# TEGETA MOTORS LLC

## Consolidated and separate financial statements

***For the year ended 31 December 2020***
***Together with independent auditor's report***

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EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

# Independent auditor's report

To the Shareholders and Supervisory Board of Tegeta Motors LLC

## Report on the audit of the consolidated and separate financial statements

### *Opinion*

We have audited the consolidated and separate financial statements of Tegeta Motors LLC (hereinafter, the "Company") and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2020, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2020 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report. We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key audit matters*

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Revenue recognition | |
| Recognition of revenue is a matter of most significance in our audit. We identified this as a key audit matter due to high volume of low value transactions, involving sales to more than 300,000 customers, as well as complexity and judgemental nature of estimation process when calculating the provision for returns and estimation of stand-alone selling price of bundle sales. Moreover, revenue is one of the key indications based on which management performance is assessed which leads to the risk of potential revenue overstatement in order to achieve target results.<br><br>The disclosures related to the recognition of revenue are presented in notes 2 and 16 to the consolidated and separate financial statements respectively. | We obtained an understanding of the revenue recognition process for significant revenue streams.<br><br>We analyzed the design of controls over revenue recognition and measurement process. We inspected, on a sample basis, sales agreements, invoices and other supporting documents and compared to the amounts recognized in accounting systems.<br><br>On a sample bases, we analysed contract terms against revenue recognition requirements set out in IFRS 15.<br><br>We have considered the methodology applied in calculating the returns provision, and compared the calculated provision to the actual level of returns recorded subsequent to the period end.<br><br>We analysed unusual journal entries, including gift cards and vouchers.<br><br>We assessed calculation of stand-alone selling price for the bundled sales.<br><br>Using data extracted from the accounting system, we analyzed unusual journal entries such as those posted outside of expected hours, or by unexpected individuals and for large or unusual amounts impacting revenue, as well as other adjustments made in the preparation of the financial statements.<br><br>We compared the date of transfer of control in supporting documents to the date of revenue recognition in the accounting records for selected transactions.<br><br>We analysed the disclosures in the consolidated and separate financial statements related to revenue recognition . |

*Other information included in the Groups and the Company's 2020 Management Report*

Other information consists of the information included in the Group's and the Company's 2020 Management Report, other than the consolidated and separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's and the Company's 2020 Management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon in our report on the audit of the consolidated and separate financial statements.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

*Responsibilities of management and Supervisory Board for the consolidated and separate financial statements*

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

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

The supervisory board are responsible for overseeing the Groups and the Company's financial reporting process.

*Auditor's responsibilities for the audit of the consolidated and separate financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Groups and 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 Group’s and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Building a better working world

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

Ruslan Khoroshvili

On behalf of EY LLC

Tbilisi, Georgia

6 August 2021

*(Amounts in thousands of Georgian Lari)*

| | Note | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 7 | 105,089 | 104,047 | *94,944* | *94,626* |
| Intangible assets | | 5,442 | 5,295 | *5,401* | *5,245* |
| Right-of-use assets | 8 | 15,881 | 18,161 | *11,181* | *15,100* |
| Prepayments for fixed assets | | 1,410 | 462 | *1,410* | *462* |
| Warranty related assets | 5 | 1,053 | 1,272 | *233* | – |
| Investments in subsidiaries | 1 | – | – | *3,489* | *3,469* |
| Investments in associates | 9 | 227 | 82 | *206* | *206* |
| **Total non-current assets** | | **129,102** | **129,319** | ***116,864*** | ***119,108*** |
| **Current assets** | | | | | |
| Warranty related asset | 5 | 1,891 | 1,268 | *336* | *160* |
| Inventories | 10 | 117,130 | 115,310 | *23,578* | *82,443* |
| Trade and other receivables | 12 | 93,774 | 52,485 | *107,441* | *36,804* |
| Prepayments | | 21,503 | 6,745 | *24,878* | *2,029* |
| Tax assets | | 8,366 | – | *116* | – |
| Prepaid income tax | | 1,233 | 1,486 | *1,212* | *1,343* |
| Loans issued | 11 | 100 | 2,161 | *24,953* | *3,034* |
| Cash and cash equivalents | 13 | 46,224 | 22,805 | *11,896* | *9,987* |
| **Total current assets** | | **290,221** | **202,260** | **194,410** | ***135,800*** |
| **TOTAL ASSETS** | | **419,323** | **331,579** | **311,274** | ***254,908*** |
| **EQUITY** | | | | | |
| Charter capital | | 44,733 | 44,733 | *44,733* | *44,733* |
| Other reserves | | (22,936) | – | – | – |
| Retained earnings | | 90,788 | 60,441 | *63,535* | *48,878* |
| **TOTAL EQUITY** | 23 | **112,585** | **105,174** | ***108,268*** | ***93,611*** |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 14 | 72,873 | 79,888 | *59,265* | *64,070* |
| Lease liabilities | 8 | 12,968 | 14,934 | *10,153* | *13,611* |
| Warranty provision | 5 | 1,130 | 3,278 | *233* | – |
| Contract liabilities | 16 | 5,754 | 600 | *3,456* | – |
| **Total non-current liabilities** | | **92,725** | **98,700** | ***73,107*** | ***77,681*** |
| **Current liabilities** | | | | | |
| Borrowings | 14 | 75,128 | 31,909 | *60,136* | *20,243* |
| Lease liabilities | 8 | 5,018 | 4,130 | *4,119* | *3,779* |
| Trade and other payables | 15 | 67,150 | 63,192 | *29,828* | *50,691* |
| Warranty provision | 5 | 2,001 | 1,847 | *336* | *160* |
| Financial guarantee provision | | – | – | *334* | *419* |
| Other financial liability | 23 | 24,286 | – | – | – |
| Tax payables, other than income tax | | 177 | 5,491 | – | *3,757* |
| Contract liabilities | 16 | 40,253 | 21,136 | *35,146* | *4,567* |
| **Total current liabilities** | | **214,013** | **127,705** | ***129,899*** | ***83,616*** |
| **TOTAL LIABILITIES** | | **306,738** | **226,405** | ***203,006*** | ***161,297*** |
| **TOTAL EQUITY AND LIABILITIES** | | **419,323** | **331,579** | ***311,274*** | ***254,908*** |

Approved for issue and signed on 6 August 2021

Vakhtang Kacharava
Finance Director

Maka Guruli
Chief Accountant

The accompanying notes on pages 10 to 44 are an integral part of these consolidated and separate financial statements.

