Consolidated Financial Statements and Independent Auditor's Report

Nikora JSC

31 December 2018

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Independent auditor's report

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 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Goodwill in the amount of Georgian lari 43,618 thousand is reported in the consolidated statement of financial position as at 31 December 2018 (31 December 2017: 43,618). 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 2017 was modified accordingly.

Procedures aimed at assessment of impairment of goodwill did not indicate any impairment to be recognised in the consolidated statement of financial position as at 31 December 2018.

Machinery and equipment are carried at Georgian lari 34,670 thousand on the consolidated statement of financial position as at 31 December 2018 (31 December 2017: Georgian lari 18,415 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 5,836 thousand at the reporting date (historical cost of Georgian lari 24,398, less accumulated depreciation of Georgian lari 18,562). 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 2018 and to the depreciation expense of Georgian lari 1,623 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 2017 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 2018, the Group held inventories of Georgian lari 57,876 thousand (2017: Georgian lari 45,051 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.

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 46,394 thousand (2017: Georgian lari 38,694 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;

Report on other legal and regulatory requirements

Management is responsible for the Management Reporting. The Management Reporting comprises the information about the activities of the Group, risk analysis, future plans and other matters as required by the Law of Georgia on Accounting, Reporting and Auditing.

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

In addition, our responsibility is to express an opinion whether the Management Reporting is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes all required information.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Reporting, we are required to report that fact and the substance of misstatement. We have nothing to report in this regard.

Based on the work we have performed, in our opinion, in all material respects:

- the information given in the Management Reporting for the financial year for which the consolidated financial statements are prepared is consistent with the financial statements; and
- the Management Reporting is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes all the information required by the Law.

Other matter

The Group initially prepared consolidated financial statements for the year ended 31 December 2018 on 30 May 2019 and we have issued our audit opinion thereon dated 30 May 2019.

As described in note 29 , after the consolidated financial statements with auditor's report have been issued on 30 May 2019, the management found out certain classification misstatements and these amended consolidated financial statements were prepared and issued. The following issues were amended:

The management reviewed the classification of borrowing balances between short term and long term parts and identified that certain revolving loan balances in some of the unaudited subsidiaries were included in their respective balances in the long-term parts of borrowings, instead of the short-term portion, and that during consolidation procedures no reclassifications were made to reclassify them to short-term liabilities. In the amended consolidated financial statements this classification was corrected. Total borrowing balance has not been affected. The management has also identified that intragroup revenue transactions were incorrectly fully eliminated within the "sales of goods" line, while they should be mainly eliminated from "revenue from services" line, as intragroup sales are mainly rent and other intragroup management services. This error had no impact on the consolidated statement of profit and loss, as it doesn't affect total revenue figure – only the disclosure note 14 was amended to correctly represent split of total consolidated revenue figure.

We conducted appropriate audit procedures, necessary in the circumstances to obtain sufficient relevant audit evidence on the amended figures. Our audit opinion above includes the results of these procedures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Vakhtang Tsabadze	Ketevan Ghambashidze
Managing Partner	Registered Auditor

23 September 2019

Grant Thornton

An instinct for growth

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 [illegible]

Vakhtang Tsabadze

Managing Partner

[illegible]

Registered Auditor

23 September 2019

Consolidated statement of financial position

In thousands of Georgian lari	Note	As of 31 December 2018	As of 31 December 2017 (Restated)	As of 31 December 2016 (Restated)
Assets				
Non-current assets				
Goodwill	4	43,618	43,618	43,618
Property, plant and equipment	5	108,803	75,467	67,288
Intangible assets	6	2,909	2,930	2,151
Bearer plants		396	466	214
Loan issued		144	-	-
Other financial assets		14	20	16
		155,884	122,501	113,287
Current assets				
Inventories	7	57,876	45,051	31,954
Trade and other receivables	8	23,273	14,256	11,422
Other current assets		1,495	1,586	1,905
Current income tax assets		182	-	-
Cash and bank balances	9	3,175	10,734	2,256
		86,001	71,627	47,537
Total assets		241,885	194,128	160,824

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 16 to 48.

