**NIKORA GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2021

Together with the Independent Auditors' Report

**CONTENTS:**

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**INDEPENDENT AUDITORS' REPORT**

To the Shareholders and Management of JSC Nikora

**Qualified Opinion**

We have audited the consolidated financial statements of JSC Nikora (the Company) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 about compliance with IFRS neither for the initial recognition nor for the key assumptions used in the impairment test of goodwill for current and comparable periods. The Balance of the goodwill as of 31 December 2021 and 31 December 2020 amounted to 43,618 thousand Gel. The audit opinion on the financial statement for the year ended 31 December 2020 was modified accordingly for the same reason by the predecessor auditor. We were unable to perform the relevant audit procedures and were unable to determine whether any adjustments were required regarding Goodwill's carrying amount and the related elements making up the consolidated financial statements. Our opinion on the current period's financial statement is also modified because of the possible effect of this matter on the comparability of the current period's goodwill figure and the corresponding figures.

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 discounts**<br><br>We have identified the recognition of revenue from contracts with customers as a key audit matter. Contracts with customers include the sale of food and non-food products in retail chain with more than 380 shop. Recognition and measurement of revenue is significantly dependent on the determination of the transaction price, which is substantially influenced by the discounts offered to customers, customer loyalty programs, activity-based bonuses.<br><br>Refer to revenue recognition policy and additional Information in Note 28.2 and 6, respectively. | **We have preformed the following audit procedures to address the key audit matter:**<br><br>• 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";<br>• 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;<br>• We confirmed the recognised revenue with the supported documents;<br>• We carried out analytical procedures on revenue, cost of goods sold and other expenses correlated with revenue;<br>• We examined the adequacy of the information used by management in determining the transaction price and the reasonableness of the estimates;<br>• We discussed whether experience and business practices were properly taken into account in determining the transaction price;<br>• We have investigated the terms of the Customer Loyalty Program;<br>• 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;<br>• We reviewed the discounts and bonuses offered to customers after the reporting period for which the revenue was recognized during the reporting period. We compared these discounts and bonuses with the assumptions used in determining the transaction price.<br>• We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS requirement. |

| | |
|---|---|
| **Fair value accounted property, plant and equipment**<br><br>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 13. The land and buildings are independently appraiser by professionally qualified valuer using the market and cost approach. | **We have performed the following audit procedures to address the key audit matter:**<br><br>• We assessed whether the valuer is independent of the Group and considered the reliability and competency of the valuer;<br>• 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;<br>• We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and<br>• We assessed whether all property valuations have been correctly included in the financial statements. |
| **Accounting of leases for the lessee in accordance with IFRS 16-leases**<br><br>The Group enters numerous lease transactions in the capacity of the lessee and recognizes significant assets and liabilities in accordance with IFRS 16. Accounting of leases for lessees in accordance with IFRS 16 is related to significant management estimation, because of that we have identified the accounting of leases transaction as a key audit.<br><br>The Group relevant accounting policy and additional information are presented in Notes 28.6 and 14, respectively. | **We have performed the following audit procedures to address the key audit matter**:<br><br>• We assessed whether the Group policy related to accounting of lease operation in the capacity of the lessee was in line with the requirements of IFRS 16. We assessed the adequacy of policy for the identification of short-term leases, and lease with fixed and variable payment.<br>• We check compliance of the measurement policy related to asset and liability with IFRS.<br>• On sample basis we have traced relevant lease module used for calculation back to source document (lease contract, invoice, payment i.e.).<br>• We carried out analytical procedures on the right of use asset, lease liability, interest expenses, and other items correlated with lease;<br>• We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS requirement. |

**Other Matter**

The financial statements of the Group for the year ended 31 December 2020, were audited by another auditor who expressed a qualified opinion on those statements on 17 August 2021. The reason for the qualified opinion and relevant effect of this matter in our audit opinion is presented above in the first paragraph of the Basis for Qualified Opinion section.

**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 partner in charge of the audit resulting in this independent audit report is Ivan jelia.

Ivan Jelia (Auditor's registration number SARAS -A-954810)
Managing Partner
Baker Tilly Georgia LLC
25 May 2022
Tbilisi, Georgia

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

(In thousands of GEL)

| | Note | 2021 | 2020 |
|---|---|---|---|
| Revenue | 6 | 749,678 | 603,278 |
| Cost of sale | 7 | (530,453) | (434,082) |
| **Gross profit** | | 219,225 | 169,196 |
| Other income | 8 | 816 | 2,400 |
| Selling and distribution expenses | 9 | (143,347) | (114,484) |
| General and administrative expenses | 10 | (31,561) | (30,403) |
| Other gain/(loss), net | 11 | 170 | (250) |
| Financial income | | 241 | 553 |
| Financial expenses | | (23,851) | (21,112) |
| Foreign exchange gain/(loss) | | 10,195 | (18,672) |
| **Profit/(Loss) before income tax** | | 31,888 | (12,772) |
| Income tax expenses | | (1,053) | (993) |
| **Profit/(Loss) for the year** | | 30,835 | (13,765) |
| | | | |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Revaluation of property and bearer plants | | (1,447) | 8,356 |
| **Total comprehensive Profit/(Loss) for the year** | | 29,388 | (5,409) |
| | | | |
| **Total Profit/(Loss) attributable to** | | | |
| Owner of the Company | | 29,426 | (11,999) |
| Non-controlling interest | | 1,409 | (1,766) |
| Total Profit/(Loss) | | 30,835 | (13,765) |
| | | | |
| **Total comprehensive Profit/(Loss) attributable to:** | | | |
| Owner of the Company | | 28,010 | (4,224) |
| Non-controlling interest | | 1,378 | (1,185) |
| **Total comprehensive Profit/(Loss)** | | 29,388 | (5,409) |

The consolidated financial statements for the year ended 31 December 2021 was approved on behalf of the management on 25 May 2022 by:

Director ________________ Irakli Bokolishvili

Financial director ________________ Irakli Gejadze

NIKORA GROUP

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(In thousands of GEL)

| | Note | 31.12.2021 | 31.12.2020 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 12 | 43,618 | 43,618 |
| Property, plant and equipment | 13 | 135,916 | 130,148 |
| Right of use asset | 14 | 95,402 | 103,835 |
| Intangible assets | 15 | 4,766 | 3,480 |
| Biological assets | 16 | 770 | 839 |
| Prepayment for non-current assets | | 1,223 | - |
| Other financial assets | | - | 7,291 |
| | | **281,695** | **289,211** |
| Current assets | | | |
| Inventories | 17 | 88,113 | 72,967 |
| Trade and other receivables | 18 | 24,707 | 15,550 |
| Cash and cash equivalents | 19 | 20,462 | 4,984 |
| Other financial assets | | 96 | - |
| | | **133,378** | **93,501** |
| **Total assets** | | **415,073** | **382,712** |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Ordinary share capital | 20 | 6,471 | 6,471 |
| Preference share capital | 20 | 19,158 | 6,910 |
| Treasury share reserve | 20 | (728) | (696) |
| Revaluation reserve | | 24,887 | 26,432 |
| Accumulated profit/(loss) | | 7,297 | (315) |
| Non-controlling interests | 21 | 1,719 | 853 |
| | | **58,804** | **39,655** |
| Non-current liabilities | | | |
| Bonds and borrowings | 22 | 61,383 | 65,724 |
| Lease liabilities | 14 | 83,172 | 104,705 |
| Deferred income | 23 | 2,537 | - |
| | | **147,092** | **170,429** |
| Current liabilities | | | |
| Trade and other payables | 24 | 112,213 | 93,231 |
| Bonds and borrowings | 22 | 72,572 | 57,173 |
| Lease liabilities | 14 | 24,392 | 22,224 |
| | | **209,177** | **172,628** |
| **Total liabilities** | | **356,269** | **343,057** |
| **Total equity and liabilities** | | **415,073** | **382,712** |

The consolidated financial statements for the year ended 31 December 2021 was approved on behalf of the management on 25 May 2022 by:

Director ______________________ Irakli Bokolishvili

Financial director ______________________ Irakli Gejadze

Notes on pages 12-45 are the integral part of this consolidated financial statements

## CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2021

(In thousands of GEL)

| | Ordinary Share capital | Preference share capital | Ordinary treasury share reserve | Revaluation reserve | Accumulated profit/(loss) | Attributable to the shareholders of the Company | Attributable to non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| 1 January 2020 | 6,471 | 17,973 | (1,326) | 18,391 | 15,329 | 56,838 | 3,274 | 60,112 |
| Loss for the year | - | - | - | - | (11,999) | **(11,999)** | (1,766) | **(13,765)** |
| Revaluation of property and plants | - | - | - | 7,775 | - | **7,775** | 581 | **8,356** |
| Transactions with non-controlling interests | - | - | 647 | 266 | 10,088 | **11,001** | (1,236) | **9,765** |
| Dividends on ordinary shares | - | - | - | - | (3,682) | **(3,682)** | - | **(3,682)** |
| Dividends on preference shares | - | - | - | - | (2,477) | **(2,477)** | - | **(2,477)** |
| Purchase of preference shares | - | (11,506) | - | - | (6,524) | (18,030) | - | (18,030) |
| Share emissions | - | 443 | - | - | - | **443** | - | **443** |
| Purchase of ordinary shares | - | - | (17) | - | (1,050) | **(1,067)** | - | **(1,067)** |
| **31 December 2020** | **6,471** | **6,910** | **(696)** | **26,432** | **(315)** | **38,802** | **853** | **39,655** |
| Profit for the year | - | - | - | - | 29,426 | **29,426** | **1,409** | **30,835** |
| Revaluation of property and plants | - | - | - | (1,416) | - | **(1,416)** | **(31)** | **(1,447)** |
| Reclassification of revaluation reserve | - | - | - | (319) | 319 | - | - | - |
| Transactions with non-controlling interests | - | - | - | 190 | (14,016) | **(13,826)** | **(512)** | **(14,338)** |
| Dividends on ordinary shares | - | - | - | - | (5,000) | **(5,000)** | - | **(5,000)** |
| Dividends on preference shares | - | - | - | - | (988) | **(988)** | - | **(988)** |
| Share emissions | - | 12,248 | - | - | - | **12,248** | - | **12,248** |
| Purchase of ordinary shares | - | - | (32) | - | (2,129) | **(2,161)** | - | **(2,161)** |
| **31 December 2021** | 6,471 | 19,158 | **(728)** | 24,887 | 7,297 | 57,085 | 1,719 | 58,804 |

The consolidated financial statements for the year ended 31 December 2021 was approved on behalf of the management on 25 May 2022 by:

Director ______________________ Irakli Bokolishvili

Financial director ______________________ Irakli Gejadze

NIKORA GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(In thousands of GEL)

| | 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) for the year | **31,888** | **(12,772)** |
| Adjustments for: | | |
| Depreciation and amortization | 39,257 | 38,586 |
| Financial expenses | 23,851 | 21,112 |
| Inventory losses | 15,393 | 10,616 |
| Foreign exchange gain/loss | (10,195) | 18,733 |
| COVID 19 Rent concessions and subsidy | (4,414) | (6,825) |
| Gain from biological transformation | (2,059) | (1,797) |
| Impairment of financial assets | 451 | 717 |
| Loss on disposal of property, plant and equipment | 175 | 380 |
| Financial income | (241) | (553) |
| **Movements in working capital** | | |
| Increase/Decrease in trade and other receivables | (9,056) | 1,449 |
| Increase in inventories | (28,480) | (13,194) |
| Increase in trade and other payables | 20,127 | 10,573 |
| **Cash inflow from operating activities** | **76,697** | **67,025** |
| Interest paid | (22,874) | (20,888) |
| Income tax paid | (1,062) | (993) |
| Interest received | 353 | - |
| **Net cash inflow from operating activities** | **53,114** | **45,144** |
| | | |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | (22,346) | (22,301) |
| Payments for intangible assets | (2,881) | (601) |
| Payments for biological assets | - | (29) |
| Proceeds from disposal of property, plant and equipment | 954 | - |
| Increased investment in subsidiary | (2,089) | - |
| **Net cash outflow from investing activities** | **(26,362)** | **(22,931)** |
| | | |
| **Cash flows from financial activities** | | |
| Proceeds from borrowings and bonds | 294,775 | 198,054 |
| Repayment of borrowings and bonds | (281,497) | (180,701) |
| Repayment of lease liabilities | (23,152) | (17,948) |
| Dividends paid | (5,452) | (5,476) |
| Purchase of own shares | (2,158) | (19,097) |
| Shares emission | 6,344 | 4,931 |
| **Net cash outflow from financing activities** | **(11,140)** | **(20,237)** |
| | | |
| **Net increase in cash and cash equivalents** | **15,612** | **1,976** |
| **Cash and cash equivalents at the beginning of the year** | **4,984** | **3,620** |
| Effect of changes in foreign exchange rate | (134) | (612) |
| **Cash and cash equivalents at the end of the year** | **20,462** | **4,984** |

The consolidated financial statements for the year ended 31 December 2021 was approved on behalf of the management on 25 May 2022 by:

Director ______________________ Irakli Bokolishvili

Financial director ______________________ Irakli Gejadze

Notes on pages 12-45 are the integral part of this consolidated financial statements

## 1. General information

These consolidated financial statements include financial information of JSC Nikora (the "Parent Company") and of its subsidiaries (together referred to as the "Group"). The Parent Company is a registered Joint Stock Company incorporated in Georgia having its business address at 11 M. Kavtaradze street, Tbilisi, Georgia.

The Group operates food retail stores chain in Georgia having 388 stores as at 31 December 2021 (31 December 2020: 345 stores), also the Group manufactures food and has distribution chain in Georgia.

The following table shows JSC Nikora's subsidiaries:

| Name | 31.12.2021 | 31.12.2020 | Type of operations |
|---|---|---|---|
| Nikora Trade JSC | 94.7% | 90% | Retail |
| Mila Sakartvelo LLC | 50% | 50% | Retail |
| Nikora LLC | 100% | 100% | Manufacturing - Meat products |
| Korida LLC | 100% | 100% | Manufacturing- Meat products |
| Oceane LLC | 100% | 100% | Manufacturing - Sea products |
| Chveni Fermeri LLC | 100% | 100% | Manufacturing - Dairy products |
| Mzareuli I LLC | 100% | 100% | Manufacturing - Bakery products |
| Kulinari LLC | 50% | 50% | Manufacturing - Salads |
| Partner LLC | 100% | 100% | Distribution |
| Intrade LLC | 100% | 100% | Import |
| Multitrade LLC | 100% | 100% | Import |
| Vakijvris kalmakhi LLC | 91% | 91% | Agricultural activity - Trout farm |
| Napareulis dzveli marani LLC | 100% | 100% | Agricultural activity - vineyards |
| Nikora Bakuriani LLC | 50% | 50% | Real estate |
| Intrade Poti LLC | 100% | 100% | Dormant |
| Nikora Kakheti LLC | 100% | 100% | Dormant |
| Nikora agro LLC | 100% | 100% | Dormant |
| Web trade LLC | 100% | 100% | Dormant |
| Krtsanisi 14 LLC | 100% | 100% | Dormant |
| Royal Kaspia LLC | 50% | 50% | Dormant |
| Lazi - Holding LLC | 67% | 67% | Dormant |
| Nugeshi LLC | 100% | 100% | Dormant |

## 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 and fair value accounted biological assets. The reporting period for the Group is the calendar year from 1 January to 31 December.

### Going concern

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. In adopting the going concern basis for preparing the consolidated financial statements, the management have considered the Group's business activities, objectives and strategy, principal risks and uncertainties in achieving its objectives, and performance. The management have performed a robust assessment of the Group's consolidated financial forecasts across a range of scenarios over 12 months from the date the consolidated financial statements are authorised for issue, incorporating extreme downside scenario, which involved examining the level of disruption that may cause the Group to fail. The assessment specifically incorporated analysis of the COVID-19 pandemic impact implications on the Group's projected performance, liquidity and funding. Based on this, management believes that the ability of the Group to continue operating as going concern within 12 months of the approval of the consolidated financial statements is not materially uncertain

**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
- 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.

**Adoption of new or revised standards and interpretations**

**a) New standards, interpretations and amendments effective from 1 January 2021**

There have been adopted some new standards and interpretations. Neither of interpretations and amendments have material effect, on the Group's financial statements for the year ended 31 December 2021 and did not have any material impact on the Group's financial statements :

| ***Title*** | **Key requirements** | **Effective date** |
|---|---|---|
| *Covid-19-related Rent Concessions - Amendments to IFRS 16* | As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 *Leases* which provides lessees with an option to treat qualifying rent concessions in the same way as they | 1 June 2020/ 1 April 2021 * |

| *Title* | **Key requirements** | **Effective date** |
|---|---|---|
| | would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.<br>Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.<br>* The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.<br>If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment.<br>However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so. | |
| *Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* | In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.<br>The Phase 2 amendments provide the following reliefs:<br>• When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.<br>• The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.<br>Affected entities need to disclose information about the nature and extent of risks arising from IBOR reform to which the entity is exposed, how the entity manages those risks, and the entity's progress in completing the transition to alternative benchmark rates and how it is managing that transition.<br>Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries. | 1 January 2021 |