*(Amounts in thousands of Georgian Lari)*

| | | GROUP | | *COMPANY* | |
|---|---|---|---|---|---|
| | **Note** | **2020** | **2019** | ***2020*** | ***2019*** |
| Revenue from contract with customers | 16 | 659,446 | 630,021 | *411,023* | *316,404* |
| Cost of sales | 17 | (526,320) | (534,072) | *(320,231)* | *(246,999)* |
| **Gross profit** | | **133,126** | **95,949** | ***90,792*** | ***69,405*** |
| General and administrative expenses | 18 | (50,928) | (46,769) | *(42,110)* | *(40,101)* |
| Selling and distribution expenses | | (16,342) | (15,362) | *(12,315)* | *(11,642)* |
| Other operating income | 19 | 7,572 | 5,907 | *11,046* | *11,147* |
| Other operating expenses | 20 | (10,399) | (4,266) | *(5,925)* | *(2,725)* |
| **Operating profit** | | **63,029** | **35,459** | ***41,488*** | ***26,084*** |
| Finance income | | 815 | 378 | *882* | *256* |
| Finance costs | 21 | (32,264) | (24,474) | *(26,298)* | *(18,503)* |
| Share of results of associates | 9 | 182 | (84) | – | – |
| **Profit before income tax** | | **31,762** | **11,279** | ***16,072*** | ***7,837*** |
| Income tax expense | 22 | (24) | (1,100) | *(24)* | *(878)* |
| **Profit for the year** | | **31,738** | **10,179** | ***16,048*** | ***6,959*** |
| Other comprehensive income | | – | – | – | – |
| **Total comprehensive income** | | **31,738** | **10,179** | ***16,048*** | ***6,959*** |

*(Amounts in thousands of Georgian Lari)*

| **GROUP** | **Charter capital** | **Other reserves** | **Retained earnings** | **Total equity** |
|---|---|---|---|---|
| **Balance at 1 January 2019** | **18,133** | – | **59,840** | **77,973** |
| Profit for the year | – | – | 10,179 | 10,179 |
| **Total comprehensive income for the year** | **–** | – | **10,179** | **10,179** |
| Dividends declared (Note 23) | – | – | (9,578) | (9,578) |
| Increase of charter capital (Note 23) | 26,600 | – | – | 26,600 |
| **Balance at 31 December 2019** | **44,733** | – | **60,441** | **105,174** |
| Profit for the year | – | – | 31,738 | 31,738 |
| **Total comprehensive income for the year** | **–** | – | **31,738** | **31,738** |
| Dividends declared (Note 23) | – | – | (1,391) | (1,391) |
| Other capital distribution (Note 23) | – | (22,936) | – | (22,936) |
| **Balance at 31 December 2020** | **44,733** | **(22,936)** | **90,788** | **112,585** |

| ***COMPANY*** | ***Charter capital*** | ***Other reserves*** | ***Retained earnings*** | ***Total equity*** |
|---|---|---|---|---|
| ***Balance at 1 January 2019*** | ***18,133*** | – | ***51,497*** | ***69,630*** |
| *Profit for the year* | – | – | *6,959* | *6,959* |
| ***Total comprehensive income for the year*** | **–** | **–** | ***6,959*** | ***6,959*** |
| *Dividends declared (Note 23)* | – | – | *(9,578)* | *(9,578)* |
| *Increase of charter capital (Note 23)* | *26,600* | – | – | *26,600* |
| ***Balance at 31 December 2019*** | ***44,733*** | **–** | ***48,878*** | ***93,611*** |
| *Profit for the year* | – | – | *16,048* | *16,048* |
| ***Total comprehensive income for the year*** | **–** | **–** | ***16,048*** | ***16,048*** |
| *Dividends declared (Note 23)* | – | – | *(1,391)* | *(1,391)* |
| ***Balance at 31 December 2020*** | ***44,733*** | **–** | ***63,535*** | ***108,268*** |

