Retail Group LLC

International Financial Reporting Standard (IFRS) Financial Statements and Independent Auditor's Report

31 December 2020

Contents

Independent Auditor's Report

To the Owners and Management of Retail Group LLC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Retail Group LLC (the "Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express

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an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the 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.

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 scepticism 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.

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.

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Nino Kadagishvili (Reg.#SARAS-A-506913)

30 September 2021
Tbilisi, Georgia

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30 September 2021
Tbilisi, Georgia

In thousands of Georgian Lari	Note	31 December 2020	31 December 2019	1 January 2019
ASSETS				
Non-current assets				
Property and equipment	7	34,391	26,152	14,343
Right-of-use assets	8	76,575	55,969	28,267
Intangible assets		657	619	389
Prepayments for property and equipment		127	-	-
Total non-current assets		**111,750**	**82,740**	**42,999**
Current assets				
Receivables from shareholders	12	14,358	-	2
Inventories	9	32,582	25,877	12,923
Trade and other receivables	10	3,633	8,165	6,031
Cash and cash equivalents	11	4,598	3,213	2,879
Total current assets		**55,171**	**37,255**	**21,835**
TOTAL ASSETS		**166,921**	**119,995**	**64,834**
EQUITY				
Charter capital	12	34,052	15,543	15,543
Accumulated deficit		(24,434)	(15,010)	(4,082)
TOTAL EQUITY		**9,618**	**533**	**11,461**
LIABILITIES				
Non-current liabilities				
Borrowings	13	7,382	9,502	-
Lease liabilities	8	78,446	52,979	25,465
Total non-current liabilities		**85,828**	**62,481**	**25,465**
Current liabilities				
Borrowings	13	7,135	5,434	5,014
Lease liabilities	8	10,330	6,791	3,100
Trade and other payables	15	54,010	44,756	19,794
Total current liabilities		**71,475**	**56,981**	**27,908**
TOTAL LIABILITIES		**157,303**	**119,462**	**53,373**
TOTAL LIABILITIES AND EQUITY		**166,921**	**119,995**	**64,834**

Approved for issue and signed on behalf of Management Board 30 September 2021.

Lasha Chocheli General Director	Giorgi Tabakhmelashvili Finance Director

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Approved for issue and signed on behalf of Management Board 30 September 2021.

Lasha Chochcheli
General Director

Giorgi Tabakhmelashvili
Finance Director

In thousands of Georgian Lari	Note	2020	2019
Revenue from contracts with customers	16	326,438	194,526
Cost of sales	17	(270,416)	(161,698)
Gross profit		**56,022**	**32,828**
Other income		2,111	1,205
Distribution costs	18	(48,353)	(32,753)
General and administrative expenses	19	(6,533)	(5,807)
Net charge for expected credit losses on financial assets		(55)	(87)
Other gains/(losses), net		(443)	(100)
Operating proft/(loss)		**2,749**	**(4,714)**
Finance income	20	1,729	66
Finance costs	20	(13,902)	(6,280)
Loss before income tax		**(9,424)**	**(10,928)**
Income tax expense		-	-
LOSS FOR THE YEAR		**(9,424)**	**(10,928)**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(9,424)**	**(10,928)**

In thousands of Georgian Lari	**Charter capital**	**Accumulated deficit**	**Total**
Balance at 1 January 2019	**15,543**	**(4,082)**	**11,461**
Loss for the year	-	(10,928)	(10,928)
Total comprehensive loss for the year	-	(10,928)	(10,928)
Balance at 31 December 2019	**15,543**	**(15,010)**	**533**
Loss for the year	-	(9,424)	(9,424)
Total comprehensive loss for the year	-	(9,424)	(9,424)
Increase in charter capital (Note 12)	18,509	-	18,509
Balance at 31 December 2020	**34,052**	**(24,434)**	**9,618**

In thousands of Georgian Lari	**Note**	**2020**	**2019**
Cash flows from operating activities			
Loss before income tax		(9,424)	(10,928)
Adjustments for:			
Depreciation of property, plant and equipment	7	5,388	3,681
Depreciation of right-of-use asset	8	8,792	5,856
Amortisation of intangible assets		116	80
Net impairment losses on financial assets		55	87
Write-off damaged and expired goods, and stock count differences		6,032	4,273
Gain on disposal of non-current assets		26	24
Finance income	20	(90)	(66)
Finance costs	20	6,959	4,648
Foreign exchange translation differences		5,147	1,600
Other non-cash items		(232)	-
Operating cash flows before working capital changes		**22,769**	**9,255**
Decrease/(increase) in trade and other receivables		4,886	(2,041)
Increase in inventories		(12,737)	(17,227)
Increase in trade and other payables		9,701	25,077
Changes in working capital		**24,619**	**15,064**
Interest income received		90	66
Interest paid		(6,969)	(4,636)
Net cash from operating activities		**17,740**	**10,494**
Cash flows from investing activities			
Purchases of property and equipment		(14,270)	(15,402)
Acquisition of intangible assets		(154)	(310)
Net cash used in investing activities		**(14,424)**	**(15,712)**
Cash flows from financing activities			
Proceeds from borrowings	14	48,538	63,117
Repayment of borrowings	14	(48,947)	(53,207)
Repayment of lease liabilities – principal	14	(7,416)	(4,366)
Capital contributions from owners	12	5,790	-
Net cash (used in)/from financing activities		**(2,035)**	**5,544**
Effect of exchange rate changes on cash and cash equivalents		104	8
Cash and cash equivalents at the beginning of the year		**3,213**	**2,879**
Cash and cash equivalents at the end of the year	**11**	**4,598**	**3,213**

1 General Information

These financial statements have been prepared in accordance with International Financial Reporting Standard and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing for the year ended 31 December 2020 for Retail Group LLC (the "Company").

The Company was incorporated on 7 November 2017 and is domiciled in Georgia. The Company is a Limited Liability Company, set up in accordance with Georgian regulations and is registered by Tbilisi Tax Inspection with identification number 436041659. As of 31 December 2020, 2019 and 1 January 2019, the Company's ownership structure was following:

	31 December 2020	31 December 2019	1 January 2019
Retail Investments LLC	60.00%	60.00%	60.00%
Dolnay Consultants Limited	26.67%	26.67%	26.67%
P/I Zurabi Khizanishvili	-	13.33%	13.33%
Meidanze LLC	13.33%	-	-

For the change in ownership structure during 2021 year, please refer to Note 27.

As at 31 December 2020, 2019 and 1 January 2019 the Company was ultimately controlled by Mr. Temur Anchabadze through control obtained over following entities: Retail Investments LLC holds 60% in Retail Group LLC, Keystone Investments LLC holds more than 50% in Retail Investments LLC; Keystone Investments LLC is ultimately controlled by Mr. Temur Anchabadze.

Principal activity. The Company's principal business activity is the operation of retail stores under brand-name Magniti throughout Georgia. As of 31 December 2020, the Company had 254 stores (31 December 2019: 207 stores and 1 January 2019: 117 stores). The major assortment offered by the Company include but are not limited to food (perishable, non-perishable), beverages, cleaning, household products and other.

Registered address and place of business. The Company's registered address is Mtskheta region, village Tserovani. The principal place of business, head office is located on D. Aghmashenebeli Alley #18, Tbilisi, Georgia.

