BAUER Georgia Foundation Specialists LLC

Financial Statements
Together with Independent Auditors' Report

31 December 2019

Contents

INDEPENDENT AUDITOR'S REPORT

To the Owner and the Management of BAUER Georgia Foundation Specialists LLC:

Opinion

We have audited the accompanying financial statements of BAUER Georgia Foundation Specialists LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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 Financial Statements section of our report. We are independent of the Company 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 these requirements and the "IESBA Code".

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements, which indicates that the Company incurred a net loss of 2,297 thousand during the year ended December 31, 2019, and, as of that date, the Company's current liabilities exceeded its total assets by 4,154 thousand. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and those Charged with Governance for the Financial Statement

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Gela Mghebrishvili.

On behalf of Nexia TA LLC

Gela Mghebrishvili
Tbilisi, Georgia

Nexia TA

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	Note	31 December 2019	31 December 2018
ASSETS			
Non-current Assets			
Property, plant, and equipment	5	5,176,724	6,798,812
Intangible assets		263	2,776
Total non-current assets		**5,176,987**	**6,801,588**
Current assets			
Inventory	6	1,986,137	1,875,325
Trade and other receivables	7	1,967,237	1,658,619
Prepaid taxes, net		-	-
Cash and cash equivalents	8	366,719	1,057,274
Total current assets		**4,320,093**	**4,591,218**
TOTAL ASSETS		**9,497,080**	**11,392,806**
EQUITY			
Charter capital		11,917,035	11,917,035
Accumulated losses		(10,894,010)	(8,524,085)
Currency translation reserves		-	(58,339)
TOTAL EQUITY		**1,023,025**	**3,334,611**
LIABILITIES			
Non-current liabilities			
Deferred revenue from received grant		-	19,102
Current liabilities			
Borrowings	9	7,031,068	7,832,696
Trade and other payables	10	1,198,831	177,446
Tax liability, net	11	244,156	28,951
		8,474,055	**8,039,093**
TOTAL EQUITY AND LIABILITIES		**9,497,080**	**11,392,806**

Approved for issue and signed on behalf of the Management on 10 February 2020 by:

Knut Pielsticker
Managing Director

Fatih Çatalbaş
General Manager

	Note	2019	2018
Operating income			
Revenue from Contracts with Customers	12	3,675,416	8,423,764
Recovery of impairment of trade and other receivables	7	2,491	248
Gain on sale of property, plant, and equipment		773,725	1,071,365
Other income		45,809	45,071
		4,497,441	**9,540,448**
Operational expenses			
Changes in inventories	13	110,812	54,110
Cost of materials	14	(945,399)	(2,356,919)
Employee benefit expenses	15	(2,225,129)	(2,977,971)
Depreciation and amortization	5	(1,175,008)	(937,267)
Other operating and administrative expenses	16	(1,698,429)	(1,322,924)
		(5,933,153)	**(7,540,971)**
Operating result		**(1,435,712)**	**1,999,477**
Net financial income (expenses)	17	(854,935)	(846,023)
Foreign exchange gain/loss, net		(9,687)	(56,358)
Unrestricted revenue from received grant		3,247	3,542
Profit / (Loss) before tax		**(2,297,087)**	**1,100,638**
Tax expense		-	-
Net profit / (Loss)		**(2,297,087)**	**1,100,638**
Other comprehensive gains			
Differences from currency translation		(72,838)	-
Total comprehensive profit / (Loss)		**(2,369,925)**	**1,100,638**

Approved for issue and signed on behalf of the Management on 10 February 2020 by:

Knut Pielsticker
Managing Director

Fatih Çatalbaş
General Manager

	Charter capital	Accumulated losses	Currency translation reserves	Total
31 December 2017	**11,917,035**	**(9,624,723)**	**(58,339)**	**2,233,973**
Total comprehensive loss for the period	-	1,100,638	-	**1,100,638**
31 December 2018	**11,917,035**	**(8,524,085)**	**(58,339)**	**3,334,611**
Total comprehensive profit for the period	-	(2,369,925)	-	**(2,369,925)**
Transfer of Currency translation reserve at retained earnings	-	-	58,339	**58,339**
31 December 2019	**11,917,035**	**(10,894,010)**	-	**1,023,025**

