Consolidated Financial Statements and Independent Auditor's Report

Nikora Trade JSC

31 December 2019

Contents

Grant Thornton

Independent auditor's report

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To the shareholders of Nikora Trade JSC

Qualified Opinion

We have audited the consolidated financial statements of Nikora Trade JSC (the "Parent Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Goodwill in the amount of Georgian lari 38,560 thousand is reported in the consolidated statement of financial position as of 31 December 2019 (31 December 2018: Georgian lari 38,560 thousand). The amount of Georgian lari 36,628 thousand included in that balance represents goodwill on acquisition of 100% of shares in Nugeshi LLC in the year 2015. Goodwill on acquisition of Nugeshi LLC was calculated as the difference between the consideration paid and the book value of identifiable net assets of Nugeshi LLC at the acquisition date. Such method of goodwill calculation is not in accordance with IFRS, which requires the 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 the identifiable net assets of Nugeshi LLC as at the acquisition date, therefore, we were unable to satisfy ourselves whether any adjustments might have been necessary with respect to the allocation of determined consideration between the goodwill and the property and equipment, inventory, receivables and payables of Nugeshi LLC, at the acquisition date.

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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory valuation

As at 31 December 2019, the Group held inventories of Georgian lari 45,589 thousand (2018: Georgian lari 33,137 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 3.8 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 2019 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.

Report on other legal and regulatory requirements

Management is responsible for the Management Reporting. Management report for the year 2019 dated 23 July 2020 is only available in Georgian language. 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

Our audit opinion on the consolidated financial statements relating to the year ended 31 December 2018 was modified accordingly.

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	Director, Registered Auditor

23 July 2020

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.

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

Vakhtang Tsabadze	Ketevan Ghambashidze
Managing Partner	Director, Registered Auditor

23 July 2020

Consolidated statement of financial position

In thousand Georgian lari	Note	As of 31 December 2019	As of 31 December 2018
Assets			
Non-current assets			
Goodwill	4	38,560	38,560
Property and equipment	5	52,301	45,509
Right-of-use assets	6	92,277	-
Intangible assets	7	1,463	1,786
		184,601	85,855
Current assets			
Inventories	8	45,589	33,137
Trade and other receivables	9	9,246	8,039
Other current assets		253	220
Current income tax assets		68	-
Cash and bank balances	10	3,238	2,692
		58,394	44,088
Total assets		242,995	129,943

Consolidated statement of financial position (continued)

In thousand Georgian lari	Note	As of 31 December 2019	As of 31 December 2018
Equity and liabilities			
Capital and reserves	11		
Share capital		21,800	20,610
Share premium		18,910	7,675
Revaluation reserve		2,645	-
Accumulated loss		(27,043)	(11,555)
		16,312	16,730
Non-controlling interest		-	-
Total equity		16,312	16,730
Non-current liabilities			
Loans and borrowings	12	13,703	13,660
Bonds	13	25,000	25,000
Lease liabilities	14	86,396	-
		125,099	38,660
Current liabilities			
Trade and other payables	15	74,306	64,174
Loans and borrowings	12	8,454	9,980
Bonds	13	692	161
Lease liabilities	14	17,937	-
Contract liabilities		195	101
Current income tax liabilities		-	137
		101,584	74,553
Total equity and liabilities		242,995	129,943

The consolidated financial statements were approved on 23 July 2020 by:

David Urushadze	Temur Aleksandria
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 consolidated financial statements set out on pages 13 to 45.

Consolidated statement of financial position (continued)

In thousand Georgian lari	Note	As of 31 December 2019	As of 31 December 2018
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David Urushadze | Temur Aleksandria
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 consolidated financial statements set out on pages 13 to 45.

Consolidated statement of profit or loss and other comprehensive income

In thousand Georgian lari	Note	Year ended 31 December 2019	Year ended 31 December 2018
Revenue		440,281	344,957
Cost of sales		(324,705)	(256,984)
Gross profit		115,576	87,973
Other income		819	387
Distribution and marketing expenses	16	(58,352)	(48,714)
Administrative expenses	17	(47,499)	(33,478)
Other expenses		-	(244)
Results from operating activities		10,544	5,924
Finance costs	18	(15,078)	(4,210)
Loss from exchange differences	19	(7,309)	(417)
Other non-operating expenses		(2,135)	(1,443)
Loss before income tax		(13,978)	(146)
Income tax expense		(1,510)	(995)
Loss for the year		(15,488)	(1,141)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		2,645	-
Other comprehensive income for the year, net of income tax		2,645	-
Total comprehensive loss for the year		(12,843)	(1,141)
- Earnings/(losses) per share		(1.5487)	(0.1207)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 45.

Consolidated statement of changes in equity

In thousand Georgian lari	Share capital	Share premium	Revaluation reserve	Accumulated loss	Total attributable to owners of the parent	Non-controlling interest	Total
as of 1 January 2018	20,419	6,215	-	(10,414)	16,220	-	16,220
Loss for the year	-	-	-	(1,141)	(1,141)	-	(1,141)
Total comprehensive loss for the year	-	-	-	(1,141)	(1,141)	-	(1,141)
Issue of share capital	191	1,460	-	-	1,651	-	1,651
Transactions with owners	191	1,460	-	-	1,651	-	1,651
as of 1 January 2019	20,610	7,675	-	(11,555)	16,730	-	16,730
Loss for the year	-	-	-	(15,488)	(15,488)	-	(15,488)
Other comprehensive income for the year	-	-	2,645	-	2,645	-	2,645
Total comprehensive loss for the year	-	-	2,645	(15,488)	(12,843)	-	(12,843)
Issue of share capital	1,190	11,235	-	-	12,425	-	12,425
Transactions with owners	1,190	11,235	-	-	12,425	-	12,425
as of 31 December 2019	21,800	18,910	2,645	(27,043)	16,312	-	16,312

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 45.

