Consolidated Financial Statements and Independent Auditor's Report

Nikora Trade JSC

31 December 2018

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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 2018, 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 2018, 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 38,560 thousand is reported in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: 38,560). 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 2018. Our audit opinion on the consolidated financial statements relating to the year ended 31 December 2017 was modified accordingly.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.

Management reporting

Management is responsible for the Management Reporting. The Management Reporting comprises the information about the activities of the Group, risk analysis, future plans and other matters as requred by the Law of Georgia on Accounting, Reporting and Auditing. The Management Reporting is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the Management Reporting.

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

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	Ketevan Ghambashidze
Managing Partner	Registered Auditor
31 May 2019	

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Consolidated statement of financial position

In thousands of Georgian lari	Note	Year ended 31 December 2018	Year ended 31 December 2017 (Restated)	Year ended 31 December 2016 (Restated)
Assets				
Non-current assets				
Goodwill	4	38,560	38,560	38,560
Property, plant and equipment	5	45,509	19,371	17,462
Intangible assets	6	1,786	1,827	1,535
		85,855	**59,758**	**57,557**
Current assets				
Inventories	7	33,137	20,813	15,174
Trade and other receivables	8	8,039	8,260	5,599
Other current assets		220	233	32
Current income tax assets		182	176	-
Cash and bank balances	9, 25	2,692	10,176	1,733
		44,270	**39,658**	**22,538**
Total assets		**130,125**	**99,416**	**80,095**

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 13 to 43.

Consolidated statement of financial position

In thousands of Georgian lari	Note	Year ended 31 December 2018	Year ended 31 December 2017 (Restated)	Year ended 31 December 2016 (Restated)
Equity and liabilities				
Capital and reserves				
Share capital	10	20,610	20,419	19,597
Share premium	10	7,675	6,216	-
Revaluation reserve		-	-	320
Accumulated profit/(loss)		(11,555)	(10,414)	(14,176)
		16,730	**16,221**	**5,741**
Non-controlling interest		-	-	-
Total equity		**16,730**	**16,221**	**5,741**
Non-current liabilities				
Loans and borrowings	11,26	13,660	13,859	18,827
Bonds	12	25,000	-	13,234
		38,660	**13,859**	**32,061**
Current liabilities				
Trade and other payables	13	64,174	44,848	33,550
Loans and borrowings	11,26	9,980	11,148	8,482
Bonds	12	-	13,137	-
Bonds interest payable	12	161	137	176
Contract liabilities		101	66	85
Income tax payables		319	-	-
		74,735	**69,336**	**42,293**
Total equity and liabilities		**130,125**	**99,416**	**80,095**

The consolidated financial statements were approved on 31 May 2019 by:

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 13 to 43.

Consolidated statement of profit or loss and other comprehensive income

In thousands of Georgian lari

	Note	Year ended December 31 2018	Year ended December 31 2017
Revenue		344,957	268,272
Cost of sales		(256,984)	(201,831)
Gross profit		**87,973**	**66,441**
Other income		387	460
Selling and marketing expenses	14	(48,714)	(35,028)
Administrative expenses	15	(33,478)	(22,390)
Other expenses		(244)	(438)
Results from operating activities		**5,924**	**9,045**
Finance costs	16	(4,210)	(4,138)
Other financial items	17	(417)	929
Other non -operating expenses		(1,443)	(1,904)
Profit/(loss) before income tax		**(146)**	**3,932**
Income tax (expense)/recovery		(995)	(490)
Profit/(loss) for the year		**(1,141)**	**3,442**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property, plant and equipment		-	320
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income/(loss) for the year		(1,141)	3,762
- earnings per share		(0.1207)	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 13 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 2017	**19,597**	**320**	**(14,176)**	**5,741**	**-**	**5,741**
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**	**-**	**(10,414)**	**16,221**	**-**	**16,221**
Profit/(loss) for the year	-	-	(1,141)	(1,141)	-	(1,141)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	***-***	***-***	***(1,141)***	***(1,141)***	***-***	***(1,141)***
Issue of share capital	1,650			1,651		1,651
Transactions with owners	***1,650***	***-***	***-***	***1,651***	***-***	***1,651***
as of 31 December 2018	**28,285**	**-**	**(11,555)**	**16,730**	**-**	**16,730**

The initial application of IFRS 9 and IFRS 15 has led to an adjustment in retained earnings of Georgian lari 0 and Georgian lari 0 respectively.