Approved for issue and signed on behalf of the Management on 10 February 2020 by:

Knut Pielsticker
Managing Director

Fatih Çatalbaş
General Manager

	2019	2018
Cash flows from operating activities		
Profit / (Loss) before tax	**(2,297,087)**	**1,100,638**
Adjustments to:		
Depreciation and amortization	1,175,009	937,267
Impairment/Recovery of impairment of trade and other receivables	191,250	-
Finance expense, net	854,935	847,965
Effect of exchange rate changes	9,687	56,359
Revenue from received grant	(3,247)	(3,542)
Impairment of property, plant and equipment (PPE)	-	-
Gain from disposed of PPE	(773,726)	(1,071,366)
Cash inflows/(outflow) from operating activities before changes in operating assets and liabilities	**(843,179)**	**1,867,321**
Movements in working capital		
An (Increase)/Decrease in inventories	(110,812)	(54,110)
An increase in trade and other receivables	56,622	1,065,783
A Decrease/(increase) in prepaid taxes	-	165,583
A Decrease in trade and other payables	844,154	(91,221)
An Increase/(decrease) in taxes payable	208,789	28,951
Cash outflow from operating activities	**155,574**	**2,982,307**
Interest paid	(646,261)	(640,746)
Net cash outflow from operating activities	**(490,687)**	**2,341,561**
Cash flows from investing activities		
Purchase of PPE	(372,237)	(3,460,451)
Sale Of PPE	1,035,240	2,029,887
Interest received	-	1,623
Net cash outflow from investing activities	**663,003**	**(1,428,941)**
Cash flows from financial activities		
Proceeds from borrowings	1,492,564	9,340,320
Repayment of borrowings	(2,325,260)	(10,340,320)
Net cash inflow from financing activities	**(832,696)**	**(1,000,000)**
Net increase/ (Decrease) in cash and cash equivalents	**(660,380)**	**(87,380)**
Cash and cash equivalents at the beginning of the year	**1,057,274**	**1,169,927**
Effect of differences from currency translation	-	-
Effect of changes in a foreign exchange rate on cash and cash equivalents	(30,175)	(25,273)
Cash and cash equivalents at the end of the year	**366,719**	**1,057,274**

Approved for issue and signed on behalf of the Management on 10 February 2020 by:

Knut Pielsticker
Managing Director

Fatih Çatalbaş
General Manager

1 BAUER Georgia Foundation Specialists LLC and its Operations

BAUER Georgia Foundation Specialists LLC (hereinafter- the Company) was founded on 26 August 2009. It represents the subsidiary of BAUER Spezialtiefbau GMBH (further in the text - the Parent).

BAUER Georgia Foundation Specialists LLC is registered, and the head office is located at # 27 Mitskevichi Str., floor 7, 0194 Tbilisi, Georgia.

The principal field of activities is geotechnical, engineering and contracting works, such as Shoring, building pile walls, diaphragm wall, ground anchors, dewatering, soil improvement and etc.

Branch of BAUER Georgia Foundation Specialists LLC in the Republic of Azerbaijan became dormant from 17 May 2016.

2 Operating Environment of the Company

The Company's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high-interest rates. Georgian tax legislation is subject to varying interpretations and frequent changes.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently, what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs). The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 4.

The financial statements have been prepared under the historical cost basis.

The reporting period for the Company is the calendar year from January 1 to December 31.

This financial information is presented in Georgian Lari ("GEL") unless otherwise stated.