Consolidated statement of cash flows

In thousand Georgian lari	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Loss for the year		(15,488)	(1,141)
Adjustments for:			
Depreciation and amortization	5, 6, 7	29,173	9,396
Gain on disposal of property and equipment		(21)	(123)
Impairment loss recognized on inventories	17	10,055	6,370
Interest expense	18	15,078	4,210
Income tax expense		1,510	995
Foreign exchange loss	19	7,309	417
Operating profit before working capital changes		47,616	20,124
Change in trade and other receivables		(1,207)	221
Change in inventories		(22,507)	(18,694)
Change in other assets		(33)	13
Change in trade and other payables		14,609	18,428
Change in contract liabilities		94	35
Cash generated from operations		38,572	20,127
Interest paid	27	(14,234)	(4,142)
Income tax paid		(1,715)	(682)
Net cash from operating activities		22,623	15,303
Cash flows from investing activities			
Acquisition of property and equipment	5	(21,849)	(35,448)
Acquisition of intangible assets	7	(298)	(449)
Proceeds from disposal of property and equipment		294	527
Net cash used in investing activities		(21,853)	(35,370)

Consolidated statement of cash flows (continued)

In thousand Georgian lari	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from financing activities			
Proceeds from issue of share capital		12,425	1,650
Proceeds from loans and borrowings	27	66,837	101,437
Repayment of loans and borrowings	27	(68,828)	(103,736)
Proceeds from bonds issue	27	-	25,000
Repayment of bonds	27	-	(12,540)
Repayment of leasing liabilities	27	(10,600)	-
Net cash from/(used in) financing activities		(166)	11,811
Net increase/(decrease) in cash and bank balances		604	(8,256)
Foreign exchange effect on cash		(58)	772
Cash and bank balances at the beginning of the year	10	2,692	10,176
Cash and bank balances at the end of the year		3,238	2,692

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 45.

Notes to the consolidated financial statements

1 Nature of operations and general information

These consolidated financial statements include financial information of Nikora Trade JSC (the “Parent Company”) and of its subsidiaries Lazi Holding LLC and Nugeshi LLC (together referred to as the “Group”). The Parent Company is a registered Joint Stock company incorporated in Georgia having its business address at Tbilisi, Ts. Dadiani Street #7, Karvasla Business Center. Nikora Trade JSC holds 67% shares in Lazi Holding LLC and 100% shares in Nugeshi LLC.

Nikora JSC, a company incorporated and registered in Georgia, is the 80% owner of the Parent Company, whereas 20% belongs to other shareholders.

The Group operates food retail stores chain in Georgia having 288 stores as at 31 December 2019 (31 December 2018: 258 stores). The Group is one of the leaders on the Georgian retail market.

The average number of employees of the Group during 2019 was 5,017 employees (2018: 3,988 employees)

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption that the Group operates on a going concern basis.

In 2019 the Group has adopted new guidance for the recognition of leases (refer to note 2.5).The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adoption as of 1 January 2019 being recognized as a single adjustment to retained earnings. Accordingly, the Group is not required to present a third statement of financial position as of that date.

Further, the Group has adopted new guidance for accounting for current tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments (refer to note 2.5). The Group has chosen not to restate prior periods. Differences arising from the adoption of IFRIC 23 are recognized in retained earnings.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows and certain groups of property and equipment that are stated at revaluated value. 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 (“Georgian 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 thousand Georgian lari, since management believes that this currency is more useful for the users of these consolidated financial statements. All financial information presented in thousand 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 note 21 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 2019.

The nature and the effect of these changes are disclosed below.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2019

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

There has not been material impact on the Group's consolidated financial statements.

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* along with three Interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases-Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

The adoption of this new standard has resulted in the Group recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 10%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

IFRIC 23 *Uncertainty over Income Tax Treatment*

IFRIC 23 provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

Annual Improvements 2015-2017

The Annual Improvements 2015-2017 made several minor amendments to a number of IFRSs. The amendments relevant to the Group are summarized below:

IAS 12 *Income Taxes: Income tax consequences of payments on instruments classified as equity*

The amendments to IAS 12 clarify that the income tax consequences of dividends are recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 *Borrowing Costs: Borrowing costs eligible for capitalization*

IAS 23.14 specifies how to determine the amount of borrowing costs eligible for capitalization when an entity borrows funds generally and uses them to obtain a qualifying asset.

IAS 23 requires an entity, when determining the funds that it borrows generally, to exclude "borrowings made specifically for the purpose of obtaining a qualifying asset". The IASB observed that an entity might misinterpret those words to mean that funds borrowed generally would exclude funds outstanding that were originally borrowed specifically to obtain a qualifying asset that is now ready for its intended use or sale.

The amendments therefore clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally.

The amendments are applied prospectively (i.e. only to borrowing costs incurred on or after the beginning of the annual reporting period in which the amendments are first applied) as the costs of gathering the information required to capitalize borrowing costs retrospectively may exceed the potential benefits.