Presentation currency. These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise stated.

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. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the Georgian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. These measures have, among other things, severely restricted economic activity in Georgia and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Company, as well as the Georgian and global economy for an unknown period of time.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

3 Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with the International Financial Reporting Standard ("IFRS") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, under the historical cost convention. The 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. Refer to Note 5.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Presentation currency. All amounts in these financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise stated.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the national currency of Georgia, Georgian Lari ("GEL").

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the National Bank of Georgia ("NBG") at the respective end of the reporting period. Foreign exchange gains and losses that relate to borrowings and in general financing activitiesare presented in the statement of profit or loss and other comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income within 'Other gains/(losses), net'. As of 31 December 2020, the official rate of exchange, as determined by the National Bank of Georgia, was US Dollar ("USD") 1 = GEL 3.2766 and Euro ("EUR") 1 = GEL 4.0233 (31 December 2019: USD 1 = GEL 2.8677 and EUR 1 = GEL 3.2095, 1 January 2019: USD 1 = 2.6766 and EUR 1 = 3.0701). At present, the Georgian Lari is not a freely convertible currency outside of Georgia.

Property and equipment. Property and equipment are stated at cost, less accumulated depreciation and impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised 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. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within 'other gains/(losses),net'.

Depreciation. Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

• Buildings	10-25 years
• Office equipment	3-5 years
• Vehicles	5-10 years
• Merchandising equipment	5-10 years
• Leasehold improvements	3-10 years

3 Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Right-of-use assets. The Company leases various retail chain store spaces and warehouses in Georgia. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lesse, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives of real estate, being five to ten years.

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software licences. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives five to seven years.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

Impairment of non-financial. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

Financial instruments - key measurement terms. 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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3 Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 22.

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.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating 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 gross 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 amortised 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. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

3 Significant Accounting Policies (Continued)

Business model is determined for a Company of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification*.* Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Comapny did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Company measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Trade and other receivables are presented in the statement of financial position net of the allowance for ECL.

The Company applies simplified approach for impairment of trade receivable. For other financial assets the Company applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 24 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 24. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 24 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 360 days past due. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3 Significant Accounting Policies (Continued)

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statements of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at AC using the effective interest method.

Lease liabilities. Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of property leases across the Company. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain

3 Significant Accounting Policies (Continued)

an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less

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

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.

The income tax at 15% 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, tax credit amount should not exceed the actual income tax imposed on dividend distribution.

Income tax arising from 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 dividends are paid.

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

3 Significant Accounting Policies (Continued)

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 recognised 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.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Charter capital. The amount of Company's initial charter capital is defined by the Company's Charter. The changes in the Company's charter capital shall be made only based on the decision of the Company's owner.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment

Revenue recognition. Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added.

Sales of goods - retail. The Company operates a chain of retail stores throughout Georgia. Sales are recognised when control of the goods has transferred, being when the goods are consumed by the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods.

No element of financing is deemed present as the majority sales are simultaneous and minor portion of credit sales are made with a credit term of 10 days, which is consistent with market practice. A receivable is recognised when the goods are consumed as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

3 Significant Accounting Policies (Continued)

Financing components. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Employee benefits. Wages, Salaries, contributions to Georgian pension fund, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's management who authorised these financial statements for issue.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Company's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the macro-economic developments on the operations of the Company. As at 31 December 2020, the Company's current liabilities exceeded current assets by GEL 16,304 thousand (31 December 2019: GEL 19,726 thousand and 1 January 2019: GEL 6,074 thousand), and the Company has operating loss since the foundation. For the Company to maintain liquidity, management has imposed different alternatives, including: negotiations with suppliers to extend days payable and settle outstanding liabilities after their products are fully sold, as well as agreement with the financial institution for credit line. All the activities listed above will support the Company not to expect cash deficit in future. Improvement of liquidity is expected after the period of proactive growth, when the company stabilizes its operations that will lead to increased profitability and improved liquidity. As per managements' assessment, the stabilisation process will start from 2023 year.

Useful lives of property, plant, equipment. The estimation of the useful lives of items of property and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation charge would be to increase/decrease by GEL 539 thousand (31 December 2019: GEL 368 thousand).

Depreciation of right-of-use assets. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

For leases of retail store spaces the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate) the lease.

Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in retail store space leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

5 First-time Adoption of IFRS

These financial statements are the Company's first annual financial statements that comply with IFRS. As at 31 December 2018 and 31 December 2019, the Company prepared financial statements under International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The Company's IFRS transition date is 1 January 2019. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective as of 31 December 2020 in preparing the opening IFRS statement of financial position at 1 January 2019 and throughout all periods presented in its first IFRS financial statements. In preparing these financial statements, the Company has applied the mandatory exceptions to the retrospective application of other IFRSs; the Company did not have any optional exemptions to be elected for application.

Exceptions to the retrospective application, which are mandatory under IFRS 1 are:

a) ***Estimates exception.*** Estimates under IFRS at 1 January 2019 and 31 December 2019 should be consistent with estimates made for the same dates under the IFRS for SMEs. No differences in estimates identified.

b) ***Derecognition of financial assets and liabilities exception.*** Financial assets and liabilities derecognised before the transition to IFRS are not re-recognised under IFRS. Management did not choose to apply the IFRS 9 derecognition criteria from an earlier date.

c) ***Classification and measurement of financial instruments.*** The Group assesses whether its financial assets meet the conditions for measurement at AC or at FVOCI on the basis of the facts and circumstances that exist at the date of transition to IFRSs. In cases when retrospective application of the effective interest method is impracticable for the Company, the fair value of the financial assets or (and) the financial liabilities at the date of transition to IFRSs is the new gross carrying amount of those financial assets or the new amortised cost of those financial liabilities at the date of transition to IFRSs. No differences in estimates identified.

d) ***Impairment of financial assets.*** The impairment requirements of IFRS 9 are applied retrospectively. In cases when determination of a significant increase in credit risk since the initial recognition of a financial instrument requires undue cost or effort, the management decided to recognise a lifetime expected credit losses allowance at each reporting date until the financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date). The management made revision of impairment figures are charged GEL 87 thousand to Statement of Profit or Loss and Other Comprehensive Income.

e) ***Embedded derivatives.*** The Company does not have embedded derivatives.

f) ***Government loans.*** The Company does not have government loans.

5 First-time Adoption of IFRS (Continued)

The following reconciliations provide a quantification of the effect of the transition from IFRS for SMEs ("IFRS for SMEs") to IFRS at 1 January 2019, 31 December 2019 and for the year ended 31 December 2019:

In thousands of Georgian Lari	**31 December 2019**	**1 January 2019**
EQUITY UNDER IFRS FOR SMES	**4,122**	**11,969**
Effects of changes in accounting policies:		
(i) Net impairment losses on financial assets	(87)	-
(ii) IFRS 16 Leases	(3,122)	-
(iii) Goodwill impairment	(381)	(508)
IFRS EQUITY	**532**	**11,461**

In thousands of Georgian Lari	**2019**
LOSS UNDER IFRS FOR SMES	**(7,847)**
Effects of changes in accounting policies:	
(i) Net impairment losses on financial assets	(87)
(ii) IFRS 16 Leases	(3,122)
(iii) Reversal of amortisation charge for impaired goodwill	127
TOTAL COMPREHENSIVE LOSS UNDER IFRS	**(10,929)**

The key adjustments for the differences between IFRS for SMEs and IFRS were attributable to the following:

(i) ***Net impairment losses on financial assets:*** The Company has made revision of impairment loss calculations in line with IFRS 9. Based on the revised analysis, the Company has made adjustment of GEL 87 thousand for 2019 year figures (Note 10).

