Consolidated Financial Statements and Independent Auditor's Report

Nikora JSC

31 December 2017

Contents

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Independent auditor's report

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To the shareholders of Nikora JSC

Qualified Opinion

We have audited the consolidated financial statements of Nikora JSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Goodwill in the amount of Georgian lari 43,285 thousand is reported in the consolidated statement of financial position as at 31 December 2017 (31 December 2016: 43,285). The amount of Georgian lari 36,628 thousand included in that balance represents goodwill on acquisition of 100% of shares in Nugeshi LLC by Nikora Trade LLC in 2015.

Goodwill on acquisition of Nugeshi LLC was calculated as the difference between consideration paid and the book value of identifiable net assets of Nugeshi LLC at acquisition date. Such method of goodwill calculation is not in accordance with IFRSs, which require calculation of goodwill as the difference between consideration paid and the fair value of identifiable net assets of the acquiree at the acquisition date. We were unable to satisfy ourselves as to the fair values of identifiable net assets of Nugeshi LLC as at acquisition date, therefore we were unable to satisfy ourselves, whether any adjustments might have been necessary with respect to the allocation of values between goodwill and property, plant and equipment, inventory, receivables and payables of Nugeshi LLC at the acquisition date. Our audit opinion on the consolidated financial statements relating to the year ended 31 December 2016 was modified accordingly.

Procedures aimed at assessment of impairment of goodwill did not indicate any impairment to be recognized in the consolidated statement of financial position as at 31 December 2017.

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Machinery and equipment are carried at Georgian lari 18,415 thousand on the consolidated statement of financial position as at 31 December 2017 (31 December 2016: Georgian lari 18,496 thousand) (refer to Note 5 to the consolidated financial statements). Because of the nature of the Group's accounting records we were unable to obtain sufficient appropriate audit evidence about the amount of the opening accumulated depreciation of the part of the Group's machinery and equipment with carrying amount of Georgian lari 8,113 thousand at the reporting date (historical cost of Georgian lari 29,410, less accumulated depreciation of Georgian lari 21,298). Consequently, we were unable to determine whether any adjustment might have been necessary to the carrying amount of the Group's machinery and equipment included in the consolidated statement of financial position as at 31 December 2017 and to the depreciation expense of Georgian lari 2,054 thousand related to the noted part of the machinery and equipment included in the consolidated statement of profit and loss and other comprehensive income and to the consolidated cash flows from operating activities for the year then ended. Our audit opinion on the consolidated financial statements relating to the year ended 31 December 2016 was modified accordingly.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with those charged with governance, but are not intended to represent all matters that were discussed with them. In addition to the matters described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Inventory valuation

As at 31 December 2017, the Group held inventories of Georgian lari 45,051 thousand (2016: Georgian lari 31,954 thousand). Given the size of the inventory balance relative to the total assets of the Group and the estimates and judgments described below, the valuation of inventory required significant audit attention.

As disclosed in note 3.7 inventories are held at the lower of cost determined using the FIFO cost method and net realizable value. At the year end, the valuation of inventory is reviewed by management and the cost of inventory is reduced where inventory is forecast to be sold below cost.

The determination of whether inventory will be realized for a value less than cost requires management to exercise judgments and apply assumptions. Management undertake the following procedures for determining the level of write down required:

- Use inventory ageing reports together with historical trends to estimate the likely future saleability of slow moving and older inventory lines;
- Perform a line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realisable value and a specific write down is recognized if required.

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We have performed the following procedures over the valuation of inventory:

- For all inventory items of the Group, we re-performed the FIFO cost calculation and compared inventory balance as at 31 December 2017 with the Group's figures;
- On a sample basis we tested the net realisable value of inventory lines to recent selling prices;
- For a sample of inventory categories we reviewed the dynamics of last purchase invoices and subsequent period gross profit margins;
- We tested that the aging report used by management correctly aged inventory items agreeing a sample of aged inventory items to the last recorded invoice.

Revaluation of land and buildings

The Group has land and building with a net book value of Georgian lari 38,694 thousand (2016: Georgian lari 34,086 thousand). Given the size of the land and buildings balance relative to the total assets of the Group and the estimates and judgments described below, the revaluation of land and buildings required significant audit attention.

As disclosed in note 3.3, land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation. The revaluation was performed by independent certified valuator, external for the Group. Details of the revaluation is disclosed in the note 5 to the consolidated financial statements.

We have performed the following audit procedures:

- We evaluated the objectivity, completeness and independence of the external independent valuator;
- We obtained an understanding of the work of the valuator, by reviewing the valuation report prepared by external valuator to determine the appropriateness of the nature, scope and objectives of the work performed;
- We compared key inputs, used by the external independent valuator, with publicly accessible data and/or historical available data;
- We considered the methodology of accounting for the gains/(losses) on the revaluation;
- We reviewed the disclosures included in the Group's financial statements against the requirements of the accounting standards;

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Vakhtang Tsabadze
Managing Partner
13 August 2018

Ketevan Ghambashidze
Registered Auditor

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200136600

Consolidated statement of financial position

In thousands of Georgian lari	Note	As of 31 December 2017	As of 31 December 2016
Assets			
Non-current assets			
Goodwill	4	43,285	43,285
Property, plant and equipment	5	75,467	67,288
Intangible assets	6	2,930	2,151
Bearer plants		466	214
Other financial assets		20	16
		122,168	112,954
Current assets			
Inventories	8	45,051	31,954
Trade and other receivables	9	14,256	11,422
Other current assets		1,586	1,905
Cash and bank balances	10	10,734	2,256
		71,627	47,537
Total assets		193,795	160,491

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of financial position (continued)