*(Amounts in thousands of Georgian Lari)*

| | | GROUP | | *COMPANY* | |
|---|---|---|---|---|---|
| | **Note** | **2020** | **2019** | ***2020*** | ***2019*** |
| **Cash flows from operating activities** | | | | | |
| Profit before income tax | | 31,762 | 11,279 | *16,072* | *7,837* |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment and right-of-use assets | 7,8 | 11,252 | 9,310 | *9,489* | *7,807* |
| Amortization of intangible assets | | 734 | 644 | *725* | *637* |
| Gain from remeasurement of financial guarantee | | – | – | *(85)* | – |
| Provision for expected credit losses for trade and other receivables | 12 | 6,749 | 542 | *3,558* | *404* |
| (Gain)/loss on disposal of property, plant and equipment | 19 | (1,641) | 52 | *(1,348)* | *159* |
| Rent concession income and income from rent termination | 8,19 | (2,089) | – | *(1,848)* | – |
| Reversal of provision for expected credit losses on loans issued | 19 | – | (2,668) | – | *(2,668)* |
| Interest income | | (815) | (378) | *(797)* | *(256)* |
| Interest expense | | 22,035 | 15,338 | *17,774* | *11,232* |
| Foreign exchange losses | | 9,709 | 8,831 | *8,088* | *7,125* |
| Trade payables forgiven | | (30) | (51) | – | *(10)* |
| Write-down of inventories to net realizable value | 10, 20 | 1,786 | 1,223 | *989* | *966* |
| Provision for prepayments | | 266 | – | *266* | – |
| Dividend income | 1, 19 | – | – | *(37)* | *(5,037)* |
| Share of results of associates | 9 | (182) | 84 | – | – |
| **Operating cash flows before working capital changes** | | **79,536** | **44,206** | ***52,846*** | ***28,196*** |
| Changes in trade and other receivables | | (58,335) | (24,732) | *(71,194)* | *(16,117)* |
| Changes in prepayments | | (15,024) | 8,023 | *(23,115)* | *800* |
| Changes in inventories | | (3,606) | (25,146) | *57,876* | *(17,658)* |
| Changes in trade and other payables | | 10,857 | 29,450 | *(26,303)* | *21,748* |
| Changes in tax assets | | (8,366) | – | *(116)* | – |
| Changes in warranty provision | | (1,994) | 1,489 | *409* | – |
| Changes in warranty related asset | | (404) | (525) | *(409)* | – |
| Changes in contract liabilities | | 24,271 | (6,275) | *34,035* | *3,312* |
| Changes in tax payables | | (5,043) | 107 | *(3,757)* | *(1,002)* |
| **Changes in working capital** | | **(57,644)** | **(17,609)** | ***(32,574)*** | ***(8,917)*** |
| Income tax paid | | (6) | (1,177) | *(155)* | *(922)* |
| **Net cash from operating activities** | | **21,886** | **25,420** | ***20,117*** | ***18,357*** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (13,559) | (24,975) | *(10,042)* | *(22,745)* |
| Proceeds from sale of property, plant and equipment | | 7,287 | 565 | *5,519* | *130* |
| Acquisition of intangible assets | | (881) | (2,171) | *(881)* | *(2,171)* |
| Cash contribution into the capital of subsidiaries and associates | | – | – | *(20)* | *(12)* |
| Loans issued | 11 | (13,334) | (3,768) | *(35,699)* | *(7,883)* |
| Repayment of loans issued | 11 | 15,648 | 4,625 | *14,406* | *7,838* |
| Interest received | | 839 | 299 | *665* | *199* |
| Dividends received | | 34 | – | *2* | *1,100* |
| **Net cash used in investing activities** | | **(3,966)** | **(25,425)** | ***(26,050)*** | ***(23,544)*** |
| **Cash flows from financing activities** | | | | | |
| Payment of principal portion of lease liabilities | 8 | (2,011) | (3,312) | *(1,828)* | *(3,230)* |
| Repayment of interest on lease liabilities | 8 | (2,036) | (1,894) | *(1,834)* | *(1,726)* |
| Proceeds from borrowings | 14 | 163,271 | 153,714 | 141,362 | 94,763 |
| Repayment of borrowings | 14 | (134,870) | (148,060) | (113,920) | (82,393) |
| Interest paid | 14 | (19,095) | (13,222) | (15,034) | (9,360) |
| Cash contribution into the charter capital | 23 | – | 26,600 | – | 26,600 |
| Dividends paid | 23 | (1,391) | (9,579) | *(1,391)* | *(9,579)* |
| Placement of cash on restricted account | 13 | (24,231) | – | – | – |
| **Net cash from financing activities** | | **(20,363)** | **4,247** | ***7,355*** | ***15,075*** |
| Effect of exchange rate changes on cash and cash equivalents | | 1,631 | (2,860) | *487* | *(2,738)* |
| **Net (decrease) / increase in cash and cash equivalents** | | **(812)** | **1,382** | ***1,909*** | ***7,150*** |
| Cash and cash equivalents at the beginning of the year | | 22,805 | 21,423 | *9,987* | *2,837* |
| **Cash and cash equivalents at the end of the year** | 13 | **21,993** | **22,805** | ***11,896*** | ***9,987*** |

Non-cash transactions are presented in Note 28.

*(Amounts in thousands of Georgian Lari)*

## 1. Tegeta Motors Group

Tegeta Motors LLC (the "Company"), identification number 202177205, was incorporated on 26 April 2001 and is domiciled in Georgia. The Company has been set up as a limited liability company in accordance with Georgian law. The Company's registered address is David Agmashenebeli Alley #129, 0131, Tbilisi, Georgia.

Shareholders structure of the Company are:

| Shareholders | 2020 | 2019 |
|---|---|---|
| TGM Group LLC | 90.27% | 76.0% |
| Zauri Tskhadadze, (citizen of Georgia) | 8.51% | 21.0% |
| Beka Kiliptari, (citizen of Georgia) | 0.61% | 1.5% |
| Tina Kokhodze, (citizen of Georgia) | 0.61% | 1.5% |

The ultimate controlling party of the Company as of 31 December 2020 and 2019 is Mr. Temur Kokhodze, citizen of Georgia (the "Ultimate Controlling Party").

On 12 October 2019 the shareholders, based on the majority vote, resolved to increase the charter capital of the Company and have contributed GEL 26,600 in cash during 2020. Resulting redistribution of the shareholdings was formally registered in 2020 and thus it was reflected in the shareholding shares disclosed above.

The Company's principal business activity is trading with imported cars, specialized vehicles, auto tires, lubricants, accumulators and other spare parts, as well as providing the automotive maintenance and repair services through servicing facilities located in different regions of Georgia. The Company owns 26 regional retail outlets and servicing facilities around Georgia and an administrative office in Tbilisi.

