NIKORA TRADE GROUP

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

Together with the Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC Nikora Trade

Qualified Opinion

We have audited the consolidated financial statements of JSC Nikora Trade (the Company) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, 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 effects of the matter described in the Basis for Qualified *Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

We were unable to obtain sufficient and appropriate audit evidence neither for the initial recognition nor for the key assumptions used in impairment test of goodwill for comparable periods. As Goodwill's opening balance, GEL38,560 thousand, is a substantial part of its carrying amount as at 31 December 2020, we did not perform the relevant audit procedures and did not determine whether any adjustments were required regarding the Goodwill's carrying amount and the elements making up the consolidated financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below are the key audit matters to be communicated in our report.

Key audit matters	How the scope of our audit responded to the key audit matter
Revenue recognition and related loyalty rewards We have identified the recognition of revenue from contracts with customers as a key audit matter. Contracts with customers include the supply of food and non-food products. Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amounts recorded. Recognition of revenue is significantly dependent on the determination of the transaction price, which is substantially influenced by the discount offered to customers under the loyalty program.	We have preformed the following audit procedures to address the key audit matter: • We assessed whether the revenue recognition policy was in line with the requirements of International Financial Reporting Standards, in particular the use of IFRS 15 "Revenue from Contracts with Customers". • We performed procedures over adjustments to revenue. We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures. • We confirmed the recognised revenue with the supported documents;

We focused our work on the manual adjustments that are applied to revenue where the amount of the revenue recorded can be different than the amount of cash received. Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls. Refer to revenue recognition policy and additional Information in Note 23 and 5, respectively.	• We carried out analytical procedures on revenue, cost of goods sold and other expenses correlated with revenue; • We examined the adequacy of the information used by management in determining the transaction price and the reasonableness of the estimates; • We discussed whether experience and business practices were properly taken into account in determining the transaction price. • We have investigated the terms of the Customer Loyalty Program; • We obtained evidence that revenue is deferred according to the number of points awarded to customers under the loyalty program and revenue is recognised in the correct accounting period.
Fair value accounted property, plant and equipment We have identified the fair value accounted property, plant and equipment as key audit matter. The group's land and buildings within property, plant and equipment, as disclosed in note 11, is valued at GEL11,411 thousands as at 31 December 2020. The land and buildings are independently appraiser by professionally qualified valuer using the income capitalization model and market approach. Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore we have identified this as a potential fraud and misstatement risk. The key inputs into the fair value model which are subject to significant management estimates include market rents, vacancy rates, and capitalization rate used in the discounted cash flows. Unreasonable assumptions could give rise to a material misstatement in the financial statements. Covid-19 further increased judgement in relation to assumptions around vacancy rates and asset liquidity; The valuation of land and building is disclosed as one of the key sources of estimation uncertainty in notes. Refer to accounting policy in Note 23.	We have performed the following audit procedures to address the key audit matter: • We obtained and documented an understanding of relevant controls in relation to the valuation process; • We selected a sample of properties which we considered to be of most audit interest and with the assistance of our Real Estate Valuations expert to audit the valuations in detail; • Alongside our valuation expert, We discussed and challenged key inputs and assumptions with the valuer and management with reference to independent market data including Covid-19 considerations; • We assessed whether the valuer is independent of the Group and considered the reliability and competency of the valuer; • We reconciled the rental values used in the valuations to the observable data; • We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and • We assessed whether all property valuations have been correctly included in the financial statements.

Emphasis of Matter paragraph

As part of our audit of the 2020 consolidated financial statements we also audited the adjustments described in Note 21 that were applied to amend the 2019 consolidated financial statements, which were audited by other auditor and they expressed a modified opinion on those consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 consolidated financial statements of the Group other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2019 consolidated financial statements taken as a whole. Our opinion is not qualified in respect of this matter.

We draw attention to Note 1 to the consolidated financial statements, which describes, that in accordance with the Law of Georgia on Accounting, Reporting and Auditing, the Group is obliged to prepare the separate financial statement of the Company and submit it to the regulatory body. The Group' Subsidiaries have no operations for the year ended 31 December 2020 and 2019 and have no significant assets and liabilities as at 31 December 2020 and 2019. Based on the above, the management believes that the Group's consolidated financial statements for the year ended 31 December 2020 does not differ significantly from the separate financial statements of JSC Nikora Trade and, therefore, the consolidated financial statements reflect the separate financial statements of the parent company. Our opinion is not qualified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the consolidate 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 consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the consolidate 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 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 the 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 the 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 responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

8 July 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of JSC Nikora Trade

Qualified Opinion

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The engagement partner responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili

For and on behalf of BDO Audit LLC

Tbilisi, Georgia

8 July 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In **thousands of** GEL)

	Note	2020	2019 Restated
Revenue	5	522,031	439,800
Cost of products sold	6	(384,116)	(327,433)
Impairment and shrinkage of inventories	6	(8,330)	(7,866)
Gross profit		**129,585**	**104,501**
Selling and distribution expenses	7	(107,940)	(86,590)
General and administrative expenses	8	(12,732)	(11,650)
Other income		663	819
Operating profit		**9,576**	**7,080**
Financial expenses		(15,663)	(14,192)
Foreign exchange loss		(14,578)	(8,169)
Other income	9	6,512	-
Loss for the year		**(14,153)**	**(15,281)**
Other comprehensive income			
Gain on property revaluation		1,461	2,645
Total comprehensive loss for the year		**(12,692)**	**(12,636)**
Total loss attributable to:			
Owners of the parent	1	(14,153)	(15,281)
Total comprehensive loss attributable to:			
Owners of the parent	1	(12,692)	(12,636)

The consolidated financial statements for the year ended 31 December 2020 was approved on behalf of the management on 8 July 2021 by:

Director ______________________ David Urushadze

Financial director ______________________ Temur Aleksandria

NIKORA TRADE GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In thousands of GEL)

	Note	2020	2019 Restated
Revenue	5	522,031	439,800
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The consolidated financial statements for the year ended 31 December 2020 was approved on behalf of the management on 8 July 2021 by:

Director ______________ David Urushadze

Financial director ______________ Temur Aleksandria

NIKORA TRADE GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(In **thousands of** GEL)