Consolidated statement of financial position (continued)

In thousands of Georgian lari	Note	As of 31 December 2018	As of 31 December 2017 (Restated)	As of 31 December 2016 (Restated)
Equity and liabilities				
Capital and reserves	10			
Share capital		25,126	31,258	34,761
Treasury shares		(1,326)	(1,294)	(1,294)
Revaluation reserve		12,240	12,240	7,562
Accumulated profit/(loss)		24,079	13,982	5,810
		60,119	56,186	46,839
Non-controlling interest		4,053	2,405	995
Total equity		64,172	58,591	47,834
Non-current liabilities				
Loans and borrowings	11	20,434	14,126	37,121
Bonds	12	25,000	25,660	13,234
		45,434	39,786	50,355
Current liabilities				
Trade and other payables	13	83,112	56,072	42,431
Loans and borrowings	11	22,209	25,800	19,943
Bonds	12	26,857	13,274	176
Contract liabilities		101	66	85
Dividends payables		-	539	-
		132,279	95,751	62,635
Total equity and liabilities		241,885	194,128	160,824

The consolidated financial statements were approved on 23 September 2019 by:

Irakli Bokolishvili	Besarion Pachuashvili
Executive Director	Financial Director

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 48.

Consolidated statement of financial position (continued)

In thousands of Georgian Lari

	Note	As of 31 December 2018	As of 31 December 2017 (Restated)	As of 31 December 2016 (Restated)
Equity and liabilities				
Capital and reserves	10			
Share capital		[illegible]	[illegible]	[illegible]
Treasury shares		[illegible]	[illegible]	[illegible]
Revaluation reserve		[illegible]	[illegible]	[illegible]
Accumulated profit/(loss)		[illegible]	[illegible]	[illegible]
		[illegible]	[illegible]	[illegible]
Non-controlling interest		[illegible]	[illegible]	[illegible]
Total equity		[illegible]	[illegible]	[illegible]
Non-current liabilities				
Loans and borrowings	11	[illegible]	[illegible]	[illegible]
Bonds	12	[illegible]	[illegible]	[illegible]
		[illegible]	[illegible]	[illegible]
Current liabilities				
Trade and other payables	13	[illegible]	[illegible]	[illegible]
Loans and borrowings	11	[illegible]	[illegible]	[illegible]
Bonds	12	[illegible]	[illegible]	[illegible]
Contract liabilities		[illegible]	[illegible]	[illegible]
Dividends payable		-	[illegible]	-
		[illegible]	[illegible]	[illegible]
Total equity and liabilities		[illegible]	[illegible]	[illegible]

The consolidated financial statements were approved on [illegible] September 2019 by:

[illegible]
Executive Director

[illegible]
Financial Director

[illegible]

Consolidated statement of profit or loss and other comprehensive income

In thousands of Georgian lari	Note	Year ended December 31 2018	Year ended December 31 2017
Revenue	14	417,852	336,255
Cost of sales	15	(289,528)	(231,891)
Gross profit		128,324	104,364
Other income		986	1,085
Selling and marketing expenses	16	(59,147)	(50,363)
Administrative expenses	17	(45,084)	(32,411)
Other expenses		(1,760)	(2,901)
Results from operating activities		23,319	19,774
Finance costs	18	(8,525)	(7,860)
Other financial items	19	(2,883)	(1,926)
Other non-operating expenses		(3,357)	(3,920)
Profit before income tax		8,554	6,068
Income tax (expense)/recovery		(1,568)	(1,140)
Profit for the year		6,986	4,928
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property, plant and equipment		-	4,704
Other comprehensive income for the year, net of income tax		-	4,704
Total comprehensive income for the year		6,986	9,632
Profit attributable to:			
Attributable to owners of parent		6,684	4,969
Attributable to non-controlling interest holders		302	(41)
Total income attributable to:			
Attributable to owners of parent		6,684	9,657
Attributable to non-controlling interest holders		302	(25)

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 16 to 48.