**b) New standards interpretations and amendments not yet effective**

The Group has not early adopted any of the amendments effective after 31 December 2021 and it expects they will have an insignificant effect, when adopted:

| *Title* | **Key requirements** | **Effective date** |
|---|---|---|
| IFRS 17 *Insurance Contracts* | IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of: | 1 January 2023 (deferred from 1 January |

| *Title* | **Key requirements** | **Effective date** |
|---|---|---|
| | • discounted probability-weighted cash flows<br>• an explicit risk adjustment, and<br>• a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.<br>The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.<br>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.<br>There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.<br>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.<br>Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023. | 2021) |
| *Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16* | The amendment to IAS 16 *Property, Plant and Equipment* (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.<br>Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities. | 1 January 2022 |
| *Reference to the Conceptual Framework – Amendments to IFRS 3* | Minor amendments were made to IFRS 3 *Business Combinations* to update the references to the *Conceptual Framework for Financial Reporting* and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21 *Levies*. The amendments also confirm that contingent assets should not be recognised at the acquisition date. | 1 January 2022 |
| *Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37* | The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. | 1 January 2022 |
| *Annual Improvements to IFRS Standards 2018–2020* | The following improvements were finalised in May 2020:<br>• IFRS 9 *Financial Instruments* – clarifies which fees | 1 January 2022 |

| *Title* | Key requirements | Effective date |
|---|---|---|
| | should be included in the 10% test for derecognition of financial liabilities.<br>• IFRS 16 *Leases* – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.<br>• IFRS 1 *First-time Adoption of International Financial Reporting Standards* – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.<br>IAS 41 *Agriculture* – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis. | |
| *Classification of Liabilities as Current or Non-current – Amendments to IAS 1* | The narrow-scope amendments to IAS 1 *Presentation of Financial Statements* clarify that liabilities are classified as either current or non- current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.<br>The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.<br>They must be applied retrospectively in accordance with the normal requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* | 1 January 2023 (deferred from 1 January 2022) |
| *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2* | The IASB amended IAS 1 to require entities to disclose their *material* rather than their *significant* accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.<br>To support this amendment, the IASB also amended IFRS Practice Statement 2 *Making Materiality Judgements* to provide guidance on how to apply the concept of materiality to accounting policy disclosures. | 1 January 2023 |
| *Definition of Accounting Estimates - Amendments to IAS 8* | The amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. | 1 January 2023 |
| *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12* | The amendments to IAS 12 *Income Taxes* require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. | 1 January 2023 |

| *Title* | Key requirements | Effective date |
|---|---|---|
| | The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:<br>• right-of-use assets and lease liabilities, and<br>• decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.<br>The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.<br>IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments. | |
| *Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28* | The IASB has made limited scope amendments to IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures.*<br>The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non- monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).<br>Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.<br>** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method. | n/a ** |

## 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.

### 3.3 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 and biological assets

Land and buildings within property, plant and equipment and biological assets are stated in the consolidated 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.

### 3.6 De-facto control estimation

De facto control exists in situations where the Company has the practical ability unilaterally to direct the relevant activities of the company without a majority voting right. To estimate if de-facto control exists, the Company considered all relevant facts and circumstances. Experience and existing circumstances to determining de-facto control may differ from those developments in the future that lead to a loss of de facto control.

The table below shows subsidiaries, on which the Company has de-facto control;

| Name | 31.12.2021 | 31.12.2020 | Type of operations |
|---|---|---|---|
| Mila Sakartvelo LLC | 50% | 50% | Retail |
| Kulinari LLC | 50% | 50% | Manufacturing - Salads |
| Nikora bakuriani LLC | 50% | 50% | Real estate |

The Group determined that the Company has the practical ability to unilaterally manage the significant activities of the above companies and have been identified as subsidiaries. The determinants of identifying de facto control are the practice of past decisions and access to finance.

## 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, other financial assets, trade and other receivables and cash and cash equivalents. The following table shows the major categories of financial instruments.

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Other financial assets. | 96 | 7,291 |
| Trade and other receivables net of impairment | 14,335 | 7,780 |
| Cash and cash equivalents | 20,462 | 4,984 |
| **Total financial assets** | **34,893** | **20,055** |
| | | |
| Trade and other payables | 101,958 | 83,897 |
| Lease liabilities | 107,564 | 126,929 |
| Bonds and borrowings | 133,955 | 122,897 |
| **Total financial liabilities** | **343,477** | **333,723** |

**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 short-term 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

Other financial assets 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 volatility of interest rates available on the market. The fair value using level 3 inputs was calculated using market rates based on the range from 6% to 7% per annum interest rate. Carrying amounts of other financial assets recorded in the financial statements approximate their fair values.

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. For borrowings, the fair value using level 2 inputs were calculated using market rates based on the range from 7% to 14 % 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. For lease liabilities, the fair value using level 3 were calculated using market rates based on the range from 7% to 14 % per annum.

**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.

| | 31.12.2021 | | 31.12.2020 | |
|---|---|---|---|---|
| | USD | EUR | USD | EUR |
| **Financial assets** | | | | |
| Other financial assets | 96 | - | 7,291 | - |
| Trade and other receivables | 11 | - | - | - |
| Cash and cash equivalents | 839 | 127 | 340 | 28 |
| **Total financial assets** | **946** | **127** | **7,631** | **28** |
| **Financial liabilities** | | | | |
| Trade and other payables | 7,556 | 3,640 | 6,490 | 5,071 |
| Lease liabilities | 94,716 | 519 | 105,611 | 1,299 |
| Bonds and borrowings | 15,379 | 13,602 | 15,229 | 12,458 |
| **Total financial liabilities** | **117,651** | **17,761** | **127,330** | **18,828** |
| **Net financial position** | **(116,705)** | **(17,634)** | **(119,699)** | **(18,800)** |

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) 2021 | (23,341) | 23,341 | (3,527) | 3,527 |
| Profit/(loss) 2020 | (23,940) | 23,940 | (3,760) | 3,760 |

### 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. 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:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Increase 100 base point | Decrease 100 base point | Increase 100 base point | Decrease 100 base point |
| Profit/(loss) | (1,336) | 1,336 | (1,225) | 1,225 |

**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:

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Other financial assets | 96 | 7,291 |
| Trade and other receivables net of impairment | 14,335 | 7,780 |
| Cash and cash equivalents except cash on hand | 19,215 | 3,903 |
| **Total** | **33,646** | **18,974** |

**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 | From 6 month to 1 year | 1 - 5 year | More than 5 year | Total |
|---|---|---|---|---|---|
| Trade and other payables | 101,958 | - | - | - | **101,958** |
| Lease liabilities | 14,916 | 14,469 | 90,329 | 9,843 | **129,557** |
| Bonds and borrowings | 47,467 | 35,476 | 73,057 | 1,718 | **157,718** |
| **Total 31.12.2021** | **164,341** | **49,945** | **163,386** | **11,561** | **389,233** |
| Trade and other payables | 83,897 | - | - | - | **83,897** |
| Lease liabilities | 16,106 | 16,075 | 95,807 | 28,399 | **156,387** |
| Bonds and borrowings | 32,690 | 33,219 | 67,909 | 8,272 | **142,090** |
| **Total 31.12.2020** | **132,693** | **49,294** | **163,716** | **36,671** | **382,374** |

## 5. Segment information

The Group disclose information about the segments as the Group has issued bonds on the Georgian stock exchange.

**Description of the types of products and services from which each reportable segment derives its revenues**

The Group has three main segments.

(a) Retail – the segment is involved in the retail market and offers a wide range of food and non-food products to its customers through the chain of stores "Nikora", "Libre", "Nugeshi". Retail is the largest part of the Group's business, which collects 86.5 % of the Group's external revenue (2020 – 86.4%).

(b) Manufacturing – the segment is involved in the manufacturing of meat, bakery, milk, seafood and semi-finished products. The products are delivered to the customers through their own retail chain and wholesale to external customers. The chief operating decision maker in the Group carefully monitors this segment as a potential growth business segment and is expected to materially contribute to the Group's revenue in future. This segment generating 3.82% (2020: 4.5%) of the Group's external revenues.

(c) Import and Distribution – the segment is involved in distribution of various products, within the Group and external customers. The segment imports and sells raw materials, food, beverages and non-food products. The chief operating decision maker in the Group carefully monitors this segment as a potential growth business segment and is expected to materially contribute to the Group's revenue in future. This segment generating 9.32% (2020: 8.8%) of the Group's external revenues.