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 13 to 43.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from operating activities		
Profit/(loss) for the year	**(1,141)**	**3,442**
Adjustments for:		
Depreciation and amortization	9,231	5,989
Loss on disposal of property, *plant* and equipment	(123)	-
Inventory losses	6,370	3,449
Interest expense	4,210	4,138
Income tax expense/(recovery)	995	490
Change in contract liabilities	34	66
Foreign exchange (gain)/loss	417	(929)
Operating profit before working capital changes	**19,993**	**16,645**
Change in trade and other receivables	221	(2,661)
Change in inventories	(18,694)	(9,187)
Change in trade and other payables	16,711	10,602
Change in prepayments	(13)	(144)
Cash generated from operations	**18,218**	**15,255**
Interest paid	(4,142)	(4,196)
Income tax paid	(964)	(453)
Net cash from operating activities	**13,112**	**10,606**
Cash flows from investing activities		
Prepayments made		
Acquisition of property, plant and equipment	(32,324)	(7,540)
Acquisition of intangible assets	42	(193)
Loans issued	20	(20)
Proceeds from disposal property, plant and equipment	-	-
Net cash used in investing activities	**(32,262)**	**(7,753)**

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 13 to 43.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Cash flows from financing activities		
Proceeds from loans and borrowings	101,437	112,272
Repayment of loans and borrowings	(104,653)	(115,671)
Proceeds from increase of share capital	-	23
Proceeds from bonds issue	25,000	-
Bonds paid	(12,540)	(97)
Proceeds from shares issue	1,650	7,015
Dividends paid	-	-
Net cash used in financing activities	**10,894**	**3,542**
Net increase in cash and bank balances	(8,256)	6,395
Foreign exchange effect on cash	772	3,049
Cash and bank balances at the beginning of the year	10,176	733
Cash and bank balances at the end of the year (note 25)	**2,692**	**10,176**

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 13 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 86% owner of Nikora Trade JSC and 14% belongs to other shareholders.

The Group operates food retail stores chain in Georgia having 258 stores as at 31 December 2018 (31 December 2017: 216). The Group is one of the leaders on Georgian retail market.

The average number of employees of the Group during Year 2018 was 3,988 employees (2017: 2,680 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”).

This is the first set of the Group’s annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described further in the respective notes.

The consolidated financial statements have been prepared under the assumption that the Group operates on a going concern basis.

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 2018.

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 2018

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2018 and have been adopted by the Group:

Standard	Title	Effective date
IFRS 9	Financial Instruments (note 3.9)	January 1, 2018
IFRS 15	Revenue from Contracts with Customers (note 3.14)	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018

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

For the financial year of these consolidated financial statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Group. Information on the relevant new standards, amendments and interpretations that are not yet effective for these consolidated financial statements has been provided below.

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
IFRs 16, leases. The IASB issued the new standard for accounting for leases. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on the balance sheets as lease liabilities, with the corresponding right-of-use assets. (b) Lessees must apply a single model for all recognised leases but will have the option not to recognise 'shortterm' leases and leases of 'low-value' assets. (c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Management has yet to assess the impact of this revised standard on the Cosolidated financial statements.	January 1, 2019

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
Annual Improvements to IFRS 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively; Assumptions for taxation authorities' examinations; The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.	January 1, 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The amendments clarify that: on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that all the relevant pronouncements will be adopted in the Group' accounting policies for the first period beginning after the effective date of the pronouncement. The Group's management has yet to assess the impact of these changes on the consolidated financial statements.

2.6. Subsidiaries

The consolidated financial statements include the following subsidiaries:

31 December 2018

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	April 14, 2010	Retail	December 4, 2014

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	April 14, 2010	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.

The Group restated its previously issued consolidated financial statements to correct errors in the calculation of Goodwill related to acquisition of Lazi Holding LLC at the end of year 2014. Specifically, the initial net assets of Lazi LLC were overstated by the amount of 333 thousand in Georgian Lari. The reason of this error was misstated inventory and other current assets.

Accordingly, the management of the group considered that this misstatement should be corrected, which resulted in the increase of goodwill at the time of acquisition of subsidiary, proportionally to the acquired share of net assets (67%).

3. Significant accounting policies

3.1. Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below. Further the accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended December 31, 2018, except for changes in accounting policies explained in note 3.9.1 and note 3.14.