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 2017 (Restated)	34,761	(1,294)	7,562	5,810	46,839	995	47,834
Profit 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	-	-	-	11,471	11,471	1,456	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)	3,203	(310)	1,435	1,125
as of 31 December 2017 (Restated)	31,258	(1,294)	12,240	13,982	56,186	2,405	58,591

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 16 to 48.

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	-	-	-	6,684	6,684	302	6,986
Revaluation surplus	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	6,684	6,684	302	6,986
Disposal of share in subsidiary	-	-	-	8,496	8,496	1,304	9,800
Effect of sale of Nikora Trades Shares by JSC Nikora to third parties	-	-	-	549	549	(549)	-
Share premium on subsidiary's share issue	-	-	-	869	869	591	1,460
Redemption of preference shares	(6,132)	-	-	-	(6,132)	-	(6,132)
Re-purchase of own shares	-	(32)	-	(889)	(921)	-	(921)
Dividends	-	-	-	(5,909)	(5,909)	-	(5,909)
Business combination	-	-	-	297	297	-	297
Transfer of revaluation reserve of disposed assets to retained earnings	-	-	-	-	-	-	-
Transactions with owners	(6,132)	(32)	-	3,413	(2,751)	1,346	(1,405)
as of 31 December 2018	25,126	(1,326)	12,240	24,079	60,119	4,053	64,172

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 16 to 48.

Consolidated statement of cash flows

In thousands of Georgian lari	Year ended December 31 2018	Year ended December 31 2017
Cash flows from operating activities		
Profit for the year	6,986	4,928
Adjustments for:		
Depreciation and amortization	10,818	7,997
Loss on disposal of property, plant and equipment	-	-
Write-off of trade receivables	-	23
Investment in associate	7	(4)
Interest expense	8,526	7,860
Inventory losses	7,984	3,449
Change in contract liabilities	35	(19)
Income tax expense/(recovery)	1,568	1,140
Foreign exchange (gain)/loss	2,883	1,926
Operating profit before working capital changes	38,807	27,300
Change in trade and other receivables	(9,016)	(3,114)
Change in inventories	(20,809)	(16,546)
Change in other current assets	(13)	284
Change in trade and other payables	23,091	12,049
Cash generated from operations	32,060	19,973
Interest paid	(8,165)	(7,771)
Income tax paid	(1,750)	(1,400)
Net cash from operating activities	22,145	10,802
Cash flows from investing activities		
Acquisition of property, plant and equipment	(40,308)	(11,490)
Acquisition of intangible assets	(883)	(763)
Acquisition of share in subsidiary	-	(23)
Proceeds from disposal property, plant and equipment	1,293	1,819
Cash paid for acquisition of subsidiary	(635)	-
Net cash used in investing activities	(40,533)	(10,457)

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 16 to 48.

Consolidated statement of cash flows (continued)

In thousands of Georgian lari	Year ended December 31 2018	Year ended December 31 2017
Cash flows from financing activities		
Proceeds from preference share issue	-	-
Proceeds from loans and borrowings	230,384	181,844
Redemption of preferred shares	(6,678)	(5,177)
Repayment of loans and borrowings	(229,119)	(198,335)
Proceeds from bonds	25,000	23,775
Repayment of bonds	(12,540)	-
Proceeds from sale of share in subsidiary	10,349	13,025
Dividends paid	(5,748)	(7,760)
Redemption of common shares	(32)	-
Net cash from/(used in) financing activities	11,616	7,372
Net increase in cash and bank balances	(6,772)	7,717
Foreign exchange effect on cash	(787)	2,978
Cash and bank balances at the beginning of the year	10,734	39
Cash and bank balances at the end of the year	3,175	10,734

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 16 to 48.

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 2018 was 5,058 employees (2017: 4,300).

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 20 to the consolidated financial statements.

2.5 Adoption of new and revised standards

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018.