	Note	31.12.2020	31.12.2019 Restated	1.1.2019 Restated
ASSETS				
Non-current assets				
Goodwill	10	38,560	38,560	38,560
Property, plant and equipment	11	54,610	52,301	45,509
Right of use asset	12	109,810	104,210	-
Intangible assets	13	2,685	1,463	1,786
		205,665	**196,534**	**85,855**
Current assets				
Inventories	14	48,815	40,765	30,124
Trade and other receivables	15	3,204	3,877	5,393
Cash and cash equivalents	16	3,856	3,238	2,692
		55,875	**47,880**	**38,209**
Total assets		**261,540**	**244,414**	**124,064**
EQUITY AND LIABILITIES				
Equity				
Share capital	1	21,800	21,800	20,610
Share premium		18,910	18,910	7,675
Revaluation reserve		4,106	2,645	-
Accumulated losses		(45,326)	(31,173)	(15,892)
		(510)	**12,182**	**12,393**
Non-current liabilities				
Bonds and Borrowings	17	14,657	38,558	38,419
Lease liabilities	12	111,688	95,826	-
		126,345	**134,384**	**38,419**
Current liabilities				
Trade and other payables	18	81,421	70,512	62,870
Bonds and Borrowings	17	32,620	8,935	10,382
Lease liabilities	12	21,664	18,401	-
		135,705	**97,848**	**73,252**
Total liabilities		**262,050**	**232,232**	**111,671**
Total equity and liabilities		**261,540**	**244,414**	**124,064**

Notes on pages 11-34 are the integral part of this consolidated financial statements

NIKORA TRADE GROUP

CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2020

(In **thousands of** GEL)

	Share Capital	Share premium	Revaluation reserve	Accumulated losses	Attributable to parent company's shareholders
1 January 2019	**20,610**	**7,675**	**-**	**(15,892)**	**12,393**
Loss for the year	-	-	-	(15,281)	(15,281)
Other comprehensive income	-	-	2,645	-	2,645
Issued shares	1,190	11,235	-	-	12,425
31 December 2019	**21,800**	**18,910**	**2,645**	**(31,173)**	**12,182**
Loss for the year	-	-	-	(14,153)	(14,153)
Other comprehensive income	-	-	1,461	-	1,461
31 December 2020	**21,800**	**18,910**	**4,106**	**(45,326)**	**(510)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(In **thousands of** GEL)

	Note	2020	2019
Cash flows from operating activities			
Loss before tax expense		**(14,153)**	**(15,279)**
Adjustments for:			
Depreciation and amortisation	11;12;13	35,266	30,602
Loss/(gain) from property, plant and equipment disposal		91	(21)
Inventory losses		8,330	7,866
Financial expenses	12;17	15,663	14,192
Foreign exchange loss		14,578	8,171
Cash inflows from operating activities before changes in operating assets and liabilities		**59,775**	**45,531**
Movements in working capital			
Increase in inventories		(16,380)	(18,507)
Decrease/(increase) in trade and other receivables		673	(1,240)
Increase in trade and other payables		8,020	15,416
Cash inflow from operating activities		**52,088**	**41,200**
Interest paid	12;17	(15,555)	(13,908)
Net cash inflow from operating activities		**36,533**	**27,292**
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,559)	(21,849)
Purchase of intangible assets		(581)	(298)
Cash inflow from property, plant and equipment disposal		-	294
Net cash outflow from investing activities		**(15,140)**	**(21,853)**
Cash flows from financial activities			
Cash inflow from shares emission		-	12,425
Proceeds from borrowings	17	38,968	66,837
Repayment of borrowings	17	(40,341)	(68,828)
Repayment lease liabilities	12	(18,906)	(15,269)
Net cash outflow from financing activities		**(20,279)**	**(4,835)**
Net increase in cash and cash equivalents		**1,114**	**604**
Cash and cash equivalents at the beginning of the year	**16**	**3,238**	**2,692**
Effect of changes in foreign exchange rate		(496)	(58)
Cash and cash equivalents at the end of the year	**16**	**3,856**	**3,238**

1. General information

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

JSC Nikora Trade holds 67% shares in Lazi Holding LLC and 100% shares in Nugeshi LLC. Subsidiaries have no operations for the year ended 31 December 2020 and 2019 and have no significant assets and liabilities as at 31 December 2020 and 2019. Therefore, the results obtained from the activities of the Group in 2020 and 2019 belong entirely to the owners of the parent company.

As at 31 December 2020 and 2019 The Company has 10 million authorized and fully paid shares at the par value 2.18 GEL. JSC Nikora, a company incorporated and registered in Georgia, is the 90% owner of shares of JSC Nikora Trade, whereas 10% belongs to other shareholders (2019: 80 % of shares - JSC Nikora, 20% of shares - other shareholders).

The Group operates food retail stores chain in Georgia having 345 stores as at 31 December 2020 (31 December 2019: 288 stores). The Group is one of the leaders on the Georgian retail market.

Separate financial statement

In accordance with the Law of Georgia on Accounting, Reporting and Auditing, the Group is obliged to prepare the separate financial statement of the Company and submit it to the regulatory body. The Group’ Subsidiaries have no operations for the year ended 31 December 2020 and 2019 and have no significant assets and liabilities as at 31 December 2020 and 2019. Based on the above, the management believes that the Group’s consolidated financial statements for the year ended 31 December 2020 does not differ significantly from the separate financial statements of JSC Nikora Trade and, therefore, the consolidated financial statements reflect the separate financial statements of the parent company.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs). The preparation of consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements are disclosed in Note 3.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost bases, except fair value accounted Land and Buildings within property, plant and equipment. The reporting period for the Group is the calendar year from 1 January to 31 December.