Other segments involved in agricultural and real estate activities. The Group owns a fish farm and offers Trout to internal and external customers, also the Group owns vineyards and delivers to agricultural products to customers in the form of grapes. Real estate operation includes construction of a complex in Bakuriani, which is intended for selling and renting residential and commercial spaces. The total assets and total revenue from this segment are the smallest part of the Group and does not meet the quantitative thresholds to be a reportable segment.

**Factors that management used to identify the Group's reportable segments**

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The Group use the quantitative thresholds to identify the operating segment. The Group reports separately information about an operating segment that meets quantitative thresholds. Each of the reportable segment owns more than 10% of the total assets of the Group and generates more than 10% of the results of the Group activities.

Operating segments are aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;

(b) the nature of the production processes;

(c) the type or class of customer for their products and services;

(d) the methods used to distribute their products or provide their services; and

(e) if applicable, the nature of the regulatory environment.

Management aggregated the following segments:

- **Manufacturing -** which includes the production of food products and semi-finished products through various components;

- **Import and distribution** - includes import of a wide range of products and delivery to internal and external customers.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker is General Director of the parent company.

**Measurement of operating segment profit or loss, assets and liabilities**

The Group evaluates segmental performance on the basis of profit or loss from operations calculated in accordance with IFRS. The Group does not allocate the following expenses to operating segments:

**5. Segment information (Continued)**

- Non-recurring income and expenses;
- Financial income generated from the outside of the Group;
- Net financial expenses: intragroup financial income minus financial expenses;
- Other general expenses;
- Income tax expenses.

The Group's segment assets are located in Georgia. Accordingly, the Group does not presented information about the geographical distribution of assets. Segment assets and liabilities exclude assets and liabilities arising from external operations of the head office. The property on the balance sheet of the parent company is allocated to the segment based on lease agreements. Borrowings and bonds on the balance sheet of the parent company are allocated to the segment according to the loans issued to them within the group. Estimates of segment profit or loss, segment assets and liabilities, accounting method for transactions performed between reporting segments do not differ from the Group's accounting policies.

The following table shows the results of the operating segments;

| | Retail | Manufacturing | Import and Distribution | Other | Total Segment | Un distributed | Elimination | 2021 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 650,551 | 149,669 | 197,461 | 2,911 | 1,000,592 | 14 | (250,928) | 749,678 |
| Cost of sale | (480,133) | (124,160) | (174,466) | (2,220) | (780,979) | - | 250,526 | (530,453) |
| **Gross profit** | **170,418** | **25,509** | **22,995** | **691** | **219,613** | **14** | **(402)** | **219,225** |
| Other income | 738 | 13 | 45 | 348 | 1,144 | - | (328) | 816 |
| Selling and distribution expenses | (130,522) | (7,821) | (9,893) | - | (148,236) | - | 4,889 | (143,347) |
| General, administrative expenses | (10,937) | (9,565) | (5,072) | (627) | (26,201) | (3,661) | (1,699) | (31,561) |
| Other income/(expense), net | (524) | 418 | 34 | (180) | (252) | (272) | 694 | 170 |
| Financial income | 231 | - | - | - | 231 | 10 | - | 241 |
| Financial expenses | (16,132) | (3,809) | (2,849) | (460) | (23,250) | (4,726) | 4,125 | (23,851) |
| Foreign exchange gain | 6,932 | 1,326 | 681 | 447 | 9,386 | 809 | - | 10,195 |
| **Profit before income tax** | **20,204** | **6,071** | **5,941** | **219** | **32,435** | **(7,826)** | **7,279** | **31,888** |
| Income tax expenses | - | - | - | - | - | (1,053) | - | (1,053) |
| **Profit for the year** | **20,204** | **6,071** | **5,941** | **219** | **32,435** | **(8,879)** | **7,279** | **30,835** |

The following table shows the results of the operating segments;

| | Retail | Manufacturing | Import and Distribution | Other | Total Segment | Un distributed | Elimination | 2020 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 522,031 | 130,006 | 120,558 | 2,347 | 774,942 | 85 | (171,749) | 603,278 |
| Cost of sale | (392,446) | (106,737) | (104,958) | (2,191) | (606,332) | - | 172,250 | (434,082) |
| **Gross profit** | **129,585** | **23,269** | **15,600** | **156** | **168,610** | **85** | **501** | **169,196** |
| Other income | 2,429 | 22 | 18 | - | 2,469 | - | (69) | 2,400 |
| Selling and distribution expenses | (103,781) | (5,855) | (7,304) | - | (116,940) | - | 2,456 | (114,484) |
| General, administrative expenses | (12,360) | (10,271) | (4,679) | (488) | (27,798) | (2,167) | (438) | (30,403) |
| Other income/(expense), net | 214 | (32) | (381) | (51) | (250) | - | - | (250) |
| Financial income | - | - | - | - | - | 553 | - | 553 |
| Financial expenses | (15,663) | (3,314) | (1,888) | (263) | (21,128) | (1,320) | 1,336 | (21,112) |
| Foreign exchange loss | (14,579) | (2,847) | (2,430) | (421) | (20,277) | 1,605 | - | (18,672) |
| **Loss before income tax** | **(14,155)** | **972** | **(1,064)** | **(1,067)** | **(15,314)** | **(1,244)** | **3,786** | **(12,772)** |
| Income tax expenses | - | - | - | - | - | (993) | - | (993) |
| **Loss for the year** | **(14,155)** | **972** | **(1,064)** | **(1,067)** | **(15,314)** | **(2,237)** | **3,786** | **(13,765)** |

The following table shows intragroup revenues between segments;

| Segment as supplier | Segment as customer | | | | |
|---|---|---|---|---|---|
| | Retail | Manufacturing | Import and distribution | Other | Total 2021 |
| Retail | - | 896 | 225 | 2 | 1,123 |
| Manufacturing | 33,194 | 9,394 | 78,419 | 44 | 121,051 |
| Import and Distribution | 73,186 | 31,709 | 23,207 | 13 | 128,115 |
| Other | 411 | 202 | - | 26 | 639 |
| **Total** | **106,791** | **42,201** | **101,851** | **85** | **250,928** |

| Segment as supplier | Segment as customer | | | |
|---|---|---|---|---|
| | Retail | Manufacturing | Import and distribution | Total 2020 |
| Retail | - | 651 | - | 651 |
| Manufacturing | 31,634 | 10,520 | 60,579 | 102,733 |
| Import and Distribution | 39,130 | 25,582 | 3,014 | 67,726 |
| Other | 443 | 196 | - | 639 |
| **Total** | **71,207** | **36,949** | **63,593** | **171,749** |

The following table shows segments assets and liabilities;

| | Retail | Manufacturing | Import and Distribution | Other | Total Segment | Un distributed | Elimination | 2021 |
|---|---|---|---|---|---|---|---|---|
| Total non-current assets | 230,528 | 39,430 | 4,430 | 11,134 | 285,522 | 7,805 | (11,632) | 281,695 |
| Total current assets | 87,480 | 25,788 | 46,632 | 1,091 | 160,991 | 1,269 | (28,882) | 133,378 |
| **Total assets** | **318,008** | **65,218** | **51,062** | **12,225** | **446,513** | **9,074** | **(40,514)** | **415,073** |
| Total non-current liabilities | 127,136 | 12,308 | 275 | 2,796 | 142,515 | 15,450 | (10,873) | 147,092 |
| Total current liabilities | 145,952 | 33,454 | 46,641 | 2,907 | 228,954 | 31,346 | (51,123) | 209,177 |
| **Total liabilities** | **273,088** | **45,762** | **46,916** | **5,703** | **371,469** | **46,796** | **(61,996)** | **356,269** |
| Net assets | **44,920** | **19,456** | **4,146** | **6,522** | **75,044** | **(37,722)** | **21,482** | **58,804** |

The following table shows segments assets and liabilities;

| | Retail | Manufacturing | Import and Distribution | Other | Total Segment | Un distributed | Elimination | 2020 |
|---|---|---|---|---|---|---|---|---|
| Total non-current assets | 224,312 | 32,006 | 4,794 | 11,932 | 273,044 | 16,167 | - | 289,211 |
| Total current assets | 55,875 | 24,111 | 32,177 | 1,259 | 113,422 | 357 | (20,278) | 93,501 |
| **Total assets** | **280,187** | **56,117** | **36,971** | **13,191** | **386,466** | **16,524** | **(20,278)** | **382,712** |
| | | | | | - | | | |
| Total non-current liabilities | 126,345 | 21,028 | 4,301 | 3,356 | 155,030 | 24,983 | (9,584) | 170,429 |
| Total current liabilities | 135,704 | 21,410 | 32,259 | 3,048 | 192,421 | 1,973 | (21,766) | 172,628 |
| **Total liabilities** | **262,049** | **42,438** | **36,560** | **6,404** | **347,451** | **26,956** | **(31,350)** | **343,057** |
| Net assets | **18,138** | **13,679** | **411** | **6,787** | **39,015** | **(10,432)** | **11,072** | **39,655** |

The Group estimates customers as significant, from which external revenue exceeds 10% of total revenue. The Group has not significant customers.