3.2. 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.

3.3. 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 2.6766 lari for 1 US dollar and 3.0701 lari for 1 euro as of 31 December 2018 (31 December 2017: 2.5922 lari for 1 US dollar, 3.1044 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.

3.4. 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
Land	-	Not depreciated

3.5. Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. Refer to note 3.10 for a description of impairment testing procedures.

3.6. 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.

3.7. 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.

3.8. 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.

3.9. Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs.

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.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expired. Financial assets and financial liabilities are measured subsequently as described below.

3.9.1. Changes in accounting policies

IFRS 9 - Financial Instruments

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 which was effective for the accounting period beginning on or after January 1, 2018 and the Group has adopted it on the first date on these consolidated financial statement e.g January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is being managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Profit’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Impairment

The Group recognizes allowance for impairment for expected credit losses (ECL) on financial assets measured at amortized cost and commitments issued (if any).

The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

Credit-impaired financial assets:

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit- impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For trade receivables, the Group has applied the standard’s simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision model and has used average default rates as per the best estimate of management for the financial assets of similar credit risk profile.

Write-off:

Assets carried at amortised cost are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Presentation of impairment

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Transition

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings as at January 1, 2018. The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.

If financial asset had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The adoption of IFRS 9 has not had an effect on the Group's accounting policies related to financial liabilities.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

In thousands of Georgian lari	Original classification under IAS 39	New classification under IFRS 9	Original carryimg amount under IAS 39	New carrying amount under IFRS 9
Financial Assets				
Trade and other receivables	Loans and receivables	Amortised cost	8,260	8,260
Cash and cash equivalents	Loans and receivables	Amortised cost	10,176	10,176
Total Financial Assets			**18,436**	**18,436**
Financial Liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	25,007	25,007
Bonds	Other financial liabilities	Other financial liabilities	13,274	13,274
Trade and other payables	Other financial liabilities	Other financial liabilities	44,848	44,848
Total Financial Liabilities			**83,129**	**83,129**

There was no effect of adopting IFRS 9 on the carrying amounts of financial assets and liabilities at 1 January 2018, including the new impairment requirements on transition to IFRS 9 on 1 January 2018 due to materiality considerations.

The transition to IFRS 9 did not have impact on the opening balance of reserves and retained earnings.

3.9.2. Classification and subsequent measurement of financial liabilities

Financial liabilities comprise, trade and most other payables and amounts due to related parties.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

All interest-related charges are included within 'finance costs'.

3.9.3. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.10. 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.

3.11. 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.

3.12. 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.

3.13. Income tax

Effective 1 January 2017, there were significant amendments made 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 and thus are not reported in these consolidated financial statements.

3.14. Revenue recognition

Revenue of the Group arises mainly from the sale of goods.

To determine whether to recognize revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as *contract liabilities* in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The Group's retail division operates a customer loyalty incentive programme. Customers of Nikora supermarlkets are offered so called "Bonus cards". On every 10 GEL spend at Nikora supermarket a cardholder gets 10 bonus points. 100 points on the card corresponds to 1 GEL which a cardholder can use to purchase any product in Nikora supermarket in the future. Loyalty points are considered to be a separate performance obligation as they provide customers with a material right they would not have received otherwise. Unused points will expire if not used within two years. The Group allocates the transaction price between the material right and other performance obligations identified in a contract on a relative stand-alone selling price basis. Revenue from the material right is recognised on the earlier of the date the points are redeemed by the customer and the date on which they expire.

The impact of adoption of IFRS 15 on the Group's financial statements

Previously the Group recognized in the statement of financial position the *provision* for the obligation to deliver goods to customers arising from bonus cards usage and the changes in the provision were reported within administrative expenses.

After adopting IFRS the Group recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations (similar to former "bonus card provision") and reports these amounts as *contract liabilities* in the statement of financial position. The revenue is only recognized for performance obligation which were satisfied.

The management considers that this change has no material impact on the opening retained earnings or on the amount of revenues recognized as this is mostly the presentation change for the Group. The management did not make adjustments to previously reported figures for this effect of adoption of IFRS 15 as it was considered clearly immaterial.