(ii) ***Adoption of IFRS 16***: The Company made adjustments for recognition of right-of use assets (Note 8) and lease liabilities (Note 14) at the date of transition to IFRS. The adjustment related to recognition of right-of-use asset and corresponding lease liabilities at transition dateand had no impact on equity. The impact of IFRS 16 since transition resulted from subsequent measurements, including derecognition of operating lease expense and recognition of interest expense, foreign exchange gain/(loss),net and depreciation of right-of-use asset.

(iii) ***Goodwill:*** On 8 January 2018 the Company acquired property and equipment, other intangible assets and inventory of Magniti LLC, other related party. Management accounted for the transaction as business combination deriving from the fact that the Company purchased all the Magniti LLC' assets and started operations in the same locations in which company operated previously. Mostly all the employees have been transferred to Retail Group LLC. The Company has recognised Goodwill in the amount of GEL 635 thousand and respective annual amortisation charge of GEL 127 thousand in the financial statements for the year ended 31 December 2018 and goodwill in the amount of GEL 508 thousand and respective annual amortisation charge of GEL 127 thousand in the financial statements for the year ended 31 December 2019 prepared under IFRS for SMEs. Under IFRS for SMEs framework, Goodwill amortisation was calculated by applying the straight-line method to its estimated useful life. The useful life of goodwill was determined as five years, which is based on management's best estimate. Based on the analysis formed by the management as at 1 January 2019 which is the date of transition to IFRS, the management estimated goodwill should have been fully impaired.

The Company's operating, investing and financing cash flows reported under IFRS for SMEs did not significantly differ from IFRS, except of those transactions relating to adoption of IFRS 16.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Company has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. The Company is currently assessing the impact of the amendments on its financial statements.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments.

6 New Accounting Pronouncements (Continued)

There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company is currently assessing the impact of the amendments on its separate financial statements.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Company is currently assessing the impact of the amendments on its financial statements.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's separate financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

6 New Accounting Pronouncements (Continued)

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Company is currently assessing the impact of the amendments on its financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Company is currently assessing the impact of the amendments on its separate financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements

7 Property and Equipment

Movements in the carrying amount of property and equipment were as follows:

In thousands of Georgian Lari	Land and Buildings	Merchan-dising Equipment	Office Equipment	Vehicles	Leasehold Improvement	Total
Cost at 1 January 2019	500	5,436	4,543	653	4,346	15,478
Accumulated depreciation	(37)	(395)	(467)	(23)	(213)	(1,135)
Carrying amount at 1 January 2019	**463**	**5,041**	**4,076**	**630**	**4,133**	**14,343**
Additions	-	4,963	3,896	380	6,455	15,694
Disposals	-	(150)	-	(12)	(42)	(204)
Depreciation charge	(49)	(1,184)	(1,367)	(127)	(954)	(3,681)
Carrying amount at 31 December 2019	**414**	**8,670**	**6,605**	**871**	**9,592**	**26,152**
Cost at 31 December 2019	500	10,249	8,439	1,021	10,759	30,968
Accumulated depreciation	(86)	(1,579)	(1,834)	(150)	(1,167)	(4,816)
Carrying amount at 31 December 2019	**414**	**8,670**	**6,605**	**871**	**9,592**	**26,152**
Additions	-	3,686	3,010	526	6,840	14,062
Disposals	-	(151)	(39)	(18)	(399)	(607)
Transfer between classes	-	1,351	(1,351)	-	-	-
Depreciation charge	(49)	(1,638)	(1,987)	(178)	(1,536)	(5,388)
Eliminated on disposal	-	4	11	-	157	172
Carrying amount at 31 December 2020	**365**	**11,922**	**6,249**	**1,201**	**14,654**	**34,391**
Cost at 31 December 2020	500	15,135	10,059	1,529	17,200	44,423
Accumulated depreciation	(135)	(3,213)	(3,810)	(328)	(2,546)	(10,032)
Carrying amount at 31 December 2020	**365**	**11,922**	**6,249**	**1,201**	**14,654**	**34,391**

At 31 December 2020 buildings and equipment carried at GEL 33,434 thousand (31 December 2019: GEL 25,531 thousand and 1 January 2019: GEL 12,923) have been pledged to third parties as collateral for borrowings. Refer to Note 21.

8 Right-of-use assets and lease liabilities

The Company leases various retail chain spaces. Rental contracts are typically made for fixed periods of 5-10 years but may have extension options, as described below.

Until 31 December 2018 leases of property and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company.

During 2020, the Company terminated several lease agreements, as a result of which it has derecognised lease liabilities in the amount of GEL 1,755 thousand and the respective right-of-use assets in the amount of GEL 1,523 thousand. The termination has resulted into a gain on derecognition in the amount of GEL 232 thousand, recorded under 'Other income' in the statement of profit or loss and other comprehensive income.

In thousands of Georgian Lari	**Real estate**
Carrying amount at 1 January 2019	**28,267**
Additions	33,558
Depreciation charge	(5,856)
Carrying amount at 31 December 2019	**55,969**
Additions	30,921
Depreciation charge	(8,792)
Effect of lease derecognition	(1,523)
Carrying amount at 31 December 2020	**76,575**

The Company recognised lease liabilities as follows:

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**	**1 January 2019**
Short-term lease liabilities	10,330	6,791	3,100
Long-term lease liabilities	78,446	52,979	25,465
Total lease liabilities	**88,776**	**59,770**	**28,565**

Interest expense included in finance costs of 2020 was GEL 3,773 thousand (2019: GEL 5,620 thousand).

Total cash outflow for leases in 2020 was GEL 13,036 thousand (2019: GEL 8,139 thousand).

Extension and termination options are included in a number of leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

9 Inventories

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**	**1 January 2019**
Goods for resale	31,532	25,572	12,868
Other inventory	1,050	305	55
Total inventories	**32,582**	**25,877**	**12,923**

Inventories of GEL 32,573 thousand (2019: GEL 25,879 thousand and 1 January 2019: GEL 25,846 thousand) have been pledged as collateral for borrowings. Refer to Note 21. The cost of inventories recognised as an expense during the period representing cost of sales amounted to GEL 270,416 thousand (31 December 2019: GEL 161,698 thousand).

10 Trade and Other Receivables

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**	**1 January 2019**
Trade receivables	307	224	49
Receivables from suppliers	998	5,902	2,825
Less credit loss allowance	(142)	(87)	-
Total financial assets within trade and other receivables	***1,163***	***6,039***	***2,874***
Taxes prepaid and recoverable, other than income tax	1,067	964	1,860
Prepayments	894	694	1,170
Other receivables	509	468	127
Total trade and other receivables	**3,633**	**8,165**	**6,031**

Receivable from suppliers includes pre-defined percentage of discounts granted by suppliers for purchase of goods.