The Company is a parent company to the following entities (together referred to as the "Group"), that are included in the consolidated financial statements of the Group:

| | | Shareholding/voting (%) | | Investment in subsidiaries (000 GEL) | |
|---|---|---|---|---|---|
| **Subsidiary** | **Activity** | **31 December 2020** | **31 December 2019** | **31 December 2020** | **31 December 2019** |
| **Direct subsidiaries** | | | | | |
| Tegeta Truck and Bus LLC | Retail and service of transportation trucks, buses and trailers | 100% | 100% | 0.2 | 0.2 |
| Tegeta Construction Equipment LLC | Retail and service of heavy duty construction vehicles | 100% | 100% | 0.2 | 0.2 |
| Tegeta Premium Vehicles LLC | Retail and service of Porsche and Mazda brand vehicles | 100% | 100% | 3,004 | 3,004 |
| Toyota Centre Tegeta LLC | Retail and service of Toyota brand vehicles | 100% | 100% | 337 | 337 |
| Scandinavian Auto Tegeta LLC | Retail and service of Volvo brand vehicles | 100% | 100% | 5.2 | 5.2 |
| Tegeta Automotive Imports LLC | Importer of tires, lubes, LV spare parts, batteries, garage equipment, etc | 100% | 0% | 5 | – |
| Tegeta Prime Products LLC | Importer of tires and lubricants | 100% | 0% | 5 | – |
| Tegeta Distribution LLC | Wholesale of imported brands and products | 100% | 0% | 5 | – |
| Tegeta Industry LLC | Retail of construction equipment and spare parts | 100% | 0% | 5 | – |
| TBA Tegeta LLC | Retail and service of Toyota brand vehicles | 100% | 0% | – | – |
| Tegeta Retail LLC | Retailer of imported products | 100% | 0% | – | – |
| Tegeta Leasing LLC | Leasing of heavy duty construction vehicles | 100% | 100% | 11 | 11 |
| Tegeta Academy LLC | Automotive direction training center | 100% | 100% | 30 | 30 |
| Tegeta Motors Telavi LLC | Inactive | 100% | 100% | 0.2 | 0.2 |
| Tegeta Motors Akhaltsikhe LLC | Inactive | 0% | 100% | – | 0.2 |
| Tegeta Logistics LLC | Inactive | 100% | 100% | 74 | 74 |
| Geoprotector LLC | Inactive | 60% | 60% | – | – |
| Tegeta Motors Central Asia LLC | Inactive | 100% | 100% | 6.9 | 6.9 |
| Tegeta Motors Baku LLC | Inactive | 100% | 100% | – | – |
| Tegeta Motors Ukraine LLC | Inactive | 100% | 100% | – | – |
| Agroservice LLC | Inactive | 100% | 100% | 0.2 | 0.2 |
| | | | | **3,488.9** | **3,469.1** |

## 1. Tegeta Motors Group (continued)

All subsidiaries are incorporated and domiciled in Georgia, except Tegeta Motors Baku, Tegeta Motors Central Asia and Tegeta Motors Ukraine, which are under Azerbaijan's, Uzbekistan and Ukrainian jurisdiction, respectively.

During 2020, the group went through agile transformation in order to increase the effectiveness of its management and operations. As a result, the operations of the Group have been partially reallocated from the Company to its subsidiaries. After 2021, the Company will only be acting as a corporate center for its subsidiaries. The agile transformation had no effect on the consolidated financial statements of the Group.

The subsidiaries are united under 2 operating segments: Vehicles and related services and Automotive products and related services. The Company established new subsidiaries and allocated Group's principal activities between its subsidiaries.

The following subsidiaries were established during 2020:

- ► Tegeta Prime Products LLC – a limited liability company, established on 16 June 2020, should act as the retailer of Bridgestone brand tires and Motul brand lubricants.
- ► Tegeta Automotive Imports LLC – a limited liability company, established on 10 June, 2020. The company is an importer of all directions in Tegeta Motors group, in particular tires, lubricants, spare parts, and etc.
- ► Tegeta Distribution LLC – a limited liability company, established on 12 June, 2020. The company is a distributor of imported products throughout the country.
- ► Tegeta Industry LLC – a limited liability company, established on 16 June, 202. The company is a retailer of construction equipments and products, such as stone crusher and sorter, steel ropes, industrial hoses, sliding belt conveyer and spare parts and etc.
- ► TBA Tegeta LLC – limited liability company, established on 20 June 2020. The company is an authorized retailer of Toyota brand vehicles and spare parts, and provides after sales service to the customers. TBA Tegeta LLC operates in Batumi. On 16 November 2020, TBA Tegeta LLC signed an agreement with Toyota Caucasus and became authorized retailer of Toyota vehicles.
- ► Tegeta Retail LLC – limited liability company, established on 25 August 2020. The company represents retailer of imported products through retail, corporate and government channels.

List of associates of the Group is included in Note 9.

These financial statements have not yet been approved by the shareholders. The shareholders have the power and authority to amend the financial statements after the issuance.

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The consolidated and separate financial statements of the Group and the Company (together referred to as "the financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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, except for application of new and amended standards discussed in Note 4 below.

The financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities that are measured at fair value at initial recognition. The financial statements are presented in Georgian Lari (GEL) and all values are rounded to the nearest thousands, except when otherwise indicated.

### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ► Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- ► Exposure, or rights, to variable returns from its involvement with the investee;
- ► The ability to use its power over the investee to affect its returns.

## 2. Summary of significant accounting policies (continued)

### (b) Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ► The contractual arrangement(s) with the other vote holders of the investee;
- ► Rights arising from other contractual arrangements;
- ► The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### *(i) Business combinations*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

### *(ii) Investments in associates*

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

The statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate. Any change in other comprehensive of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate is eliminated to the extent of the interest in the associate.