3.15. 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 2018	As of 31 December 2017 (Restated)
Gross carrying amount		
As at the beginning of the year	38,560	38,560
Acquired through business combination	-	-
As at the end of the year	38,560	38,560
Accumulated impairment		
As at the beginning of the year	-	-
Impairment loss	-	-
As at the end of the year	-	-
Net carrying amount	38,560	38,560

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 46,538 thousand (31 December 2017: 51,492).

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 2017: 4% p.a.).

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of the Group. Discount rate is 17.81% (31 December 2017: 15.08%).

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 43,572 thousand.

5. Property, plant and equipment

In thousands of Georgian lari

	Land	Buildings and facilities	Machinery and equipment	Office equipment, furniture and fixtures	Leasehold improve-ments	Vehicles	Total
Cost (revalued land &buildings)							
as of 1 January 2017	-	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
Additions	493	6,977	16,439	6,136	4,535	868	35,448
Disposals	-	-	(800)	(446)	(47)	(88)	(1,381)
as of 31 December 2018	493	7,658	33,717	16,943	11,170	3,472	73,453
Accumulated depreciation and impairment							
as of 1 January 2017	-	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
Charge for the year	-	252	4,804	2,158	1,223	469	8,906
Eliminated on disposal	-	-	(710)	(196)	(29)	(42)	(977)
as of 31 December 2018	-	432	13,939	8,223	3,536	1,814	27,944
Carrying amount							
as of 31 December 2017	-	501	8,233	4,992	4,340	1,305	19,371
as of 31 December 2018	493	7,226	19,778	8,720	7,634	1,658	45,509

Property, plant and equipment of the Group at the carrying amount of Georgian lari 35,587 thousands have been pledged as a security for loans and borrowings as of 31 December 2018 (31 December 2017: Georgian lari 19,371 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 2017	1,209	1,042	167	2,418
Additions	666	-	-	666
Disposals	-	-	-	-
as of 31 December 2017	1,875	1,042	167	3,084
Additions	411	37	1	449
Disposals	-	-	-	-
as of 31 December 2018	2,286	1,079	168	3,533
Accumulated amortization				
as of 1 January 2017	513	370	-	883
Charge for the year	178	195	1	374
Eliminated on disposal	-	-	-	-
as of 31 December 2017	691	565	1	1,257
Charge for the year	231	258	1	490
Eliminated on disposal	-	-	-	-
as of 31 December 2018	922	823	1	1,747
Carrying amount				
as of 31 December 2017	1,184	477	166	1,827
as of 31 December 2018	1,364	256	166	1,786

7. Inventories

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Merchandise inventory	32,978	21,122
Raw materials	182	107
Other	417	179
Inventory loss provision	(440)	(595)
	33,137	20,813

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

8. Trade and other receivables

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Trade receivables	7,921	7,325
Other receivables	118	935
	8,039	8,260
Allowances for doubtful trade receivables	-	-
Net trade receivables	8,039	8,260

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 2018.

Refer to note 21 for the currencies in which the trade and other receivables are denominated.

9. Cash and bank balances

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Cash in hand	1,779	1,517
Bank accounts	913	8,659
	2,692	10,176

Refer to note 21 for the currencies in which the cash and bank balances are denominated.

10. Capital

10.1. Share Capital

Number of shares unless otherwise stated	Ordinary shares	Ordinary shares
	2018	2017
	Thousands	thousands
Authorized shares	10,000	10,000
Number of ordinary shares of Georgian lari 2.18 each	21,800	21,800
Issued and fully paid during the year	88	9,367
Number of ordinary shares of Georgian lari 2.18 each	20,610	20,419
Additionally paid-in capital	7,675	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 2017 Charter Capital of the Group was in amount of GEL 26,635 thousands.

11. Loans and borrowings

In thousands of Georgian lari

	Current		Non-current	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Secure bank borrowings	9,980	11,148	13,660	13,859
Overdraft	-	-	-	-
	9,980	11,148	13,660	13,859

Bank borrowings maturity varies from 1 to 6 years and bears an average annual interest rate of 10% with floating rate linked to NBG refinancing and 6 months US dollar LIBOR rates (2017: 11% 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 21 for the currencies in which the loans and borrowings are denominated. Refer to note 21 for more information about the Group's exposure to interest rate and foreign currency risks.

12. Bonds

On March 18, 2018 Nikora Trade JSC met its obligations against the Group's Bondholders in amount of Georgian lari 13,274 thousands.