Going Concern. These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. As described in the analysis of liquidity risk, the Company has a negative liquidity index ratio. The Company incurred loss for the 2019 year of (2,297,087) GEL and total current liabilities exceeded total current assets by GEL 4,153,962. The main portion of current liabilities is borrowing from the bank of GEL 7,031,068.Despite this fact, Management has an intention to further develope the business of the Company in Georgia by participating and winning new tenders. Shareholders are going to fund the Company's operating losses until it generates sufficient income to finance working capital. Consequently, the management believes that the going concern assumption is appropriate for the Company.

3 Summary of Significant Accounting Policies (Continued)

Principal accounting policies

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

Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). Financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Amounts are rounded to the nearest whole unless otherwise indicated.

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

As at 31 December 2019 and 2018 the closing rates (Official rates of the National Bank of Georgia) of exchange used for translating foreign currency balances to Georgian Lari were:

	31 December 2019	31 December 2018
1 USD/GEL	2.8677	2.6766
1 EUR/GEL	3.2095	3.0701
1 AZN/GEL	1.6861	1.5786

	The average exchange rate for the 2019 year	The average exchange rate for the 2018 year
1 USD/GEL	2.8192	2.5345
1 EUR/GEL	3.1553	2.9913
1 AZN/GEL	1.6598	1.4944

3 Summary of Significant Accounting Policies (Continued)

Revenue from contracts with customers

The Company is in the business of providing geotechnical, engineering and contracting works, such as Shoring, building pile walls, diaphragm wall, ground anchors, dewatering, soil improvement and etc. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements.

Sale of equipment

Revenue from the sale of equipment is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 90 days upon delivery. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Construction contracts

Construction contracts are accounted for by the percentage of completion method. The applicable percentage is determined using surveys of work performed, which is assessed by the Company and customer by the end of each month.

LEASES

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemptions to its short-term lease of the administration office, workshop place, machinery, and equipment. Lease payments on a short-term lease are recognized as expense on a straight-line basis over the lease term.

FINANCIAL INSTRUMENTS.

Financial assets are classified into three measurement categories: (i) those to be measured subsequently at amortized cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the Company's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that is held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

3 Summary of Significant Accounting Policies (Continued)

(i) Recognition and derecognition. An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or canceled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in profit or loss.

(ii) ***Measurement***. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

3 Summary of Significant Accounting Policies (Continued)

Amortized cost. Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVOCI. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.

FVPL. Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments. The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Impairment. The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from the initial recognition of the receivables.

Classification of financial assets. All of the financial assets of the Company fall into the initially at fair value, subsequently at amortized cost category as of 31 December 2019 and 1 January 2019 and comprise of 'trade receivables' and 'cash and cash equivalents' in the statement of financial position.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (i) held for trading which also includes financial derivatives and (ii) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognized in profit or loss (FVPL) for the year (as finance income or finance costs) in the period in which they arise. Changes in fair values of financial liabilities that are designated optionally by the Company at FVPL are recognized in other comprehensive income (OCI), with no recycling, unless:

- OCI presentation would create or enlarge an accounting mismatch in profit and loss; or
- The liability is a loan commitment or financial guarantee contract.

3 Summary of Significant Accounting Policies (Continued)

Other financial liabilities are carried at amortized cost. All of the financial liabilities of the Company fall within other financial liabilities measurement categories as of 31 December 2019 and 1 January 2019 and comprise of 'trade and other payables' and 'borrowings' in the statement of financial position.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Property, plant, and equipment

Items of property, plant, and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.
Depreciation is charged on the carrying value of property, plant, and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight-line basis at the following useful lives:

	Useful lives in years
Buildings	10-20
Plant and machinery	2-20
Office equipment	2-7
Books	5-10
Tools	2-15
Vehicles	11-12

The residual values, useful lives, and methods of the depreciation of property, plant, and equipment are reviewed each financial year-end adjusted prospectively, if appropriate.