Going concern

While preparing Consolidated financial statement the management considered impact of COVID – 19 on the Group’s consolidated financial statement. The pandemic restrictions, regulations and responses have different effects on various operating segments. The pandemic has no material effect on the Group’s consolidated financial statement. These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Group in Georgia. The management believes that the going concern assumption is appropriate for the Group.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2020

There have been adopted some new standards and interpretations. Except of COVID-19-Related Rent Concessions, neither of interpretations and amendments have material effect, on the Group’s financial statements for the year ended 31 December 2020:

2. Basis of preparation (continued)

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

COVID-19-Related Rent Concessions (Amendments to IFRS 16):

Lessee may elect not to assess whether a rent concession that meets the conditions below is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (according to the amendment of IFRS-16 in 2021, the practical expedient applies to payments until 2022) and

(c) (c) there is no substantive change to other terms and conditions of the lease.

The Group uses a practical expedient and recognize rent concessions in consolidated statement of profit or loss and other comprehensive income within other non-operating income.

b) New standards interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022.However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Group is currently assessing the possible impact of the new standard on its financial statements. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and

2. Basis for preparation (continued)

- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

The consolidated financial statements present the results of the company and its subsidiaries (the Group) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

3. Critical accounting estimates and judgments

In the application of the Group's accounting policies, which are described in note 23, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

3.2 Impairment of long-term assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets, subjected to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

3. Critical accounting estimates and judgments (Continued)

3.3 Impairment of financial assets

The Group assesses the probability of the uncollectable trade receivables. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables and twelve month and lifetime expected credit loss. Significant and unanticipated changes to these assumptions and estimates included within the impairment of financial assets could result in significantly different results than those recorded in the financial statements.

3.4 Valuation of Land and Buildings

Land and buildings within property, plant and equipment are stated in the statement of financial position at their revalued amounts. Management uses significant assumptions. Significant and unanticipated changes to these assumptions and estimates could result in significantly different results than those recorded in the consolidated financial statements.

3.5 Lease term, incremental borrowing rate (IBR) and lease payments

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payments for renewal periods equal to the contractually agreed amount and will remain unchanged throughout the lease term.

The Group uses assumptions to determine in-substance fixed lease payments. For the assumption of in-substance fixed lease payments, the Group considers all relevant facts and circumstances that indicate that payments are essentially unavoidable. Therefore, actual lease payments may differ significantly from those presented in the consolidated financial statement.

4. Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign currency risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Major categories of financial instruments

The Group’s principal financial liabilities comprise financial liabilities at fair value, Bonds and borrowings, lease liabilities and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group’s principal financial assets are financial assets at fair value, trade and other receivables and cash and cash equivalents.

4. Financial Instruments – Risk Management (Continued)

The following table shows the major categories of financial instruments.

	31.12.2020	31.12.2019
Trade and other receivables net of impairment	1,834	2,032
Cash and cash equivalents	3,856	3,238
Total financial assets	**5,690**	**5,270**
Trade and other payables	78,220	67,819
Lease liabilities	133,352	114,227
Bonds and borrowings	47,277	47,493
Total financial liabilities	**258,849**	**229,539**

Fair value of financial instruments

A number of assets and liabilities included in the Group's financial statements require measurement and disclosure of, fair value. The fair value measurement of the Group's financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore, may not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables and other financial assets approximate fair values due to their short-term maturities. The fair value of cash and cash equivalents were determined using level 1 measurement

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of financial liabilities within trade and other payables approximate fair values due to their short-term maturities

The estimation of Bonds and borrowings fair value using level 2 inputs was made in accordance with valuation pricing models based on discounted cash flow analysis using market inputs and management judgments given the volatility of interest rates available on the market within 2020 and 2019. For borrowings, the fair value using level 2 inputs were calculated using market rates based on the range from 6.5% to 12.5% per annum interest rate under which the Group could get financing based on currency and maturity diversification. Carrying amounts of bonds and borrowings recorded in the financial statements approximate their fair values.

The estimation of lease liabilities fair value using level 3 inputs was made in accordance with valuation pricing models based on discounted cash flow analysis using market inputs and management judgments given the volatility of interest rates available on the market within 2020 and 2019. For lease liabilities, the fair value using level 3

4. Financial Instruments – Risk Management (Continued)

inputs were calculated using market rates based on the range from 7.3% to 13.8% per annum interest rate under which the Group could get financing based on currency and maturity diversification. Fair value of lease liabilities exceeds of its net book value by GEL1,067 thousand (2019: GEL1,500 thousand).

Capital management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance. Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, capital contributions as well as taking of new loans and borrowings or redemption of existing Bonds and borrowings.

General objectives, policies and processes

Top management has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Group does not have a written policy of risk management. However, Top management maintains control to the risks and aims to work out such policy that will reduce risks, in order to protect Group's competitiveness and flexibility from negative effect arising from the risks. It is possible to get more accurate information about the Group risk management approach below:

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group doesn't use any derivatives to manage foreign currency risk exposure. The following table shows the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities.

	31.12.2020		31.12.2019	
	USD	EUR	USD	EUR
Trade and other receivables	-	-	78	276
Cash and cash equivalents	12	28	1	-
Total financial assets	**12**	**28**	**79**	**276**
Trade and other payables	432	357	79	581
Lease liabilities	105,023	1,299	88,749	621
Bonds and borrowings	-	3,870	-	-
Total financial liabilities	**105,455**	**5,526**	**88,828**	**1,202**
Net financial position	**(105,443)**	**(5,498)**	**(88,749)**	**(926)**

The following table details the Group's sensitivity to a 20% increase and decrease in the GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably 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 20% change in foreign currency rates. The following table shows impact on profit or loss and equity based on asset and liabilities values.

	USD/GEL + 20%	USD/GEL - 20%	EUR/GEL + 20%	EUR/GEL - 20%
Profit/(loss) 2020	(21,089)	21,089	(1,100)	1,100
Profit/(loss) 2019	(17,750)	17,750	(185)	185

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure. The Group is exposed to cash flow interest rate risk as entities in the Group borrow funds at floating interest rates.