On August 6, 2018 TBC Capital, as a brokerage agent, issued bonds for Nikora Trade JSC, by the value of Georgian lari 25 million. Bonds bear 11% of annual interest rate (effective interest rate 11.50%) and have three years of maturity. Interest will be paid quarterly on the dates specified in the "Overview of the Offering". Below table represents the financial information regarding bonds:

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Bonds issued	25,000	13,137
Bonds interest payable	161	137
	25,161	13,274

Movement during the year:

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Balance at the beginning of the year	13,274	13,410
Issue of bonds	25,000	-
Interest accrued	1,520	1,411
Interest paid	(1,332)	(1,368)
Principal paid	(12,540)	-
Foreign exchange (gain) / loss	(761)	(179)
Balance at the end of the year	25,161	13,274

Bond's agreement set out certain covenants to Nikora Trade JSC. Affirmative covenants including requirements to satisfy certain financial ratios. As at the reporting date three financial covenants are applicable:

(1) Debt/EBITDA ratio shouldn't exceed 3.5 according to the results of Year 2018

(2) ICR ratio shouldn't be less than 2.5 according to the results of Year 2018

(3) DSCR ratio shouldn't be less than 1.1 according to the results of Year 2018

Ratios are calculated using figures from consolidated financial statements. As at the reporting date the Group satisfies two ratios (Debt/EBITDA and DSCR) out of three.

The Bond agreement includes also limitations on dividend payments.

Bonds are Group's direct unsecured obligations that are equal in priority and equal to the Group's" unsecured and non-subordinated obligations.

13. Trade and other payables

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Trade payables	62,517	43,490
Tax payables	1,114	211
Payables to employees	543	230
Other	-	917
	64,174	44,848

14. 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 2018	Year ended 31 December 2017
Rent expenses	19,861	14,917
Employee compensation	19,011	13,846
Depreciation expenses	6,497	4,148
Distribution	1,628	1,032
Marketing expenses	1,718	1,085
	48,714	35,028

15. Administrative expenses

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Employee compensation	10,537	7,592
Utility expenses	7,423	5,646
Loss on write off of inventory	6,370	3,449
Depreciation and amortization	2,900	1,841
Consultation and professional service	1,740	1,031
Office expenses	1,498	1,017
Bank charges	1,468	1,153
Maintenance	1,445	595
Other	97	66
Taxes other than income tax	-	-
	33,478	22,390

16. Finance costs

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on loans from financial institutions	2,384	2,616
Interest expense on bonds	1,520	1,400
Interest expense on loans from related parties	306	122
	4,210	4,138

17. Other financial items

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Gain/(loss) from exchange differences on:		
Cash and receivables	(91)	78
Financial liabilities measured at amortized cost	(326)	851
	(417)	929

18. Subsequent events

In the first quarter after reporting date retained shares of Nikora Trade JSC were sold. Number of shares sold was 545,723 with the total amount of GEL 12,424 thousands.

19. 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.

19.1. 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.

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.

19.2. 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.

20. Financial instruments

20.1. 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.

20.2. 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	31 December 2018	31 December 2017
Financial assets measured at amortised cost:		
Trade and other receivables	8,039	8,260
Cash and bank balances	2,692	10,176
	10,731	18,436

Financial liabilities

In thousands of Georgian lari	December 2018	31 December 2017
Financial liabilities measured at amortized cost:		
Loans and borrowings	23,640	25,007
Bonds	25,161	13,274
Trade and other payables	64,174	44,848
	112,975	83,129

21. 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 2018**	**US dollar**	**Euro**	**Other**
Financial assets			
Trade and other receivable	230	74	-
Cash and cash equivalents	-	-	-
Total financial assets	230	74	-
Financial liabilities			
Loans and borrowings	9,749	405	-
Bonds	-	-	-
Trade and other payables	123	322	-
Total financial liabilities	9,872	727	-
Net position	(9,642)	(653)	-

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	-

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in Georgian lari against US dollar. 10% (2017: 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% (2017: 10%) change in foreign currency rates.