## 6. Revenue

| | 2021 | 2020 |
|---|---|---|
| Food | 465,378 | 375,862 |
| Non-food | 184,051 | 146,169 |
| **Total retail** | **649,429** | **522,031** |
| Food | 99,381 | 79,745 |
| Non-food | 77 | 1,484 |
| Rendering of services | 776 | 18 |
| Other | 15 | - |
| **Total wholesale** | **100,249** | **81,247** |
| **Total** | **749,678** | **603,278** |

The Group generates revenue from the retail stores selling own manufactured and external food and non-food products, also wholesale to external customers. The Group recognizes revenue point in time.

## 7. Cost of sale

| | 2021 | 2020 |
|---|---|---|
| Cost of goods sold | (519,140) | (424,845) |
| Inventories shrinkage cost | (4,926) | (5,028) |
| Obsolete inventories cost | (5,898) | (3,727) |
| Other | (489) | (482) |
| **Total** | **(530,453)** | **(434,082)** |

## 8. Other income

| | 2021 | 2020 |
|---|---|---|
| Rent income | 816 | 634 |
| COVID rent concession | - | 1,766 |
| **Total** | **816** | **2,400** |

## 9. Selling and distribution expenses

| | 2021 | 2020 |
|---|---|---|
| Staff cost (netted by relevant Covid subsidy from State) | (63,131) | (51,110) |
| Depreciation and amortization | (33,800) | (31,838) |
| Utilities | (19,899) | (10,948) |
| Distribution | (6,913) | (4,060) |
| Bank Charges | (4,412) | (3,171) |
| Marketing | (3,965) | (3,350) |
| Rent | (2,964) | (1,929) |
| Maintenance | (2,654) | (2,572) |
| Other | (5,609) | (5,506) |
| **Total** | **(143,347)** | **(114,484)** |

* 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 GEL750 to GEL1500, the personal income tax in only part of GEL750. As at 31 December 2021, the Group has no outstanding liabilities under this subsidy, therefore the subsidy amount 3,646 (4,537 for the year 2020) is fully recognized in profit or loss by netting the staff cost .

## 10. General and administrative expenses

| | 2021 | 2020 |
|---|---|---|
| Staff cost (netted by relevant Covid subsidy from State) | (17,916) | (14,953) |
| Inventories write off | (4,079) | (3,109) |
| Depreciation and amortization | (2,563) | (3,747) |
| Taxes other than income tax | (2,553) | (2,990) |
| Office expenses | (723) | (1,167) |
| Consulting | (636) | (1,561) |
| Other | (3,091) | (2,876) |
| **Total** | **(31,561)** | **(30,403)** |

* 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 GEL750 to GEL1500, the personal income tax in only part of GEL750. As at 31 December 2021, the Group has no outstanding liabilities under this subsidy, therefore the subsidy amount 267 (365 for the year 2020) is fully recognized in profit or loss by netting the staff cost.

The cost of audit of the consolidated financial statements for the year 2021 is GEL 201 thousand.

## 11. Other income/(expense),net

| | 2021 | 2020 |
|---|---|---|
| Transformation expense of biological assets | (2,059) | (1,797) |
| Revaluation of biological assets | 2,059 | 1,797 |
| Grant | 753 | - |
| Impairment of financial assets | (451) | (754) |
| Vineyards expense | (315) | (324) |
| Gain/Loss from disposal of property, plant and equipment | (174) | 4 |
| Fair value gain from agricultural produce | - | 324 |
| Other income | 357 | 500 |
| **Total** | **170** | **(250)** |

## 12. 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 GEL51,560 thousand as at 31 December 2021 (31 December 2020: GEL49,815 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 2021 and 2020, the management has determined future cash flows and related assumptions for the calculation of goodwill's recoverable amount in USD. 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 2021 and 2020

:

| Key assumptions | | a) +0.4%<br>b) c) +1% | a) -0.4%<br>b) c) -1% | Net book value equals to recoverable amount |
|---|---|---|---|---|
| a) operating margin | 3.99% | 19,185 | (19,185) | decrease 2.99% to 2.89% |
| b) discount rate | 12.78% | (9,250) | 9,530 | increase 11.78% to 12.5% |
| c) growth rate | 3.2% | 6,343 | (5,582) | decrease 2.2% to 0.87% |

| Key assumptions | | a) +0.3%<br>b) c) +1% | a) -0.3%<br>b) c) -1% | Net book value equals to recoverable amount |
|---|---|---|---|---|
| a) operating margin | 2.99% | 18,665 | (18,665) | decrease 2.99% to 2.89% |
| b) discount rate | 11.78% | (8,810) | 10,497 | increase 11.78% to 12.5% |
| c) growth rate | 2.2% | 5,323 | (4,742) | decrease 2.2% to 0.87% |

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 2021 and 2020 by 2.7 % and 1.83 %.

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.

c) Growth rate - The growth rate reflects the long-term average growth rate for the Group CGU's.

The above sensitivity analyses 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.

## 13. Property, plant and equipment

| Cost or valuation | Land | Buildings | Plant and equipment | Office Equipment | lease hold Improvement | Vehicles | Grape vine establish-ment | Assets under construction | Total |
|---|---|---|---|---|---|---|---|---|---|
| **1.1.2020** | **14,464** | **40,895** | **72,113** | **25,459** | **15,824** | **8,468** | **516** | **213** | **177,952** |
| Addition | 93 | 2,644 | 8,726 | 4,203 | 4,312 | 1,226 | 29 | 1,097 | 22,330 |
| Disposals | - | (147) | (1,357) | (1,162) | (192) | (582) | - | - | (3,440) |
| Transfer to Inventories | (121) | 94 | - | - | - | - | - | (254) | (281) |
| Revaluation | 2,140 | 4,723 | - | - | - | - | 216 | - | 7,079 |
| **31.12.2020** | **16,576** | **48,209** | **79,482** | **28,500** | **19,944** | **9,112** | **761** | **1,056** | **203,640** |
| Opening balance reclassification | - | 540 | (20) | 329 | 34 | (100) | 273 | (1,056) | - |
| Addition | 66 | 209 | 12,590 | 6,781 | 4,350 | 1,932 | 94 | 2,937 | 28,959 |
| Reclassification | - | 200 | 1,868 | (1,673) | - | (23) | - | (372) | - |
| Disposals | (35) | (688) | (2,253) | (542) | (684) | (371) | - | (1) | (4,574) |
| Revaluation | 89 | (2,109) | - | - | - | - | (623) | - | (2,643) |
| **31.12.2021** | **16,696** | **46,361** | **91,667** | **33,395** | **23,644** | **10,550** | **505** | **2,564** | **225,382** |
| | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | |
| **1.1.2020** | **-** | **-** | **(36,131)** | **(13,666)** | **(5,585)** | **(4,211)** | **-** | **-** | **(59,593)** |
| Depreciation | - | (1,347) | (9,448) | (3,783) | (2,354) | (1,294) | (77) | - | (18,303) |
| Disposals | - | 147 | 1,341 | 1,012 | 134 | 493 | - | - | 3,127 |
| Revaluation | - | 1,200 | - | - | - | - | 77 | - | 1,277 |
| **31.12.2020** | **-** | **-** | **(44,238)** | **(16,437)** | **(7,805)** | **(5,012)** | **-** | **-** | **(73,492)** |
| Opening balance reclassification | - | - | 611 | (622) | (40) | 51 | - | - | - |
| Depreciation | - | (1,161) | (10,549) | (4,119) | (2,975) | (1,167) | (51) | - | (20,022) |
| Reclassification | - | - | (709) | 709 | - | | - | - | - |
| Disposals | - | 17 | 1,714 | 443 | 385 | 294 | - | - | 2,853 |
| Revaluation | - | 1,144 | - | - | - | - | 51 | - | 1,195 |
| **31.12.2021** | **-** | **-** | **(53,171)** | **(20,026)** | **(10,435)** | **(5,834)** | **-** | **-** | **(89,466)** |
| | | | | | | | | | |
| **Net book value** | | | | | | | | | |
| **31.12.2019** | **14,464** | **40,895** | **35,982** | **11,793** | **10,239** | **4,257** | **516** | **213** | **118,359** |
| **31.12.2020** | **16,576** | **48,209** | **35,244** | **12,063** | **12,139** | **4,100** | **761** | **1,056** | **130,148** |
| **31.12.2021** | **16,696** | **46,361** | **38,496** | **13,369** | **13,209** | **4,716** | **505** | **2,564** | **135,916** |

**Addition in Assets under construction** ( Deferred income related to granted land from the state with future investment commitment. The land was granted in December 2021. The investment commitment amounted to 14,485 during 2022-2023 years. Asset and relevant grant deferred income measured at fair value. Details related to grant deferred revenue see note 13.