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

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

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

2.6 Subsidiaries

The consolidated financial statements include the following subsidiaries:

31 December 2019 Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nugeshi LLC	100%	Georgia	June 18, 2010	Retail	July 1, 2015
Lazi Holding LLC	67%	Georgia	April 14, 2010	Retail	December 4, 2014

31 December 2018 Subsidiary	Ownership %	Country	Date of incorporation	Industry	Date of acquisition
Nugeshi LLC	100%	Georgia	June 18, 2010	Retail	July 1, 2015
Lazi Holding LLC	67%	Georgia	April 14, 2010	Retail	December 4, 2014

3 Significant accounting policies

3.1 Basis of consolidation

The Group's financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2019. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

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 2.8677 Georgian lari for 1 US dollar and 3.2095 Georgian lari for 1 euro as of 31 December 2019 (31 December 2018: 2.6766 Georgian lari for 1 US dollar and 3.0701 Georgian 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 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 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 and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

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

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

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

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

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

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

As no finite useful life for land can be determined, related carrying amounts are not depreciated.

3.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. Refer to note 3.6 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 is charged to profit or loss or is added to the cost of other asset on a straight-line basis over the estimated useful lives of the intangible assets, which is estimated at 5-7 years for software, rights and others.

3.6 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 and equipment and intangible assets (other than goodwill)

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.

3.7 Leased assets

As described in note 2.5, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 January 2019

The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets have been presented separately as well as lease liabilities have been presented separately.

Accounting policy applicable before 1 January 2019

The Group as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

For the depreciation methods and useful lives for assets held under finance leases refer to note 3.3.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.8 Inventories

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

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

3.9 Financial instruments

Recognition and derecognition

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

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

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

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Group does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Group's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. A summary of the Group's financial assets by category is given in note 22.2.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group’s cash and bank balances, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment and listed equity securities at fair value through other comprehensive income (FVOCI). The equity investment was measured at cost less any impairment charges in the comparative period under IAS 39, as it was determined that its fair value could not be estimated reliably. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Impairment of financial assets

IFRS 9’s impairment requirements use more forward-looking information to recognize expected credit losses – the "expected credit loss (ECL) model". This replaces IAS 39’s "incurred loss model". Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").
- "Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognized for the first category while "lifetime expected credit losses" are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to note 9 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Group's financial liabilities include loans and borrowings, trade and other payables and finance lease liabilities. A summary of the Group's financial liabilities by category is given in note 22.2.

Loans and borrowings

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

Trade and other payables

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

3.10 Cash and bank balances

Cash and bank balances comprise cash on hand, bank accounts and cash in transit.

3.11 Equity

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

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

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

Accumulated profit/(loss) include all current and prior period retained profits.

All transactions with owners of the parent 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

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

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

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

3.14 Employee benefits

Short-term employee benefits are benefits expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and include:

(a) wages, salaries and bonuses;

(b) paid annual leaves and paid disability leaves;

(c) non-monetary benefits.

When employees render services to the Group during the accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Group shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless the amount is included in the cost of an asset.

Bonuses

The expected cost of bonus payments is recognized when and only when the Group has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

3.15 Revenue

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 consolidated 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 consolidated 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

4 Goodwill

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

In thousands of Georgian lari	As of 31 December 2019	As of 31 December 2018
Gross carrying amount		
As at the beginning of the year	38,560	38,560
As at the end of the year	38,560	38,560
Accumulated impairment		
As at the end of the year	-	-
Net carrying amount	38,560	38,560

Impairment testing

The recoverable amount of goodwill was determined based on the value-in-use calculations, covering a detailed five-year forecast, followed by an extrapolation of the expected cash flows for the remaining useful live using a declining growth rate determined by management. The recoverable amount of the goodwill is Georgian lari 47,620 thousand (31 December 2018: Georgian lari 46,538 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 2018: 4% p.a.).

Discount rates

The discount rates reflect appropriate adjustments relating to the market risk and the specific risk factors of the Group. The discount rate is 12.54% (31 December 2018: 17.81%).

Cash flow assumptions

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

Apart from the considerations in determining the value-in-use, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, if the discount rate used is increased by 1% a recoverable amount of goodwill would have been as Georgian lari 42,258 thousand.

5 Property and equipment

In thousand Georgian lari	Land	Buildings	Machinery and equipment	Office equipment, furniture and fixtures	Leasehold improvements	Vehicles	Total
Cost or valuation							
as of 1 January 2018	-	681	18,078	11,253	6,682	2,692	39,386
Additions	493	6,977	16,439	6,136	4,535	868	35,448
Disposals	-	-	(800)	(446)	(47)	(88)	(1,381)
as of 31 December 2018	493	7,658	33,717	16,943	11,170	3,472	73,453
Additions	-	490	7,308	3,603	3,899	1,423	16,723
Disposals	-	-	(2,209)	(606)	(304)	(194)	(3,313)
Revaluation surplus	2,188	457	-	-	-	-	2,645
as of 31 December 2019	2,681	8,605	38,816	19,940	14,765	4,701	89,508
Accumulated depreciation							
as of 1 January 2018	-	180	9,845	6,261	2,342	1,387	20,015
Charge for the year	-	252	4,804	2,158	1,223	469	8,906
Eliminated on disposal	-	-	(710)	(196)	(29)	(42)	(977)
as of 31 December 2018	-	432	13,939	8,223	3,536	1,814	27,944
Charge for the year	-	390	6,523	3,022	1,676	692	12,303
Eliminated on disposal	-	-	(2,207)	(598)	(121)	(114)	(3,040)
Eliminated on revaluation	-	-	-	-	-	-	
as of 31 December 2019	-	822	18,255	10,647	5,091	2,392	37,207
Carrying amount							
as of 31 December 2018	493	7,226	19,778	8,720	7,634	1,658	45,509
as of 31 December 2019	2,681	7,783	20,561	9,293	9,674	2,309	52,301

Property and equipment of the Group at the carrying amount of Georgian lari 31,800 thousand have been pledged as a security for loans and borrowings as of 31 December 2019 (31 December 2018: Georgian lari 35,587 thousand) (refer to note 12).