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

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2018

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

Standard	Title	Effective date
IFRS 9	Financial Instruments (note 3.9)	January 1, 2018
IFRS 15	Revenue from Contracts with Customers (note 3.15)	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018

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

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

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
IFRs 16, leases. The IASB issued the new standard for accounting for leases. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on the balance sheets as lease liabilities, with the corresponding right-of-use assets. (b) Lessees must apply a single model for all recognised leases but will have the option not to recognise ‘shortterm’ leases and leases of ‘low-value’ assets. (c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Management has yet to assess the impact of this revised standard on the Group’s consolidated financial statements.	January 1, 2019
Annual Improvements to IFRS 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: Whether tax treatments should be considered collectively; Assumptions for taxation authorities' examinations; The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and the effect of changes in facts and circumstances.	January 1, 2019

New standards and significant amendments to standards:	Effective for annual periods beginning on or after
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The amendments clarify that: on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries as of 31 December 2018:

Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nikora Trade JSC	86.15	Georgia	14 August 2006	Retail	22 December 2009
Nugeshi LLC	100	Georgia	18 June 2010	Retail	1 July 2015
Vakijvris Kalmakhi 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

Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
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	Vineyards	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
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	Real Estatel	18 December 2015
Web trade LLC	100	Georgia	13 June 2016	Online store	13 June 2016
Krtsanisi 14	100	Georgia	27 July 2018	Inactive	10 August 2018

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 JSC	92.40	Georgia	14 August 2006	Retail	22 December 2009
Nugeshi LLC	100	Georgia	18 June 2010	Retail	1 July 2015
Vakijvris Kalmakhi 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	Vineyards	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
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	Real Estatel	18 December 2015
Web trade LLC	100	Georgia	13 June 2016	Online store	13 June 2016

2.7 Restatement of financial statements

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

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

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

3 Significant accounting policies

3.1 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 2.6766 lari for 1 US dollar and 3.0701 lari for 1 euro as of 31 December 2018 (31 December 2017: 2.5922 lari for 1 US dollar, 3.1044 lari for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

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

3.3 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
Land	-	Not depreciated

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 4 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.

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

3.9.1 Changes in accounting polices

IFRS 9 - Financial Instruments

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

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

Classification and measurement

Financial assets

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment:

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

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

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

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

Reclassifications:

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

Impairment

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn finance commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

Credit-impaired financial assets:

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

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

Write-off:

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

Presentation of impairment

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

Transition

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

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

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

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

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

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

In thousands of Georgian lari	Original classification under IAS 39	New classification under IFRS 9	Original carryimg amount under IAS 39	New carrying amount under IFRS 9
Financial Assets				
Trade and other receivables	Loans and receivables	Amortised cost	14,256	14,256
Cash and cash equivalents	Loans and receivables	Amortised cost	10,734	10,734
Total Financial Assets			**24,990**	**24,990**

Financial Liabilities				
Loans and borrowings	Other financial liabilities	Other financial liabilities	39,926	39,926
Bonds	Other financial liabilities	Other financial liabilities	38,934	38,934
Trade and other payables	Other financial liabilities	Other financial liabilities	56,072	56,072
Total Financial Liabilities			**134,932**	**134,932**

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

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

3.9.2. Classification and subsequent measurement of financial liabilities

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

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

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

3.9.3. Offsetting financial instruments

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

3.10 Impairment

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

Impairment of goodwill

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

Impairment of property, plant and equipment and intangible assets

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

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

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

3.11 Equity

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

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

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.

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 Segment reporting

The Group is managed as one integrated business and the management does not separately identify any segments within the Group in terms defined by IFRS 8. The chief operating decision maker analyses operating activities, financial results, forecasts, and plans for the whole Group, rather than for separate parts of the Group's business. Therefore no reportable segments are identified and no segment disclosures are included in the consolidated financial statements of the Group.