4. Financial Instruments – Risk Management (Continued)

A sensitivity analysis is performed by applying a simulation technique to the liabilities that represent major interest-bearing positions. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. Based on the simulations performed, the impact on profit or loss and equity of a 100 basis-point shift (being the maximum reasonable expectation of changes in interest rates [basis point: 1/100th of a percentage point]) is presented in the table below:

	2020		2019	
	Increase 100 base point	Decrease 100 base point	Increase 100 base point	Decrease 100 base point
Profit/(loss)	(434)	434	(434)	434

Limitations of sensitivity analysis. The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. There is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from its trade receivables and cash and cash equivalents (excluding cash on hand). The Group's management has established a credit policy under which each customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

In monitoring customer credit risk, customers are grouped according to their overdue status, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the management, and future sales are made necessary on a prepayment basis. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31.12.2020	31.12.2019
Trade and other receivables	1,834	2,032
Cash and cash equivalents except cash on hand	2,853	2,286
Total	**4,687**	**4,318**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the contractual maturity date. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The following tables detail the Group's remaining contractual maturity for financial liabilities with agreed repayment periods.

	Less than 6 months	6 to 1 year	1-5 year	More than 5 years	Total
Trade and other payables	78,220	-	-	-	**78,220**
Lease liabilities	16,995	16,995	135,960	33,990	**203,940**
Bonds and borrowings	7,253	28,963	16,444	-	**52,660**
Total financial liabilities 31.12.2020	**102,468**	**45,958**	**152,404**	**33,990**	**334,820**

4. Financial Instruments – Risk Management (Continued)

	Less than 6 months	6 to 1 year	1-5 year	More than 5 years	Total
Trade and other payables	67,819	-	-	-	67,819
Lease liabilities	13,678	13,678	109,424	27,356	164,136
Bonds and borrowings	10,300	3,643	44,731	-	58,674
Total financial liabilities 31.12.2019	**91,797**	**17,321**	**154,155**	**27,356**	**290,629**

5. Revenue

	2020	2019
Food	375,862	281,472
Non-food	146,169	158,328
Total	**522,031**	**439,800**

The Group sells food and non-food products in stores. The management recognizes revenue at a point in time.

6. Cost of sale

	2020	2019
Cost of goods sold	(384,116)	(327,433)
Inventories shrinkage cost	(4,615)	(4,311)
Obsolete inventories cost	(3,715)	(3,555)
Total	**(392,446)**	**(335,299)**

7. Selling and distribution expenses

	2020	2019
Staff cost	(48,536)	(35,546)
Depreciation and amortization	(33,202)	(29,000)
Utilities	(10,948)	(9,456)
Bank Charges	(3,171)	(2,189)
Maintenance	(2,231)	(2,025)
Marketing	(2,227)	(1,846)
Distribution	(1,660)	(1,880)
Expense relating to variable lease payments	(746)	(677)
Other	(5,219)	(3,971)
Total	**(107,940)**	**(86,590)**

8. General and administrative expenses

	2020	2019
Staff cost	(5,634)	(5,015)
Taxes other than income tax	(2,208)	(2,863)
Depreciation and amortization	(2,064)	(1,602)
Consulting	(748)	(698)
Office expenses	(631)	(571)
Other	(1,447)	(901)
Total	**(12,732)**	**(11,650)**

9. Other non-operating income

	2020
COVID 19 subsidy on personal income tax*	4,331
COVID 19 rent concession	1,766
Other income	415
Total	**6,512**

* To reduce the negative effects of the crisis caused by the spread of COVID-19, the Government of Georgia has decided to subsidize personal income tax. The group received the benefit on the following principle: for employees whose salary does not exceed 750 GEL, the personal income tax in full, and in the case of a salary from 750 to 1500 GEL, the personal income tax in only part of 750 GEL. As at 31 December 2020, the Group has no outstanding liabilities under this subsidy, therefore the ssubsidy amount is fully recognized in profit or loss.

10. Goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. Goodwill is assigned to cash-generating units, including newly created units, that are expected to benefit from the synergy generated by the merger and is the lowest level of the group over management controls Goodwill.

The recoverable amounts of goodwill is determined using value in use calculations, based on cash flow projections from formally approved budgets covering a five-year period and followed by an extrapolation of the expected cash flows for the remaining period using a permanent growth rate determined by management. The recoverable amount of the goodwill equals GEL49,815 thousand as at 31 December 2020 (31 December 2019: GEL47,620 thousand). The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of future cash flows.

As at 31 December 2020, the management has determined future cash flows and related assumptions for the calculation of goodwill's recoverable amount in USD (2019 GEL). 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.

Key assumptions and sensitivity analysis related to cash flow

Management's key assumptions include stable operating profit margins, based on past experience. The Group's management believes that this is the best available input for forecasting future cash flows. The management has used the following key assumptions: a) Operating margin b) Discount rate c) growth rate. Changes in key assumptions may have material impact on recoverable amount.

The table below shows key assumptions, sensitivity analyses If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount for the year ended 31 December 2020:

Key assumptions		a) +0.3% b) c) +1%	a) -0.3% b) c) -1%	Net book value equals to recoverable amount
a) operating margin	2.99%	18,665	(18,665)	decrease 2.99% to 2.81%
b) discount rate	11.78%	(8,810)	10,497	increase 11.78% to 13.1%
c) growth rate	2.2%	5,323	(4,742)	decrease 2.2% to (0.35)%

a) Operating Margin - The cash flow forecast reflects the stable profit margin. Management believes to improve profitability and budgeted operating margin (3%) differ from actual profit margin of the year 2020 (1.83%). In the impairment test conducted on 31 December 2019, the operating margin assumption was 3%.

b) Discount rate - The discount rate is the weighted average cost of capital (WACC), which takes into account the appropriate adjustments to market risk and group-specific risks. (2019 - 12.54%).

c) Growth rate - The growth rate reflects the long-term average growth rate for the Group CGU's (December 31, 2019: 4%). Management uses the dollar long-term inflation rate to estimate the long-term growth rate.

