
Other comprehensive income for the year, net of income tax		-	48
Total comprehensive income/(loss) for the year		3,762	(7,631)
- earnings per share		0.3675	-

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Consolidated statement of changes in equity

In thousands of Georgian lari

	Charter capital	Revaluation reserve	Accumulated profit/(loss)	Total attributable to owners of the parent	Non-controlling interest	Total
as of 1 January 2016	**19,597**	**272**	**(6,828)**	**13,041**	**(2)**	**13,039**
Loss for the year	-	-	(7,681)	(7,687)	2	(7,679)
Other comprehensive income for the year	-	48	-	48	-	48
Total comprehensive income for the year	**-**	**48**	**(7,681)**	**(7,633)**	**2**	**(7,631)**
as of 31 December 2016	**19,597**	**320**	**(14,509)**	**5,408**	**-**	**5,408**
Profit for the year	-	-	3,442	3,442	-	3,442
Transfer of revaluation surplus to accumulated profit	-	(320)	320	-	-	-
Total comprehensive income for the year	**-**	**(320)**	**3,762**	**3,442**	**-**	**3,442**
Issue of share capital	7,038	-	-	7,038	-	7,038
Transactions with owners	**7,038**	**-**	**-**	**7,038**	**-**	**7,038**
as of 31 December 2017	**26,635**	**-**	**(10,747)**	**15,888**	**-**	**15,888**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities		
Profit/(loss) for the year	3,442	(7,679)
Adjustments for:		
Depreciation and amortization	5,989	5,567
Loss on disposal of property, *plant* and equipment	-	(60)
Inventory losses	3,449	3,137
Interest expense	4,138	4,640
Income tax expense/(recovery)	490	(153)
Provision for bonus cards	66	85
Foreign exchange (gain)/loss	(929)	3,268
Operating profit before working capital changes	16,645	8,805
Change in trade and other receivables	(2,661)	(2,953)
Change in inventories	(9,187)	(865)
Change in trade and other payables	10,602	7,791
Change in prepayments	(144)	-
Cash generated from operations	15,255	12,778
Interest paid	(4,196)	(4,327)
Income tax paid	(453)	-
Net cash from operating activities	10,606	8,451
Cash flows from investing activities		
Prepayments made		
Acquisition of property, plant and equipment	(7,540)	(1,521)
Acquisition of intangible assets	(193)	-
Loans issued	(20)	-
Proceeds from disposal property, plant and equipment	-	217
Net cash used in investing activities	(7,753)	(1,304)

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from financing activities		
Proceeds from loans and borrowings	112,272	1,582
Repayment of loans and borrowings	(115,671)	(17,536)
Proceeds from increase of charter capital	23	-
Proceeds from bonds issue	-	9,985
Bonds Paid	(97)	-
Contributions to charter capital	7,015	-
Dividends paid	-	-
Net cash used in financing activities	(3,542)	(5,969)
Net increase in cash and bank balances	6,395	1,178
Foreign exchange effect on cash	3,048	(42)
Cash and bank balances at the beginning of the year	733	(403)
Cash and bank balances at the end of the year (see note 28)	10,176	733

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 12 to 43.

Notes to the consolidated financial statements

1 Nature of operations and general information

These consolidated financial statements include financial information of Nikora Trade JSC (the Company) and of its subsidiaries Lazi Holding LLC and Nugeshi LLC (together referred to as the Group). Nikora Trade JSC is a registered Joint Stock company incorporated in Georgia having its business address at Tbilisi, Ts. Dadiani Street #7, Karvasla Business Center. Nikora Trade JSC holds 67% shares in Lazi Holding LLC and 100% shares in Nugeshi LLC.

Joint Stock Company Nikora, a company incorporated and registered in Georgia, is the 92% owner of Nikora Trade JSC and 8% belongs to other shareholders.

The Group operates food retail stores chain in Georgia having 216 stores as at 31 December 2017 (31 December 2016: 205). The Group is one of the leaders on Georgian retail market.

The average number of employees of the Group during 2017 was 2,680 employees (2016: 2,610 employees).

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception for certain financial instruments that are stated at present discounted value of future cash flows. The details of measurement for each category of assets and liabilities are disclosed further in these notes.