Intangible assets

Intangible assets are shown at historical cost less accumulated amortization and impairment charges. All the Company's intangible assets have definite useful lives and amortization is charged under the straight-line method according to the useful life on an asset.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. For example, the cost of transportation, import duty, and other directly attributable expenses.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an

3 Summary of Significant Accounting Policies (Continued)

asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Taxation

Income taxes. Income taxes have been provided for in the Financial Statement in accordance with legislation enacted or substantively enacted by the end of the reporting period.

Before 1 January 2017, the income tax charge/(credit) comprised current tax and deferred tax and was recognized in profit or loss for the year, except if it was recognized in other comprehensive income or directly in equity because it related to transactions that were also recognized, in the same or a different period, in other comprehensive income or directly in equity.

The current tax was the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses were based on estimates if financial statements were authorised prior to filing relevant tax returns.

Deferred income tax was provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes were not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances were measured at tax rates enacted or substantively enacted at the end of the reporting period, which was expected to apply to the period when the temporary differences reverse or the tax loss carryforwards be utilized.

Deferred tax assets for deductible temporary differences and tax loss carryforwards were recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions could be utilised.

Deferred income tax assets and liabilities were offset when there was a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there was an intention to settle the balances on a net basis.

On 13 May 2016, the Government of Georgia enacted the changes in the Tax Code of Georgia whereby companies (other than banks, credit unions, insurance companies, microfinance organizations, and pawn shops) do not have to pay income tax on their profit earned since 1 January 2017, until that profit is distributed or deemed distributed in a form of dividend.

15 % income tax is payable on gross-up value (i.e. net dividends shall be grossed up by withholding tax 5%, if applicable, and divided by 0.85) at the moment of the dividend payment to individuals or to non-resident legal entities. Dividends paid to resident legal entities from the profits earned since 1 January 2017 are tax exempted. Dividends on earnings accumulated during the period from 1 January 2008 to 1 January 2017 is subject to income tax on grossed-up value, reduced by respective tax credit calculated as a share of corporate income tax declared and paid on taxable profits vs total net profits for the same period multiplied to the dividend to be distributed. However, the tax credit amount should not exceed the actual income tax imposed on dividend distribution.

Income tax arising from the distribution of dividends is accounted for as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the

3 Summary of Significant Accounting Policies (Continued)

dividends are paid. A contingent income tax liability that would arise upon the payment of dividends is not recognized in the statement of financial position. In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest, and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on current accounts in banks, and cash on bank deposits with an original maturity of less than 3 months.

Charted capital

The amount of the Company's authorized charter capital is defined by the Company's Charter. The changes in the Company's Charter (changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owners. The authorized capital is recognized as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

Government grants

Government grants, including non-monetary grants at fair value, is recognized when there is reasonable assurance that:

a) The entity will comply with the conditions attaching to them; and
b) The grants will be received.

Government grants is recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grants related to a non-depreciable asset is recognized as income over the periods which bear the cost of meeting the obligations.

The company assesses the fair value of the non-monetary asset and accounts for both grants and assets at that fair value.

Staff costs and related contributions

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

3 Summary of Significant Accounting Policies (Continued)

Recognition of expenses

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.
Expenses incurred during the services rendered are recognized in proportionate calculation with recognized income.
Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit anymore, or if future economic profit does not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Post-balance-sheet events

Post-balance sheet events and events before the date of financial statements authorization for the issue that provides additional information about the Company's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Company at the balance sheet date are disclosed in the notes to the financial statements when material.

Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the company; and that have joint control over the Company;
b) Members of key management personnel of the Company or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Provisions, Contingent Liabilities and Contingent Assets

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to the origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the Notes to the financial statements with the exception of cases when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is possible. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

3 Summary of Significant Accounting Policies (Continued)

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The nature and effect of the changes as a result of the adoption of the new accounting standard are described below. Several other amendments and interpretations apply for the first time in 2019, but not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. 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. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of the initial application of 1 January 2019. Under this method, the standard can be applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of the initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease on 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use recognition exemptions for the lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). All lease contracts identified as short-term leases, thus the adoption of the new standard did not have an effect on the Company's financial statements as of 31 December 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 an 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. These amendments had no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the