The above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. There is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

11. Property, plant and equipment

Cost or valuation	Land	Buildings	Plant and equipment	Office Equipment	lease hold Improvement	Vehicles	Total
1.1.2019	**493**	**7,515**	**33,717**	**16,943**	**11,218**	**3,424**	**73,310**
Addition	-	490	7,308	3,603	3,899	1,423	**16,723**
Disposals	-	-	(2,209)	(606)	(304)	(194)	**(3,313)**
Revaluation	2,188	(234)	-	-	-	-	**1,954**
31.12.2019	**2,681**	**7,771**	**38,816**	**19,940**	**14,813**	**4,653**	**88,674**
Addition	-	66	6,647	3,524	3,765	557	**14,559**
Disposals	-	(147)	(899)	(916)	(163)	(254)	**(2,379)**
Revaluation	855	185	-	-	-	-	**1,040**
31.12.2020	**3,536**	**7,875**	**44,564**	**22,548**	**18,415**	**4,956**	**101,894**
Accumulated depreciation							
1.1.2019	**-**	**(289)**	**(13,939)**	**(8,223)**	**(3,583)**	**(1,767)**	**(27,801)**
Depreciation	-	(402)	(6,527)	(3,003)	(1,676)	(695)	**(12,303)**
Disposals	-	-	2,207	598	121	114	**3,040**
Revaluation	-	691	-	-	-	-	**691**
31.12.2019	**-**	**-**	**(18,259)**	**(10,628)**	**(5,138)**	**(2,348)**	**(36,373)**
Depreciation	-	(568)	(6,734)	(3,310)	(2,229)	(779)	**(13,620)**
Disposals	-	147	892	906	105	238	**2,288**
Revaluation	-	421	-	-	-	-	**421**
31.12.2020	**-**	**-**	**(24,101)**	**(13,032)**	**(7,262)**	**(2,889)**	**(47,284)**
Net book value							
31.12.2019	**2,681**	**7,771**	**20,557**	**9,312**	**9,675**	**2,305**	**52,301**
31.12.2020	**3,536**	**7,875**	**20,463**	**9,516**	**11,153**	**2,067**	**54,610**

As at 31 December 2020 and 2019 Land, buildings and other assets have been pledged to secure borrowings of the Group. Net book value of pledged assets equals GEL27,900 thousand (2019: GEL31,800 thousand).

Valuation technique and significant unobservable inputs

The fair value of the Land and Buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Management estimates that the warehouse building is specific in terms of purpose, scale, and other characteristics, and that there is no active market for such assets in Georgia. As a result, the fair value of the buildings was determined using discounted future cash flow method (Market capitalization approach). Market approach was used in the case of land valuation. The valuation techniques used, have at least one significant unobserved data, therefore the fair value is classified as 3 level.

The following assumptions are used to calculate discounted value of future cash flows:

- USD3.18 warehouse monthly rental price per square meter;
- 90% occupancy rate;
- 10.31 annual discount rate.

The key assumptions used in assessing fair value are based on internal and external sources of information. The calculation of the fair value of property is significantly influenced by the rental price, the discount rate and the occupancy rate. The table shows the impact of the change in these assumptions on the fair value:

	Occupancy		Discount rate		Rental price	
	increase 10%	decrease 10%	increase 1%	decrease 1%	increase 10%	decrease 10%
31.12.2020	374	(374)	(297)	361	336	(336)
31.12.2019	383	(383)	(246)	287	258	(258)

11. Property, plant and equipment

There was no change in valuation technique between periods. Fair value is measured based on the highest and best use of the assets listed above, which are not different from their current use. If the revalued property were measured at cost, net book value would be GEL491 thousand for land and GEL6,855 thousand for Buildings (2019 land GEL491 thousand, buildings GEL7,326 thousand).

12. Right of use asset and lease liabilities

The Group mainly leases buildings for stores. The contractual lease terms are within range 1 to 12 year. The renewal option is implied through customary business practices. The management estimates outstanding lease terms at the end of each reporting period. The management assumption to utilization renewal option is depended on future economic benefits which will flow to the Group and past experience.

The Group has no borrowings received in the current or comparable period with similar currency, maturity and terms. Incremental Borrowing Rates (IBRs) were determined based on observable market data for a similar sector. The IBRs are within range 11.2 % to 11.6% for leases denominated in GEL and within range 8% to 8.3% for leases denominated in USD.

The Group lease agreements set out fixed and variable lease payments. Variable lease payments are calculated from the revenue of the store located in the leased premises on a monthly basis. The Group separate substantially fixed lease payments from such variable lease payments. The Group calculates substantially fixed lease payments based on the expected minimum revenue from the store located in the leased premises.

The following table shows the movement of right of use assets.

	2020	2019
At 1 January	**104,210**	**101,924**
Additions	17,417	18,789
Amortization	(21,025)	(17,678)
Effect of modification of lease payments and terms	9,208	1,175
At 31 December	**109,810**	**104,210**

The following table shows the movement of lease liabilities.

	2020	2019
At 1 January	**114,227**	**103,764**
Additions	17,417	18,789
Interest expense	10,132	9,234
Lease payments	(29,038)	(24,503)
COVID19 rent concessions	(1,766)	-
Foreign exchange movements	13,172	5,768
Effect of modification of lease payments and terms	9,208	1,175
At 31 December	**133,352**	**114,227**

Net book value of lease liabilities recognized from in-substance fixed payments for the year ended 31 December 2020 equal GEL12,020 thousands (2019 - GEL14,123 thousand).

13. Intangible Assets

Historical cost	Programs in use	Programs under implementation	Other	Total
1.1.2019	**2,287**	**-**	**1,246**	**3,533**
Addition	110	-	188	**298**
Disposal	(83)	-	-	**(83)**
31.12.2019	**2,314**	**-**	**1,434**	**3,748**
Addition	581	1,262	-	**1,843**
Disposal	-	-	(633)	**(633)**
31.12.2020	**2,895**	**1,262**	**801**	**4,958**
Accumulated amortization				
1.1.2019	**(898)**	**-**	**(849)**	**(1,747)**
Amortization	(338)	-	(283)	**(621)**
Disposal	83	-	-	**83**
31.12.2019	**(1,153)**	**-**	**(1,132)**	**(2,285)**
Amortization	(477)	-	(144)	**(621)**
Disposal	-	-	633	**633**
31.12.2020	**(1,630)**	**-**	**(643)**	**(2,273)**
Net book value				
31.12.2019	**1,161**	**-**	**302**	**1,463**
31.12.2020	**1,265**	**1,262**	**158**	**2,685**

14. Inventories

	31.12.2020	31.12.2019
Merchandise inventory	47,489	39,530
Other	1,326	1,235
Total	**48,815**	**40,765**

As at 31 December 2020 and 2019 all inventories have been pledged to secure borrowings of the Group.