In thousands of Georgian lari	Note	As of 31 December 2017	As of 31 December 2016
Equity and liabilities			
Capital and reserves	11		
Share capital		31,258	34,761
Treasury shares		(1,294)	(1,294)
Revaluation reserve		12,240	7,562
Accumulated profit/(loss)		13,675	5,477
		55,879	46,506
Non-controlling interest		2,379	995
Total equity		58,258	47,501
Non-current liabilities			
Loans and borrowings	12	14,126	37,121
Bonds	13	25,660	13,234
		39,786	50,355
Current liabilities			
Trade and other payables	14	56,072	42,431
Loans and borrowings	12	25,800	19,943
Bonds	13	13,274	176
Provision for bonus cards		66	85
Dividends payables		539	-
		95,751	62,635
Total equity and liabilities		193,795	160,491

The consolidated financial statements were approved on 13 August 2018 by:

Irakli Bokolishvili
Executive Director

Besarion Pachuashvili
Financial Director

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of profit or loss and other comprehensive income

In thousands of Georgian lari	Note	Year ended December 31 2017	Year ended December 31 2016
Revenue	16	336,255	269,911
Cost of sales	17	(231,891)	(188,428)
Gross profit		104,364	81,483
Other income		1,085	1,093
Selling and marketing expenses	18	(50,363)	(35,292)
Administrative expenses	19	(32,411)	(26,832)
Other expenses		(2,901)	(2,824)
Results from operating activities		19,774	17,628
Finance costs	20	(7,860)	(7,932)
Other financial items	21	(1,926)	(5,473)
Other non-operating expenses		(3,920)	(2,622)
Profit before income tax		6,068	1,601
Income tax (expense)/recovery	22	(1,140)	(795)
Profit for the year		4,928	806
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property, plant and equipment		4,704	1,209
Other comprehensive income for the year, net of income tax		4,704	1,209
Total comprehensive income for the year		9,632	2,015
Profit attributable to:			
Attributable to owners of parent		4,969	797
Attributable to non-controlling interest holders		(41)	9
Total income attributable to:			
Attributable to owners of parent		9,657	1,935
Attributable to non-controlling interest holders		(25)	80

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of changes in equity

In thousands of Georgian lari	Common Stock	Treasury Shares	Revaluation reserve	Accumulated profit/(loss)	Total attributable to owners of the parent	Non-controlling interest	Total
as of 1 January 2016	34,351	(1,294)	6,459	12,106	51,622	635	52,257
Profit for the year	-	-	-	797	797	9	806
Other comprehensive income for the year	-	-	1,138	-	1,138	71	1,209
Total comprehensive income for the year	-	-	1,138	797	1,935	80	2,015
Issue of share capital	-	-	-	-	-	347	347
Issue of preference shares	1,872	-	-	-	1,872	-	1,872
Redemption of preference shares	(1,462)	-	-	-	(1,462)	-	(1,462)
Dividends	-	-	-	(5,932)	(5,932)	(33)	(5,965)
Disposal of revalued property	-	-	(35)	-	(35)	(9)	(44)
Business combination	-	-	-	(1,494)	(1,494)	(25)	(1,519)
Transactions with owners	410	-	(35)	(7,426)	(7,051)	280	(6,771)
as of 31 December 2016	34,761	(1,294)	7,562	5,477	46,506	995	47,501

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of changes in equity (continued)

In thousands of Georgian lari	Common stock	Treasury shares	Revaluation reserve	Accumulated profit/(loss)	Total attributable to owners of the parent	Non-controlling interest	Total
Profit/(loss) for the year	-	-	-	4,969	4,969	(41)	4,928
Revaluation surplus	-	-	4,688	-	4,688	16	4,704
Total comprehensive income for the year	-	-	4,688	4,969	9,657	(25)	9,632
Disposal of share in subsidiary	-	-	-	11,497	11,497	1,430	12,927
Redemption of preference shares	(3,503)	-	-	-	(3,503)	-	(3,503)
Dividends	-	-	-	(8,299)	(8,299)	-	(8,299)
Business combination	-	-	17	4	21	(21)	-
Transfer of revaluation reserve of disposed assets to retained earnings	-	-	(27)	27	-	-	-
Transactions with owners	(3,503)	-	(10)	3,229	(284)	1,409	1,125
as of 31 December 2017	31,258	(1,294)	12,240	13,675	55,879	2,379	58,258

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended December 31 2017	Year ended December 31 2016
Cash flows from operating activities		
Profit for the year	4,928	806
Adjustments for:		
Depreciation and amortization	7,997	6,669
Loss on disposal of property, plant and equipment	-	(99)
Write-off of trade receivables	23	105
Investment in associate	(4)	-
Interest expense	7,860	7,932
Inventory losses	3,449	3,690
Movement of provision for bonus cards	(19)	85
Income tax expense/(recovery)	1,140	795
Foreign exchange (gain)/loss	1,926	5,473
Operating profit before working capital changes	27,300	25,456
Change in trade and other receivables	(3,114)	(5,431)
Change in inventories	(16,546)	(1,131)
Change in other current assets	284	517
Change in trade and other payables	12,049	9,859
Cash generated from operations	19,973	29,270
Interest paid	(7,771)	(7,649)
Income tax paid	(1,400)	(400)
Net cash from operating activities	10,802	21,221
Cash flows from investing activities		
Acquisition of property, plant and equipment	(11,490)	(7,928)
Acquisition of intangible assets	(763)	(465)
Acquisition of share in subsidiary	(23)	
Proceeds from disposal property, plant and equipment	1,819	134
Net cash used in investing activities	(10,457)	(8,259)