As at 31 December 2020, 31 December 2019 and 1 January 2019 financial trade receivables net of impairment loss provisions were GEL denominated.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Individual assessment approach is utilized for ECL measurement. For details on application of simplified approach refer to Note 22.

The expected loss rates are based on the payment profiles of customers over a period of 36 month before each balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based the number of days that an asset is past due, adjusted for forward looking information. For details refer to the Note 22.

10 Trade and Other Receivables (Continued)

In % of gross value (In thousands of Georgian Lari)	31 December 2020 Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value	31 December 2019 Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value	1 January 2019 Loss rate	Gross carrying amount	Lifetime ECL	Net carrying value
Trade receivables												
- current	0%	94	-	94	0%	75	-	75	0%	49	-	49
- less than 30 days overdue	0%	6	-	6	0%	30	-	30	0%	-	-	-
- 30 to 90 days overdue	0%	8	-	8	0%	25	-	25	0%	-	-	-
- 91 to 180 days overdue	0%	21	-	21	0%	24	-	24	0%	-	-	-
- 181 to 360 days overdue	0%	73	-	73	0%	70	-	70	0%	-	-	-
- over 360 days overdue	(100%)	105	(105)	-	(100%)	-	-	-	0%	-	-	-
Total		**307**	**(105)**	**202**		**224**	**-**	**224**		**49**	**-**	**49**
Receivables from suppliers												
- current	0%	927	-	927	0%	3,791	-	3,791	0%	2,292	-	2,292
- less than 30 days overdue	0%	2	-	2	0%	387	-	387	0%	197	-	197
- 30 to 90 days overdue	0%	7	-	7	0%	575	-	575	0%	210	-	210
- 91 to 180 days overdue	0%	23	-	23	0%	645	-	645	0%	89	-	89
- 181 to 360 days overdue	0%	2	-	2	0%	417	-	417	0%	37	-	37
- over 360 days overdue	(100%)	37	(37)	-	(100%)	87	(87)	-	0%	-	-	-
Total		**998**	**(37)**	**961**		**5,902**	**(87)**	**5,815**		**2,825**	**-**	**2,825**

10 Trade and Other Receivables (Continued)

The following table explains the changes in the credit loss allowance for trade receivables under simplified ECL model between the beginning and the end of the annual period:

in thousands of Georgian Lari	2020	2019
Allowance for credit losses on trade receivables at 1 January	**87**	**-**
New originated	55	87
Total credit loss allowance charge in profit or loss for the period	**55**	**87**
Allowance for credit losses on trade receivables at 31 December	**142**	**87**

11 Cash and Cash Equivalents

In thousands of Georgian Lari	31 December 2020	31 December 2019	1 January 2019
Bank balances payable on demand	3,700	2,511	2,455
Cash on hand	519	417	326
Cash in transit	379	285	98
Total cash and cash equivalents	**4,598**	**3,213**	**2,879**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020, 31 December 2019 and 1 January 2019. Refer to Note 22 for the description of the Company's credit risk grading system.

In thousands of Georgian Lari	31 December 2020	31 December 2019	1 January 2019
Excellent	3,460	2,431	2,455
Good	240	80	-
Total cash and cash equivalents, excluding cash on hand	**3,700**	**2,511**	**2,455**

12 Charter Capital

Based on the resolution of the Company's owners and board minute dated 20 November 2017, charter capital was defined as USD 1,500 thousand and was further increased by USD 4,500 thousand based on the owner's decision dated 18 January 2018. Total cash contributions made by the owners during 2017 and 2018 year reached GEL 15,543 thousand (USD 6,000 thousand).

Based on the board minute dated 14 February 2020, decision was made to further increase charter capital in the amount of GEL 18,509 thousand (USD 6,440 thousand) from which USD 2,058 thousand (equivalent to GEL 5,790 thousand) was contributed in cash during 2020 year, the outstanding balance of USD 4,382 thousand (equivalent to GEL 14,358 thousand) is still outstanding receivable as of 31 December 2020. For subsequent board minute and contributions, please refer to Note 27.

13 Borrowings

In thousands of Georgian Lari	31 December 2020	31 December 2019	1 January 2019
Term loan	9,514	4,920	-
Credit line	5,003	10,016	5,014
Total borrowings	**14,517**	**14,936**	**5,014**

The Company's borrowings are denominated in Georgian Lari. The borrowings bear average interest rate of 13% annually and mature until May 2021 and September 2024 (31 December 2019: 13% and 1 January 2019: 12.5%).

Bank borrowings are secured by the land, buildings, inventories and partially by vehicles of the Company (Note 5,7).

14 Reconciliation of Liabilities arising from Financial Activities

The table below sets out an analysis of liabilities from financing activities and the movements in the Company's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows

	Year ended 31 December 2020			**Year ended 31 December 2019**		
In thousands of Georgian Lari	**Borrowings**	**Lease liabilities**	**Total**	**Borrowings**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January	**14,936**	**59,770**	**74,706**	**5,014**	**28,565**	**33,579**
Cash flows						
Loan drawdowns	48,538	-	48,538	63,117	-	63,117
Repayments of principal	(48,947)	(7,416)	(56,363)	(53,207)	(4,366)	(57,573)
Interest payments	(1,349)	(5,620)	(6,969)	(863)	(3,773)	(4,636)
Non-cash changes						
Interest accrual	1,339	5,620	6,959	875	3,773	4,648
New leases	-	30,921	30,921	-	33,558	33,558
Foreign exchange adjustments	-	6,943	6,943	-	1,630	1,630
Other	-	(1,442)	(1,442)	-	383	383
Liabilities from financing activities at 31 December	**14,517**	**88,776**	**103,293**	**14,936**	**59,770**	**74,706**

15 Trade and Other Payables

In thousands of Georgian Lari	31 December 2020	31 December 2019	1 January 2019
Trade payables	51,122	42,924	18,623
Liabilities for purchased property and equipment	319	400	108
Accrued liabilities and other creditors	672	662	669
Total financial payables within trade and other payables	***52,113***	***43,986***	***19,400***
Accrued employee benefit costs	1,797	692	394
Other payables	100	78	-
Trade and other payables	**54,010**	**44,756**	**19,794**

16 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:

In thousands of Georgian Lari	2020	2019
Non-food	114,639	70,590
Food: perishable	108,511	69,066
Food: non-perishable	78,055	54,604
Other	25,233	266
Total revenue from contracts with customers	**326,438**	**194,526**

17 Cost of sales

In thousands of Georgian Lari	2020	2019
Non-food	96,155	59,599
Food: perishable	93,665	59,670
Food: non-perishable	58,742	42,198
Other	21,854	231
Total cost of sales	**270,416**	**161,698**

In thousands of Georgian Lari	2020	2019
Cost of materials consumed	263,797	157,087
Write-off damaged and expired goods, and stock count differences	6,032	4,273
Payroll and related taxes	587	338
Total cost of sales	**270,416**	**161,698**

18 Distribution costs

In thousands of Georgian Lari	2020	2019
Employee benefits expense	20,078	14,294
Depreciation of right-of-use assets	8,792	5,856
Depreciation of property and equipment	5,168	3,514
Utilities costs	5,156	3,687
Supply expense	3,659	913
Bank charges	1,379	602
Fuel expenses	1,081	805
Advertising and marketing services	1,051	1,185
Repairs and maintenance services	934	1,118
Security services	387	288
Telecommunications expenses	353	282
Amortisation of other intangible assets	115	83
Storage and delivery expenses	72	28
Other distribution costs	128	98
Total distribution costs	**48,353**	**32,753**

Included in employee benefits expense are statutory pension contributions of GEL 803 thousand (2019: GEL 536 thousand).