15. Trade and other receivables

	31.12.2020	31.12.2019
Trade receivables	2,034	2,032
Less: provision for impairment	(200)	-
Net financial assets	**1,834**	**2,032**
Other advances	1,370	1,845
Total	**3,204**	**3,877**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group’s historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group’s customers. The Group has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in the countries where the Group operates. The Group has recognised impairment loss on financial assets GEL200 thousand during the year 2020.

16. Cash and cash equivalents

	31.12.2020	31.12.2019
Cash on current accounts with banks in Georgian Lari	2,563	2,286
Cash on current accounts with banks in foreign currency	40	-
Restricted cash	250	-
Cash on hand	1,003	952
Total	**3,856**	**3,238**

17. Bonds and Borrowings

	31.12.2020	31.12.2019
Bank borrowings with floating interest rates	10,857	9,723
Borrowings from related parties with fixed interest rates	3,800	3,980
Bonds	-	24,855
Total non-current borrowings	**14,657**	**38,558**
Bank borrowings with floating interest rates	7,086	8,361
Borrowings from related parties with fixed interest rates	96	93
Bonds	25,438	481
Total current borrowings	**32,620**	**8,935**
Total	**47,277**	**47,493**

The following table shows reconciliation of liabilities from financing transactions for the year ended 31 December 2020 and 2019:

	2020	2019
1 January	47,493	48,801
Proceeds from borrowings	38,968	66,837
Principal paid	(40,341)	(68,828)
Interest accruing in the year	5,531	4,958
Interest paid	(5,423)	(4,674)
Effect of changes in foreign exchange rate	1,049	399
31 December	**47,277**	**47,493**

Bank loans terms are within range 1 to 6 years. Borrowings denominated in Georgian GEL have an average annual floating rate of 12%, tied to Tbilisi Interbank Offered rate (TIBR) (2019: 12%) . Borrowings denominated in EUR have an average annual rate of 6.5%, tied to Euribor. Borrowings are secured by fixed assets and inventories. For additional information, see Note 4, 11 and 14.

On 6 August 2018, the group issued bonds by the total value of GEL25,000 thousand with scheduled maturities 3 years. Bonds rate are floating and tied to Tbilisi Interbank Offered rate (TIBR) +4% annually. Average annual rate for the year ended 31 December 2020 was 12.5%. Interest should be paid quarterly. The bonds are the Group's direct unsecured obligations that are equal in priority and equal to the Group's unsecured and non-subordinated obligations.

Bonds and borrowings agreement set out certain financial and non-financial covenants to the Group. In the event of breach of covenants, the lender has the right but not the obligation to demand part or full repayment of the liabilities. As at 31 December 2020 the Group did comply with the financial covenant. The bond agreement includes restrictions on the payment of dividends. The following table shows financial covenants:

	Borrowings	Bonds
Debt service coverage ratio (DSCR)	1.2	1.1
Interest coverage ratio (ICR)	2.25	2.5
(DEBT/EBITDA)	3.6	3.5

Ratios are calculated from the consolidated financial statements. As at 31 December 2020, the Group complied with all the Lender Covenants. As at 31 December 2019, the Group breach financial covenants. The management got the waiver from bondholders/borrowers and presented liabilities as a long-term.

18. Trade and other payables

	31.12.2020	31.12.2019
Trade and other payables	75,196	67,117
Salaries payables	3,024	702
Total financial liabilities	**78,220**	**67,819**
Tax payables	834	798
Contract liabilities	2,367	1,895
Total non-financial liabilities	**3,201**	**2,693**
Total	**81,421**	**70,512**

The following table shows reconciliation of contract liabilities for the year ended 31 December 2020 and 2019:

	2020	2019
1 January	**1,895**	**1,425**
Cash received in advance of performance and not recognised as revenue during the period	1,699	1,762
Amounts included in contract liabilities that was recognised as revenue during the period	(1,040)	(1,094)
Effect of value added tax	(187)	(198)
31 December	**2,367**	**1,895**

19. Related party transaction and outstanding balances

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

	Parent company	Sister company	Same shareholders	Total
Operations 2020:				
Revenue	-	504	-	504
Purchase of inventories	-	(67,394)	-	(67,394)
Purchase of service	(128)	-	-	(128)
Financial expenses	(1,297)	(70)	(194)	(1,561)
Balances 31.12.2020:				
Trade receivables	-	-	-	-
Borrowings	3,896	-	-	3,896
Trade payables	-	6,804	-	6,804
Lease liabilities	6,880	591	2,316	9,787

	Parent company	Sister company	Same shareholders	Total
Operations 2019:				
Revenue	-	341	-	341
Purchase of inventories	-	(72,551)	-	(72,551)
Purchase of service	(125)	-	-	(125)
Financial expenses	(1,306)	(81)	(134)	(1,521)
Balances 31.12.2019:				
Trade receivables	-	28	-	28
Borrowings	4,073	-	-	4,073
Trade payables	-	6,577	-	6,577
Lease liabilities	8,190	704	1,165	10,059

Key management personnel compensation for the year ended 31 December GEL419 thousand (2019 - GEL504 thousand).

20. Commitments and contingencies

Legal proceedings - As at 31 December 2020 and 2019 the Group was not engaged in any material litigation proceedings. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes - Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already accrual all tax liabilities, and therefore no allowance has been made in the consolidated financial statements.