The consolidated statement of cash flow is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Consolidated statement of cash flows (continued)

In thousands of Georgian lari	Year ended December 31 2017	Year ended December 31 2016
Cash flows from financing activities		
Proceeds from preference share issue	-	1,872
Proceeds from loans and borrowings	181,844	36,652
Redemption of preferred shares	(5,177)	(1,462)
Repayment of loans and borrowings	(198,335)	(52,581)
Proceeds from bonds	23,775	9,956
Proceeds from sale of share in subsidiary	13,025	-
Dividends paid	(7,760)	(5,965)
Net cash from/(used in) financing activities	7,372	(11,528)
Net increase in cash and bank balances	7,717	1,434
Foreign exchange effect on cash	2,978	(400)
Cash and bank balances at the beginning of the year	39	(995)
Cash and bank balances at the end of the year	10,734	39

The consolidated statement of cash flow is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 15 to 46.

Notes to the consolidated financial statements

1 Nature of operations and general information

Nikora JSC together with its subsidiaries (the “Group”) is a leading local food producer and retailer on Georgian market. Nikora JSC, the Group’s ultimate parent company, was established as a limited liability company in Georgia in 1998. Its primary business was meat production. The Company soon gained strong market positions and established several enterprises in retail, distribution and food production industries.

The Group produces up to 500 products.

The registered address of Nikora JSC is: 11 M. Kavtaradze street, Tbilisi, Georgia.

The average number of employees of the Group during 2017 was 4,300 employees (2016: 4,000).

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

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

2.4 Use of estimates and judgment

The preparation of consolidated financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the note 0 to the consolidated financial statements.

2.5 Adoption of new and revised standards

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

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

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

Disclosure Initiative (Amendments to IAS 7 *Statements of Cash Flows*)

The amendments to IAS 7, effective 1 January 2017, require the Group to provide disclosures about the changes in liabilities from financing activities. The Group categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 (refer to note 29).

Annual Improvements 2014-2016

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

IFRS 12 *Disclosure of Interests in Other Entities*

Clarification of the scope of the Standard.

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

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

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

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

IFRS 9 *Financial Instruments*

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

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

IFRS 16 *Leases*

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

IFRS 16 also:

changes the definition of a lease;

- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;

- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

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

IFRS 15 Revenue from Contracts with Customers

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

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

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries as of 31 December 2017:

Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nikora Trade LLC	92.40	Georgia	14 August 2006	Retail	22 December 2009
Nugeshi LLC	100	Georgia	18 June 2010	Retail	1 July 2015
Agia LLC	82.50	Georgia	15 December 1995	Trout farm	13 November 2006
Okeane LLC	100	Georgia	5 June 2008	Fish production	5 June 2008
Intrade LLC	100	Georgia	19 September 2007	Distribution	19 September 2007
Intrade-Poti LLC	100	Georgia	3 November 2004	Distribution	3 November 2004
Nikora-Kakheti LLC	100	Georgia	10 March 2006	Distribution	10 March 2006
Partner LLC	100	Georgia	2 December 2014	Distribution	2 December 2014
Multitrade LLC	100	Georgia	29 June 2009	Importing	29 June 2009
Nikora LLC	100	Georgia	2 December 2014	Meat and semi-final food production	2 December 2014
Nikora 7 LLC	100	Georgia	15 March 2006	Meat production	15 March 2006
Chveni Fermeri LLC	100	Georgia	5 June 2008	Dairy products production	5 June 2008
Mzareuli 1 LLC	100	Georgia	5 November 2004	Bakery products production	5 November 2004
Kulinari LLC	50	Georgia	5 July 2015	Semi-final food	5 July 2015
Napareulis Dzveli Marani LLC	100	Georgia	25 July 2009	Wine production	25 July 2009
Lazi Holding LLC	67	Georgia	4 December 2014	Retail	4 December 2014
Achinebuli 2005 LLC	100	Georgia	4 February 2005	Inactive	4 February 2005
Nikora Agro LLC	100	Georgia	11 March 2009	Agriculture	11 March 2009
Royal Kaspi LLC	50	Georgia	9 March 2010	Inactive	9 March 2010
Tsutskhvati LLC	100	Georgia	7 May 2004	Inactive	7 May 2004
Nikora Bakuriani LLC	50	Georgia	18 December 2015	Hotel	18 December 2015
Web trade LLC	100	Georgia	13 June 2016	Online store	13 June 2016

The consolidated financial statements include the following subsidiaries as of 31 December 2016:

Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nikora Trade LLC	100	Georgia	14 August 2006	Retail	22 December 2009
Nugeshi LLC	100	Georgia	18 June 2010	Retail	1 July 2015
Agia LLC	80.25	Georgia	15 December 1995	Trout farm	13 November 2006
Okeane LLC	100	Georgia	5 June 2008	Fish production	5 June 2008
Intrade LLC	100	Georgia	19 September 2007	Distribution	19 September 2007
Intrade-Poti LLC	100	Georgia	3 November 2004	Distribution	3 November 2004
Nikora-Kakheti LLC	100	Georgia	10 March 2006	Distribution	10 March 2006
Partner LLC	100	Georgia	2 December 2014	Distribution	2 December 2014
Multitrade LLC	100	Georgia	29 June 2009	Importing	29 June 2009
Nikora LLC	100	Georgia	2 December 2014	Meat and semi-final food production	2 December 2014
Nikora 7 LLC	100	Georgia	15 March 2006	Meat production	15 March 2006
Chveni Fermeri LLC	100	Georgia	5 June 2008	Dairy products production	5 June 2008
Mzareuli 1 LLC	100	Georgia	5 November 2004	Bakery products production	5 November 2004
Kulinari LLC	50	Georgia	5 July 2015	Semi-final food	5 July 2015
Napareulis Dzveli Marani LLC	100	Georgia	25 July 2009	Wine production	25 July 2009
Lazi Holding LLC	67	Georgia	4 December 2014	Retail	4 December 2014
Achinebuli 2005 LLC	100	Georgia	4 February 2005	Inactive	4 February 2005
Nikora Agro LLC	100	Georgia	11 March 2009	Agriculture	11 March 2009
Royal Kaspi LLC	50	Georgia	9 March 2010	Inactive	9 March 2010
Tsutskhvati LLC	100	Georgia	7 May 2004	Inactive	7 May 2004
Nikora Bakuriani LLC	50	Georgia	18 December 2015	Hotel	18 December 2015
Web trade LLC	100	Georgia	13 June 2016	Online store	13 June 2016