2.3 Functional and presentation currency

The national currency of Georgia is the Georgian lari ("lari"), which is the Group's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Group.

These consolidated financial statements are presented in thousands of Georgian lari. All financial information presented in Georgian lari has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the note 22 to the consolidated financial statements.

2.5 Adoption of new and revised standards

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendment had no material effect on the Group's consolidated financial statements, as the Group did not use revenue-based methods of depreciation or amortization.

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply.

The Group has no bearer plants, so the amendment has no effect on the Group's consolidated financial statements.

IFRS 14 *Regulatory Deferral Accounts*

The aim of this standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, where governments regulate the supply and pricing of particular types of activity by private entities. IFRS 14 permits first-time adopters to continue to recognize accounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

The Group is not engaged in rate-regulated activities, so this standard has no effect on the consolidated financial statements of the Group.

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealized Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Group's consolidated financial statements from these Amendments.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Group are summarized below:

IFRS 12 *Disclosure of Interests in Other Entities*

Clarification of the scope of the Standard.

IFRS 12 is required to be applied retrospectively in accordance with IAS 8.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Group's management have yet to assess the impact of this new standard on the Group's consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability.

IFRS 16 also:

changes the definition of a lease;

- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17’s approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Group’s management have not yet assessed the impact of IFRS 16 on these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Group’s management have not yet assessed the impact of IFRS 15 on these consolidated financial statements.

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries:

31 December 2017 Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nugeshi LLC	100	Georgia	June 18, 2010	Retail	July 1, 2015
Lazi Holding LLC	67	Georgia	December 4, 2014	Retail	December 4, 2014

31 December 2016 Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nugeshi LLC	100	Georgia	June 18, 2010	Retail	July 1, 2015
Lazi Holding LLC	67	Georgia	December 4, 2014	Retail	December 4, 2014

2.7 Restatement of financial statements

The Group applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior periods presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The financial statements including the comparative information for prior periods are presented as if the correction had been made in the period in which such a necessity arose. Therefore, the amount of the correction that relates to each period presented is included in the financial statements of that period.

In the financial year ended 31 December 2017 the Group changed its accounting policy and classified packaging expenses as cost of sales while in 2016 following expenses were classified as administrative expenses.

For fair presentation of financial statements following expenses have been reclassified in the consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2016.

3 Significant accounting policies

3.1 Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises, which are controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when control effectively commences until the date that control effectively ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognized directly in the profit or loss.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity.

Losses allocated to holders of non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the holders of non-controlling interests to fund the losses. All such losses are allocated to the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in presenting the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate.

3.2 Foreign currencies

Foreign currency transactions

In preparing the consolidated financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Georgia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Georgia prevailing on the reporting date, which is 2.5922 lari for 1 US dollar and 3.1044 lari for 1 euro as of 31 December 2017 (31 December 2016: 2.6468 lari for 1 US dollar, 2.7940 lari for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.3 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are performed with sufficient regularity by independent valuators such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognized in other comprehensive income (except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged) and is shown as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus is transferred to the accumulated profit as the asset is used by the Group. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Buildings that are leasehold property are also included in property, plant and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful or over the term of the lease, if shorter.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and facilities	-	30 years
Machinery and equipment	-	5 years
Office equipment, furniture and fixtures	-	5-years
Vehicles	-	5 years
Leasehold improvements	-	7-10 years

3.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. Refer to note 3.9 for a description of impairment testing procedures.

3.5 Other intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a reducing balance basis over the estimated useful lives of the intangible assets, which is estimated at 5-7 years for software, rights and others.

Intangible asset with an indefinite useful life are not amortized, instead they are tested for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.

3.6 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Group. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.7 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first out (FIFO)-method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.8 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Group becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income Refer to note 23.2 for a summary of the Group’s financial assets by category.

Generally, the Group recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other non-operating expenses.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and bank balances

The Group's cash and bank balances comprise cash in hand, bank accounts and cash in transit

ii Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include loans and borrowings and trade and other payables. A summary of the Group's financial liabilities by category is given in note 23.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.9 Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment of goodwill

Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. Goodwill impairment is not reversed in subsequent periods.

Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.10 Equity

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premium received on issue of share capital. Any transaction costs associated with issuing of shares are deducted from share premium, net of any related income tax benefits

Revaluation reserve comprises gains and losses from the revaluation of land and buildings.

Accumulated profit/(loss) includes all current and prior periods' profits and losses.

All transactions with owners of the parent acting in their capacity as owners are recorded separately within equity.

Dividends are recognized as a liability in the period in which they are declared.

3.11 Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.12 Income tax

Effective 1 January 2017, there are significant amendments to the Tax Code of Georgia. Most significant changes relate to introduction of new model for corporate income taxation.

The new model 2017, implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of profit retention or distribution. As a result of changes, starting 1 January 2017 companies pays corporate income tax on profit distribution (dividends) and on individual transactions that may be considered as indirect distribution of profits (benefits, gifts, payments and expenses not related to economic activities, etc). In the case of profit distribution, the tax rate is 15/85.

According to the amended concept of corporate income taxation, there is no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Therefore, deferred tax assets and liabilities, as defined in IAS 12 *Income Taxes*, cannot be formed subsequent to 1 January 2017.

3.13 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Group.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group 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 Group and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized when:

- the amount of revenue may be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the reporting date may be reliably measured; and
- the costs incurred for the transaction and the costs to complete the transaction may be reliably measured.

Rental income

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

3.14 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Group classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

4 Goodwill

The movement in the net carrying amount of goodwill is as follows:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Gross carrying amount		
As at the beginning of the year	38,227	38,227
Acquired through business combination	-	-
As at the end of the year	38,227	38,227
Accumulated impairment		
As at the beginning of the year	-	-
Impairment loss	-	-
As at the end of the year	-	-
Net carrying amount	38,227	38,227

4.1 Impairment testing

The recoverable amount of goodwill was determined based on value-in-use calculations, covering a detailed five-year forecast, followed by an extrapolation of expected cash flows for the remaining useful live using a declining growth rate determined by management. The recoverable amount of goodwill is Georgian lari 51,492 thousand (31 December 2016: 54,004).

The present value of the expected cash flow is determined by applying a suitable discount rate reflecting current assessments of the time value of money and risks specific to the Group.

Growth rate

The growth rates reflect the long-term average growth rates for the product lines and industries of the Group. The growth rate is estimated at average of 4% p.a. (31 December 2016: 5% p.a.).

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of the Group. Discount rate is 15.08% (31 December 2016: 17.31%).

Cash flow assumptions

Management's key assumptions include stable profit margins, based on past experience in this market. The Group's management believes that this is the best available input for forecasting this mature market. Cash flow projections reflect stable profit margins achieved immediately before the budget period. No expected efficiency improvement has been taken into account and prices and wages reflect publicly available forecasts of inflation for the industries in which the Group operates.

Apart from the considerations in determining the value-in-use, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, if the discount rate used is increased by 1% a recoverable amount of goodwill would have been as Georgian lari 47,901 thousand.

5 Property, plant and equipment

In thousands of Georgian lari	Buildings and facilities	Machinery and equipment	Office equipment, furniture and fixtures	Leasehold improve-ments	Vehicles	Total
Cost (revalued land &buildings)						
as of 1 January 2016	1,072	14,060	8,286	4,430	2,050	29,898
Additions	31	829	879	758	61	2,558
Disposals	(31)	(69)	(118)	(188)	(46)	(452)
as of 31 December 2016	1,072	14,820	9,047	5,000	2,065	32,004
Additions	4	3,332	2,228	1,782	700	8,046
Disposals	(395)	(74)	(22)	(100)	(73)	(664)
as of 31 December 2017	681	18,078	11,253	6,682	2,692	39,386
Accumulated depreciation and impairment						
as of 1 January 2016	129	4,003	3,636	934	781	9,483
Charge for the year	43	2,877	1,250	684	335	5,189
Eliminated on disposal	(7)	(38)	(40)	(38)	(7)	(130)
as of 31 December 2016	165	6,842	4,846	1,580	1,109	14,542
Charge for the year	41	3,044	1,426	793	311	5,615
Eliminated on disposal	(26)	(41)	(11)	(31)	(33)	(142)
as of 31 December 2017	180	9,845	6,261	2,342	1,387	20,015
Carrying amount						
as of 31 December 2016	907	7,978	4,201	3,420	956	17,462
as of 31 December 2017	501	8,233	4,992	4,340	1,305	19,371

Property, plant and equipment of the Group at the carrying amount of Georgian lari 19,371 thousands have been pledged as a security for loans and borrowings as of 31 December 2017 (31 December 2016: Georgian lari 17,462 thousand).