The Group's land and buildings were last revalued as of 31 December 2019 by independent valuers. Valuations were made using the sales comparison, the cost and the income capitalization approaches. The revaluation surplus was credited to revaluation reserve in shareholder's equity.

If land and buildings were stated at historical cost, their carrying amounts as of the reporting dates would be Georgian lari 493 thousand and Georgian lari 7,167 thousand, respectively.

Depreciation expense has been charged as follows:

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Distribution and marketing expenses (refer to note 16)	8,889	6,497
Administrative expenses (refer to note 17)	3,414	2,409
	12,303	8,906

6 Right of use assets

In thousand Georgian lari	Buildings	Total
Cost		
as of 1 January 2019	-	-
Adjustment on transition to IFRS 16	86,236	86,236
Additions	22,290	22,290
as of 31 December 2019	108,526	108,526
Accumulated depreciation		
as of 1 January 2019	-	-
Charge for the year	16,249	16,249
as of 31 December 2019	16,249	16,249
Carrying amount		
as of 1 January 2019	-	-
as of 31 December 2019	92,277	92,277

Depreciation expense has been charged as follows:

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Distribution and marketing expenses (refer to note 16)	15,875	-
Administrative expenses (refer to note 17)	374	-
	16,249	-

The assets leased include stores with five to ten years of lease term. The Group has also rented an office with a term of ten years.

7 Intangible assets

In thousand Georgian lari	Computer software	Rights	Other	Total
Cost				
as of 1 January 2018	1,875	1,042	167	3,084
Additions	411	37	1	449
as of 31 December 2018	2,286	1,079	168	3,533
Additions	110	171	17	298
Disposals	(83)	-	-	(83)
as of 31 December 2019	2,313	1,250	185	3,748
Accumulated amortization				
as of 1 January 2018	691	565	1	1,257
Charge for the year	231	258	1	490
as of 31 December 2018	922	823	2	1,747
Charge for the year	219	398	4	621
Eliminated on disposal	(83)	-	-	(83)
as of 31 December 2019	1,058	1,221	6	2,285
Carrying amount				
as of 31 December 2018	1,364	256	166	1,786
as of 31 December 2019	1,255	29	179	1,463

Amortization expense has been charged to administrative expenses (refer to note 17).

8 Inventories

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Merchandise inventory	45,656	32,978
Raw materials	195	182
Other	1,040	417
Inventory loss provision	(1,302)	(440)
	45,589	33,137

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

9 Trade and other receivables

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Financial assets		
Trade receivables	9,085	7,921
Other receivables	161	118
Trade and other receivables	9,246	8,039

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

The average credit period on sales of goods is 30-90 days (2018: 30-90 days). No interest is charged on the trade receivables.

All of the Group's trade and other receivables in the comparative periods have been reviewed for indicators of impairment. The Group's management has not created allowance for trade and other receivables as there was no indication of impairment loss or events that could cast a doubt on the collectability of trade and other receivables.

Refer to note 23 (a) for the currencies in which the trade and other receivables are denominated.

10 Cash and bank balances

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Cash in hand	952	1,779
Bank accounts	2,286	913
	3,238	2,692

Refer to note 23 (a) for the currencies in which the cash and bank balances are denominated.

11 Capital and reserves

11.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2019	Ordinary shares 2018
Authorized shares		
Number of ordinary shares of Georgian lari 2.18 each	9,454	9,367
Share capital at the beginning of the year (in thousand Georgian lari)	20,610	20,419
Issued and fully paid during the year (number of ordinary shares)	546	87
Number of ordinary shares of Georgian lari 2.18 each	10,000	9,454
Share capital at the end of the year (in thousand Georgian lari)	21,800	20,610
Share premium (in thousand Georgian lari)	18,910	7,675

The Group has one class of ordinary shares, which carry no right to fixed income.

11.2 Revaluation reserve

The revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to those assets, and is effectively realized, is transferred directly to accumulated profit or loss.

12 Loans and borrowings

In thousand Georgian lari	Current		Non-current	
	As of 31 December 2019	As of 31 December 2018	As of 31 December 2019	As of 31 December 2018
Secured bank loans	8,361	6,387	9,723	13,660
Unsecured borrowings from related parties	93	3,593	3,980	-
	8,454	9,980	13,703	13,660

Bank borrowings maturity varies from 1 to 6 years and bear a weighted average effective interest rate of 12% with floating rate linked to the National Bank of Georgia refinancing. (2018: 10% annually).

Bank borrowings are issued under the general credit line agreements. Bank loans are secured by property and equipment of the Group (refer to note 5 and 8).

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

Refer to note 23 (a) for the currencies in which the loans and borrowings are denominated.