3 Significant accounting policies

3.1 Basis for consolidation

Subsidiaries

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

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

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

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

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

Transactions eliminated on consolidation

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

3.2 Foreign currencies

Foreign currency transactions

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

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

3.3 Property, plant and equipment

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

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

The revaluation surplus remaining in the revaluation reserve attributable to an item of property, plant and equipment is transferred directly to the accumulated profit when the asset is sold or otherwise derecognized.

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

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

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

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

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

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

3.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 0 for a description of impairment testing procedures.

3.5 Intangible assets

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

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

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

3.6 Leased assets

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

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

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

3.7 Inventories

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

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

3.8 Bearer plants

A bearer plant is a living plant that (a) is used in the production or supply of agricultural produce; (b) is expected to bear produce for more than one period; and (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Bearer plant is accounted at cost after depreciation and impairment losses are taken into account. The cost of bearer plants comprises its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Bearer plants are depreciated using reducing balance method. The useful life of the bearer plants is 25 years.

3.9 Financial instruments

Recognition, initial measurement and derecognition

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

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

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

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

Classification and subsequent measurement of financial assets

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

- loans and receivables
- financial assets at fair value through profit or loss

- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income Refer to note 24.2 for a summary of the Group’s financial assets by category.

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

i Loans and receivables

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

Trade and other receivables

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

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

Cash and bank balances

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

ii Financial assets at fair value through profit or loss

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

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

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include loans and borrowings and trade and other payables. A summary of the Group's financial liabilities by category is given in note 24.2.

i Loans and borrowings

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

ii Trade and other payables

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

3.10 Impairment

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

Impairment of goodwill

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

Impairment of property, plant and equipment and intangible assets

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

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

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

Impairment of financial assets

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

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

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

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

3.11 Equity

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

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

Non-redeemable preference shares are included in equity only if amount of dividends payable for these shares is at the discretion of the issuer. Otherwise they are recorded as liability.

Repurchased own shares are reported as treasury shares.

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

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

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

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

3.12 Provisions

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

3.13 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Changes in corporate income tax effective from 1 January 2017

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

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

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

3.14 Revenue recognition

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

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

Sale of goods

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

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

Rental income

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

3.15 Cash and cash equivalents

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

4 Goodwill

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

In thousands of Georgian lari	2017	2016
Gross carrying amount		
Balance at the beginning of the year	43,285	43,285
Acquired through business combination	-	-
Balance at the end of the year	43,285	43,285
Accumulated impairment		
Balance at the beginning of the year	-	-
Impairment loss	-	-
Balance at the end of the year	-	-
Net carrying amount	43,285	43,285

Impairment testing

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

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

Growth rate

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

Discount rates

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

Cash flow assumptions

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

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

5 Property, plant and equipment

In thousands of Georgian lari

	Land	Buildings and facilities	Machinery and equipment	Office equipment, furniture and fixtures	Leasehold improve-ments	Vehicles	Construction in progress	Other	Total
Cost (revaluation for land &buildings)									
as of 1 January 2016	6,285	23,787	41,745	10,972	4,783	5,683	1,994	1,153	96,402
Additions	50	2,055	2,657	1,127	928	370	680	33	7,900
Disposals	(4)	(325)	(145)	(108)	(369)	(623)	-	(8)	(1,582)
Internal movement	1,704	970	-	-	-	-	(2,674)	-	-
as of 31 December 2016	8,035	26,487	44,257	11,991	5,342	5,430	-	1,178	102,720
Additions	25	1,433	4,569	2,776	1,801	1,410	997	84	13,095
Disposals	(13)	(724)	(1,528)	(173)	(270)	(568)	-	(2)	(3,278)
Internal movements	-	-	133	99	-	-	(232)	-	-
Revaluation surplus	1,849	1,602	-	-	-	-	-	-	3,451
as of 31 December 2017	9,896	28,798	47,431	14,693	6,873	6,272	765	1,260	115,988
Accumulated depreciation and impairment									
as of 1 January 2016	-	-	22,365	3,502	667	2,643	-	454	29,631
Charge for the year	-	443	3,467	1,257	441	628	-	78	6,314
Eliminated on disposal	-	(7)	(71)	(38)	(110)	(287)	-	-	(513)
as of 31 December 2016	-	436	25,761	4,721	998	2,984	-	532	35,432
Charge for the year	-	540	4,142	1,522	633	604	-	79	7,520
Eliminated on disposal	-	(31)	(887)	(109)	(131)	(328)	-	-	(1,486)
Eliminated on revaluation	-	(945)	-	-	-	-	-	-	(945)
as of 31 December 2017	-	-	29,016	6,134	1,500	3,260	-	611	40,521
Carrying amount									
as of 31 December 2016	8,035	26,051	18,496	7,270	4,344	2,446	-	646	67,288
as of 31 December 2017	9,896	28,798	18,415	8,559	5,373	3,012	765	649	75,467

Property, plant and equipment of the Group at the carrying amount of Georgian lari 75,467 thousand have been pledged as a security for loans and borrowings as of 31 December 2017 (31 December 2016: Georgian lari 67,288 thousand).