3 Summary of Significant Accounting Policies (Continued)

actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

4 Critical Accounting Estimates and Judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. 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, plant, and equipment. Property, plant, and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which is periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

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

5 Property, Plant, and equipment

Movements in the carrying amounts of property, plant, and equipment were as follows:

Historical Cost	*Land*	*Buildings*	*Plant and machinery*	*Office equipment*	*Books*	*Tools*	*Vehicles*	*Total*
At 1 January 2018	**745,515**	**124,689**	**9,621,972**	**119,241**	**5,070**	**696,968**	**143,324**	**11,456,779**
Additions	-	-	3,381,485	8,296	-	31,152	-	3,420,933
Disposals	-	-	(789,761)	-	(411)	(7,490)	-	(797,662)
At 31 December 2018	**745,515**	**124,689**	**12,213,696**	**127,537**	**4,659**	**720,630**	**143,324**	**14,080,050**
Additions	-	11,731	207,793	8,740	-	38,063	105,910	372,237
Disposals	(745,515)	-	(64,381)	-	-	(16,032)	(93,022)	(918,950)
Disposals of assets of Branch in Azerbaijan		-	-	(31,565)	-	-	-	(31,565)
(At 31 December 2019	-	**136,420**	**12,357,108**	**104,712**	**4,659**	**742,661**	**156,212**	**13,501,772**
Accumulated depreciation								
At 1 January 2018	-	**(58,353)**	**(6,066,636)**	**(84,382)**	**(2,625)**	**(400,152)**	**(45,677)**	**(6,657,825)**
The depreciation charge for the year	-	(10,442)	(832,675)	(13,529)	(360)	(67,847)	(12,031)	(936,884)
Disposals	-	-	312,972	-	255	244	-	313,471
At 31 December 2018	-	**(68,795)**	**(6,586,339)**	**(97,911)**	**(2,730)**	**(467,755)**	**(57,708)**	**(7,281,238)**
The depreciation charge for the year	-	(14,631)	(1,069,206)	(13,961)	(421)	(63,132)	(13,415)	(1,174,766)
Disposals	-	-	60,738	-	-	11,103	31,882	103,723
Disposals of assets of Branch in Azerbaijan	-	-	-	27,233	-	-	-	27,233
At 31 December 2019	-	**(83,425)**	**(7,594,807)**	**(84,639)**	**(3,151)**	**(519,784)**	**(39,241)**	**(8,325,048)**
Net book value								
At 31 December 2018	**745,515**	**55,894**	**5,627,357**	**29,626**	**1,929**	**252,875**	**85,616**	**6,798,812**
At 31 December 2019	-	**52,994**	**4,762,301**	**20,073**	**1,508**	**222,877**	**116,971**	**5,176,724**

On 14 December 2019, the Company has sold its land with book value 745,515 GEL.

6 Inventories

	2019	2018
Spare parts	839,554	888,123
Wear and tear	839,635	753,713
Consumable	173,448	153,996
Materials	125,775	70,245
Fuel	4,159	4,381
Other	3,566	4,867
	1,986,137	**1,875,325**

7 Trade and Other Receivables

	2019	2018
Financial assets		
Trade receivables	1,717,526	2,082,653
Receivable from sales of property, plant, and equipment	430,155	-
Less impairment provisions for trade receivables	(659,328)	(468,077)
	1,488,353	**1,614,576**
Non-financial assets		
Prepaid advances	478,884	44,043
Total trade and other receivables	**1,967,237**	**1,658,619**