Operating environment

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

21. Restatement of prior year consolidated financial statements

While preparing the financial statements for the year ended 31 December 2020, management has identified a prior period error. The errors were related to incorrect accounting policies. For a revised accounting policy, see Note 23. The following is a list of issues that have led to errors in accounting policies.

a) At the initial recognition of the lease, the Group has not considered substantially fixed lease payments as part of lease liabilities. As a result of correction of the error, the right to use the assets and the lease liability increased, which had an impact on depreciation, finance costs and exchange rate differences.

b) The group reduced the cost of goods sold by discounts received from suppliers and did not take into account the outstanding amount of good in stock at the end of the year. As a result of correction of the error, cost of inventories decreased and the cost of sale increased.

c) The Group did not distribute the transaction price separately for each performance obligation when accounting for bonus points awarded under the Customer Loyalty Program. Contractual liability based on bonus points was reduced. As a result of correction of the error, the contractual liability increased and revenue reduced.

d) The Group did not take into account the variability of the effective interest rate when accruing interest expense on the bonds. Interest expense on the bonds was recognized at the original effective interest rate instead of the updated effective interest rate. As a result of correction of the error, interest expense and bonds outstanding liabilities reduced. The Group had incorrectly allocated short-term and long-term portions of bonds.

e) The Group recognized discounts received from suppliers on trade and other receivables. Trade payables were reduced by discounts received in accordance with the terms of the contract. As a result of correction of the error, trade receivables and payables reduced.

f) The costs allocation was inconsistent to their functions. A significant part of the incorrect presentation of inventory shrinkage and obsolete inventory cost, and incorrect presentation of utility and salary expenses.

Adjustments from the previous period had no effect on net cash flows from operating, investing and financing activities.

The Group restated the comparative amounts for the prior period presented and opening balances of assets, liabilities and equity for the prior period presented.

21. Restatement of prior year consolidated financial statements (continued)

The following tables reflect the restatement on the affected line items in the previously issued consolidated financial statements as at 31 December 2019 and opening balances of assets, liabilities and equity for the prior period presented.

	Presented	Adjustment					Restated
	31.12.2019	A	B	C	D	E	31.12.2019
Right of use asset	92,277	11,933	-	-	-	-	104,210
Total non-current assets	**184,601**	**11,933**	**-**	**-**	**-**	**-**	**196,534**
Inventories	45,589	-	(4,824)	-	-	-	40,765
Trade and other receivables	9,567	-	-	-	-	(5,690)	3,877
Total current assets	**58,394**	**-**	**(4,824)**	**-**	**-**	**(5,690)**	**47,880**
Total assets	**242,995**	**11,933**	**(4,824)**	**-**	**-**	**(5,690)**	**244,414**
Accumulated losses	(27,043)	2,039	(4,824)	(1,701)	356	-	(31,173)
Total equity	**16,312**	**2,039**	**(4,824)**	**(1,701)**	**356**	**-**	**12,182**
Bonds and Borrowings.	38,703	-	-	-	(145)	-	38,558
Lease liabilities.	86,396	9,430	-	-	-	-	95,826
Total non-current liabilities	**125,099**	**9,430**	**-**	**-**	**(145)**	**-**	**134,384**
Trade and other payables	74,501	-	-	1,701	-	(5,690)	70,512
Bonds and Borrowings	9,146	-	-	-	(211)	-	8,935
Lease liabilities	17,937	464	-	-	-	-	18,401
Total current liabilities	**101,584**	**464**	**-**	**1,701**	**(211)**	**(5,690)**	**97,848**
Total equity and liabilities	**242,995**	**11,933**	**(4,824)**	**-**	**-**	**(5,690)**	**244,414**

	Presented	Adjustment					Restated
	1.1.2019	A	B	G	D	E	1.1.2019
Inventories	33,137	-	(3,013)	-	-	-	30,124
Trade and other receivables	8,259	-	-	-	-	(2,866)	5,393
Total current assets	**44,088**	**-**	**(3,013)**	**-**	**-**	**(2,866)**	**38,209**
Total assets	**129,943**	**-**	**(3,013)**	**-**	**-**	**(2,866)**	**124,064**
Accumulated losses	(11,555)	-	(3,013)	(1,324)	-	-	(15,892)
Total equity	**16,730**	**-**	**(3,013)**	**(1,324)**	**-**	**-**	**12,393**
Bonds and Borrowings.	38,660	-	-	-	(241)	-	38,419
Total non-current liabilities	**38,660**	**-**	**-**	**-**	**(241)**	**-**	**38,419**
Trade and other payables	64,412	-	-	1,324	-	(2,866)	62,870
Bonds and Borrowings	10,141	-	-	-	241	-	10,382
Total current liabilities	**74,553**	**-**	**-**	**1,324**	**241**	**(2,866)**	**73,252**
Total equity and liabilities	**129,943**	**-**	**(3,013)**	**-**	**-**	**(2,866)**	**124,064**

21. Restatement of prior year consolidated financial statements (continued)

The tables below show the effect of prior period error on consolidated statement of profit or loss and other comprehensive income:

	Presented	Adjustment					Restated
	2019	A	B	G	D	E	2019
Revenue	440,281	-	-	(481)	-	-	439,800
Cost of products sold	(324,705)	-	(1,811)	-	-	(917)	(327,433)
Impairment and shrinkage of inventories	-	-	-	-	-	(7,866)	(7,866)
Gross profit	**115,576**	**-**	**(1,811)**	**(481)**	**-**	**(8,783)**	**104,501**
Selling and distribution expenses	(58,352)	2,441	-	-	-	(30,679)	(86,590)
General and administrative expenses	(47,499)	(72)	-	104	-	35,817	(11,650)
Other income	819	-	-	-	-	-	819
Operating profit	**10,544**	**2,369**	**(1,811)**	**(377)**	**-**	**(3,645)**	**7,080**
Financial expenses	(15,078)	530	-	-	356	-	(14,192)
Foreign exchange gain (loss)	(7,309)	(860)	-	-	-	-	(8,169)
Other expenses.	(2,135)	-	-	-	-	2,135	-
Loss before tax expense	**(13,978)**	**2,039**	**(1,811)**	**(377)**	**356**	**(1,510)**	**(15,281)**
Income tax expenses	(1,510)	-	-	-	-	1,510	-
Loss for the year	**(15,488)**	**2,039**	**(1,811)**	**(377)**	**356**	**-**	**(15,281)**
Other comprehensive income							
Gain on property revaluation	2,645	-	-	-	-	-	2,645
Total comprehensive loss for the year	**(12,843)**	**2,039**	**(1,811)**	**(377)**	**356**	**-**	**(12,636)**

22. Events after the reporting period

After the reporting period, the Group opened 26 new stores.

23. Summary of significant accounting policies

Principal accounting policies applied in the preparation of this consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

23.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates (‘the functional currency’). Consolidated financial statements is presented in Georgian Lari, which is the Group’s functional and presentation currency.