3.15 Revenue recognition

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

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

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

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

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

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

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

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

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

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

3.16 Cash and cash equivalents

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

4 Goodwill

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

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017 (restated)
Gross carrying amount		
Balance at the beginning of the year	43,618	43,618
Acquired through business combination	-	-
Balance at the end of the year	43,618	43,618
Accumulated impairment		
Balance at the beginning of the year	-	-
Impairment loss	-	-
Balance at the end of the year	-	-
Net carrying amount	43,618	43,618

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 51,596 thousand (31 December 2017: Georgian lari 51,492 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 2017: 4% p.a.).

Discount rates

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

Cash flow assumptions

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

Apart from the considerations in determining the value-in-use, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, if the discount rate used is increased by 1% a recoverable amount of goodwill would have been Georgian lari 48,630 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 2017	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 movement	-	-	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
Additions	533	8,074	20,020	6,920	4,578	1,636	2,592	121	44,474
Disposals	-	-	(1,583)	(461)	(112)	(368)	(53)	(227)	(2,804)
Internal movements	-	-	2,113	115	119	-	(2,347)	-	-
as of 31 December 2018	10,429	36,872	67,981	21,267	11,458	7,540	957	1,154	157,658
Accumulated depreciation and impairment									
as of 1 January 2017	-	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
Charge for the year	-	907	5,359	2,012	1,081	739	-	29	10,127
Eliminated on disposal	-	-	(1,064)	(338)	(35)	(290)	-	(66)	(1,793)
as of 31 December 2018	-	907	33,311	7,808	2,546	3,709	-	574	48,855
Carrying amount									
as of 31 December 2017	9,896	28,798	18,415	8,559	5,373	3,012	765	649	75,467
as of 31 December 2018	10,429	35,965	34,670	13,459	8,912	3,831	957	580	108,803

Property, plant and equipment of the Group at the carrying amount of Georgian lari 98,881 thousand have been pledged as a security for loans and borrowings as of 31 December 2018 (31 December 2017: Georgian lari 75,467 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 1,970 thousand (31 December 2017: Georgian lari 1,856 thousand) has been charged to cost of goods sold (refer to note 15).

6 Intangible assets

In thousands of Georgian lari	**Software**	**Rights**	**Other**	**Total**
Cost				
as of 1 January 2017	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
Additions	517	40	326	883
Disposals	(34)	(45)	(239)	(320)
as of 31 December 2018	2,955	1,478	326	4,761
Accumulated amortization				
as of 1 January 2016	501	282	39	822
Charge for the year	238	199	7	444
Eliminated on disposal	-	-	-	-
as of 31 December 2016	739	481	46	1,266
Charge for the year	258	305	59	622
Eliminated on disposal	(1)	(35)	-	(36)
as of 31 December 2017	996	751	105	1,852
Carrying amount				
as of 31 December 2017	1,735	1,002	193	2,930
as of 31 December 2018	1,961	727	221	2,909

7 Inventories

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Merchandise inventory	33,314	23,771
Finished goods	13,337	8,218
Raw materials	6,479	6,495
Work-in-progress	2,183	3,403
Apartments held for sale	400	1,474
Other inventories	2,603	2,285
Inventory loss provision	(440)	(595)
	57,876	45,051

All of the inventories are pledged as a security for liabilities.

8 Trade and other receivables

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Trade receivables	22,442	12,327
Other receivables	831	1,929
	23,273	14,256

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 22 for the currencies in which the trade and other receivables are denominated.

9 Cash and bank balances

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Bank accounts	1,332	9,139
Cash in hand	1,843	1,595
	3,175	10,734

Refer to note 22 for the currencies in which the cash and bank balances are denominated.