## 2. Summary of significant accounting policies (continued)

### (b) Basis of consolidation (continued)

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate is prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within Share of profit of an associate in the profit or loss.
Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### *(iii) Investment in subsidiaries and associates in the separate financial statements of the Company*

The Company accounts for the investment in subsidiary and associate at cost, which is the consideration paid or payable. The Company recognises a dividend from a subsidiary and associate in its separate statement of comprehensive income, when the dividend is declared.

The investment in subsidiary is tested for impairment in accordance with the policy described in Note 2 (k).

### (c) Revenue from contracts with customers

#### *Revenue from sale of goods and rendered services*

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally when the goods are handed over to the customers. The normal credit terms are 30 to 90 days upon transfer of the goods. Revenue is recorded at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Group is a principal and records revenue on a gross basis if it controls the promised goods before transferring them to the customer. The Group has generally concluded that it is the principal in its revenue arrangements.

Revenue from rendered services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. (e.g. warranties, customer loyalty points, etc). In determining transaction price for the sale of goods and rendering services the Group considers effects of variable consideration.

#### *(i) Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer or rendering the services. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of spare parts provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

#### *(ii) Rights of return*

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group than applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer.

## 2. Summary of significant accounting policies (continued)

### (c) Revenue from contracts with customers (continued)

#### *(iii) Volume rebates*

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a several-volume thresholds and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

#### *(iv) Customer loyalty points program*

The Group operates a loyalty points program which allows customers to accumulate points, which could be redeemed in exchange of goods free of charge in the future. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of loyalty points by the customer. At the end of each reporting year loyalty points that has not been used by the customer are cancelled out.

#### *(v) Warranty obligations*

The Group typically provides warranties for general repairs of defects or replacement of defected item(s) that existed at the time of sale, to provide assurance that the sold products comply with agreed-upon quality. These assurance type warranties are accounted for as warranty provisions. Refer to the accounting policy on warranty provisions in section (p) Provisions.

The Group also provides a warranty beyond fixing defects that existed at the time of sale. These service-type warranties are sold either separately or bundled together with the sold goods. Contracts for bundled sales of products and service-type warranty comprise two performance obligations because the goods and service-type warranty are both sold on a stand-alone basis and are distinct within the context of the contract. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue for service-type warranties is recognised over the period in which the service is provided based on the time elapsed.

#### *(vi) Bundle sale of spare parts and parts replacement services*

The Group provides services in replacing the spare parts bought at its own retail shops or repair services. These services are sometimes sold separately to customers or bundled together with the sale of spare parts.

Contracts for bundled sales of rendered services are comprised of two performance obligations because the promises to transfer sold goods and render services are capable of being distinct and separately identifiable. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the goods and rendered services. The Group recognises revenue from rendering services and sale of goods at a point in time in accordance with respective standalone price.

***Contract balances***

*Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have contract assets as of 31 December 2020 and 2019.

*Trade receivables*

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e. only the passage of time is required before payment of the consideration is due).

*Contract liabilities*

A contract liability is recognised if a payment is received or the payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs obligations under the contract.

## 2. Summary of significant accounting policies (continued)

### (d) Finance income and costs

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- Interest expenses on lease liabilities;
- Interest expenses in other financial payables;
- The foreign currency gain or loss on financial assets and financial liabilities;
- Other finance costs.

Interest income or expense is recognized using the effective interest rate method.
Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### (e) Foreign currency

The financial statements are presented in GEL, which is also the parent Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign currency operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using direct method.

***Foreign currency transactions and balances***

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

In determining the spot exchange rate to use on initial recognition of the related assets, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

***Group companies***

On consolidation, the assets and liabilities of foreign operations are translated into GEL at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in the other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss. Where an exchange difference arises on an intragroup balance that, in substance, forms part of an entity's net investment in a foreign operation, then the exchange difference is not to be recognised in profit or loss in the consolidated financial statements, but is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

## 2. Summary of significant accounting policies (continued)

### (f) Tax

***Current income tax***

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017. Corporate income tax on distributed earnings is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and 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 certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Group is recognized as deduction from equity in the consolidated statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered as profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported as Taxes, other than income tax within general and administrative expenses in profit and loss.

***Value added tax ("VAT")***

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- ► When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- ► When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of taxes payable, other than income tax or prepaid taxes, other than income tax, that are presented on net basis in the statement of financial position.

***Net presentation of tax assets and liabilities***

Starting from 1 January 2016 changes were introduced in Georgian legislation on the rules of tax settlement. Based on new rules, Revenue Service of Georgia monitors taxpayers' net indebtedness towards to the State by introducing a consolidated accounts of taxpayer. Therefore, the Group presents assets and liabilities related to all taxes payables or receivables by each entity on a net basis.

### (g) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- ► Expected to be realised or intended to sold or consumed in normal operating cycle;
- ► Held primarily for the purpose of trading;
- ► Expected to be realised within twelve months after the reporting period; or
- ► Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ► It is expected to be settled in normal operating cycle;
- ► It is held primarily for the purpose of trading;
- ► It is due to be settled within twelve months after the reporting period; or
- ► There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

### (h) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of spare parts and other inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of vehicles is determined on the specific identification basis.

## 2. Summary of significant accounting policies (continued)

### (i) Property, plant and equipment

***Recognition and measurement***

Property, plant and equipment stated at cost, net of accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Construction in progress is stated at cost, net of accumulated impairment losses, if any.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of profit and loss as incurred.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

***Depreciation***

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and is ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- ► Buildings 30-50 years;
- ► Machinery and equipment 3-10 years;
- ► Office fixtures, vehicles and others 2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### (j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The Group's intangible assets have finite useful lives.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss as the expense category that is consistent with the function of the intangible assets. The intangible assets of the Group have useful lives from 6 to 15 years.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

## 2. Summary of significant accounting policies (continued)

### (k) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### *(i) Financial assets*

***Initial recognition and measurement***

Financial assets are classified at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified in four categories:

- ► Financial assets at amortised cost (debt instruments);
- ► Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ► Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ► Financial assets at fair value through profit or loss.