As at 31 December 2021 and 2020 Land, buildings and other assets have been pledged to secure borrowings of the Group. Net book value of pledged assets equals GEL 203 thousand (2020: GEL 343 thousand).

### Valuation technique and significant unobservable inputs

The fair value of the Land and Buildings as of 31 December 2021 and 2020 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. The Group uses land and buildings for operating purposes.

For buildings with specific terms of purpose, scale, and other characteristics, there is no active market in Georgia. As a result, the fair values of such buildings were determined using discounted future cash flow method (Market capitalization approach). Market approach was used in the case of land valuation. If the valuation technique used has at least one significant unobservable data, then the fair value is classified as 3 levels. A combination of market method and direct capitalization method is used for some assets.

For determining fair value of land and buildings the management used market approach, direct capitalization approach, income approach and cost approach. The following table shows used approaches.

| Used approach for 31 December 2021 | Fair value level | Land | Buildings | Total |
|---|---|---|---|---|
| Direct capitalization Approach/Market Approach | Level 2 | - | - | |
| Market Approach | Level 2 | 16,396 | 43,378 | 59,774 |
| DCF approach | Level 3 | - | - | |
| Cost approach | Level 3 | 282 | 3,177 | 3,459 |
| **Total** | | **16,678** | **46,555** | **63,233** |

| Used approach for 31 December 2021 | Fair value level | Land | Buildings | Total |
|---|---|---|---|---|
| Direct capitalization Approach/Market Approach | Level 2 | 14,687 | 42,855 | 57,542 |
| Market Approach | Level 2 | 1,648 | 579 | 2,227 |
| DCF approach | Level 3 | 241 | 3,957 | 4,198 |
| Cost approach | Level 3 | - | 818 | 818 |
| **Total** | | **16,576** | **48,209** | **64,785** |

The key assumptions used in the fair value assessment are based on internal and external sources of information and represent management's best estimate. 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 GEL9,394 thousand for land and GEL 29,201 thousand for Buildings (2020: land GEL9,363 thousand, buildings GEL28,924 thousand).

**Vineyards** - The fair value of the vineyards as of 31 December 2021 and 2020 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. The Company uses vineyards for producing agricultural product. The fair value is determined based on the principles of market approach. The fair value is classified as level 2. The key assumptions used in the fair value assessment are based on internal and external sources of information and represent management's best estimate. There has been no change in the valuation technique between the 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 GEL295 thousand (2020; GEL295 thousand).

During the reporting period, the Group has generated no revenue from selling agricultural product in 2021 (2020: 69 thousand), which is presented in other income.

### 14. Right of use asset and lease liabilities

The Group mainly leases buildings for stores and warehouses. 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 11.21 % to 14.00 % for leases denominated in GEL and within range 7.00% to 8.25% 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.

| | 2021 | 2020 |
|---|---|---|
| **At 1 January** | **103,835** | **96,339** |
| Additions | 18,444 | 18,001 |
| Depreciation | (18,575) | (19,713) |
| Modification | (7,431) | 9,208 |
| Termination | (871) | - |
| **At 31 December** | **95,402** | **103,835** |

The following table shows the movement of lease liabilities.

| | 2021 | 2020 |
|---|---|---|
| **At 1 January** | **126,929** | **106,006** |
| Additions | 18,444 | 18,001 |
| Interest expense | 9,625 | 9,360 |
| Lease payments | (32,777) | (27,308) |
| COVID 19 Rent concessions | - | (1,766) |
| Foreign exchange gain/loss | (6,114) | 13,428 |
| Modification | (7,431) | 9,208 |
| Termination | (1,112) | - |
| **At 31 December** | **107,564** | **126,929** |

## 15. Intangible Assets

| Historical cost | Programs | Programs under implementation | Other | Total |
|---|---|---|---|---|
| **1.1.2020** | **3,329** | **-** | **1,846** | **5,175** |
| Addition | 594 | 1,262 | 7 | 1,863 |
| Disposal | (225) | - | (633) | (858) |
| **31.12.2020** | **3,698** | **1,262** | **1,220** | **6,180** |
| Addition | 399 | 1,318 | 247 | 1,964 |
| Disposal | (1) | - | (35) | (36) |
| **31.12.2021** | **4,096** | **2,580** | **1,432** | **8,108** |
| | | | | |
| **Accumulated amortization** | | | | |
| **1.1.2020** | **(1,517)** | **-** | **(1,230)** | **(2,747)** |
| Amortization | (550) | - | (194) | (744) |
| Disposal | 158 | - | 633 | 791 |
| **31.12.2020** | **(1,909)** | **-** | **(791)** | **(2,700)** |
| Amortization | (461) | - | (199) | (660) |
| Disposal | 1 | - | 17 | 18 |
| **31.12.2021** | **(2,369)** | **-** | **(973)** | **(3,342)** |
| | | | | |
| **Net book value** | | | | |
| **31.12.2019** | **1,812** | **-** | **616** | **2,428** |
| **31.12.2020** | **1,789** | **1,262** | **429** | **3,480** |
| **31.12.2021** | **1,727** | **2,580** | **459** | **4,766** |

## 16. Biological assets

| Valuation | Fish |
|---|---|
| **31.12.2019** | **884** |
| Biological transformation | 1,797 |
| Harvested as agricultural produce | (1,842) |
| **31.12.2020** | **839** |
| Biological transformation | 2,059 |
| Harvested as agricultural produce | (2,128) |
| **31.12.2021** | **770** |
| - | |
| **Net book value** | |
| **31.12.2019** | **884** |
| **31.12.2020** | **839** |
| **31.12.2021** | **770** |

**Fish** - The group owns fish farm of Trout, which is used for biological transformation and supply to the market. Fish is valued at fair value less costs to sell. To determine the fair value, the management uses observable market operations. The Group uses internal and external sources of information to determine the fair value. Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets At the end of the reporting period estimated Trout equal 64 tones (2020: 122 tones). Fish transformation cycle is less than 2 year. During the reporting period, the Group's recognizes other income from transformation of biological asset GEL 2,059 thousand (2020 GEL1,797 thousand).

As at 31 December 2021 and 2020 all Biological assets have been pledged to secure borrowings of the Group.

## 17. Inventories

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Finished goods | 73,127 | 55,013 |
| Work in progress | 1,501 | 1,552 |
| Other materials | 13,485 | 16,402 |
| **Total** | **88,113** | **72,967** |

As at 31 December 2021 and 2020 all inventories have been pledged to secure borrowings of the Group.

## 18. Trade and other receivables

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Trade receivables | 14,892 | 8,534 |
| Less: provision for impairment | (557) | (754) |
| **Net financial assets** | **14,335** | **7,780** |
| Other advances | 4,442 | 3,352 |
| Less: provision for impairment advances | (97) | - |
| Prepaid taxes | 838 | 578 |
| Other receivables | 5,189 | 3,840 |
| **Total** | **24,707** | **15,550** |

The following table shows movement in provision of impairment.

| | 2021 | 2020 |
|---|---|---|
| **1 January** | **(754)** | **(31)** |
| Impairment losses recognized during the year | (352) | (723) |
| Recalculation (recovery) | 549 | |
| **At 31 December** | **(557)** | **(754)** |

The following table shows movement in provision of impairment advances.

| | 2021 | 2020 |
|---|---|---|
| **1 January** | - | - |
| Impairment losses recognized during the year | (97) | - |
| **At 31 December** | **(97)** | **-** |

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.

As of 31 December 2021, all trade and other receivables have been pledged to secure borrowings of the Group.