Land and buildings are stated at revaluated amounts. Revalued amounts are fair values based on appraisals conducted by external professional valuators once every two years or more frequently if market factors indicate a material change in fair values. The Group's land and buildings were last revalued as of 31 December 2017 by independent valuators. Valuations were performed using the sales comparison, the cost and the income capitalization approaches.

Depreciation expense Georgian lari 1,856 thousand (31 December 2016: Georgian lari 1,481 thousand) has been charged to cost of goods sold (refer to note 17).

6 Intangible assets

In thousands of Georgian lari	Software	Rights	Other	Total
Cost				
as of 1 January 2016	1,675	1,042	67	2,784
Additions	293	-	172	465
Disposals	(276)	-	-	(276)
as of 31 December 2016	1,692	1,042	239	2,973
Additions	782	441	-	1,223
Disposals	-	-	-	-
as of 31 December 2017	2,474	1,483	239	4,196
Accumulated amortization				
as of 1 January 2016	372	112	35	519
Charge for the year	146	170	4	320
Eliminated on disposal	(17)	-	-	(17)
as of 31 December 2016	501	282	39	822
Charge for the year	238	199	7	444
Eliminated on disposal	-	-	-	-
as of 31 December 2017	739	481	46	1,266
Carrying amount				
as of 31 December 2016	1,191	760	200	2,151
as of 31 December 2017	1,735	1,002	193	2,930

7 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Balance at the beginning of year	-	(1,836)
Credited to profit or loss	-	627
Credited in other comprehensive income	-	1,209
Balance at the end of year	-	-

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

In thousands of Georgian lari	1 January 2016	Recognized in equity	Recognized in profit or loss	31 December 2016
Deferred income tax assets				
Tax losses to carry forward	3,055	-	(3,055)	-
	3,055	-	(3,055)	-
Deferred income tax liabilities				
Payables to employees	(26)	-	26	-
Property, plant and equipment revaluation	(1,209)	1,209	-	-
Property, plant and equipment	(3,656)	-	3,656	-
	(4,891)	1,209	3,682	-
Net position – deferred income tax assets/(liabilities)	(1,836)	1,209	627	-

Deferred tax adjustments

On 8 June 2016 the Government of Georgia made significant amendments to the Tax Code of Georgia, affecting the model of corporate taxation (refer to *note 3.13*). The changes are considered enacted as of 1 January 2017. As a result of changes, starting from 1 January 2017 companies pay corporate income tax on profit distribution (dividends) and on individual transactions that may be considered as indirect distribution of profits (benefits, gifts, payments and expenses not related to economic activities, etc). According to the amended concept of taxation, there are no temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax bases.

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

8 Inventories

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Merchandise inventory	23,771	20,021
Finished goods	8,218	4,741
Raw materials	6,495	5,091
Work-in-progress	3,403	973
Apartments held for sale	1,474	-
Other inventories	2,285	1,426
Inventory loss provision	(595)	(298)
	45,051	31,954

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

9 Trade and other receivables

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Trade receivables	12,327	9,499
Other receivables	1,929	1,923
	14,256	11,422

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

Trade receivables are generally settled on 30-90 days terms. No interest is charged on the trade receivables. No trade and other receivables were overdue beyond 365 days. The Group's management has not created allowance for trade and other receivables as there was no indication of impairment loss on events that could cast a doubt the collectability of trade and other receivables.

Refer to note 25 for the currencies in which the trade and other receivables are denominated.

10 Cash and bank balances

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Bank accounts	9,139	1,179
Cash in hand	1,595	1,077
	10,734	2,256

Refer to note 25 for the currencies in which the cash and bank balances are denominated.

11 Capital and reserves

11.1 Share capital

Shareholders as of 31 December 2017 are presented on below table:

Shareholders	Number of shares	Common/Non-redeemable preference	Share %	Voting rights %	Capital in GEL
Sukhiashvili Vasil	1,876,471	Common	6.0	29.00	1,876,471
Nikora JSC	1,294,118	Common	4.14	20.00	1,294,118
Gubanov Oleg	1,035,293	Common	3.31	16.00	1,035,293
Dumbadze David	711,765	Common	2.28	11.00	711,765
Tsirekidze Taliko	582,353	Common	1.86	9.00	582,353
Salukvadze Maka	452,941	Common	1.45	7.00	452,941
Tsertsvadze Guram	323,529	Common	1.04	5.00	323,529
Nikolaishvili Irakli	194,118	Common	0.62	3.00	194,118
Sukhiashvili Vasil	40	Non-redeemable preference	15.28	-	4,775,200
PELICAN VENTURES CORP	20	Non-redeemable preference	8.61	-	2,692,200
Tsertsvadze Guram	20	Non-redeemable preference	7.20	-	2,252,100
Bokolishvili Irakli	20	Non-redeemable preference	7.20	-	2,252,100
Park capital LLC	20	Non-redeemable preference	6.50	-	2,031,600
Nikolaishvili Irakli	17	Non-redeemable preference	6.12	-	1,914,285
Nizharadze Taras	10	Non-redeemable preference	2.66	-	830,100
Agrovin LLC	8	Non-redeemable preference	3.07	-	960,800
Anchabidze Aleksi	7	Non-redeemable preference	2.68	-	836,325
Gachechiladze Davit	7	Non-redeemable preference	2.68	-	836,325
Godgiashvili Zurab	7	Non-redeemable preference	2.68	-	836,325
Maziashvili Archil	6	Non-redeemable preference	1.59	-	498,060
Vachnadze Giorgi	6	Non-redeemable preference	1.64	-	512,025
Jokhadze Gocha	6	Non-redeemable preference	2.18	-	681,960
Dumbadze David	4	Non-redeemable preference	1.06	-	331,100
Pitchkhaia Tamar	4	Non-redeemable preference	1.55	-	485,025
Emukhvari Tamar	4	Non-redeemable preference	1.47	-	458,640
Ambroladze Murman	4	Non-redeemable preference	1.06	-	332,040
Gubanov Oleg	4	Non-redeemable preference	1.27	-	397,685
Tsaava Davit	2	Non-redeemable preference	0.72	-	225,210
Meladze Goderdzi	1	Non-redeemable preference	0.27	-	83,010
Vadatchkoria Davit	1	Non-redeemable preference	0.39	-	120,520
Dgandgava Ivane	1	Non-redeemable preference	0.27	-	83,190
Nareshelashvili Irakli	1	Non-redeemable preference	0.38	-	117,405
Kiknadze Nodar	1	Non-redeemable preference	0.40	-	124,515
Gvazava Otar	1	Non-redeemable preference	0.38	-	119,380
Nikora JSC	36	Non-redeemable preference	-	-	-
	6,470,846		**100**	**100**	**31,257,713**