Prepaid advances include receivables to the parent company with an amount of 328,310 GEL.
The carrying value of trade and other receivables classified as loans and receivables approximates fair value due to their short-term maturities. Financial receivables distribution by currency is disclosed in Note 18.
The Company has adopted a simplified approach to assessing the expected credit loss under IFRS 9, for which it has used the lifetime expected credit losses for all trade and other receivables.
In order to measure the expected credit losses on trade and other receivables in a collective manner, the Company categorized trade and other receivables with the same credit risks and aging. Given that the effect of the transition to IFRS 9 was not material, the Company did not make any adjustments.
Expected credit loss amounts are determined by the historical amounts of the company during the three years. The Company applied exceptions in accordance with IFRS 9 (P.5.5.50) and did not use the expected factors in the forecast period for trade and other receivables. Historical amounts are not adjusted for current and future-oriented macroeconomic factors that affect to company's customers.
Financial receivables were impaired on an individual basis. Movements on the allowance for impairment of financial assets for the years ended 31 December 2019 and 2018 can be presented as follows:

	2019	2018
At 1 January	**(468,077)**	**(468,325)**
Unused amounts reversed	2,491	248
Receivable written off during the year as uncollectible	(193,741)	-
At 31 December	**(659,327)**	**(468,077)**

Analysis by the credit quality of financial receivables as at 31 December 2019 and 2018 can be presented as
Follows:

	2019	2018
Current and not impaired	**1,852,204**	**751,632**
Past due but not impaired	**115,033**	**862,944**
90-365 days overdue	95,571	-
More than one year overdue	19,462	862,944
Receivables individually determined to be impaired	**659,328**	**468,077**
More than one year overdue	659,328	468,077
	2,626,565	**2,082,653**
Less impairment provisions	(659,328)	(468,077)
	1,967,237	**1,614,576**

8 Cash and Cash Equivalents

	2019	2018
Cash on hand	7,541	6,543
Cash on current accounts with banks in Georgian Lari	284,595	264,270
Cash on current accounts with banks in other currencies	37,883	229,268
Restricted cash on current accounts with banks in Georgian Lari*	36,700	557,193
	366,719	**1,057,274**

* Restricted cash is made for short-term deposit in JSC Pro-Credit Bank to secure received advances from and in favor of Anagi LLC.

9 Borrowings

The Company's borrowings are summarized in the below table:

	Interest rate	2019	2018
JSC Pro-Credit Bank (Resident financial institution)	9%	7,031,068	7,832,696
Total:		**7,031,068**	**7,832,696**
Principal		7,000,000	7,800,000
Interest payable		31,068	32,696
Total:		**7,031,068**	**7,832,696**

Movements in borrowings were as follows:

At 31 December 2018	**7,832,696**
Increase in borrowing	1,492,564
Interest expense for the year	679,461
Repayment of principal	(2,325,261)
Interest paid	(648,393)
At 31 December 2019	**7,031,068**

On 14 December 2019, the Company took a new loan 7,000,000 GEL to refinance an existing loan. The annual interest rate is 9% and the maturity date is 13 December 2020.

10 Trade and Other Payables

	2019	2018
Financial liabilities		
Trade payable	67,541	158,109
Salary payable	-	-
	67,541	**158,109**
Non-financial liabilities		
Received advance	1,131,289	19,337
	1,198,831	**177,446**

The carrying value of trade and other payables classified as financial liabilities measured at amortized cost approximates fair value due to their short-term maturities.

Financial liabilities distribution by currency is disclosed in Note 18.

11 Tax liability, net

Tax payables other than on income are presented on a net basis based on the order 407 issued by the Minister of Finance of Georgia.

12 Revenue from Contracts with Customers

The Company derives revenue from the transfer of goods at a point in time in the following major product lines:

	2019	2018
Revenue from construction works	3,657, 416	8,423,764
	3,657,416	**8,423,764**

The performance obligation of construction works is satisfied when the percentage of completion is defined in accordance with the survey of work performed.