## 19. Cash and cash equivalents

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Cash on current accounts with banks in Georgian Lari | 18,248 | 3,122 |
| Cash on current accounts with banks in foreign currency | 967 | 531 |
| Restricted cash | - | 250 |
| Cash on hand | 1,247 | 1,081 |
| **Total** | **20,462** | **4,984** |

## 20. Share capital

The table below shows ordinary shares holders:

| | Voting rights | | Quantity | |
|---|---|---|---|---|
| | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 |
| Sukhiashvili Vasil | 32% | 32% | 1,876,471 | 1,876,471 |
| Gubanovi Oleg | 18% | 18% | 1,035,293 | 1,035,293 |
| Dumbadze David | 12% | 12% | 695,589 | 695,589 |
| Taradini Vasil | 11% | 11% | 647,050 | 647,050 |
| Cirekidze Taliko | 10% | 10% | 582,353 | 582,353 |
| Salukvadze Maka | 8% | 8% | 404,412 | 420,588 |
| Tsertsvadze Guram | 6% | 6% | 323,529 | 323,529 |
| Nikolaishvili Irakli | 3% | 3% | 177,942 | 194,118 |
| JSC Nikora (treasury shares) | - | - | 727,949 | 695,597 |
| **Total** | **100%** | **100%** | **6,470,588** | **6,470,588** |

The table below shows preference shares holders:

| | Quantity | | Amount | |
|---|---|---|---|---|
| | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 |
| Isaevi Andrei | 78 | - | 12,248 | - |
| Pelicans venture corp | 20 | 20 | 2,692 | 2,692 |
| JSC Galt and Taggart (nominal holder) | 12 | 12 | 1,468 | 1,468 |
| Maziashvili Archil | 6 | 6 | 498 | 498 |
| Fichkhaia Tamar | 4 | 4 | 485 | 485 |
| Vachnadze Giorgi | 3 | 3 | 263 | 263 |
| Tsertsvadze Guram | 2 | 2 | 225 | 225 |
| Tsertsvadze Eka | 2 | 2 | 225 | 225 |
| Novikovi Volodimer | 2 | 2 | 279 | 279 |
| Ambrolidze Murman | 2 | 2 | 166 | 166 |
| Janjgava Ivane | 1 | 1 | 83 | 83 |
| Jangidze Tamar | 1 | 1 | 164 | 164 |
| Nareshelashvili Irakli | 1 | 1 | 117 | 117 |
| Kiknadze Nodar | 1 | 1 | 125 | 125 |
| Gvazava Otar | 1 | 1 | 120 | 120 |
| Redeemed preference shares | 24 | 22 | - | - |
| **Total** | **160** | **80** | **19,158** | **6,910** |

As at 31 December 2021 and 2020 The Group has 6,471 thousand authorized ordinary shares at the par value 1 GEL. The Group has authorized 160 preference shares (issued 151 and 82 as 31 December 2021 and 31 December 2020 respectively ), at the par value USD 50,000. Issued ordinary and preferred shares are fully paid, except for treasury ordinary shares sold in 2020. See details below. The holders of ordinary shares are not entitled to a fixed income. The number of fully paid shares corresponds to the voting right. The holders of ordinary shares are entitled to receive dividends declared by the Company. The holders of non-redeemable preference shares are entitled to receive an annual dividend at a fixed interest rate, which is not fixed and may change at the discretion of ordinary shareholders. Preferred shares have no voting rights.

JSC Nikora sold 647 thousand treasury ordinary shares to Vasil Taradin for USD13,000 thousand in 2020, also JSC Nikora purchased 1,000 thousand ordinary shares of JSC Nikora Trade for USD9,000 thousand from Vasil Taradin. The part of the remaining USD4,000 amounted to 2,477 and 1,467 was paid in 2021 and 2020 respectively, the remaining part will be repaid by 31 December 2022. The receivable from the sale of treasury shares is initially recognized at fair value and subsequently at amortized cost and is presented in other financial assets.

In 2021 The Group changed own 78 preferred share to 402,667 ordinary share of its subsidiary JSC Nikora trade with one of the physical persons. Preferred and ordinary share were valued at 3,900 and 3,920 thousand US Dollar, the difference was paid by the Group.

As of 31 December 2021, the Group had 728 thousand (2020: 696 thousand) treasury ordinary shares, which are recorded at a total nominal value of GEL728 thousand (2020: 696 thousand). The difference between the amount paid/received at the redemption/resale of own shares and the face value was recorded in retained earnings for the period when the shares were redeemed/sold.

## 21. Non-controlling interests

The table below shows non-controlling interests in subsidiaries;

| Name | 31.12.2021 | 31.12.2020 | Type of operations |
|---|---|---|---|
| JSC Nikora Trade | 5.3% | 10% | Retail |
| Mila Sakartvelo LLC | 50% | 50% | Retail |
| Kulinari LLC | 50% | 50% | Manufacturing - Salads |
| Vakijvris kalmakhi LLC | 9% | 9% | Trout farm |
| Nikora Bakuriani LLC | 50% | 50% | Real estate |
| Lazi-holding LLC | 33% | 33% | Dormant |

The table shows information on assets and liabilities in subsidiaries with non-controlling interests.

| | JSC Nikora trade | | Other subsidiaries | |
|---|---|---|---|---|
| | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 |
| **Assets** | | | | |
| Goodwill | 38,560 | 38,560 | | - |
| Property, plant and equipment | 59,051 | 54,610 | 8,698 | 9,677 |
| Right of use asset | 103,755 | 109,810 | 623 | 322 |
| Intangible assets | 3,942 | 2,685 | 19 | 23 |
| Biological assets | - | - | 770 | 839 |
| Inventories | 65,124 | 48,815 | 621 | 1,097 |
| Trade and other receivables | 3,356 | 3,204 | 652 | 1,102 |
| Cash and cash equivalents | 18,651 | 3,856 | 54 | 44 |
| **Total assets** | **292,439** | **261,540** | **11,437** | **13,104** |
| **Liabilities** | | | | |
| Bonds and borrowings | 50,453 | 47,278 | 5,905 | 6,338 |
| Lease liabilities | 117,590 | 133,352 | 658 | 387 |
| Trade and other payables | 104,697 | 81,420 | 1,276 | 1,774 |
| **Total liabilities** | **272,740** | **262,050** | **7,839** | **8,499** |
| **Attributable to non-controlling interest** | **1,072** | **(51)** | **647** | **904** |

## 20. Non-controlling interest (continued)

The table shows the performance of subsidiaries with non-controlling interests.

| | JSC Nikora trade | | Other subsidiaries | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Revenue | 650,551 | 522,031 | 6,585 | 5,497 |
| Cost of sale | (480,133) | (392,446) | (5,455) | (4,505) |
| **Gross profit** | **170,418** | **129,585** | **1,130** | **992** |
| Other income | 738 | 2,429 | 348 | - |
| Selling and distribution expenses | (130,522) | (103,781) | (379) | (380) |
| General and administrative expenses | (10,937) | (12,360) | (1,344) | (772) |
| Other income/(expense), net | (524) | 214 | 76 | (52) |
| Financial income | 231 | - | - | - |
| Financial expenses | (16,132) | (15,663) | (648) | (492) |
| Foreign exchange gain (loss) | 6,932 | (14,579) | 456 | (462) |
| **Gain/Loss before income tax** | **20,204** | **(14,155)** | **(361)** | **(1,166)** |
| | | | - | - |
| **Other comprehensive income** | | | **-** | **-** |
| Revaluation of property | 3 | 1,462 | (646) | 1,127 |
| **Gain/Loss for the year** | **20,207** | **(12,693)** | **(1,007)** | **(39)** |
| **Total Gain/loss to non-controlling interest** | **1,634** | **(1,406)** | **(225)** | **(360)** |
| **Total comprehensive Gain/loss to non-controlling interest** | **1,634** | **(1,260)** | **(256)** | **75** |

The table shows cash flows of subsidiaries with non-controlling interests.

| | JSC Nikora trade | | Other subsidiaries | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Net cashflow from operating activities** | 62,157 | 36,533 | 230 | (83) |
| **Net cashflow from investing activities** | (18,574) | (15,140) | (42) | (2,352) |
| **Net cashflow from financing activities** | (28,776) | (20,279) | (167) | 2,462 |
| **Net increase/(decrease) in cash and cash equivalents** | **14,807** | **1,114** | **21** | **27** |

## 22. Bonds and borrowings

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Bank borrowings with floating interest rates | 26,370 | 37,542 |
| Bank borrowings with fixed interest rates | 241 | 353 |
| Bonds with floating interest rates | 34,772 | 27,829 |
| **Total non-current borrowings** | **61,383** | **65,724** |
| Bank borrowings with floating interest rates | 43,136 | 30,953 |
| Bank borrowings with fixed interest rates | 112 | 102 |
| Bonds with floating interest rates | 29,324 | 26,118 |
| **Total current borrowings** | **72,572** | **57,173** |
| **Total** | **133,955** | **122,897** |

Bank loans terms are within range 1 to 10 years. Borrowings denominated in Georgian GEL have an average annual floating rate from 13% to 18%, tied to Tbilisi Interbank Offered rate (2020: 12%-13%). Borrowings denominated in EUR have an average annual rate of 6.5%, tied to Euribor. Borrowings denominated in USD have an average annual rate of 6.35%-6.55%, tied to LIBOR. Borrowings with fixed interest rates are denominated in Georgian GEL and bear 11% annual rate. Borrowings are secured by fixed assets, inventories, biological asset and trade receivables. For additional information, see relevant notes.