Shareholders as of 31 December 2016 are presented on below table:

Shareholder	Number of shares	Common/Non-redeemable preference	Share %	Voting rights %	Capital in GEL
Sukhiashvili Vasil	1,876,471	Common	5.46	29.00	1,876,471
Nikora JSC	1,294,118	Common	3.77	20.00	1,294,118
Gubanov Oleg	1,035,293	Common	3.01	16.00	1,035,293
Dumbadze David	711,765	Common	2.07	11.00	711,765
Tsirekidze Taliko	582,353	Common	1.70	9.00	582,353
Salukvadze Maka	452,941	Common	1.32	7.00	452,941
Tsertsvadze Guram	323,529	Common	0.94	5.00	323,529
Nikolaishvili Irakli	194,118	Common	0.57	3.00	194,118
Sukhiashvili Vasil	61	Non-redeemable preference	20.22	-	7,027,681
Tsertsvadze Guram	31	Non-redeemable preference	9.78	-	3,400,543
Bokolishvili Irakli	29	Non-redeemable preference	9.18	-	3,192,405
Nikolaishvili Irakli	25	Non-redeemable preference	8.26	-	2,872,795
Akhvlediani Akaki	20	Non-redeemable preference	6.64	-	2,309,731
LLC Park capital	20	Non-redeemable preference	5.84	-	2,031,600
LLC Magtiwin	8	Non-redeemable preference	2.76	-	960,800
Gubanov Oleg	11	Non-redeemable preference	2.69	-	936,067
Nizharadze Taras	10	Non-redeemable preference	2.39	-	830,100
Jokhadze Gocha	6	Non-redeemable preference	1.96	-	681,960
Dumbadze David	8	Non-redeemable preference	1.91	-	664,080
Vachnadze Giorgi	6	Non-redeemable preference	1.47	-	512,025
Maziashvili Archil	6	Non-redeemable preference	1.43	-	498,060
Ambroladze Muman	6	Non-redeemable preference	1.42	-	494,971
Lomaia Irakli	4	Non-redeemable preference	1.40	-	485,025
Emukhvari Tamar	4	Non-redeemable preference	1.32	-	458,640
Shelia Giorgi	3	Non-redeemable preference	0.79	-	276,315
Novikov Volodimir	2	Non-redeemable preference	0.72	-	249,505
Kiknadze Nodar	1	Non-redeemable preference	0.36	-	124,515
Nareshelashvili Irakli	1	Non-redeemable preference	0.34	-	117,405
Djandjghava Ivane	1	Non-redeemable preference	0.24	-	83,010
Meladze Goderdzi	1	Non-redeemable preference	0.24	-	83,010
	6,470,852		**100**	**100**	**34,760,831**

As of 31 December 2017 the parent company of the Group, Nikora JSC had 6,470,588 ordinary shares issued with par value of Georgian lari 1 each and 222 preference shares with par value of US dollar 50,000 amounting to total share capital of Georgian lari 31,258 thousand (31 December 2016: Georgian lari 34,761 thousand).

Holders of non-redeemable preference shares are entitled to receive an annual dividend at the fixed interest rate which is not constant and can be changed by the decision of common shareholders. The preference shares do not carry a right to vote.

11.2 Treasury shares

The Group has repurchased 1,294 own shares, which are recorded as treasury shares at par value amounting to Georgian lari 1,294 thousand (31 December 2016: Georgian lari 1,294 thousand). The excess of consideration paid for the repurchase of own shares over the par value of those shares was debited to the retained earnings in the period when the shares were repurchased.

11.3 Dividends

In 2017 dividends amounting to Georgian lari 8,299 thousand have been paid to holders of ordinary and preference shares. In 2016 the dividends paid to holders of ordinary shares and preference shares was Georgian lari 5,932 thousand and Georgian lari 33 thousand to the non-controlling interest holders in the Group subsidiary.

11.4 Revaluation reserve

The revaluation reserve arises on the revaluation of land and buildings. Most recent revaluation was performed at 31 December 2017.

12 Loans and borrowings

In thousands of Georgian lari

	Current		Non-current	
	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
Bank borrowings	25,800	17,726	14,126	37,121
Overdraft	-	2,217	-	-
	25,800	19,943	14,126	37,121

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

Bank borrowings are issued under the general credit line agreements.