13 Bonds

On 6 August 2018 TBC Capital, as a brokerage agent, issued bonds for Nikora Trade JSC, by the value of Georgian lari 25 million. Bonds bear 11% of annual interest rate (effective interest rate 12.46%) and have three years of maturity. Interest will be paid quarterly on the dates specified in the “Overview of the Offering”. Below table represents the financial information regarding bonds:

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Bonds issued	25,000	25,000
Bonds interest payable	692	161
	25,692	25,161

Movement during the year:

In thousand Georgian lari	2019	2018
Balance at the beginning of the year	25,161	13,274
Issue of bonds	-	25,000
Interest paid	(2,673)	(1,332)
Principal paid	-	(12,540)
Interest accrued	3,204	1,520
Foreign exchange gain	-	(761)
Balance at the end of the year	25,692	25,161

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 2019

(2) ICR ratio shouldn't be less than 2.5 according to the results of year 2019

(3) DSCR ratio shouldn't be less than 1.1 according to the results of year 2019

The ratios are calculated using figures from the consolidated financial statements. As of the reporting date the Group satisfies only DSCR ratio out of the three ratios.

The bond agreement includes also limitations on dividend payments.

The bonds are the Group’s direct unsecured obligations that are equal in priority and equal to the Group’s unsecured and non-subordinated obligations.

14 Leases

Lease liabilities are presented in the consolidated statement of financial position as follows:

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Current	17,937	-
Non-current	86,396	-
	104,333	-

The Group has leased the buildings. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the consolidated statement of financial position as a right-of-use asset and a lease liability. Variable lease payments, which do not depend on an index or a rate (such as lease payments based on a percentage of the Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property and equipment (refer to note 6).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term.

The table below describes the nature of the Group's leasing activities by the type of the right-of-use asset recognized in the consolidated statement of financial position:

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with termination options
Stores	268	1-10	5	268	-
Office premise	1	6	6	1	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments

at 31 December 2019 were as follows:

In thousand Georgian lari	Minimum lease payments	
	As of 31 December 2019	As of 31 December 2018
Within one year		
Lease payments	27,446	-
Finance charges	(9,509)	-
	17,937	-
In second to fifth years inclusive		
Lease payments	85,411	-
Finance charges	(21,684)	-
	63,727	-
After five years		
Lease payments	26,417	-
Finance charges	(3,748)	-
	22,669	-
Net present value	104,333	-

Lease payments not recognized as a liability

The Group has elected not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

In thousand Georgian lari	2019
Short-term leases	114
Leases of low value assets	467
Variable lease payments	3,894
	4,475

As of 31 December 2019 the Group was committed to short-term leases and the total commitment at that date was Georgian lari 600 thousand.

Variable lease payments are expensed in the period they are incurred.

Additional information on the right-of-use assets by class of assets is as follows:

In thousand Georgian lari	Carrying amount (refer to note 6)	Depreciation expense	Impairment
Buildings	92,277	16,249	-
Total right-of use assets	92,277	16,249	-

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

15 Trade and other payables

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Trade payables	72,813	62,517
Taxes and duties payable	791	1,114
Payables to employees	702	543
	74,306	64,174

No interest is charged on the trade payables.

Refer to note 23 (a) for more information about the Group's exposure to foreign currency risk.

16 Distribution and marketing expenses

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Employee benefits expenses	25,386	19,011
Depreciation expenses	24,764	6,497
Rent expenses	4,476	19,862
Distribution expenses	1,880	1,628
Marketing expenses	1,846	1,716
	58,352	48,714

The distribution 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 distribution and marketing expenses also include depreciation of retail shop buildings, the shelves, fridges and other shop refurbishments, distribution vehicles and other expenses related to sales, marketing and distribution.

17 Administrative expenses

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Employee benefits expenses	15,170	10,537
Loss on write off of inventory	10,055	6,370
Depreciation and amortization expenses	4,409	2,900
Bank charges	2,319	1,468
Utility expenses	9,485	7,423
Consultation and professional service	2,126	1,740
Maintenance expenses	2,025	1,445
Office expenses	1,819	1,498
Other	91	97
	47,499	33,478

18 Finance costs

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Interest expenses for leasing arrangements	9,764	-
Interest expenses on bonds	3,204	1,520
Interest expenses on bank borrowings	1,747	2,384
Interest expenses on borrowings from related parties	363	306
	15,078	4,210

19 Loss from exchange differences

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Financial assets measured at amortized cost	(58)	(91)
Financial liabilities measured at amortized cost	(7,251)	(326)
	(7,309)	(417)

20 Subsequent events

At the beginning of 2020, The World Health Organisation has declared the COVID-19 coronavirus outbreak to be a pandemic. Globally, COVID-19 has resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates. In March 2020, Georgian government made decision about stopping all commercial businesses, except some limited types of essential businesses, including food markets and shops.

The Group is a leading local food retailer on the Georgian market and the management believes the disruptions in the Group’s business sector are minimal, supply of raw materials has been adequate and demand for the Group’s products has been relatively stable so far. By the end of March 2020, when the Georgian government declared an emergency situation in Georgia, the Group’s all stores have continued trading without any disruptions, according to recommendations issued by the Ministry of Internally Displaced Persons from the occupied territories, Labour, Health and Social Affairs of Georgia. However, by the end of March and during April 2020 there was a slight decrease in the sales, but as sales tend to increase from May, the Group's management expects that the Group will return to the planned sales by September.

The Group is still working to organize the working process in such way to be able to deal with challenges related to unforeseeable occasions. There were changes in contract terms with suppliers regarding payment dates of the trade payables, however, there were no changes in intra-group product purchase contract terms.