The following table shows reconciliation of liabilities from financing transactions;

| | 2021 | 2020 |
|---|---|---|
| **1 January** | **122,897** | **100,875** |
| Proceeds from borrowings | 260,009 | 198,054 |
| Bonds emission | 34,766 | - |
| Principal paid | (256,497) | (180,906) |
| Repayment of bonds | (25,000) | - |
| Interest expense | 13,751 | 11,859 |
| Interest paid | (13,249) | (11,432) |
| Effect of changes in foreign exchange rate | (2,722) | 4,447 |
| **31 December** | **133,955** | **122,897** |

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 +4% annually. 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. In 2021 the Group settled all the liabilities related to this bond.

On November 2021, the Group issued bonds with the total value of GEL35,000 thousand with scheduled maturities 3 years. Bonds rates are floating and tied to TIBR3M +3.5 % annually. Average annual rate for the year ended 31 December 2021 was 13.7 %. 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.

On October 2019, the Group issued bonds with the total value of GEL28,000 thousand with scheduled maturities 3 years. Bonds rate are floating and tied to TIBR3M +4% annually (TIBR3M rate as at 31 December 2021 was 10.5 %). 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 a breach of covenants, the lender has the right but not the obligation to demand part or full repayment of the liabilities. The bond agreement includes restrictions on the payment of dividends.

The following table shows financial covenants in accordance with bond and bank loan agreements. As of 31 December 2021, the Group did comply with these financial covenants:

| | Bonds |
|---|---|
| Debt service coverage ratio (DSCR) | 1.1 |
| Interest coverage ratio (ICR) | 2.8 |
| (DEBT/EBITDA) | 3.5( 4 with bank contract) |

In accordance with the main bank loan agreement, the Group commits to maintain some financial ratios, which are calculated based on the specific non- IFRS-based financial figure for full and partial consolidated levels. Per bank calculation As of 31 December 2021, The Group did not comply with one of the ratios, in addition, the Group did not comply with one of the nonfinancial covenants. The management has obtained a waiver letter from the bank, that the bank does not plan to use the action described above for the above breach.

## 23. Deferred Income

Deferred income related to granted land from the state with future investment commitment. The land was granted in December 2021. The investment commitment amounted to 14,485 during 2022-2023 years. Asset and relevant grant deferred income measured at fair value, relevant details of the asset are provided in note 13.

## 24. Trade and other payables

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| **Financial liabilities** | | |
| Trade and other payables | 101,958 | 83,897 |
| **Total financial liabilities** | **101,958** | **83,897** |
| Salaries payables | 4,894 | 5,172 |
| Contract liabilities | 2,519 | 2,367 |
| Tax payables | 2,377 | 1,725 |
| Advance received | 452 | 64 |
| Other payables | 13 | 6 |
| **Total non-financial liabilities** | **10,255** | **9,334** |
| **Total** | **112,213** | **93,231** |

The following table shows reconciliation of contract liabilities;

| | 2021 | 2020 |
|---|---|---|
| **1 January** | **2,367** | **1,895** |
| Cash received in advance of performance and not recognised as revenue during the period | 1,544 | 1,699 |
| Amounts included in contract liabilities that was recognised as revenue during the period | (1,180) | (1,040) |
| Effect of value added tax | (212) | (187) |
| **31 December** | **2,519** | **2,367** |

## 25. Related party transaction and outstanding balances

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Revenue | 382 | 550 |
| Financial expenses | 50 | 194 |
| Trade and other receivables | - | 276 |
| Trade and other payables | 118 | - |
| Lease liabilities | 2,554 | 2,316 |
| Key management compensation | 5,493 | 3,368 |
| Salaries payables | 2,007 | 298 |
| Non personalize bonus | - | 433 |
| Purchase of Inventories | 15 | - |
| Other financial assets | 96 | 7,291 |

The Group does not disclose intra group operations and balances, all of them are eliminated in the Consolidated financial statement.

## 26. 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.

The expected profit tax due to the future dividend, as at 31 December 2020 is GEL 12,246 thousand. Income tax will be realized to the extent that the Company will announce dividends.

**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.

## 27. Events after the reporting period

In 2022 before the authorisation of financial statement dividends distributed to ordinary and preference share holder have amounted to 1,990 and 361 respectively.

In 2022 before the authorisation of financial statement the Company has increased its share to JSC Nikora trade to 95.68 percentage.

There have been no other after reporting date events that require additional adjustments or disclosure in the financial statements.

Approval of financial statement. On 25 May 2022 the management approved financial statement, the Group owners have the power to amend the financial statements after the issue.

## 28. 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.

### 28.1 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 31.12.2021 | 3.0976 | 3.5040 |
| Exchange rate as at 31.12.2020 | 3.2766 | 4.0233 |

### 28.2 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 streams are: sales of its own manufactured products, sales of food and non-food products in retail stores, sales of products produced by other parties through the distribution chain.

The Group recognized revenue 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 for retail stores. 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.

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.

For other streams, contract prices are variable. The Group estimates variable prices: (a) The expected value is the sum of probability weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics. (b) The most likely amount is the single most likely amount in a range of possible consideration amounts. The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

**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.

### 28.3 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.

### 28.4 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.

### 28.5 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.

### 28.6 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.

### 28.7 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.

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. Lands and buildings under construction are not depreciated.

| | Useful life |
|---|---|
| Buildings | 20-95 |
| Plant and equipment | 1-15 |
| Leasehold improvements | 2-20 |
| Office equipment | 1-10 |
| Vehicles | 1-8 |

### 28.8 Biological assets

The Group owns biological assets: vineyards and fishes.

The Group recognises a biological asset or agricultural produce when, and only when: (a) the entity controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the Group; and (c) the fair value or cost of the asset can be measured reliably.

**Vineyards -** is used in the production or supply of agricultural produce, is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Bearer plans at initially recognised at cost and subsequently at its fair value. Bearer plants accounting policy for revaluation is appropriate to policy of property, plant and equipment revaluation (See 27.7) Bearer plants depreciation on straight line basis and useful life is 30 year.

**Fishes -** Biological asset measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except where the fair value cannot be measured reliably. Agricultural produce harvested from the Group's biological assets measured at its fair value less costs to sell at the point of harvest. Difference between value of initial and subsequent measurement is recognised in profit or loss.

### 28.9 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.

### 28.10 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.

**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 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.

**28.11 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 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.

**28.12 Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The cost of inventories comprises 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. Expenses covering activities related to production (conversion costs) are included in the cost of inventories.

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

**27. Summary of significant accounting policies (continued)**

vary directly, or nearly directly, with the volume of production. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production is used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant.

Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Movements of inventories are accounted for using FIFO method.

**Agricultural produce**

The agricultural produce harvested from the Group's biological assets is measured at its fair value less costs to sell at the point of harvest and is recognised as revenue immediately in consolidated statement of profit or loss and inventory in consolidated financial statement.

**28.13 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.

**28.14 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.

**28.15 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.

Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. 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 financial 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.

### 28.16 Share capital, treasury shares and non-controlling interest

Share capital is determined by the owners of the company. Share capital includes ordinary shares, which holders have voting rights and non-redeemable preferred shares, that do not have voting rights. Preferred shares are recorded in equity when owners of which are entitled to receive an annual dividend at the fixed interest rate which is not constant and dividends distribution to preference shareholders is at the discretion of the common shareholders. Otherwise, they are recorded as liabilities.

Purchased own shares are recognized at fair value. Differences arising from issuance and purchase own shares, which exceed shares nominal value, are recognized as retained earnings. Redeemed shares from the owner for the purpose of subsequent reissuance, are recognized as treasury shares. Purchased own shares for cancelation, are recognized as a reduction of share capital.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the reporting date represents the non-controlling shareholders' share in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity. Losses allocated to holders of non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the holders of non-controlling interests to fund the losses. All such losses are allocated to the Group.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recognized as equity transactions.

### 28.17 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.