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

Refer to note 25 for more information about the Group's exposure to interest rate and foreign currency risks.

13 Bonds

On 18 March 2016 Georgian investment bank Galt & Taggart JSC, as a brokerage agent, issued bonds for one of the 100% of subsidiaries, Nikora Trade LLC, with a value of US dollar 5 million. Bonds bear 11% of annual interest rate (effective interest rate is 11.92%) and have two years of maturity. Interest is paid twice a year.

On 28 June 2017 Georgian brokerage firm TBC Capital LLC, as a brokerage agent, issued bonds for Nikora JSC, with a value of US dollar 10 million. Bonds bear 9% of annual interest rate (effective interest rate is 9.74%) and have two years of maturity. Interest is paid four quarterly. Below table represents the financial information regarding bonds:

In thousands of Georgian lari	Current		Non-current	
	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
Bonds - principle amount	13,137	-	25,660	13,234
Bonds - interest payable	137	176	-	-
	13,274	**176**	**25,660**	**13,234**

Movement during the year:

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Balance at the beginning of the year	13,410	-
Issue of bonds	24,037	11,334
Interest accrued	2,542	1,058
Interest paid	(2,509)	(606)
Foreign exchange loss	1,454	1,624
Balance at the end of the year	38,934	13,410

The Bonds are secured (guaranteed) by the joint and several guarantee of the sole owner of the Group – JSC Nikora (the Guarantor). In particular, the Guarantor undertakes liability on a joint and several basis to fulfil obligations of the Issuer arising from the issuance and placement of the Bonds. The Guarantor has agreed to guarantee, unconditionally and irrevocably, to the maximum extent permitted by law, the due and punctual payment of all sums from time to time payable by the Group in respect of the Bonds (the "Guarantee"). The total maximum limit of the Guarantor's liability under the Guarantee shall be the principal amount of total issued Bonds plus the accrued interest before the maturity date.

14 Trade and other payables

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Trade payables	51,069	39,950
Tax payables	855	1,146
Payables to employees	2,843	143
Other	1,305	1,192
	56,072	42,431

15 Provision for bonus cards

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

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

Management used historical experience, their general knowledge of such incentive schemes and opinions of marketing and sales specialists to make the best estimate. According to bonus card usage records, Georgian lari 444 thousand (out of the total Georgian lari 1,090 thousand) were accrued on cards which had not been active since their first usage and were not used up to the date of preparation of these consolidated financial statements. Therefore, management does not consider it probable that this portion of accrued bonuses shall be exercised by card holders. The experience indicates that only about 12%-15% of bonus points are actually used by customers. Based on these considerations the Group recognized Georgian lari 66 thousand (2016: Georgian lari 85 thousand) as a provision in the consolidated statement of financial position, which the Group expects to be utilized during the next financial year.

16 Revenue

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Sales of goods	300,093	244,353
Revenue from services	35,955	24,986
Other revenue	207	572
	336,255	269,911

17 Cost of sales

The cost of goods sold includes the following expenses:

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Purchase cost of goods sold	146,348	116,523
Direct materials	72,316	61,362
Employee compensation	6,798	5,887
Utilities	1,800	1,600
Depreciation	1,856	1,481
Rent	1,295	462
Additional materials	753	475
Repair and maintenance	408	359
Transportation	19	20
Other cost of sales	298	259
	231,891	188,428

The cost of goods sold includes cost of purchase of goods for resale as well as cost of raw materials used in own production of food products. It also includes salaries and wages of production workers, depreciation of production plant building and food processing machinery, repair and maintenance costs of production assets and other costs which are necessary production of goods for sale.

18 Selling and marketing expenses

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

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Rent expenses	17,199	15,733
Employee compensation	15,747	11,869
Depreciation expenses	3,033	3,029
Marketing expenses	11,539	2,378
Distribution	2,845	2,283
	50,363	35,292

19 Administrative expenses

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Employee compensation	17,971	14,443
Loss on write-off of inventory	4,753	3,690
Depreciation & amortization	3,108	2,592
Consultation and professional service	1,583	1,141
Bank charges	1,282	1,247
Office expenses	1,266	1,013
Maintenance	926	1,241
Rent expense	614	489
Utility expenses	501	474
Taxes other than income tax	407	502
	32,411	26,832

20 Finance costs

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Interest expense on loans from financial institutions	5,318	6,874
Interest expense on bonds	2,542	1,058
	7,860	7,932

21 Other financial items

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Loss from exchange differences on:		
Loans and receivables	2,978	(400)
Financial liabilities measured at amortized cost	(4,904)	(5,073)
	(1,926)	(5,473)

22 Income tax expense/(recovery)

In thousands of Georgian lari	Year ended 31 December 2017	Year ended 31 December 2016
Current tax	1,140	1,422
Deferred tax (refer to note 7)	-	(627)
	1,140	795

Reconciliation of effective tax rate for 2017 is as follows:

In thousands of Georgian lari	Year ended 31 December 2017	Effective tax rate (%)
Dividends declared	8,299	
Tax calculated at tax rate of 15/85	1,465	17.65
Tax credit for income tax paid on undistributed earnings prior to 1 January 2017	(945)	(11.39)
Income tax on non-deductible transactions	620	7.48
Income tax expense/(recovery)	1,140	13.74

Reconciliation of effective tax rate for 2016 is as follows:

In thousands of Georgian lari	Year ended 31 December 2016	Effective tax rate (%)
Profit/(loss) before taxation (under IFRS)	1,601	
Tax calculated at tax rate of 15% (2016: 15%)	240	15.00
(Non-taxable)/non-deductible items, net	555	34.66
Income tax expense/(recovery)	795	49.66