Land and buildings are stated at revaluated amounts. Revalued amounts are fair values based on appraisals conducted by external professional valuers once every two years or more frequently if market factors indicate a material change in fair values. The Group's land and buildings were last revalued as of 31 December 2015 by independent valuers. Valuations were made using the sales comparison, the cost and the income capitalization approaches.

6 Intangible assets

In thousands of Georgian lari	Computer software	Rights	Other	Total
Cost				
as of 1 January 2016	1,185	1,042	-	2,227
Additions	58	-	167	225
Disposals	(34)	-	-	(34)
as of 31 December 2016	1,209	1,042	167	2,418
Additions	666	-	-	666
Disposals	-	-	-	-
as of 31 December 2017	1,875	1,042	167	3,084
Accumulated amortization				
as of 1 January 2016	342	185	-	527
Charge for the year	184	185	-	369
Eliminated on disposal	(13)	-	-	(13)
as of 31 December 2016	513	370	-	883
Charge for the year	178	195	1	374
as of 31 December 2017	691	565	1	1,257
Carrying amount				
as of 31 December 2016	696	672	167	1,535
as of 31 December 2017	1,184	477	166	1,827

7 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Balance at the beginning of year	-	(201)
(Charged)/credited to profit or loss	-	153
(Charged)/credited in other comprehensive income	-	48
Balance at the end of year	-	-

Deferred income taxes for the year ended 31 December 2016 can be summarized as follows:

In thousands of Georgian lari	1 January 2016	Recognized in other comprehend-sive income	Recognized in profit or loss	31 December 2016
Deferred income tax assets				
Tax losses to carry forward	2,447	-	(2,447)	-
	2,447	-	(2,447)	-
Deferred income tax liabilities				
Payables to employees	(12)	-	12	-
Property, plant and equipment revaluation	(48)	48	-	-
Property, plant and equipment	(2,588)	-	2,588	-
	(2,648)	48	2,600	-
Net position – deferred income tax assets/(liabilities)	(201)	48	153	-

The amounts recognized in other comprehensive income relate to revaluation of land and buildings.

Deferred tax adjustments

On June 8, 2016 the Government of Georgia made significant amendments to the Tax Code of Georgia, affecting the model of corporate taxation (refer to note 3.12). The changes are considered enacted as of 1 January 2017. As a result of changes, starting from 1 January 2017 companies pay corporate income tax on profit distribution (dividends) and on individual transactions that may be considered as indirect distribution of profits (benefits, gifts, payments and expenses not related to economic activities, etc). According to the amended concept of taxation, there are no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

The change had an immediate impact on deferred tax asset and deferred tax liability balances (“deferred taxes”) attributable to previously recognized temporary differences arising from prior periods. The Group re-measured its deferred tax assets and liabilities as of 1 January 2017 and has fully released the unutilisable portion of deferred tax assets and liabilities.

8 Inventories

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Merchandise inventory	21,122	15,235
Raw materials	107	84
Other	179	153
Inventory loss provision	(595)	(298)
	20,813	15,174

None of the inventories are pledged as a security for liabilities.

9 Trade and other receivables

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Trade receivables	7,325	5,322
Other receivables	935	277
	8,260	5,599
Allowances for doubtful trade receivables	-	-
Net trade receivables	8,260	5,599

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Trade receivables are generally settled on 30-90 days terms. No interest is charged on the trade receivables. There are no impaired trade and other receivables for the year ended 31 December 2017.

Refer to note 24 for the currencies in which the trade and other receivables are denominated.