The Group's management has negotiations with financial institutions to maintain the Group's liquidity and their support for growth and the management believes and has all grounds to expect that they will continue supporting the Group financially.

Also, Group has negotiations with all lease creditors for changing rental conditions in more flexible ways.

In addition, to improve the financial situation, the Group management decided to start online sales together with one of the biggest on-demand courier service in Georgia. It is already possible to make purchases using mobile applications.

Decisions were made by the Group's management related to the work organization and staffing:

- As the organization with high social responsibility the Group has decided to maintain all staff and pay for the whole salaries during this period, however, at the moment of preparation of these financial statements there is no clear plan weather the Group will continue to keep all staff in the future. Such a decision will depend on the economic situation in Georgia;
- All administrative staff worked remotely from home;
- The Group has formed a specialized team to coordinate all issues related to the pandemic;
- The Group provided transportation services to the employees for preventing disruptions to working process.
- The Group implemented health and safety measures for all their employees and customers according to recommendation issued by the World Health Organization.

21 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.

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

Revalued amount of property and equipment

Land and buildings of the Group are stated at revalued amount. These classes of property 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 property and equipment may differ from the amount disclosed in these financial statements

Inventories

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Inventory provision

Inventory provision is created for the slow-moving and obsolete inventory and for possible inventory losses in the retail shops. Determining the carrying amount of the inventory provision implies assumptions regarding demand and turnover of inventory, volumes of possible theft or damage to products in shops and the actual losses may differ from management's current assessment.

Carrying value of goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Therefore, the assessment of the impairment of goodwill requires the use of estimates and assumptions related to the future operations of the Group and other events in wider business environment of the Group, many of which are out of the direct control of the Group. To measure possible impairment of the goodwill the Group uses five-year budget, which implies assessment of many factors including sales growth rates, inflation, competition, market shares etc.

Management's calculations based on current estimates, assumptions and expectations indicate that the goodwill reported in these financial statements is not impaired. However, differences between the estimates made by the management and the actual circumstances may materially affect carrying value of goodwill. Refer to note 4.

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.

21.2 Key assumptions concerning the future

There is generally uncertainty related to the spread of COVID-19 in the future, but due to the industry in which the Group operates, and considering the actual improvements in the situation from March, when the government declared special measures in response to the pandemic, up to June, the management believes, that there are no risks related to Group's functionality as a going concern. The management believes that food supply is one of the core and critical businesses, which will be continuing working even in the worst case scenario and which will be even supported by the government if needed. The Group's management assumes that the Parent and its subsidiaries will keep operational activities in the future without dramatic changes in the operating levels, therefore, these consolidated financial statements have been prepared on a going concern basis.

21.3 Going concern assessment

Indicators of Group's financial position and its activities that may indicate difficulties in Group's ability to continue as a going concern are described in this note.

Though the matters mentioned above, management of the Group believes that Group's ability to make liability repayments and continue its activities on a going concern basis in the foreseeable future is not under threat and those assumptions are based on the following discussions and analysis.

During the preparation of the above Consolidated Financial Statements, Group's Management discussed the following issues related to the going concern and presented Group's viewpoint about them:

1. Risk description:

   Group had an accumulated loss of Georgian lari 11,555 thousand for the year ended December 31, 2018 which was added by the net loss of Georgian lari 15,488 thousand during 2019 and therefore Group's accumulated loss increased to Georgian lari 27,043 thousand for the year ended December 31, 2019.

   Risk Mitigation:

   The net loss for 2019 is not related to the operating activities of the Group and is caused by factors that are unlikely to occur again in the future. From the Statement of profit and loss it is clear that the profit from operating activities is Georgian lari 10,553 thousand, which is good result in absolute terms and represents increase by almost 78% compared to the previous year. Besides, operating profit margin of 2.4% represents increase in previous year's operating profit margin by 0.7%. As for loss for 2019, it is mainly caused by financial costs and changes in exchange rates. Increase in financial costs are mainly caused by adoption IFRS 16 "Lease" which will not be repeated in the following years.

2. Risk description:

   Group does not meet debt covenant requirements for the year ended December 31, 2019 according to bond contract.

   Risk Mitigation:

   Violation of the ratios is mostly caused by following reasons:

   - Violation in Debt to EBITDA ratio is caused by the adoption of IFRS 16, without which the Group meets the ratio requirements.
   - According to the Group's management, ICR ration does not provide fair information about the sustainability of the Group. According to its definition, calculation of Interest Coverage Ratio (ICR) does not take into account the attracted share capital by which Group managed to reduce interest expenses and increased Group's sustainability. In spite of the violation in this ratio, Group obtained wavers in advance in this regard. Minimal benchmark for this ratio is 1.2 and therefore it does not require additional attention from bond holders.

3. Risk description:

   Group has financial liabilities of Georgian lari 225,697 thousand and total financial assets of Georgian lari 12,484 thousand for the year ended December 31,2019, this means that the financial liabilities are significantly more than the financial assets of the Group and, at the same time, the Group has to cover financial liabilities of more than Georgian lari 98,000 thousand within 6 months from the end of the year.