23 Critical accounting estimates and judgments

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

23.1 Critical accounting estimates

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

Useful lives of property and equipment

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

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

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

Bad debts

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

Market interest rate

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

23.2 Key assumptions concerning the future

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

24 Financial instruments

24.1 Significant accounting policies

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

24.2 Categories of financial instruments

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

Financial assets

In thousands of Georgian lari	**As of 31 December 2017**	**As of 31 December 2016**
Loans and receivables:		
Trade and other receivables	12,327	9,499
Cash and bank balances	10,734	2,256
	23,061	11,755

Financial liabilities

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Financial liabilities measured at amortized cost:		
Loans and borrowings	39,926	57,064
Bonds	38,934	13,410
Trade and other payables	54,767	41,239
	133,627	111,713
Net position	(110,566)	(99,958)

25 Financial risk management

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

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

Financial risk factors

a) Market risk

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

Foreign currency risk

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

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

item

As of 31 December 2017	US dollar	EUR
Financial assets		
Trade and other receivable	316	38
Cash and cash equivalents	2,467	-
	2,783	38

Financial liabilities		
Bonds	38,934	-
Loans and borrowings	14,131	479
Trade and other payables	11,445	12,418
	64,510	12,897
Net position	(61,727)	(12,859)

Item

As of 31 December 2016	US dollar	Euro
Financial assets		
Trade and other receivable	49	-
Cash and cash equivalents	174	-
Total financial assets	223	-
Financial liabilities		
Loans and borrowings	36,423	3,360
Bonds	13,410	-
Trade and other payables	1,424	515
Total financial liabilities	51,257	3,875
Net position	(51,034)	(3,875)

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

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

In thousands of Georgian lari

	US dollar impact		EUR impact	
	2017	2016	2017	2016
Profit or loss	6,173	5,103	1,286	388

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

Interest rate risk

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

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

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

2017	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	12%	12%
US dollar	9%	9%
Bonds		
US dollar	10%	11%

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

b) Credit risk

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

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Financial assets at carrying amounts		
Accounts receivable	12,327	9,499
Bank balances	9,139	1,179
	21,466	10,678

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

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

c) *Liquidity risk*

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

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

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

2017	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		12%	12%	
Less than 6 months	55,354	14,683	15,855	85,892
6 months to 1 year	718	15,019	1,288	17,162
1-5 years	-	17,246	28,074	45,320
More than 5 years	-	2,448	830	3,278
	56,072	49,396	46,047	151,652

2016	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		12%	12%	
Less than 6 months	40,093	14,265	1,652	56,010
6 months to 1 year	2,338	16,036	651	19,025
1-5 years	-	32,914	12,484	45,398
More than 5 years	-	3,198	-	3,198
	42,431	66,413	14,787	123,631

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

26 Fair value measurements

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

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

26.1 Fair value measurement of financial instruments

The Group has no financial assets or financial liabilities measured at fair value on a recurring basis as of 31 December 2017 and 31 December 2016.

The fair of financial instruments measured at amortized cost approximate their fair values.

26.2 Fair value measurement of non-financial assets

The land and buildings of the Group are stated at revalued amount. The estimated fair values of the land and buildings are categorized within Level 3 of the fair value hierarchy. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuators who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Assets measured at fair value	Date of valuation	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Land	31 December 2017	9,896	-	-	9,896
Buildings	31 December 2017	28,798	-	-	28,798

The appraisal was carried out using market approach. The valuation was performed as at 31 December 2017.

The market approach reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the land in question, including plot size, location, encumbrances and purpose of use.

The significant unobservable input is the adjustment for factors specific to the land or property in question. The extent and direction of this adjustment depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is subjective judgment, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions.

27 Capital risk management

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

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

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

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

In thousands of Georgian lari	As of 31 December 2017	As of 31 December 2016
Total equity	58,258	47,501
Less: cash and bank balances	(10,734)	(2,256)
Capital	47,524	45,245
Total equity	58,258	47,501
Borrowings	78,860	70,474
Overall financing	137,118	117,975
Capital to overall financing ratio	0,35	0,38

28 Contingencies

28.1 Business environment

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

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

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

28.2 Insurance

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

28.3 Taxes

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

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

28.4 Environmental matters

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

29 Reconciliation of liabilities arising from financing activities

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

In thousands of Georgian lari	**Long-term borrowings**	**Short-term borrowings**	**Total**
As of 1 January 2017	37,121	19,943	57,064
Cash-flows			
Interest payable		89	89
Repayments	(22,735)	(175,600)	(198,335)
Proceeds		181,844	181,844
Non-cash			
Foreign exchange (gain)/loss	(260)	(476)	(736)
Reclassification			
as of 31 December 2017	14,126	25,800	39,926

30 Related parties

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

30.1 Control relationships

The Group's largest shareholder is Vasil Sukhiashvili, who owns 29.00% of the Group's voting shares. No single shareholder has control over the Group.

30.2 Transactions with related parties

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

In thousands of Georgian lari

Transactions	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Shareholders		
Dividends paid	(7,760)	(136)
Proceeds from preference shares	-	2,777
Repayment of preference shares	(5,177)	-
	(12,937)	2,641

In thousands of Georgian lari **Outstanding balances**	**As of 31 December 2017**	**As of 31 December 2016**
Shareholders		
Dividends payable	539	-
	539	-
Holders of non-controlling interest		
Borrowings provided	143	143
	143	143

30.3 Transactions with management and close family members

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

In thousands of Georgian lari	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Salaries and bonuses	2,847	2,648
	2,847	2,648