13 Changes in inventories

	2019	2018
Wear and tear	(48,568)	142,265
Fuel	85,922	(2,175)
Consumable	19,452	(2,421)
Spare parts	55,530	(39,259)
Materials	(222)	(44,608)
Other	(1,302)	308
	110,812	**54,110**

14 Cost of materials

	2019	2018
Consumable	(181,740)	(756,118)
Fuel	(293,468)	(691,766)
Wear and tear	(198,867)	(497,234)
Materials	(118,881)	(192,967)
Spare parts	(136,476)	(152,521)
Other	(15,967)	(66,313)
	(945,399)	**(2,356,919)**

15 Employee benefit expenses

	2019	2018
Wages, bonuses and other benefits	(1,810,470)	(2,461,745)
Staff catering costs	(210,333)	(332,440)
Insurance	(95,285)	(75,269)
Termination fee	(64,632)	(68,114)
Other	(44,409)	(40,403)
	(2,225,129)	**(2,977,971)**

Disclosure regarding key management compensation is included in Note 19.

16 Other operating and administrative expenses

Operating expenses:

	2019	2018
Rent of equipment	(236,122)	(306,601)
Transportation expenses	(185,549)	(208,228)
Subcontractor's expenses	(50,126)	(54,297)
Repair and maintenance	(27,741)	(16,009)
Professional services	(214,792)	(13,078)
Insurance expenses	(11,838)	(6,088)
Doubtful debt	(193,741)	-
Other	(25,471)	(1,800)
	(945,380)	**(606,101)**

Administrative expenses:

	2019	2018
Consultation expenses	(119,841)	(149,331)
Division management	(158,253)	(111,943)
Group overheads allocation	(149,010)	(89,698)
Rent expenses	(100,098)	(89,594)
Taxes other than income tax	(77,228)	(83,338)
Bank charges	(8,167)	(13,927)
Communication expenses	(8,006)	(11,591)
Utilities	(13,838)	(7,692)
Office maintenance	(8,225)	(7,654)
Business trips	(6,541)	(4,921)
Representative expenses	(28,142)	(4,916)
Other	(75,700)	(142,218)
	(753,049)	**(716,823)**
Total other operating and administrative expenses	**(1,698,429)**	**(1,849,660)**

17 Net financial income (expenses)

	2019	2018
Financial income	-	**1,942**
Financial expenses	**(854,935)**	**(847,965)**
Interest expense	(677,329)	(670,251)
Guarantee fee	(177,606)	(177,714)
	(854,935)	**(846,023)**

18 Financial Instruments- Risk Management

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

- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Currency risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

18 Financial Instruments- Risk Management (Continued)

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents
- Trade and other receivables
- Borrowings
- Trade and other payables

The fair value of financial instruments

Several assets and liabilities included in the Company's financial statements require disclosure of, fair value. The fair value measurement of the Company's financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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

Liabilities carried at amortized cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Company considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair values.

The estimation of borrowings fair value using level 2 inputs were made in accordance with valuation pricing models based on discounted cash flow analysis using market inputs and management judgments given the volatility of interest rates available on the market within 2019 and 2018.

The fair value of cash and cash equivalents was determined using level 1 measurement and the fair value of other financial assets and liabilities was determined using level 3 measurement.

18 Financial Instruments- Risk Management (Continued)

General objectives, policies and processes

The Management has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The Management receives monthly reports through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Management is to set policies that seek to reduce risks as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of transactions with counterparties giving rise to financial assets.

Respectively credit risk is of crucial importance in risk management. To avoid significant financial damage caused by this the Company uses various contractual methods to identify and manage effectively the credit risks.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2019	2018
Cash at bank	359,178	1,050,731
Trade receivables	1,488,353	1,614,576
	1,847,531	**2,665,307**

Market risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest-bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest-rate risk) and foreign exchange rates (currency risk).