10 Cash and bank balances

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Cash in hand	1,517	992
Bank accounts	8,659	741
	10,176	1,733

Refer to note 24 for the currencies in which the cash and bank balances are denominated.

11 Capital

11.1 Share Capital

Number of shares unless otherwise stated	Ordinary shares 2017	Ordinary shares 2016
	Thousands	thousands
Authorized shares	10,000	-
Number of ordinary shares of Georgian lari 2.18 each	21,800	-
Issued and fully paid during the year	9,367	-
Number of ordinary shares of Georgian lari 2.18 each	20,419	-
Additionally paid-in capital	6,216	-

On 31 July 2017 the Group restructured its legal form from Limited Liability Company (LLC) to Joint Stock Company (JSC). The authorized Share Capital was defined in amount of 10,000,000 ordinary shares with a nominal value of Georgian lari 2.18 (authorized Share Capital in Georgian lari 21,800 thousands).

For the financial year ended 31 December 2016 Charter Capital of the Group was in amount of GEL 19,596,980.

12 Loans and borrowings

In thousands of Georgian lari

	Current		Non-current	
	As of 31 December 2017	**As of 31 December 2016**	**As of 31 December 2017**	**As of 31 December 2016**
Secure bank borrowings	11,148	7,482	13,859	18,827
Overdraft	-	1,000	-	-
	11,148	8,482	13,859	18,827

Bank borrowings maturity varies from 1 to 6 years and bears an average annual interest rate of 11% with floating rate linked to NBG refinancing and 6 months US dollar LIBOR rates (2016: 12% annually with floating rate).

Bank borrowings are issued under the general credit line agreements. Loans and borrowings are secured by property, plant and equipment of the Group (refer to note 5).

The fair values of non-current loans and borrowings are as follows:

The fair values of bank borrowings equal their carrying amount, as the impact of discounting is not significant.

Refer to note 24 for the currencies in which the loans and borrowings are denominated. Refer to note 24 for more information about the Group's exposure to interest rate and foreign currency risks.

13 Bonds

March 18, 2016 Georgian investment bank Galt & Taggart JSC, as a brokerage agent, issued bonds for Nikora Trade JSC, by the value of US dollar 5 million. Bonds bear 11% of annual interest rate (effective interest rate 11.92%) and have two years of maturity. Interest will be paid twice a year. Below table represents the financial information regarding bonds:

In thousands of Georgian lari	**As of 31 December 2017**	**As of 31 December 2016**
Bonds issued	13,137	13,234
Bonds interest payable	137	176
	13,274	13,410

Movement during the year:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Balance at the beginning of the year	13,410	-
Issue of bonds	-	11,334
Interest accrued	1,411	1,058
Interest paid	(1,368)	(606)
Foreign exchange (gain) / loss	(179)	1,624
Balance at the end of the year	13,274	13,410

The Bonds constitute unsecured obligations of the Group, as the Group's obligations regarding Bonds are not secured by the registered pledge over the assets of the Group or of any of the third party. The Bonds are secured (guaranteed) by the joint and several guarantee of the sole owner of the Group – JSC Nikora (the Guarantor). The Guarantor's obligations are unsecured and unsubordinated obligations of the Guarantor.

14 Trade and other payables

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Trade payables	43,490	33,265
Tax payables	211	280
Payables to employees	230	5
Other	917	-
	44,848	33,550

15 Provision for bonus cards

In April 2016, Group implemented bonus cards system in their retail stores in order to attract customers. Through those cards customers are able to collect bonuses which are convertible to goods based on their preferences. As at 31 December 2017, accrued bonuses on cards held by customers amounted to Georgian lari 441 thousand.

For the purposes of preparation of these consolidated financial statements in accordance with IFRS the management estimated whether the obligation to deliver goods to customers arising from accumulated bonuses satisfies recognition criteria as liability, provision or a contingent liability. The management decided to recognize provision for the obligation to deliver goods to customers arising from bonus cards usage. Carrying amount of the provision is the best estimate of the expenditures required to settle the present obligation at the end of the reporting period.