19 General and Administrative Expenses

In thousands of Georgian Lari	**2020**	**2019**
Employee benefits expense	3,921	3,806
Information, consulting and other professional services	845	726
Repairs and maintenance services	425	140
Insurance	306	226
Taxes other than on income	301	203
Depreciation of property, plant and equipment	220	164
Business trip expenses	77	154
Telecommunications expenses	65	50
Utilities costs	54	34
Bank charges	37	24
Office supplies expense	25	73
Security services	22	-
Other general and administrative expenses	235	207
Total general and administrative expenses	**6,533**	**5,807**

Included in employee benefits expense are statutory pension contributions of GEL157 thousand (2019: GEL 143 thousand).

Professional service fee includes GEL 112 thousand (2019: GEL 69 thousand) **-** fees incurred for audit and other professional services provided for 2020 year by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

20 Finance Income and Costs

In thousands of Georgian Lari	**2020**	**2019**
Interest income on financial assets measured at amortised cost	90	66
Foreign exchange gains from financing activities	1,639	-
Finance income	**1,729**	**66**
Interest expense	(6,959)	(4,648)
Foreign exchange losses from financing activities	(6,943)	(1,632)
Finance costs	**(13,943)**	**(6,280)**
Net finance costs	**(12,173)**	**(6,214)**

21 Contingencies and Commitments

Legal proceedings**.** From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Tax contingencies. The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are substantially more significant than in many other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated and separate financial statements, if the authorities were successful in enforcing their own interpretations, could be significant.

Capital expenditure commitments. At 31 December 2020 the Company has contractual capital expenditure commitments in respect of property and equipment totalling GEL 274 thousand (2019: GEL 83 thousand).

The Company has already allocated the necessary resources in respect of these commitments. The Company believes that future net income and funding will be sufficient to cover these and any similar commitments.

Assets pledged and restricted. At 31 December the Company has the following assets pledged as collateral:

In thousands of Georgian Lari	**Notes**	**31 December 2020**	**31 December 2019**	**1 January 2019**
Property and equipment	7	33,434	25,531	12,923
Inventories	9	32,583	25,879	12,923
Total assets pledged and restricted at 31 December		**66,017**	**51,410**	**25,846**

Environmental matters. The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company including growth in the cost of borrowings and declaration of default. The Company was not in compliance with covenants at 31 December 2020 and 2019 and 1 January 2019. The Company received the waiver from the Bank on breach of certain covenants as of 31 December 2020 and 2019, which was not considered by the bank as a pre-condition of default defined per the respective loan agreements. The Company had no waiver from the Bank as at 1 January 2019, no negative consequences were noted from the Bank as the borrowing was of short-term nature by its contractual term (Note 13).

22 Financial Risk Management

The risk management function within the Company is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and other price risks) and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks

Credit risk. The Company exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

The Company's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position.

In thousands of Georgian Lari	**31 December 2020**	**31 December 2019**	**1 January 2019**
Trade and other receivables (Note 10)			
- Trade receivables, net	202	224	49
- Receivables from suppliers, net	961	5,815	2,825
Due from shareholders	***14,358***	**-**	***2***
Cash and cash equivalents (Note 11)			
- Bank balances payable on demand	3,700	2,511	2,455
Total on-balance sheet exposure at 31 December	**19,221**	**8,550**	**5,331**
Total maximum exposure to credit risk at 31 December	**19,221**	**8,550**	**5,331**

Credit risk management. Credit risk is the single largest risk for the Company's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). External credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	**Corresponding ratings of external international rating agencies (S&P)**	**Corresponding PD interval**
Excellent	AAA to BB+	0.01% - 0.1%
Good	BB to B+	0.11% - 0.5%
Satisfactory	B, B-	0.51% - 10%
Special monitoring	CCC+ to CC-	10% - 99,9%
Default	C, D-I, D-II	100%

22 Financial Risk Management (Continued)

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for cash on corporate bank accounts and term deposits (Note 11).

Expected credit loss (ECL) measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. The Group utilizes individual assessment for ECL measurement.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in currency, which is exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2020		
In thousands of Georgian Lari	**Monetary financial assets**	**Monetary Financial liabilities**	**Net position**
Georgian Lari	19,429	(84,912)	**(65,483)**
US Dollars	811	(72,291)	**(71,480)**
Euros	5	-	**5**
Total	**20,245**	**(157,203)**	**(136,958)**

	At 31 December 2019			**1 January 2019**		
In thousands of Georgian Lari	**Monetary financial assets**	**Monetary Financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary Financial liabilities**	**Net position**
Georgian Lari	9,186	(75,261)	**(66,075)**	5,378	(36,592)	**(31,214)**
US Dollars	60	(44,124)	**(44,064)**	374	(16,782)	**(16,408)**
Euros	5	-	**5**	3	-	**3**
Total	**9,251**	**(119,385)**	**(110,134)**	**5,755**	**(53,374)**	**(47,619)**

22 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Company, with all other variables held constant:

In thousands of Georgian Lari	**2020**	**2019**	**2018**
US Dollar strengthening by 10% (2019, 2018: strengthening by 10%)	(7,148)	(4,406)	(1,641)
US Dollar weakening by 10% (2019, 2018: weakening by 10%)	7,148	4,406	1,641
Euro strengthening by 10% (2019, 2018: strengthening by 10%)	1	1	-
Euro weakening by 10% (2019, 2018: weakening by 10%)	(1)	(1)	-

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Georgia Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Total**
31 December 2020					
Total financial assets	2,105	4,209	13,931	-	20,245
Total financial liabilities	(20,623)	(37,653)	(13,099)	(85,828)	(157,203)
Net interest sensitivity gap at 31 December 2020	**(18,518)**	**(33,444)**	**832**	**(85,828)**	**(136,958)**
31 December 2019					
Total financial assets	2,352	4,704	2,195	-	9,251
Total financial liabilities	(16,373)	(31,362)	(9,169)	(62,481)	(119,385)
Net interest sensitivity gap at 31 December 2019	**(14,021)**	**(26,658)**	**(6,974)**	**(62,481)**	**(110,134)**
1 January 2019					
Total financial assets	1,223	2,445	2,087	-	5,755
Total financial liabilities	(7,537)	(14,286)	(6,086)	(25,465)	(53,374)
Net interest sensitivity gap at 1 January 2019	**(6,314)**	**(11,841)**	**(3,999)**	**(25,465)**	**(47,619)**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by the Management of the Company, by monitoring monthly rolling forecasts of the Company's cash flows.

22 Financial Risk Management (Continued)

The Company seeks to maintain a stable funding base primarily consisting of borrowings and trade and other payables. The Company's liquidity portfolio comprises cash and cash equivalents (Note 12). Management estimates that the liquidity portfolio cash and bank deposits can be realised in cash within a day in order to meet unforeseen liquidity requirements.