   Risk Mitigation:

   Adoption of IFRS 16 had a negative impact on correlation between financial assets and liabilities. On the base of computations made by excluding lease liabilities from total financial liabilities there is even a improvement over the previous year in terms of this. Besides, the Group assumes that it is accepted to work with negative Working Capital. In the business sector in which Group operates negative cash conversion cycle represents best practice and it is assembled in such a way that it does not cause problems. In particular, the payback period (turnover) for liabilities is significantly longer than the asset turnover period and this is a contractual term. As for financial liabilities need to be covered within 6 months (about 98,000 thousand lari), Group has financial liability of 73,000 thousand lari with the same maturity for the end of 2018 and it was covered without any overdue. Likewise, previous year, Group have no overdue debts and any legal controversy in this direction during this period.

4. Risk description:

   Most of the lease liabilities are denominated in USD and some products are purchased from foreign suppliers for those payments are made in foreign currency. Accordingly, the Group has significant currency risks, which were realized even in 2019, when Group incurred a foreign exchange loss of Georgian lari 7,309 thousand.

   Risk Mitigation:

   To address the risks of currency rate fluctuations in foreign-currency denominated lease contracts the Group management has amended most of such contracts in the beginning of year 2018 and included provisions for currency risk mitigation in those contracts. Ceiling on lease payments is fixed and in case of significant weakening of GEL against USD or EUR, it is envisaged that the Group will cover its obligations at a lower point than the current rate. Besides, Group is planning to reduce portion of lease contracts denominated in USD in total lease contracts to mitigate the currency risk. Group is planning to connect lease payment with sales, too.

   The Group assumes that effect of changes in exchange rates is low on imported inventory as it is only within 5% of total inventory purchase and margins on these products are above average, which compensates these risks. Besides, under the contract terms, the Group always has enough time to adapt with exchange rate changes.

   One of the effective measures taken by the management to reduce currency risks was repayment of all loans denominated in foreign currency for the year ended December 31, 2019 and therefore all loans for the reporting date are denominated only in GEL.

5. Risk description:

   In response to the restrictive measures taken by the Georgian government against COVID 19 pandemic in the world, the Group's revenues have been declining since March 2020.

   Risk Mitigation:

   Despite the relative decline in sales, Group have significant improvements over April-May compared to the previous year which is a result of the Group's correct management policy. The Group has gained significant benefits in negotiating with lessors as in many contracts the Group have achieved a 50% several-month reduction in leases and for some of them the Group has agreed to the payments based on sales' percent, which neutralizes currency and other risks in this regard.

   In terms of sales, the pandemic has accelerated the decline in the traditional/unorganized retail stores' (district stores) shares on market that the Group is acquiring. In addition, according to forecasts, sales in retail sector will increase during the year even under conditions of reduced population income as it is expected that the structure of population consumption will change and the share of groceries will increase it. The Group's management expects to return to the old level of sales only from September 2020.

22 Financial instruments

22.1 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.

22.2 Categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each category are as follows:

Financial assets

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Amortized cost		
Trade and other receivables [1]	9,246	8,039
Cash and bank balances	3,238	2,692
Total financial assets	12,484	10,731

[1] these amounts only represent trade and other receivables that are financial assets

Financial liabilities

In thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Amortized cost		
Loans and borrowings	22,157	23,640
Bonds	25,692	25,161
Trade and other payables	73,515	63,059
Lease liabilities	104,333	-
Total financial liabilities	225,697	111,860

23 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, 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 transactions are carried out in Georgian lari. Exposures to currency exchange rates arise from the Group's lease liabilities, which are primarily 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:

In thousand Georgian lari

As of 31 December 2019	US dollar	Euro
Financial assets		
Trade and other receivable	78	276
Cash and bank balances	1	-
Total financial assets	79	276

	US dollar	Euro
Financial liabilities		
Trade and other payables	79	581
Lease liabilities	93,442	571
Total financial liabilities	93,521	1,152
Net position	(93,442)	(876)

In thousand Georgian lari

As of 31 December 2018	US dollar	Euro
Financial assets		
Trade and other receivable	230	74
Total financial assets	230	74
Financial liabilities		
Loans and borrowings	9,749	405
Trade and other payables	123	322
Total financial liabilities	9,872	727
Net position	(9,642)	(653)

The following table details the Group's sensitivity to a 15% (2018: 15%) increase and decrease in Georgian lari against US dollar and Euro. 15% (2018: 15%) 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 15% (2018: 15%) change in foreign currency rates.

If Georgian lari had strengthened against US dollar and Euro by 15% (2018: 15%) then this would have had the following impact:

In thousand Georgian lari	US dollar impact		Euro impact	
	2019	2018	2019	2018
Profit or loss	14,016	1,446	131	98

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

Interest rate risk

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

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

2019	Average interest rate	
	Contract	Effective
Liabilities		
Secured loans from Bank		
Georgian lari	11.84%	12.38%
US dollar	- %	- %
Euro	- %	- %
Bonds		
Georgian lari	11%	12.46%

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

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2019 would decrease/increase by Georgian lari 52 thousand (2018: increase/decrease by Georgian lari 69 thousand);

The Group's sensitivity to interest rates has increased/decreased mainly due to changes of floating interest rate which is NBG refinancing rates.

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from financial assets, including cash and bank balances held at banks, trade and other receivables.

The credit risk is managed on a group basis based on the Group's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks which are major reputable financial institutions.

The Group continuously monitors the credit quality of customers. Where available, external credit ratings and/or reports on customers are obtained and used. The Group's policy is to deal only with credit worthy counterparties. The credit terms range between 30 and 90 days. The ongoing credit risk is managed through regular review of ageing analysis, together with credit limits per customer.