Management used historical experience, their general knowledge of such incentive schemes and opinions of marketing and sales specialists to make the best estimate. According to bonus card usage records, Georgian lari 444 thousands (out of the total Georgian lari 1,090 thousand, which does not include bonus scores accrued in prior year) were accrued on cards which had not been active since their first usage and were not used up to the date of preparation of these consolidated financial statements. Therefore, management does not consider it probable that this portion of accrued bonuses shall be exercised by card holders. The experience indicates that only about 12%-15% of bonus points are actually used by customers. Based on such considerations the Group recognized Georgian lari 66

thousand as a provision in the statement of financial position, which the Group expects to be utilized during the next financial year.

16 Selling and marketing expenses

The selling and marketing expenses include salaries and wages of shop assistants, cashiers and other personnel working in retail shops, as well as salaries and wages of marketing and distribution personnel The selling and marketing expenses also include depreciation of retail shop buildings, of the shelves, fridges and other shop refurbishments, of distribution vehicles and other expenses related to sales, marketing and distribution.

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Rent expenses	14,917	12,386
Employee compensation	13,846	11,658
Depreciation expenses	4,148	3,896
Distribution	1,032	755
Marketing expenses	1,085	690
	35,028	29,385

17 Administrative expenses

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016 (Reclassified)
Employee compensation	7,592	6,055
Utility expenses	5,646	5,030
Loss on write off of inventory	3,449	3,137
Depreciation and amortization	1,841	1,671
Office expenses	1,017	1,295
Bank charges	1,153	930
Consultation and professional service	1,031	916
Maintenance	595	411
Bonus cards	66	85
Taxes other than income tax	-	-
	22,390	19,530

18 Finance costs

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense on loans from financial institutions	2,616	3,463
Interest expense on bonds	1,400	1,058
Interest expense on loans from related parties	122	119
	4,138	4,640

19 Other financial items

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Gain/(loss) from exchange differences on:		
Cash and receivables	78	44
Financial liabilities measured at amortized cost	851	3,224
	929	3,268

20 Income tax expense

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	490	-
Deferred tax (refer to note 7)	-	153
	490	153

21 Subsequent events

On March 18, 2018 Nikora Trade JSC met its obligations against the Group's Bondholders in amount of Georgian lari 13,137 thousands.

By the audit opinion date the Group is at the final stage of the obligation issuance preparation process. Nikora Trade JSC foresees to issue 6,000 bond notes with a nominal value of each note in amount of GEL 5,000. Bonds is planned to have 3 years maturity period (36 months), with quarterly interest payment.

22 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

22.1 Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

Management has estimated useful lives of the property, plant and equipment. Management believes that estimated useful lives of the property, plant and equipment are not materially different from economic lives of those assets. If actual useful lives of property, plant and equipment are different from estimations, financial statements may be materially different.

Fair values of property and equipment accounted for using the revaluation model

Land and buildings of the Group are stated at fair value. Fair value of these classes of property, plant and equipment was approximated based on valuation report of professional valuers who performed valuation of these assets. Valuation itself requires use of estimates and assumptions. Thus the actual fair value of the Group's PP&E may differ from the amount disclosed in these consolidated financial statements.

Bad debts

The Group estimates collectability of trade receivables based on its experience and future expectations. Actual collectability rates of receivables may differ from management's current assessment.

Inventory provision

Inventory provision is created for the slow-moving and obsolete inventory and for possible inventory losses in the retail shops. Determining the carrying amount of the inventory provision implies assumptions regarding demand and turnover of inventory, volumes of possible theft or damage to products in shops and the actual losses may differ from management's current assessment.

Carrying value of goodwill

Carrying value of goodwill is affected by possible impairment. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Therefore the assessment of impairment of goodwill requires use of estimates and assumptions related to future operations of the Group and other events in wider business environment of the Group, many of which are out of the direct control of the Group. To measure possible impairment of goodwill the Group uses five year budget which implies assessment of many factors including sales growth rates, inflation, competition, market shares etc.

Management's calculations based on current estimates, assumptions and expectations indicate that the goodwill reported in these financial statements is not impaired. However, differences between the estimates made by the management and the actual circumstances may materially affect carrying value of goodwill.

Land and buildings

The land and buildings of the Group are stated at revalued amount. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management.