***Financial assets at amortised cost (debt instruments)***

This category is most relevant to the Group.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables and loans issued.

***Impairment of financial assets***

Further disclosures related to impairment of financial assets are also provided in the following notes:

- ► Significant accounting judgments, estimates and assumptions – Note 5;
- ► Trade receivables – Note 12;
- ► Changes in accounting policies and disclosures – Note 3.

## 2. Summary of significant accounting policies (continued)

### (k) Financial instruments (continued)

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For funds held in credit institutions (cash and cash equivalent, bank deposits), the Group calculated ECLs based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instruments that are possible within 12 month after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the profit or loss.

***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### *(ii) Financial liabilities*

***Initial recognition and subsequent measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities as at 31 December 2020 and 2019 include trade and other payables, borrowings and lease liabilities.

**2. Summary of significant accounting policies (continued)**

**(k) Financial instruments (continued)**

***Subsequent measurement***

The measurement of financial liabilities depends on their classification, as described below:

*Loans and borrowings*

This is category most relevant to the Group. After initial recognition, borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as though the EIR amortized process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or cost that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to borrowings.

*Financial guarantee contracts – separate financial statements of the Company*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Those financial guarantee contracts, which are integral part of the related loan agreements, are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

***(iii) Offsetting of financial instruments***

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

**(l) Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared the Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of four years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

## 2. Summary of significant accounting policies (continued)

### (m) Fair value measurement

The Group measures financial instruments at fair value less cost to sell at initial recognition. 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### (n) Charter capital

The amount of the Company's charter capital is defined by the Company's charter. The changes in the Company's charter shall be made only based on the decision of the Company's owners. The charter capital is recognized by the Company to the extent that it was contributed by the owners to the Company.

### (o) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

### (p) Provisions

***General provisions***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## 2. Summary of significant accounting policies (continued)

### (p) Provisions (continued)

***Warranty provisions and related asset***

The Group provides warranties for general repairs and replacement of defected item(s) and for replacement of products with non-conformity with manufacturer's specifications. Provisions related to these assurance-type warranties are recognized when the product is sold or the service is provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

The Group separately recognizes the warranty related asset to record its right for the warranty reimbursement from the manufacturer, when the reimbursement is virtually certain.

### (q) Leases

***Determining whether an arrangement contains a lease***

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***Group as a leesee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The group leases various offices, warehouses, land, retail stores, and vehicles. Rental contracts are typically made for fixed periods from 6 months to 20 years.

***(i) Right-of-use assets***

The Group recognizes right-of-use assets at the commencement date of the lease. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- ► Land and buildings 1 to 20 years;
- ► Vehicles 3 to 5 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right of use assets are subject to impairment. Refer to the accounting policies in section (l) impairment of non-financial assets.

***(ii) Lease liabilities***

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Both, the right-of-use assets as well as lease liabilities have been presented as a separate line items in the consolidated and separate statement of financial position.

## 2. Summary of significant accounting policies (continued)

### (q) Leases (continued)

#### *(iii) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of buildings, office fixtures and vehicles (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

***Group as a lessor***

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### (r) Operating Segments

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## 3. Changes in accounting policies and disclosures

### (a) New and amended standards and interpretations

The Group applied for the first-time certain standards and interpretations, which are effective for annual periods on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new or amended standards and interpretations became effective on 1 January 2020, but did not have significant impact on the Group’s and the Company’s financial statements:

- Amendments to IFRS 3 *Definition of a Business.*
- Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Amendments to IFRS 16 *Covid-19 Related Rent Concessions*. On 28 May 2020, the IASB issued *Covid-19 Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The effect is disclosed in Note 8.

## 4. New standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. These amendments are not expected to have a significant impact on the Group’s consolidated financial statements.

- Recognition and measurement, presentation and disclosure – amendments to IFRS 17 *Insurance Contracts*.
- *Classification of Liabilities as Current or Non-current* – Amendments to IAS 1.
- *Reference to the Conceptual Framework* – Amendments to IFRS 3.
- *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16.
- *Onerous Contracts – Costs of Fulfilling a Contract* – Amendments to IAS 37.
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter.
- Fees in the ’10 per cent’ test for derecognition of financial liabilities – IFRS 9 *Financial Instruments*.
- Taxation in fair value measurements – IAS 41 *Agriculture*.

## 5. Critical accounting estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### Judgments

In process of applying the Group's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognized in the financial statements.

***Other capital distribution***

In 2020 the Group entered into guarantee agreement to guarantee obligation of the Ultimate Controlling Party towards a Georgian bank. Management of the Group expects that the obligation will be ultimately settled by the Group, either through future distribution of dividends to the Ultimate Controlling Party or by other method. Therefore, the Group has recognized other financial liability with the value of GEL 24,286 as at 31 December 2020, representing full amount of guaranteed obligation. The management concluded that such transaction meets a definition of a transaction with owner acting in a capacity of owner and recorded it through other reserves, in the consolidated statement of changes in equity.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### Revenue recognition – Estimating stand alone selling price of service-type warranties

The Group provides service-type warranties to the customers. These service-type warranties are sold either separately or bundled together with the sold goods.

The Group determined that both the goods and services described above are capable of being distinct. Consequently, the Group allocated a portion of the transaction price to the sale of goods and the rendered service based on relative stand-alone selling prices. The Group estimates the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocates the transaction price in proportion to those stand-alone prices.

### Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 12.

### Warranty obligation and assets

A provision is recognised for expected warranty claims on products sold during the year, based on past experience of the level of repairs and replacements. The provision is an estimate calculated based on historical experience of the level of volumes, product mix, repair and replacement cost and represents management's best estimates of the amounts necessary to settle the Group's obligation on products sold as of each reporting date. As at 31 December 2020 the Group recognised warranty provision in amount of GEL 3,131 (2019: GEL 5,125) in its financial statements (the Company: 2020: GEL 569, 2019: GEL 160). The Group also recorded related asset of GEL 2,944 (2019: GEL 2,540) (the Company: 2020: GEL 569, 2019: GEL 160) to recognize its contractual right to reimburse these warranty obligations from the respective manufacturer.

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*(Amounts in thousands of Georgian Lari)*

## 5. Critical accounting estimates and assumptions (continued)

**Determining the lease term of contracts with renewal and termination options – Group as lessee**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the lessee is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to four years. The Group applies judgement in evaluating in weather it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassessed the lease term if there is a significant event or change in circumstances that is within its control and affects its liability to exercise (or not to exercise) the option of renewal. The Group included the renewal period as part of the lease term for leases of land and buildings, machinery and equipment.

The Group has also several lease contracts that include termination options. The Group applies judgement in evaluation weather it is reasonably certain to exercise the option of termination. The Group doesn't intend to use termination option for its lease contracts.

**Estimating the incremental borrowing rate used for the calculation of lease liability**

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

## 6. Segment information

For management purposes, the Group directs two operating segments: Vehicles and related services and automotive products and related services. Operating segments have changed (Light vehicles and heavy vehicles segments have merged) following the transformation within the Group (Note 1) compared to 2019 year. The comparative information has also been restated.

The majority of the Group's revenue is generated in Georgia, so information regarding geographical areas is not provided.

Inter-segment revenues are eliminated upon consolidation and are reflected in the 'adjustments and eliminations' column.

All corporate expenses and incomes not directly attributable to an identified segment are allocated to automotive products and related services, since this is major segment for the Group.

Information related to each reportable segment is set out below as at 31 December 2020:

| **GROUP** | **Vehicles and related services** | **Automotive products and related services** | **Total segments** | **Adjustments and eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Revenue from contract with customers | 394,963 | 370,561 | 765,524 | (106,078) | 659,446 |
| Cost of sales | (329,288) | (302,523) | (631,811) | 105,491 | (526,320) |
| **Gross profit** | **65,675** | **68,038** | **133,713** | **(587)** | **133,126** |
| General and administrative expenses | (15,024) | (41,926) | (56,950) | 6,022 | (50,928) |
| Selling and distribution expenses | (8,281) | (8,793) | (17,074) | 732 | (16,342) |
| Other operating income | 2,702 | 11,441 | 14,143 | (6,571) | 7,572 |
| Other operating expenses | (4,514) | (6,045) | (10,559) | 160 | (10,399) |
| Finance income | 656 | 894 | 1,550 | (735) | 815 |
| Finance costs | (11,849) | (19,724) | (31,573) | (691) | (32,264) |
| Share of results of associates | – | – | – | 182 | 182 |
| **Reportable segment profit 2020** | **29,365** | **3,885** | **33,250** | **(1,488)** | **31,762** |
| **Total assets** | **132,903** | **389,988** | **522,891** | **(103,568)** | **419,323** |
| **Total liabilities** | **130,187** | **251,057** | **381,244** | **(74,506)** | **306,738** |

Revenue from largest customer amounted to GEL 117,000 arising from sales in the Vehicles and related services segment.

*(Amounts in thousands of Georgian Lari)*

### 6. Segment information (continued)

Information related to each reportable segment is set out below as at 31 December 2019:

| GROUP | Vehicles and related services | Automotive products and related services | Total segments | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenue from contract with customers | 319,164 | 316,969 | **636,133** | (6,112) | 630,021 |
| Cost of sales | (292,438) | (247,060) | **(539,498)** | 5,426 | (534,072) |
| **Gross profit** | **26,726** | **69,909** | **96,635** | **(686)** | **95,949** |
| General and administrative expenses | (7,978) | (40,582) | **(48,560)** | 1,791 | (46,769) |
| Selling and distribution expenses | (3,694) | (11,669) | **(15,363)** | 1 | (15,362) |
| Other operating income | 1,271 | 11,153 | **12,424** | (6,517) | 5,907 |
| Other operating expenses | (1,690) | (2,726) | **(4,416)** | 150 | (4,266) |
| Finance income | 321 | 256 | **577** | (199) | 378 |
| Finance costs | (6,176) | (18,503) | **(24,679)** | 205 | (24,474) |
| Share of results of associates | – | – | **–** | (84) | (84) |
| **Reportable segment profit 2019** | **8,780** | **7,838** | **16,618** | **(5,339)** | **11,279** |
| **Total assets** | **92,581** | **255,431** | **348,012** | **(16,433)** | **331,579** |
| **Total liabilities** | **76,505** | **161,714** | **238,219** | **(11,814)** | **226,405** |