Consolidated financial statement are presented in thousands of GEL.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the consolidated statement of profit or loss and other comprehensive income for the period.

Foreign exchange gains and losses that relate to financial instruments are presented in the consolidated statement of comprehensive income.

Official rate of the National Bank of Georgia	USD	EUR
Exchange rate as at 31.12.2020	3.2766	4.0233
Exchange rate as at 31.12.2019	2.8677	3.2095

23.2 Revenue from contract with customers

The Group recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The Group use five-step model for all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods/services underlying the particular performance obligation is transferred to the customer.

Performance obligation and revenue recognition

The Groups revenue stream is selling food and non-food in stores, revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods are delivered to the customer. However, control might also be transferred when delivered either to the place of departure or place of arrival, depending on the specific terms of the contract with a customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the Group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods in question.

Determining the transaction price

The Group’s most of the contracts are fixed price. The Group distributes the entire contract price to each of the performed obligations by their individual sale price. Prices may change periodically, however the customer knows the price for each product before purchase. The customer pays for the product immediately at the time of purchase. Consequently, management does not adjust transaction price due to the time value of money.

23. Summary of significant accounting policies (continued)

The Group give to customers the option to acquire additional goods for free or at a discounted price. Specifically, Group give to customer award credits (option) under customer loyalty rewards program. The customers can use the award credits (options) to acquire additional future goods for free or at discounted price. These points represent a contractual obligation for the Group. The transaction price is the cash and cash equivalents received from the customers, which is separated between the obligations to be fulfilled at the moment of purchase and the obligations to be fulfilled on the basis of bonus points.

Allocating amounts to performance obligations

For reward credits the Group allocate the transaction price to performance obligations on a relative stand-alone selling price basis. If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, the Group estimate it.

Bonus points awarded to a customer under the Consumer Loyalty Program are accounted for separately from the proceeds under which the bonus points were awarded. The fair value of the consideration received or receivable at the initial stage of the sale is divided between the bonus points and the other components of the sale. The allocated contract price to the bonus points is recognized as a contractual obligation within trade and other payables, which is recognized in profit or loss in proportion to the delivery of the product.

23.3 Expenses

Expenses are recognised in the consolidated income statement if there arises any decrease of economic benefit related to the decrease of an asset or increase of a liability that can be reliably assessed. Expenses are recognised in the consolidated income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the consolidated financial statement.

23.4 Taxation

From 1 January 2017 the Group will recognise the income tax payable on the distribution of dividends as a liability and an expense in the period in which the dividends are declared regardless of the period for which the dividends are declared or the period in which the dividends are ultimately distributed. Owing to the specific nature of the taxation system in Georgia, there are no differences between the carrying amounts and tax bases of the assets and liabilities of companies registered in Georgia that could result in deferred tax assets or deferred tax liabilities.

23.5 Taxes other than income tax

Taxes other than income tax are recognised when obligating events have occurred. The obligating events are an event that raises a liability to pay a tax. Taxes are calculated in accordance with Georgian legislation. Prepaid taxes are recognised as assets.

23.6 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. 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. Refer to note 10 for impairment testing procedures.

23.7 Property, plant and equipment

Land and buildings within property, plant and equipment are stated in the statement of financial position at their revalued amounts, 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 valuator such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

23. Summary of significant accounting policies (continued)

Any revaluation increase arising on the revaluation of such property 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 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. 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 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 and equipment comprises major components having different useful lives, they are accounted for as separate items of property 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.

Expenditure to replace a component of an item of property 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 arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred. The gain or loss arising on the disposal or retirement of an item of property 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.

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:

	Useful life
Buildings	30
Plant and equipment	5
Leasehold improvements	7-10
Office equipment	5
Vehicles	5

23.8 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the consolidated statement of comprehensive income. Intangible assets are amortised from 1 to 15 years.

23.9 Leases

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Group assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

23. Summary of significant accounting policies (continued)

Initial recognition

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognized on the Group's balance sheet as follows:

- an asset representing the right to use the underlying asset over the lease term,
- a liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments (including in-substance fixed payments) less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

(c) amounts expected to be payable by the lessee under residual value guarantees;

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance.

At the commencement date, a Group measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

When the variable element of future lease payments dependent on a rate or index is revised, it adjusts the carrying amount of the lease liability to reflect the payments to make over the remaining terms, which are discounted at the same discount rate that applied on lease commencement. In both cases an equivalent

23. Summary of significant accounting policies (continued)

adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Group elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The discount rate is not determined for the Group as a whole, but for each individual lease. The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Group applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

23.10 Impairment of tangible and intangible assets (except of goodwill)

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can

23. Summary of significant accounting policies (continued)

be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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. An impairment loss is recognised immediately in consolidated statement of profit or loss and other comprehensive income.

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 been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss and other comprehensive income.

23.11 Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the Group from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Movements in goods for resale are accounted for using FIFO method.

23.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

23.13 Contingent assets and liabilities

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognised only when the contingency is resolved.

23.14 Financial instruments

Financial assets

Financial assets are classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The Group’s management has assessed which business models apply to the financial assets held by the Group and has classified financial assets within “financial assets measured at amortised cost” and “financial assets at fair value through profit or loss” category.

23. Summary of significant accounting policies (continued)

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables, insurance receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current insurance and trade and other receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the insurance, trade and other receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the insurance, trade and other receivables. For insurance, trade and other receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised in the statement of comprehensive income. On confirmation that the insurance, trade and receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise trade and other receivables, cash and cash equivalents in the consolidated statement of financial position. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. the Group has classified financial liabilities within “fair value through profit or loss” and “Other financial liabilities” category. Other financial liabilities include the following items: borrowings and bonds, trade payables and short-term monetary liabilities.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Offset of financial assets and liabilities

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 either settle on a net basis, or to realise the asset and settle the liability simultaneously.

23.15 Share capital and share premium

The amount of Group’s authorised share capital is defined by the Group’s Shareholders. The changes in the Group’s share capital (changes in share capital, ownership, etc.) shall be made only based on the decision of the Group’s owner. Issued shares which are sold over nominal value are presented as share premium.

23.16 Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.