If Georgian lari had strengthened against US dollar by 10% (2017: 10%) then this would have had the following impact:

In thousands of Georgian lari	US dollar impact		Euro impact	
	2018	2017	2018	2017
Profit or loss	2,925	4,262	12	14
Other equity	-	-	-	-
	2,925	4,262	12	14

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:

2018	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	10.58%	10.69%
US dollar	8.48%	9.36%
Euro	7.50%	7.76%
Bonds		
Georgian lari	11%	11.5%

2017	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	11.60%	11.60%
US dollar	9.00%	9.00%
Bonds		
US dollar	11.00%	12.00%

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 2018 would decrease/increase by Georgian lari 599 thousands (2017: increase/decrease by Georgian lari 645 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 2018	As of 31 December 2017
Financial assets at carrying amounts		
Accounts receivable	8,039	8,260
Bank balances	913	8,659
	8,952	16,919

To manage its risk exposure, the Group places its cash with reputable banks. The Group's management considers all of its financial assets are not impaired or past due for each of the reporting dates under review and have been assessed as of having good credit quality. None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on the historical information about customer default rates management consider the credit quality of trade receivables to be good.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposure. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

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.

2018	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		9.83%	10.02%	
Less than 6 months	63,060	7,597	3,750	74,407
6 months to 1 year	1,114	1,763	-	2,877
1-5 years	-	15,283	-	15,283
More than 5 years	-	-	-	-
	64,174	24,643	3,750	92,567

2017	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		11.00%	10.00%	
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

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

22. 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).

23. 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, reserves and accumulated profits and debt, which includes borrowings disclosed in note 11.

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 2018	As of 31 December 2017
Total equity	16,730	16,221
Less: cash and bank balances	(2,692)	(10,176)
Capital	14,038	6,045
Total equity	16,730	16,221
Borrowings	23,640	25,007
Bonds	25,161	13,274
Overall financing	65,531	54,502
Capital to overall financing ratio	0.21	0.11

24. Contingencies

24.1. 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 dependent. 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.

24.2. 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 at this moment has a significant part of auto-park insured and within this third party responsibility is also insured. The Group is having active negotiations towards insuring warehouse and inventories. This will reduce the risk of loss or destruction of certain assets could have a materially adverse effect on the Group's operations and financial position.

24.3. 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.

24.4. 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.

25. 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 2018	As of 31 December 2017
Cash and bank balances	2,692	10,176
Bank overdraft	-	-
	2,692	10,176

26. 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 2018	13,859	11,148	25,007
Cash-flows			
Interest accrual	2,690	-	2,690
Repayments	(92,367)	(14,179)	(106,546)
Proceeds	98,406	3,031	101,437
Non-cash			
Foreign exchange (gain)/loss	1,052	-	1,052
Reclassification	(9,980)	9,980	-
as of 31 December 2018	13,660	9,980	23,640

27. Related parties

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

27.1. Control relationships

The Group's shareholder is Nikora JSC, who owns 86.15% of the Group's voting shares.

27.2. 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 2018**	**Year ended 31 December 2017**
Entities under common control		
Sale of goods	431	327
Provision of services	4,256	3,607
Acquisition of goods and raw materials	(70,016)	(63,784)
Acquisition of services	(2,656)	(2,442)
Provision of borrowings	7,314	-
Repayment of borrowings	(307)	(1,606)
Accrual of interest expenses	306	3
Accrual of interest income	99	-
	(60,573)	(63,895)

In thousands of Georgian lari **Outstanding balances**	**As of 31 December 2018**	**As of 31 December 2017**
Entities under common control		
Trade and other receivables	1,009	2,424
Borrowings received	(3,593)	(3,480)
Trade and other payables	(7,947)	(7,274)
	(10,531)	(8,330)

27.3. 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 2018**	**Year ended 31 December 2017**
Salaries and bonuses	440	425
	440	425

28 Restatement of comparative consolidated financial statements

In the process of preparation of these consolidated financial statements the management of the Group found out that goodwill recognized on acquisition of Lazi Holding LLC in 2014 was misstated. Goodwill was initially calculated as the difference between (a) consideration paid and (b) carying amount of acquired identifiable net assets of Lazi Holding LLC. The management has concluded that the carrying amount of identifiable net assets of Lazi Holding LLC at the acquisition date was overstated due to the fact that some of inventories and other assets, which should be written off in expenses actually were not written off in Lazi Holding's accounting books before acquisition. The management of the Group considered that this mistake should be corrected, which results in the increase of goodwill (and respectively of retained earnings) by 333 Georgian Lari.

In thousands of Georgian lari	January 1 2017 (as previously reported)	Adjustment	January 1 2017 (as restated)
Goodwill	38,227	333	38,560
Retained earnings	(14,509)	333	14,176