10 Capital and reserves

10.1 Share capital

Shareholders as of 31 December 2018 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	7.47	29.00	1,876,471
Nikora JSC	1,294,118	Common	5.28	20.50	1,294,118
Gubanov Oleg	1,035,293	Common	4.12	16.00	1,035,293
Dumbadze David	711,765	Common	2.83	11.00	711,765
Tsirekidze Taliko	582,353	Common	2.32	9.00	582,353
Salukvadze Maka	420,588	Common	1.67	6.50	420,588
Tsertsvadze Guram	323,529	Common	1.29	5.00	323,529
Nikolaishvili Irakli	194,118	Common	0.77	3.00	194,118
Galt & Tagart	40	Non-redeemable preference	19.48	-	4,893,565
Pelican ventures Corp	20	Non-redeemable preference	10.71	-	2,692,200
LLC Park capital	20	Non-redeemable preference	8.09	-	2,031,600
LLC Magtiwin	8	Non-redeemable preference	3.82	-	960,800
Anchabidze Aleksi	7	Non-redeemable preference	3.33	-	836,325
Gachechiladze Daviti	7	Non-redeemable preference	3.33	-	836,325
Gojiashvili zurab	7	Non-redeemable preference	3.33	-	836,325
Vachnadze Giorgi	6	Non-redeemable preference	2.04	-	512,025
Maziashvili Archil	6	Non-redeemable preference	1.98	-	498,060
Jokhadze Gocha	6	Non-redeemable preference	2.71	-	681,960
Ambroladze Murman	4	Non-redeemable preference	1.32		332,040
Bokolishvili irakli	4	Non-redeemable preference	1.79	-	450,420
Dumbadze David	4	Non-redeemable preference	1.32	-	331,100
Emukhvari Tamar	4	Non-redeemable preference	1.83	-	458,640
Lomaia Irakli	4	Non-redeemable preference	1.93	-	485,025
Tsertsvadze Guram	4	Non-redeemable preference	1.79	-	450,420
Tsertsvadze Eka	3	Non-redeemable preference	1.38	-	347,865
Sukhiashvili Vasil	2	Non-redeemable preference	0.95	-	238,760
Tsaava David	2	Non-redeemable preference	0.90	-	225,210
Gvazava Otar	1	Non-redeemable preference	0.48	-	119,380
Kiknadze Nodar	1	Non-redeemable preference	0.50	-	124,515
Nareshelashvili Irakli	1	Non-redeemable preference	0.47	-	117,405
Nikolaishvili Irakli	1	Non-redeemable preference	0.45	-	112,605
Janjghava Ivane	1	Non-redeemable preference	0.33	-	83,190
JSC Nikora	36	Non-redeemable preference	-	-	-
	6,470,787		**100**	**100**	**25,126,348**

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**

As of 31 December 2018 the parent company of the Group, Nikora JSC had 6,470,588 ordinary shares issued with par value of Georgian lari 1 each and 199 preference shares with par value of US dollar 50,000 amounting to total share capital of Georgian lari 25,126 thousand (31 December 2017: Georgian lari 31,258 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.

10.2 Treasury shares

The Group has repurchased 1,326 own shares, which are recorded as treasury shares at par value amounting to Georgian lari 1,326 thousand (31 December 2017: 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.

10.3 Dividends

In 2018 dividends amounting to Georgian lari 5,909 thousand have been declared to holders of ordinary and preference shares. In 2017 the dividends declared to holders of ordinary shares and preference shares was Georgian lari 8,299 thousand.

10.4 Revaluation reserve

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

11 Loans and borrowings

In thousands of Georgian lari

	Current		Non-current	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Bank borrowings	22,209	25,800	20,434	14,126
Overdraft	-	-	-	-
	22,209	25,800	20,434	14,126

Bank borrowings maturity varies from 1 to 6 years and bear an average annual interest rate of 10 % with floating rate linked to NBG refinancing rate and 6 months US dollar LIBOR rates (2017: 11% 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 22 for more information about the Group's exposure to interest rate and foreign currency risks.

12 Bonds

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.

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

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

In thousands of Georgian lari	Current		Non-current	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
Bonds - principle amount	26,696	13,137	25,000	25,660
Bonds - interest payable	161	137	-	-
	26,857	**13,274**	**25,000**	**25,660**

Movement during the year:

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Balance at the beginning of the year	38,934	13,410
Issue of bonds	25,000	24,037
Interest accrued	4,124	2,542
Interest paid	(3,763)	(2,509)
Principal paid	(12,540)	-
Foreign exchange loss	102	1,454
Balance at the end of the year	51,857	38,934

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

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

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

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

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

The Bond agreement includes also limitations on dividend payments made by Nikora Trade JSC.