The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the management.

The table below shows liabilities at 31 December 2020 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Company expects to close the

derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Borrowings (Note 13)	1,113	2,189	4,901	8,820	**-**	**17,023**
Lease liabilities (Note 14)	1,309	2,617	11,777	57,141	45,278	**118,122**
Trade payables (Note 15)	17,041	34,081	-	-	-	**51,122**
Total future payments, including future principal and interest payments	**19,463**	**38,887**	**16,678**	**65,961**	**45,278**	**186,267**

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In thousands of Georgian Lari	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Borrowings (Note 13)	1,032	2,008	4,089	12,004	-	**19,133**
Lease liabilities (Note 14)	887	1,775	7,987	39,272	30,956	**80,877**
Trade payables (Note 15)	14,308	28,616	-	-	-	**42,924**
Total future payments, including future principal and interest payments	**16,227**	**32,399**	**12,076**	**51,276**	**30,956**	**142,934**

22 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 1 January 2019 is as follows:

In thousands of Georgian Lari	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 13)	847	1,667	2,500	-	-	**5,014**
Lease liabilities (Note 14)	422	844	3,797	19,508	14,442	**39,013**
Trade payables (Note 15)	6,208	12,415	-	-	-	**18,623**
Total future payments, including future principal and interest payments	**7,477**	**14,926**	**6,297**	**19,508**	**14,442**	**62,650**

23 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company considers total capital under management to be equity as shown in the statement of financial position. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2020, 31 December 2019 and 1 January 2019 was GEL 9,618 thousand, GEL 533 thousand and GEL 11,461 thousand, respectively.

24 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2020			
In thousands of Georgian Lari	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS				
Financial assets				
- Cash and cash equivalents	519	4,080	-	**4,599**
- Trade and other financial receivables	-	-	1,134	**1,134**
- Receivables from owners	-		14,358	**14,358**
TOTAL ASSETS	**519**	**4,080**	**15,492**	**20,091**
LIABILITIES				
Borrowings				
- Bank loan	-	-	14,517	**14,517**
Other financial liabilities				
- Trade payables	-	-	53,910	**53,910**
TOTAL LIABILITIES	**-**	**-**	**68,427**	**68,427**

24 Fair Value Disclosures (Continued)

In thousands of Georgian Lari	31 December 2019 Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value	1 January 2019 Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
ASSETS								
Financial assets								
- Cash and cash equivalents	417	2,796	-	**3,213**	326	2,553	-	**2,879**
- Trade and other financial receivables	-	-	6,039	**6,039**	-	-	2,874	**2,874**
TOTAL ASSETS	**417**	**2,796**	**6,039**	**9,252**	**326**	**2,553**	**2,874**	**5,753**
LIABILITIES								
Borrowings								
- Bank loan	-	-	14,936	**14,936**	-	-	5,014	**5,014**
Other financial liabilities								
- Trade payables	-	-	43,294	**43,294**	-	-	19,794	**19,794**
TOTAL LIABILITIES	**-**	**-**	**58,230**	**58,230**	**-**	**-**	**24,808**	**24,808**

The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

25 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

As of 31 December 2020, 31 December 2019 and 1 January 2019, all of the Company’s financial assets fell in AC measurement category and all of the Company’s financial liabilities were carried at AC.

26 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2020, 31 December 2019 and 1 January 2019 the outstanding balances with related parties were as follows:

In thousands of Georgian Lari	Relationship	31 December 2020	31 December 2019	1 January 2019
Receivables from shareholders	Ultimate Shareholders	10,357	-	2
Receivables from shareholders	Other significant shareholders	2,046	-	-
Receivables from shareholders	Other insignificant shareholders	1,954	-	-
Trade and other receivables	Other significant shareholders	-	495	579
Trade and other receivables	Key management personnel	176	98	19
Trade and other receivables	Other related parties	5	62	30
Trade and other payables	Other significant shareholders	-	-	1
Trade and other payables	Key management personnel	15	5	-
Trade and other payables	Other related parties	298	348	276

"Other significant shareholders" are those with the power to participate in the financial and operating policy decisions of a group entity with which they transact, through controlling over 20% of the group entity's voting power, or otherwise. Other related parties include entities under common control of key management personnel and/or their family members.

The income and expense items with related parties were as follows:

In thousands of Georgian Lari	Relationship	2020	2019
Rebates received from suppliers	Other significant shareholders	3,539	1,633
Purchases of raw materials and consumables	Other related parties	18,297	11,962

Key management compensation. Compensation paid to key management for the services in full time executive management positions is made up of a contractual salaries and bonuses of GEL 713 thousand (2019: GEL 575 thousand). Included in key management compensation are statutory pension contributions of GEL 28 thousand (2019: GEL 23 thousand).

27 Events after the Reporting Period

As per shareholders decision dated 16 March 2021 the charter capital should be increased by USD 4,098 thousand rather than USD 6,440 thousand, which was initially decided by the board on 14th February 2020. The charter capital decreased from USD 12,440 thousand to USD 10,098 thousand.

According to shareholders decisions dated 16 March 2021 and 19 March 2021, Retail Investments LLC was allowed to sell its 30% share of Retail Group LLC to Keystone Investments LLC and 20.04% to GBC Investments LLC.

The updated Company's ownership structure is following:

	As at date of these financial statements
Keystone Investments LLC	30.00%
Dolnay Consultants Limited	26.67%
GBC Investments LLC	20.04%
Meidanze LLC	13.33%
Retail Investments LLC	9,96%

Contents

Retail Group LLC

Management Report 2020

1. The entity's business development, performance and position

Retail Group LLC was founded on 7th November 2017 and started supermarket chain operations under brand-name Magniti from January 2018.

The Company's mission has been developed in the following way: improvement of the quality of life in the regions and introduction of more activeness.

The moto of the Company - Magniti in all regions of Georgia!

Magniti is multilateral, discount supermarket chain in Tbilisi and with the focus in the regions of Georgia.

Expansion of Magniti chain is planned in all the tightly populated settlements, towns and villages in Georgia.

The supermarkets offer wide variety of assortment and brands to their customers. The strategy is following: to have necessary and desired goods available to customers on daily basis in all the stores, including commodity goods, fresh goods, meal and pastry, as well as exclusive brands in non-perishable and non-food segment.

The supermarkets chain is oriented in sharing simple and pleasant shopping experience with the customers in regions.

The Company started operations at the beginning of 2018 with 22 supermarkets. As at 31 December 2018, 117 supermarkets have already been functioning under the brand name Magniti. At the end of 2020 the company had 254 supermarkets compared to 207 at the same period of 2019. Company has already leading position in the regional supermarkets chain and is rapidly expanding in biggest market of Georgia, Tbilisi, about half of supermarkets opened in 2020 are located in Tbilisi.

The Company growth was solely as a result of organic development; no purchase of other chains took place. The financial source of the expansion in 2020 was owner's capital contribution. During 2020, the company opened on average 2 supermarkets per month.

The supermarket Magniti proposes customers with wide variety of commodity products. Customers are The general promise of the Company to the customers is "Daily magnetic prices", which supported Magniti in gaining its position in the market.