Provision for bonus cards

The management decided to recognize provision for the obligation to deliver goods to customers arising from bonus cards usage. Management has estimated the possible losses on bonus cards which was implemented in 2016. Management used historical experience, their general knowledge of such incentive schemes and opinions of marketing and sales specialists to make the best estimate.

Market interest rate

Management has estimated market interest rates which are used to evaluate fair value of Group's financial instruments. Changes in market interest rates may affect reported amounts of financial liabilities and finance costs.

22.2 Key assumptions concerning the future

Management strongly believes that gross profit margin will continue to increase and reach to the certain point. This assumption is based on the strong market position of the Group.

23 Financial instruments

23.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

23.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousands of Georgian lari	**As of 31 December 2017**	**As of 31 December 2016**
Loans and receivables:		
Trade and other receivables	8,260	5,599
Cash and bank balances	10,176	1,733
	18,436	7,332

Financial liabilities

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Loans and borrowings	25,007	27,309
Bonds	13,274	13,410
Trade and other payables	44,848	33,265
	83,129	73,984

24 Financial risk management

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Financial risk factors

a) Market risk

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk which result from both its operating and investing activities.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Most of the Group's trade transactions are carried out in Georgian lari. Exposures to currency exchange rates risk mainly arise from the Group's loans and issued bonds which are denominated in foreign currencies. Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into Georgian lari at the closing rate:

Item			
As of 31 December 2017	**US dollar**	**Euro**	**Other**
Financial assets			
Trade and other receivable	386	118	-
Cash and cash equivalents	6,295	-	-
Total financial assets	6,681	118	-

Financial liabilities			
Loans and borrowings	17,383	-	-
Bonds	13,367	-	-
Trade and other payables	5,185	-	-
Total financial liabilities	35,935	-	-
Net position	(29,254)	118	-

Item			
As of 31 December 2016	**US dollar**	**Euro**	**Other**
Financial assets			
Cash and cash equivalents	1	-	-
Total financial assets	1	-	-
Financial liabilities			
Loans and borrowings	20,676	-	-
Bonds	13,410	-	-
Trade and other payables	481	21	-
Total financial liabilities	34,567	21	-
Net position	(34,566)	(21)	-

The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in Georgian lari against US dollar. 10% (2016: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2016: 10%) change in foreign currency rates.

If Georgian lari had strengthened against US dollar by 10% (2016: 10%) then this would have had the following impact:

In thousands of Georgian lari	US dollar impact		Euro impact	
	2017	**2016**	**2017**	**2016**
Profit or loss	4,262	3,409	14	2
Other equity	-	-	-	-
	4,262	3,409	14	2

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency transactions and balances. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating rates. This risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings

The following table reconciles the average contract and effective interest rates:

2017	**Average interest rate**	
	Contract	**Effective**
Liabilities		
Secured bank loans		
Georgian lari	11.6%	11.6%
US dollar	9%	9%
Bonds		
US dollar	11%	12%

2016	**Average interest rate**	
	Contract	**Effective**
Liabilities		
Secured bank loans		
Georgian lari	13%	13%
US dollar	11%	11%
Bonds		
US dollar	11%	12%

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2017 would decrease/increase by Georgian lari 645 thousands (2016: increase/decrease by Georgian lari 854 thousand);

The Group's sensitivity to interest rates would increase/decrease mainly due to changes of floating interest rate which is LIBOR and NBG refinancing rates.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The effect of this risk for the Group arises from different financial instruments, such as accounts receivable. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Financial assets at carrying amounts		
Accounts receivable	8,260	5,599
Bank balances	8,659	741
	16,919	6,340

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

c) *Liquidity risk*

Liquidity risk is the risk that the Group will be unable to meet its obligations.

The Group's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2017	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		11	10	
Less than 6 months	44,636	7,203	13,647	65,486
6 months to 1 year	212	5,417	157	5,786
1-5 years	-	11,832	3,632	15,464
More than 5 years	-	586	-	586
	44,848	25,038	17,436	87,322

2016	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		11	12	
Less than 6 months	33,270	4,965	1,888	40,123
6 months to 1 year	280	4,963	651	5,894
1-5 years	-	21,480	12,484	33,964
More than 5 years	-	2,914	-	2,914
	33,550	34,322	15,023	82,895

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables.