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

13 Trade and other payables

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Trade payables	66,379	42,817
Advances received	13,181	8,252
Tax payables	1,990	855
Payables to employees	1,107	2,843
Other	455	1,305
	83,112	56,072

14 Revenue

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Sales of goods	417,779	336,233
Rental income	73	22
	417,852	336,255

15 Cost of sales

The cost of goods sold includes the following expenses:

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Purchase cost of goods sold	203,484	146,348
Direct materials	73,946	72,316
Employee compensation	5,694	6,798
Depreciation	1,970	1,856
Utilities	1,636	1,800
Rent	889	1,295
Additional materials	779	753
Repair and maintenance	491	408
Transportation	14	19
Other cost of sales	625	298
	289,528	231,891

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.

16 Selling and marketing expenses

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

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Rent expenses	17,600	17,199
Employee compensation	19,976	15,747
Marketing expenses	13,571	11,539
Depreciation expenses	4,887	3,033
Distribution	3,113	2,845
	59,147	50,363

17 Administrative expenses

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Employee compensation	23,598	17,971
Loss on write-off of inventory	7,984	4,753
Depreciation & amortization	3,960	3,108
Consultation and professional service	2,357	1,583
Maintenance	2,109	926
Office expenses	1,816	1,266
Bank charges	1,564	1,282
Utility expenses	730	501
Rent expense	546	614
Taxes other than income tax	420	407
	45,084	32,411

18 Finance costs

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on loans from financial institutions	4,401	5,318
Interest expense on bonds	4,124	2,542
	8,525	7,860

19 Other financial items

In thousands of Georgian lari	Year ended 31 December 2018	Year ended 31 December 2017
Loss from exchange differences on:		
Cash and receivables	(16)	2,978
Financial liabilities measured at amortized cost	(2,867)	(4,904)
	(2,883)	(1,926)

20 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.

20.1 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.

20.2 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.

21 Financial instruments

21.1 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.

21.2 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 2018	As of 31 December 2017
Financial assets measured at amortized cost		
Trade and other receivables	23,273	14,256
Cash and bank balances	3,175	10,734
	26,447	24,990

Financial liabilities

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Financial liabilities measured at amortized cost:		
Loans and borrowings	42,643	39,926
Bonds	51,857	38,934
Trade and other payables	69,477	46,515
	163,977	125,375
Net position	(138,360)	(100,385)

22 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 2018	**US dollar**	**EUR**
Financial assets		
Trade and other receivable	234	85
Cash and cash equivalents	2	-
	236	85
Financial liabilities		
Bonds	26,696	-
Loans and borrowings	19,941	2,611
Trade and other payables	2,687	3,988
	49,324	6,599
Net position	(49,088)	(6,514)

Item		
As of 31 December 2017	**US dollar**	**Euro**
Financial assets		
Trade and other receivable	316	38
Cash and cash equivalents	2,467	-
Total financial assets	2,783	38
Financial liabilities		
Loans and borrowings	14,131	479
Bonds	38,934	-
Trade and other payables	11,445	12,418
Total financial liabilities	64,510	12,897
Net position	(61,727)	(12,859)

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in Georgian lari against US dollar. 10% (2017: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2016: 10%) change in foreign currency rates.

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

In thousands of Georgian lari

	US dollar impact		**EUR impact**	
	2018	**2017**	**2018**	**2017**
Profit or loss	4,909	6,173	651	1,286

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:

2018	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	10.37%	11.03%
US dollar	8.83%	9.31%
Euro	7.40%	7.48%
Bonds		
Georgian lari	11.00%	11.50%
US dollar	9.00%	9.74%

2017	Average interest rate	
	Contract	Effective
Liabilities		
Secured bank loans		
Georgian lari	12.00%	12.00%
US dollar	9.00%	9.00%
Bonds		
US dollar	10.00%	11.00%

b) Credit risk

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

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Financial assets at carrying amounts		
Accounts receivable	22,442	12,327
Bank balances	1,332	9,139
	23,774	21,466

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.