Logistics – in 2020, the Company had two main warehouses throughout Georgia in Tbilisi, which served Eastern Georgia, and in Kutaisi - for Western Georgia. Nevertheless, transportation of more than 90% of the products to the stores is being carried out by the distributors themselves.

At the very beginning, the Company's strategy was to develop chain in the regions. In 2020 company continued to open supermarkets in new areas, as well as concentrated to increase presence in Tbilisi. Outside Tbilisi, development of the supermarket chain was generally caused due to the fact that demand has been identified from the population in the regions to purchase the products in the organized retail trading chain, preserving hygiene norms and for affordable price. As Tbilisi is biggest market in Georgia, it is important to have significant presence in that market and offer customers already well accepted service, product and prices.

Magniti is the brand, which delivers the modern living rhythm of the city to the region, creates the crossing centers of attraction!
Significant point to note is that unemployment in the regions is much higher compared to Tbilisi, unless taking into account number of self-employed individuals. By opening supermarkets, Retail Group LLC trained local staff and offered jobs with modern requirements in these regions and enabled the population not only to get employed, but also to acquire significant skills.

As we have already mentioned above, Magniti noticeably expanded in Tbilisi in 2020. Here is the table with number of supermarkets in 2019 and 2020 in different regions.

Region	As of Dec-2019		As of Dec-2020	
	Number of Supermarkets	share	Number of Supermarkets	share
Mtskheta-Mtianeti	18	9%	19	7%
Shida Kartli	27	13%	27	11%
Kvemo Kartli	23	11%	26	10%
Tbilisi	32	15%	53	21%
Imereti	35	17%	43	17%
Samtskhe-Javakheti	2	1%	3	1%
Samegrelo	25	12%	34	13%
Kakheti	21	10%	25	10%
Guria	6	3%	7	3%
Adjara	18	9%	17	7%
Total	**207**	**100.0%**	**254**	**100.0%**

Table 1: Distribution of supermarkets by regions

Magniti, as the strong branch in the region, facilitates better living of the local population through creating new opportunities from the point of view of employment, professional development and education. The Company introduced modern living and novelties, such products, which had not been simply available to them before; creates new infrastructure for experience of interesting shopping.

2. Entity's future development plans;

In 2021 and afterwards, the Company will remain devoted to its general strategy, which means to be leader in regions and to develop strong and competitive chain in Tbilisi.

According to the standing as of 2021, the company opened 22 more supermarkets and in September 2020, the number of the supermarkets of the Company reached 276.

Besides opening of the new supermarkets, the Company in 2021 and afterwards will be oriented to improve the quality of the service, proposing more wide range of product assortment to the customers, as well as standardization of the processes and merchandizing of the supermarkets.

General way of improvement the quality of service is the permanent training of the employees, permanent care of their qualification and development of professional skills, which the Company will carry out with the own expenses.

Proposing the optimal assortment to the population is one more important challenge for the Company. Notwithstanding the fact that Retail Group LLC tries to offer the maximum low price, it is not the part of its strategy to introduce the brands in limited variety and to limit the choice of the customers.

Besides, in 2021 and afterwards, the Company intends to offer to the market various novelties and marketing activities.

3. Review of the research and development performed by the entity;

In 2020, the Company was not engaged in any research and development activities.

4. Information on the branches of an entity

The Company operates its supermarket chain throughout Georgia, in nine regions and in Tbilisi.

The Company has similar concept in all the supermarkets through maintaining the same assortment across all locations, with the common pricing policy and the same simultaneous promotions proposed to the customers.

The average area of the supermarkets during the accounting year is 200 m2.

5. Key financial and non-financial indicators

	2019	2020	Incr/(Decr)
Revenue excl VAT	194,526	326,438	68%
Gross profit	32,828	56,022	71%
Gross profit margin	16.9%	17.2%	
Other income	1,205	2,111	75%
Distribution costs	(32,753)	(48,353)	48%
General and administrative expenses	(5,807)	(6,533)	13%

Table 2: *General financial indicators (thousand GEL):*

1) Revenue Excl. VAT - 100% of the Company's revenue includes sale of the products to the end-customer directly from the supermarkets. The figure amounted to GEL 326.4 million in 2020, compared to 194.5 mln in 2019. Two main factors contributed substantial growth rate (68%), opening of new supermarkets and increase of awareness and trust from customers. In 2020 there were operating 224 stores in average compared to 169 in 2019, also the average sales per store went up by 25%.
2) Gross Profit –growth rate of gross profit was slightly bigger compared to revenue.
3) Gross Profit Margin – there was a small increase in gross profit margin in 2020, compared to 2019 and reached to 17.2%
4) Other Income – 80% of other income is operating income from rent, marketing services and other activities realized with suppliers.
5) Distribution cost - except for the cost of goods sold, the largest expense is Distribution Cost, which makes 14.8% of the total expenses and equals GEL 48.4 million in 2020. Out of which:
    a. Labor costs – GEL 20.1 million
    b. Depreciation expense - GEL 14.1 million.

6) General and administrative expenses – this includes administrative salary, rent and utilities of HQ, insurance, business trips and etc. Growth of the expense was considerably less compared to revenue growth. Such substantial cost saving was possible due to cost control measurements implemented in company.

	Y 2019	Y 2020	Incr/(Decr)
Non - Current Assets	82,740	111,750	35%
Inventory	25,877	32,582	26%

Table 3: *Assets (thousand GEL)*

1) As of 31 December 2020, the Company's non-current assets amounted GEL 111.7 million, compared to GEL 82.7 mln of 2019. The main drivers of growth were right-of use assets (55.6 million by the end of 2019 to 76.6 million at the same time in 2020) and property, plant and equipment (26.2 million by the end of 2019 to 34.4 million at the same time in 2020).
2) The balance of the inventory of the Company is GEL 32.6 million. These products are located in 254 supermarkets and two warehouses operated by the Company. Inventory per supermarket on average equaled to GEL 128 thousand compared to GEL 125 thousand by the end of 2019.
3) In 2020 year, the Company used the credit line of JSC TBC Bank in the amount of GEL 5 million. The indicated credit line is short-term, though from the point of view of its content, it is the long-term credit, as upon expiration it shall be replaced with the analogue terms and conditions. The company also has a long-term credit facility from TBC Bank of GEL 10 mln.

General non-financial indicators

1) At the end of 2020, the Company had 3,900 employees, compared with 3,500 employees at the end of 2019.
2) The proportion of employees as at 31 December 2020 was 74% - women, and 26% - men, at 31 December 2019 the same proportion was 76% - woman and 24% - men.
3) The strategy of Retail Group LLC is not to make capital investments (in real estate), rather to focus on development of the supermarkets chain. Therefore, out of 254 supermarkets, only two are in ownership of the Company - remaining are rented.

6. Detailed information on the acquisition of its own shares

This information is irrelevant for the Company.

7. Additional explanations of amounts given in the annual financial statements

The financial standing of the Company is stable, which is expressed as follows:

1) 100% of the liabilities of the Company is denominated in national currency;
2) The Company was one of the first, who entered in the regions, where there was no organized retail trading. Therefore, the Company has loyal customers, as much as it is possible in this sector;
3) Awareness of the brand is rather high in the regions, where the Supermarket Magniti operates;
4) Retail Group LLC is not depended on debtors and there payments due to the nature of the business. The company itself has the liabilities towards the absolute majority of its debtors. These liabilities always exceeds the account receivables.