Trade receivables consist of a large number of customers in various industries and geographical areas. The Group does not hold any security on the trade receivables balance.

Trade receivables

The Group applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery.

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

Trade receivables as of 31 December 2019 was determined as follows:

31 December 2019	Gross carrying amount
Less than 1 month	7,002
1 month to 6 months	1,868
6 month to 1 year	104
More than 1 year	272
	9,246

Trade receivables as of 31 December 2018 was determined as follows:

31 December 2018	Gross carrying amount
Less than 1 month	6,088
1 month to 6 months	1,624
6 month to 1 year	91
More than 1 year	236
	8,039

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.

2019	Non-interest bearing	Finance lease liability	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		10.12%	12.37%	12.01%	
Less than 6 months	73,515	14,676	10,071	229	98,491
6 months to 1 year	-	12,770	3,414	229	16,413
1-5 years	-	85,411	39,836	4,895	130,142
More than 5 years	-	26,417	-	-	26,417
	74,515	139,274	53,321	5,353	271,463

2018	Non-interest bearing	Finance lease liability	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		-	9.83%	10.02%	
Less than 6 months	63,059	-	8,972	3,750	75,781
6 months to 1 year	-	-	3,138	-	3,138
1-5 years	-	-	45,096	-	45,096
More than 5 years	-	-	-	-	-
	63,059	-	57,206	3,750	124,015

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

24 Fair value measurement

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

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

24.1 Fair value measurement of non-financial assets

The land and buildings of the Company 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 valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land held for administrative purposes (Level 3)

The appraisal was carried out using a market approach that 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 land was revalued on 31 December 2019.

The significant unobservable input is the adjustment for factors specific to the land 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.

25 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 attributable to equity holders of the parent comprising issued capital, reserves and accumulated profits and debt, which includes borrowings disclosed in note 12, 13 and 14.

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 thousand Georgian lari	As of 31 December 2019	As of 31 December 2018
Total equity	16,312	16,730
Less: cash and bank balances	(3,238)	(2,692)
Capital	13,074	14,038
Total equity	16,312	16,730
Borrowings	22,157	23,640
Bonds	25,692	25,161
Lease liabilities	104,333	-
Overall financing	168,494	65,531
Capital to overall financing ratio	0.08	0.21

26 Contingencies

26.1 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, caused by COVID 19 pandemic led to the shortage of money transfers from abroad, upon which the economy of Georgia is significantly dependent. Further decline in international prices of mining products, uncertainties due to possibilities of attraction of direct capital investments, inflation, significant depletion of Georgian currency against US dollar and possible prolongation of restrictive measures taken by government of Georgia in response to COVID 19 pandemic, may lead to deterioration of the situation of Georgian economy and of the Group. However, as the number of variables and assumptions involved in these uncertainties is big, 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.

26.2 Insurance

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

26.3 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.

27 Reconciliation of liabilities arising from financing activities

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

In thousand Georgian lari	Long-term borrowings	Short-term borrowings	Bonds	Lease liabilities	Total
as of 1 January 2018	13,859	11,148	13,274	-	38,281
Cash-flows					
Proceeds	98,406	3,031	25,000	-	126,437
Repayments	(90,742)	(12,994)	(12,540)	-	(116,276)
Interest paid	(1,625)	(1,185)	(1,332)	-	(4,142)
Non-cash					
Interest accrual	2,690	-	1,520	-	4,210
Foreign exchange gain/loss	1,052	-	(761)	-	291
Reclassification	(9,980)	9,980	-	-	-
as of 31 December 2018	13,660	9,980	25,161	-	48,801
Adjustment of IFRS 16	-	-	-	86,236	86,236
as of 1 January 2019	13,660	9,980	25,161	86,236	135,037
Cash-flows					
Proceeds	46,909	19,928	-	22,290	89,127
Repayments	(52,518)	(16,310)	-	(10,600)	(79,428)
Interest paid	-	(2,001)	(2,673)	(9,560)	(14,234)
Non-cash					
Interest accrual	1,672	438	3,204	9,764	15,078
Foreign exchange gain/loss	-	399	-	6,203	6,602
Reclassification	3,980	(3,980)	-	-	
as of 31 December 2019	13,703	8,454	25,692	104,333	152,182

28 Related parties

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

28.1 Control relationships

The ultimate parent of the Group is Nikora JSC, which is incorporated in Georgia and located at Tbilisi, Kavtaradze #11 street and who owns 80.02% of the Group's voting shares.

28.2 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 thousand Georgian lari Transactions	Year ended 31 December 2019	Year ended 31 December 2018
Parent and Entities under common control		
Sale of goods	318	431
Provision of services	23	-
Acquisition of goods and raw materials	(72,551)	(70,016)
Acquisition of services	(3,000)	(2,656)
Provision of borrowings	-	7,314
Repayment of borrowings	(4,258)	(307)
Repayment of lease liability	(95)	-
Accrual of interest expenses	363	306
Accrual of interest income	-	99

In thousand Georgian lari Outstanding balances	As of 31 December 2019	As of 31 December 2018
Parent and Entities under common control		
Trade and other receivables	28	1,009
Borrowings received	(4,073)	(3,593)
Trade and other payables	(6,577)	(7,947)
Obligations under finance leases	(265)	-
	(10,887)	(10,531)

28.3 Transactions with management and close family members

Directors of the Group and their close family members as of 31 December 2019 and 31 December 2018 had no significant shares in Nikora JSC.

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

In thousand Georgian lari	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and bonuses	503	440