Interest rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets, liabilities, because of the variable rate. The Company takes all borrowings at a fixed interest rate and respectively is never exposed to the risk of interest rate fluctuation.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

18 Financial Instruments- Risk Management (Continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	328,836	13,307	24,576	**366,719**
Trade receivables	1,472,985	-	15,368	**1,488,353**
	1,801,820	**13,307**	**39,944**	**1,855,071**
Financial liabilities				
Borrowings	7,031,068	-	-	**7,031,068**
Trade and other payables	55,879	11,662	-	**67,541**
	7,086,947	**11,662**	-	**7,098,609**
Open balance sheet position	**(5,285,126)**	**1,645**	**39,944**	

The Company's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	828,006	137,349	91,919	**1,057,274**
Trade receivables	1,599,876	-	14,700	**1,614,576**
	2,427,882	**137,349**	**106,619**	**2,671,850**
Financial liabilities				
Borrowings	7,832,696	-	-	**7,832,696**
Trade and other payables	38,370	23,554	96,185	**158,109**
	7,871,066	**23,554**	**96,185**	**7,990,805**
Open balance sheet position	**(5,443,184)**	**113,795**	**10,434**	

Currency risk sensitivity

The following table details the Company's sensitivity to a 30% in 2019 and 2018 increase and decrease in the USD and EUR against the GEL. 30% is the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a change in foreign currency rates.

Impact on net profit and equity-based on asset values as of 31 December 2019 and 2018:

	2019		2018	
Currency rate sensitivity	**30%**	**-30%**	**30%**	**-30%**
USD impact gain/(loss)	494	(494)	34,139	(34,139)
EUR impact (loss)/gain	11,983	(11,983)	3,130	(3,130)
Total net impact	**12,477**	**(12,477)**	**37,269**	**(37,269)**

18 Financial Instruments- Risk Management (Continued)

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they fall due. The Management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

To manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of the assets/liabilities management process.

An analysis of the liquidity is presented in the following table. The presentation below is based upon the information provided internally to key management of the Company.

Liquidity of Financial assets and liabilities can be presented as follows:

	2019	**2018**
	Up to 1 year	Up to 1 year
Financial assets		
Cash and cash equivalents	366,719	1,057,274
Trade receivables	1,488,352	1,614,576
	1,855,071	**2,671,850**
Financial liabilities		
Borrowings	7,031,068	7,832,696
Trade and other payables	67,541	158,109
	7,098,609	**7,990,805**
Liquidity gap	(5,243,537)	(5,318,955)
Cumulative liquidity gap	**(5,243,537)**	**(5,318,955)**

Capital disclosures

The Company's objectives when maintaining capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

19 Transactions with Related Parties

Details of transactions between the Company and related parties as at 31 December 2019 are disclosed below:

	Parent company	Under Common Control	Key management personnel	Total
Statement of financial position				
Property, plant and equipment (purchase)	107,834	-	-	**107,834**
Inventories (purchase)	372,394	-	-	**372,394**
Trade and other receivables	328,100	15,368	-	**343,468**
Statement of comprehensive income				
Sales revenue (Sales of inventory)	-	45,226		**45,226**
Staff costs	-	-	(438,170)	**(438,170)**
Other operating and administrative expenses	(707,192)	-	-	**(707,192)**
Net financial income (expenses)	(175,427)	-	-	**(175,427)**

Details of transactions between the Company and related parties as at 31 December 2018 are disclosed below:

	Parent company	Under Common Control	Key management personnel	Total
Statement of financial position				
Property, plant and equipment (purchase)	656,836	2,127,120	-	**2,783,956**
Inventories (purchase)	2,043,950	91,917		**2,135,867**
Trade and other receivables	-	14,700	-	**14,700**
Trade and other payables	89,331	-	-	**89,331**
Statement of comprehensive income				
Staff costs	-	-	(427,456)	**(427,456)**
Other operating and administrative expenses	(272,642)	-	-	**(272,642)**
Net financial income (expenses)	(177,715)	-	-	**(177,715)**

20 Post Balance sheet Events

After the reporting period, the Company received the remaining part of its receivable from the sale of the land with an amount of 433,000 GEL and also repaid the principal amount of its borrowing in the amount of GEL 500,000.

There have not been other subsequent events that need to disclose on the financial statements.