8. Review of the entity's credit, market, liquidity and cash flow risks and mechanisms for their management

1) The Company has no credit risk as 99% of its revenue comes for the end-customer with the condition of immediate payment.

2) Liquidity risk might incur when there is significant gap in assets and liabilities. This is not observed in the financial position as at 31 December 2020, as total current assets is 83% of the total current liabilities excluded TBC Bank credit line, which is issued for one year term, though preconditioned with annual renovation. This liability due to its contents is long-term, though contracted for 1 year and will be extended/substituted at the end of its maturity.

3) For the market risk, we can consider fluctuation of the exchange rate and devaluation of GEL towards the foreign currency. Though due to the fact that 100% of the liabilities of the Company is denominated in GEL, purchase as well as revenue is carried out in the national currency, there are no such risks verified for the Company. Of course, in case of devaluation of the national currency towards the foreign currency, the price of the imported products in GEL will increase and in such case, Retail Group LLC will have to reflect this increase in the sales prices. Other competitors will be in the same situation and will not give anyone competitive advantage.

4) Cash-Flow risk – such risk generally incurs in the events, when the Company directs the short-term monetary resources intended for the working capital, into purchase of the long-term assets, therefore there is the risk that the company does not have enough money to pay short-term liabilities. The management of the Company has ownership over the processes and makes decisions to prevent cash-flow risks.

9. Major risks and uncertainties, enterprise goal and policy with respect to financial risk management

The sector in which Retail Group is involved, is characterized with several specific risks.

One of the most important among them is the risk of competition. Due to the fact that:

a) The retail trading sector is not characterized with the high barriers created for entering into the market for the new players. Factually everyone can enter the sector, who have the relevant financial resources and will find relevant personnel;
b) Customers of the retail sector are not characterized with loyalty. They are flexible towards various factors and compared to the customers of other sectors, they are easily to be won over by the competitors;
c) According to the data as of 2020, the competition at the market is extremely high. The competitors maximally try to obtain the market share and to open as many supermarkets as possible.

One of the most significant risks might be considered active campaigns of the competitors and losing market share by Retail Group LLC. Though the Company permanently tries to study and to respond immediately to the new needs of customers, to propose novelties to the latter, to improve and to turn the assortment optimal, to increase the quality of the service. As a result of the above activities, the Company will manage to respond timely on active campaigns of the competitors.

One more issue, which should be indicated while talking on this topic, is that as at 31 December 2020 only 35% of the retail sector of Georgia is counted for the organized retail trading. The fact outlines to room for existing supermarket chains to be developed even more and to increase the market share on the expense of the non-organized retail trading.

For the retail trading as well as all the other sectors, economic and political risks are rather important. In the instable environment from economic and political points of view, none of the businesses might develop and could not have any financially sustainable standing, among them, that is so for the companies acting in the sector of the retail trading. Therefore, this part is very important and attention-worth, while analyzing these risks. The management of the Company permanently observes economic and political environment in the country and if necessary, the relevant decisions will be made to prevent subsequent risks.

Besides, it shall be indicated that the Company generally trades with the commodity, on which the unstable environment, compared with other sectors, will have the latest impact and the least negative.

The risk of damage, loss, stealing and spoiling of the material valuables is one more significant risk for this sector, as the objects are widespread throughout Georgia, which complicates the process of taking care of the material valuables and increases the expenses significantly.

In order to ensure this risk, the Company has created strong and mobile monitoring department, which is maximally involved into periodic counting and control process of the material valuables.

As it is obvious from the outcomes of the accounting year, the Company in 2019 and 2020 had high increase rate. It is known that the quick increase is accompanied by several problems, such as weakening of attention of the management towards the current operational issues, logistics problems, inefficient allocation of the expenses, etc. The management has to pay proper attention to the indicated issue.

Impact of COVID 19: Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum.

At the beginning of the pandemic, from March to April 2020, there was a shortage of basic consumer goods in stores, which was due to increased purchases by consumers and suppliers could not keep up with supplies. However, this trend continued only for a short time and stabilized in the following period.

Retail Group LLC had the following response to the challenges:

- The company has fully ensured the creation of a safe environment in stores, which is primarily reflected in the supply of medical supplies to employees and customers, the development of distance protection mechanisms, etc.
- Transport was restricted for some period and the company provided staff transportation.
- Due to increased risks and incentives for store employees, in the second quarter of 2020, the company credited store employees with 20% of their 1 month salary as a bonus.

Unlike other industries, the pandemic industry had the least impact on the food trade industry because food is an essential commodity. There has also been no closure of stores, which has happened in other industries, so the company has not faced any cash flow problems and all the bank liabilities that the company owes are paid within a pre-agreed timeframe.

The company continues to respond to the challenges with reasonable actions and in 2021 the average sales per store has a growth trend, also company pursues finding new interesting locations and opening new stores.

Date

Lasha Chocheli	Giorgi Tabakhmelashvili
Director	Finance Director

For the retail trading as well as all the other sectors, economic and political risks are rather important. In the instable environment from economic and political points of view, none of the businesses might develop and could not have any financially sustainable standing, among them, that is so for the companies acting in the sector of the retail trading. Therefore, this part is very important and attention-worth, while analyzing these risks. The management of the Company permanently observes economic and political environment in the country and if necessary, the relevant decisions will be made to prevent subsequent risks.

Besides, it shall be indicated that the Company generally trades with the commodity, on which the unstable environment, compared with other sectors, will have the latest impact and the least negative.

The risk of damage, loss, stealing and spoiling of the material valuables is one more significant risk for this sector, as the objects are widespread throughout Georgia, which complicates the process of taking care of the material valuables and increases the expenses significantly.

In order to ensure this risk, the Company has created strong and mobile monitoring department, which is maximally involved into periodic counting and control process of the material valuables.

As it is obvious from the outcomes of the accounting year, the Company in 2019 and 2020 had high increase rate. It is known that the quick increase is accompanied by several problems, such as weakening of attention of the management towards the current operational issues, logistics problems, inefficient allocation of the expenses, etc. The management has to pay proper attention to the indicated issue.

Impact of COVID 19: Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum.
At the beginning of the pandemic, from March to April 2020, there was a shortage of basic consumer goods in stores, which was due to increased purchases by consumers and suppliers could not keep up with supplies. However, this trend continued only for a short time and stabilized in the following period.
Retail Group LLC had the following response to the challenges:

- The company has fully ensured the creation of a safe environment in stores, which is primarily reflected in the supply of medical supplies to employees and customers, the development of distance protection mechanisms, etc.
- Transport was restricted for some period and the company provided staff transportation.
- Due to increased risks and incentives for store employees, in the second quarter of 2020, the company credited store employees with 20% of their 1 month salary as a bonus.

Unlike other industries, the pandemic industry had the least impact on the food trade industry because food is an essential commodity. There has also been no closure of stores, which has happened in other industries, so the company has not faced any cash flow problems and all the bank liabilities that the company owes are paid within a pre-agreed timeframe.
The company continues to respond to the challenges with reasonable actions and in 2021 the average sales per store has a growth trend, also company pursues finding new interesting locations and opening new stores.

Date

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