2018	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		10.70%	10.60%	
Less than 6 months	80,669	15,765	25,339	121,773
6 months to 1 year	1,990	2,388	1,123	5,501
1-5 years	-	19,098	267	19,365
More than 5 years	-	59	102	161
	82,659	37,310	26,831	146,800

2017	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		12.00%	12.00%	
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

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

23 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).

23.1 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 2018 and 31 December 2017.

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

23.2 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.

24 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 11.

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

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

In thousands of Georgian lari	As of 31 December 2018	As of 31 December 2017
Total equity	64,172	58,591
Less: cash and bank balances	(3,175)	(10,734)
Capital	60,997	47,857
Total equity	64,172	58,591
Borrowings	94,500	78,860
Overall financing	158,672	137,451
Capital to overall financing ratio	0.38	0.35

25 Contingencies

25.1 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.

25.2 Insurance

The Georgian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Georgia. The Group at this moment has a significant part of auto-park insured and within this third party responsibility is also insured as well as real estate. The Group is having active negotiations towards insuring warehouse and inventories. This will reduce the risk of loss or destruction of certain assets could have a materially adverse effect on the Group's operations and financial position.

25.3 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.

25.4 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.

26 Reconciliation of liabilities arising from financing activities

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

In thousands of Georgian lari	**Long-term borrowings**	**Short-term borrowings**	**Total**
As of 1 January 2018	14,126	25,800	39,926
Cash-flows			
Interest accrued	3,450	951	4,401
Repayments	(110,817)	(122,703)	(233,520)
Proceeds	138,503	91,881	230,384
Non-cash			
Foreign exchange (gain)/loss	516	936	1,452
Reclassification	(25,344)	25,344	-
as of 31 December 2018	20,434	22,209	42,643

27 Related parties

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

27.1 Control relationships

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

27.2 Transactions with related parties

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

In thousands of Georgian lari **Transactions**	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Shareholders		
Dividends paid	(5,909)	(7,760)
Proceeds from preference shares	-	-
Repayment of preference shares	(6,132)	(5,177)
	(12,041)	(12,937)

In thousands of Georgian lari **Outstanding balances**	**As of 31 December 2018**	**As of 31 December 2017**
Shareholders		
Dividends payable	-	539
		539
Holders of non-controlling interest		
Borrowings provided	144	143
	144	143

27.3 Transactions with management and close family members

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

In thousands of Georgian lari	**Year ended 31 December 2018**	**Year ended 31 December 2017**
Salaries and bonuses	2,909	2,847
	2,909	2,847

28 Restatement of comparative consolidated financial statements

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

In thousands of Georgian lari	January 1 2017 (as previously reported)	Adjustment	January 1 2017 (as restated)
Goodwill	43,285	333	43,618
Retained earnings	13,675	307	13,982
NCI	2,379	26	2,405

29 Amended consolidated financial statements for the year ended 31 December 2018

After the consolidated financial statements with auditor's report have been issued on 30 May 2019, the management found out certain classification misstatements and thus, these amended consolidated financial statements were prepared and issued. The following issues were amended:

The management reviewed the classification of borrowing balances between short term and long term parts and identified that certain revolving loan balances in some of the unaudited subsidiaries were included in their respective balances in the long-term parts of borrowings, instead of the short-term portion, and that during consolidation procedures no reclassifications were made to reclassify them to short-term liabilities. The management of the Group decided to issue the updated consolidated financial statements with corrected allocation of short and long term parts of the loans. Total borrowing balance has not been changed. The management has also identified that intragroup revenue transactions were incorrectly fully eliminated within the "sales of goods" line, while they should be mainly eliminated from "revenue from services" line, as intragroup sales are mainly rent and other intragroup management services. This error had no impact on the consolidated statement of profit and loss, as it doesn't affect total revenue figure – only the disclosure note 14 was amended to correctly represent split of total consolidated revenue figure.