25 Fair value measurement

The Group provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

26 Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Group consists of equity comprising issued capital, preference shares, reserves and accumulated profits and debt, which includes borrowings disclosed in note 12.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Group for the reporting periods are summarized as follows:

In thousands of Georgian lari	**As of 31 December 2017**	**As of 31 December 2016**
Total equity	15,888	5,408
Less: cash and bank balances	(10,176)	(1,733)
Capital	5,712	3,675
Total equity	15,888	5,408
Borrowings	25,007	54,128
Overall financing	40,895	59,536
Capital to overall financing ratio	0.14	0.06

27 Contingencies

27.1 Business environment

Georgia continues to undergo political and economic changes. As an emerging market, Georgia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with Georgia led to the shortage of money transfers from abroad, upon which the economy of Georgia is significantly dependant. Further depreciation of the national currency leads to increase of prices on imported goods. There are uncertainties over attraction of significant volumes of direct capital investments. These and other circumstances may lead to deterioration of situation in the Georgian economy and of the Group. However, as there are a number of variables and assumptions involved in these uncertainties, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Group may be affected.

Management of the Group believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Group.

27.2 Insurance

The Georgian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Georgia. The Group does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a materially adverse effect on the Group's operations and financial position.

27.3 Taxes

The taxation system in Georgia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Georgia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

27.4 Environmental matters

Environmental legislation in Georgia is in process of development and there may be some changes in the legislation which may be relevant for the Group's operations. However, the management is of the opinion that the Group has met the Government's requirements concerning environmental matters and believes that the Group does not have any current material environmental liabilities and it is not expected that material environmental liabilities will arise in the future periods.

28 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks net of outstanding bank overdrafts. Cash and bank balances at the end of the financial year as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position, as follows:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Cash and bank balances	10,176	1,733
Bank overdraft	-	(1,000)
	10,176	733

29 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

In thousands of Georgian lari	Long-term borrowings	Short-term borrowings	Total
As of 1 January 2017	18,827	8,482	27,309
Cash-flows			
Interest payable		43	43
Repayments	-	(115,671)	(115,671)
Proceeds	6,746	107,535	114,281
Non-cash			
Foreign exchange (gain)/loss	(604)	(351)	(955)
Reclassification	(11,110)	11,110	-
as of 31 December 2017	13,859	11,148	25,007

30 Related parties

The Group's related parties include its parent and entities under common control and key management.

30.1 Control relationships

The Group's shareholder is Nikora JSC, who owns 92% of the Group's voting shares.

30.2 Transactions with related parties

During the reporting year the Group had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousands of Georgian lari **Transactions**	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Entities under common control		
Sale of goods	327	990
Provision of services	3,607	1,603
Acquisition of goods and raw materials	(63,784)	(51,187)
Acquisition of services	(2,442)	(1,870)
Repayment of borrowings	(1,606)	(1,100)
Accrual of interest expenses	3	119
	(63,895)	(51,445)

In thousands of Georgian lari **Outstanding balances**	**As of 31 December 2017**	**As of 31 December 2016**
Entities under common control		
Trade and other receivables	2,424	1,189
Borrowings received	(3,480)	(237)
Trade and other payables	(7,274)	(5,958)
	(8,330)	(5,006)

30.3 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in employee compensation.

In thousands of Georgian lari	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Salaries and bonuses	425	521
	425	521

31 Restatement of comparative consolidated financial statements

During preparation of the consolidated financial statements for the year ended 31 December 2017 management of the Group changed its accounting policy according to packaging expenses and reclassified it from Administrative Expenses to Cost of Goods Sold.

The following tables summarize the adjustments made to the statements of profit or loss and other comprehensive income for the year ended 31 December 2016 as a result of the restatement and the representation:

Statement of profit and loss

In thousands of Georgian lari	**Year ended 31 December 2016 (before reclassification)**	**Adjustments**	**Year ended 31 December 2016 (after reclassification**
Cost of goods sold	(166,663)	(1,118)	(167,781)
Administrative Expense	(20,648)	1,118	(19,530)
Impact on period result	(187,311)	-	(187,311)