### 7. Property, plant and equipment

Movements in the carrying amount of Group's property, plant and equipment were as follows:

| GROUP | Land and buildings | Machinery and equipment | Office fixtures and vehicles | Others | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | 63,242 | 14,706 | 13,646 | 8,737 | 9,954 | 110,285 |
| Accumulated depreciation | (6,853) | (10,063) | (7,944) | (3,917) | – | (28,777) |
| **Carrying amount at 31 December 2018** | **56,389** | **4,643** | **5,702** | **4,820** | **9,954** | **81,508** |
| Additions | 3,946 | 1,722 | 3,622 | 6,005 | 14,096 | 29,391 |
| Transfers | 23,619 | 1,968 | 3,487 | (6,050) | (23,024) | – |
| Disposals | – | (714) | (1,676) | (364) | – | (2,754) |
| Depreciation charge | (1,127) | (1,595) | (1,786) | (1,100) | – | (5,608) |
| Transfers – accumulated depreciation | (200) | 14 | (433) | 619 | – | – |
| Accumulated depreciation for disposals | – | 700 | 792 | 18 | – | 1,510 |
| **Carrying amount at 31 December 2019** | **82,627** | **6,738** | **9,708** | **3,948** | **1,026** | **104,047** |
| Cost | 90,807 | 17,682 | 19,079 | 8,328 | 1,026 | 136,922 |
| Accumulated depreciation | (8,180) | (10,944) | (9,371) | (4,380) | – | (32,875) |
| **Carrying amount at 31 December 2019** | **82,627** | **6,738** | **9,708** | **3,948** | **1,026** | **104,047** |
| Additions | 4,375 | 753 | 4,327 | 2,961 | 1,173 | 13,589 |
| Transfers | 465 | 645 | 1,222 | (1,948) | (384) | – |
| Disposals | (730) | (212) | (6,166) | (214) | – | (7,322) |
| Depreciation charge | (1,526) | (1,969) | (2,356) | (1,398) | – | (7,249) |
| Transfers – accumulated depreciation | 3 | 1 | (1) | (3) | – | – |
| Accumulated depreciation for disposals | 1 | 105 | 1,787 | 131 | – | 2,024 |
| **Carrying amount at 31 December 2020** | **85,215** | **6,061** | **8,521** | **3,477** | **1,815** | **105,089** |
| Cost | 94,917 | 18,868 | 18,462 | 9,127 | 1,815 | 143,189 |
| Accumulated depreciation | (9,702) | (12,807) | (9,941) | (5,650) | – | (38,100) |
| **Carrying amount at 31 December 2020** | **85,215** | **6,061** | **8,521** | **3,477** | **1,815** | **105,089** |

*(Amounts in thousands of Georgian Lari)*

## 7. Property, plant and equipment (continued)

The following are the amounts of depreciation recognized in profit or loss of the Group:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **GROUP** | | |
| Included in cost of sales | 2,548 | 2,340 |
| Included in general and administrative expenses | 4,701 | 3,268 |
| **Total depreciation expense** | **7,249** | **5,608** |

Movements in the carrying amount of Company's property, plant, equipment were as follows:

| *COMPANY* | *Land and buildings* | *Machinery and equipment* | *Office fixtures and vehicles* | *Others* | *Construction in progress* | *Total* |
|---|---|---|---|---|---|---|
| *Cost* | *54,768* | *12,517* | *11,471* | *7,473* | *9,939* | *96,168* |
| *Accumulated depreciation* | *(5,531)* | *(8,716)* | *(6,754)* | *(2,985)* | *–* | *(23,986)* |
| ***Carrying amount at 31 December 2018*** | ***49,237*** | ***3,801*** | ***4,717*** | ***4,488*** | ***9,939*** | ***72,182*** |
| *Additions* | *3,804* | *1,592* | *2,231* | *5,874* | *14,096* | *27,597* |
| *Transfers* | *23,619* | *1,968* | *3,487* | *(6,050)* | *(23,024)* | *–* |
| *Disposals* | *–* | *(674)* | *(1,031)* | *(363)* | *–* | *(2,068)* |
| *Depreciation charge* | *(961)* | *(1,318)* | *(1,460)* | *(650)* | *–* | *(4,389)* |
| *Transfers – accumulated depreciation* | *(200)* | *14* | *(433)* | *619* | *–* | *–* |
| *Accumulated depreciation for disposals* | *–* | *660* | *627* | *17* | *–* | *1,304* |
| ***Carrying amount at 31 December 2019*** | ***75,499*** | ***6,043*** | ***8,138*** | ***3,935*** | ***1,011*** | ***94,626*** |
| *Cost* | *82,191* | *15,403* | *16,158* | *6,934* | *1,011* | *121,697* |
| *Accumulated depreciation* | *(6,692)* | *(9,360)* | *(8,020)* | *(2,999)* | *–* | *(27,071)* |
| ***Carrying amount at 31 December 2019*** | ***75,499*** | ***6,043*** | ***8,138*** | ***3,935*** | ***1,011*** | ***94,626*** |
| *Additions* | *4,329* | *390* | *1,129* | *2,884* | *1,173* | *9,905* |
| *Transfers* | *465* | *645* | *1,222* | *(1,948)* | *(384)* | *–* |
| *Disposals* | *(730)* | *(148)* | *(4,385)* | *(189)* | *–* | *(5,452)* |
| *Depreciation charge* | *(1,348)* | *(1,672)* | *(1,915)* | *(978)* | *–* | *(5,913)* |
| *Transfers – accumulated depreciation* | *3* | *1* | *(1)* | *(3)* | *–* | *–* |
| *Accumulated depreciation for disposals* | *1* | *100* | *1,557* | *120* | *–* | *1,778* |
| ***Carrying amount at 31 December 2020*** | ***78,219*** | ***5,359*** | ***5,745*** | ***3,821*** | ***1,800*** | ***94,944*** |
| *Cost* | *86,255* | *16,290* | *14,124* | *7,681* | *1,800* | *126,150* |
| *Accumulated depreciation* | *(8,036)* | *(10,931)* | *(8,379)* | *(3,860)* | *–* | *(31,206)* |
| ***Carrying amount at 31 December 2020*** | ***78,219*** | ***5,359*** | ***5,745*** | ***3,821*** | ***1,800*** | ***94,944*** |

The following are the amounts of depreciation recognized in profit or loss of the Company:

| | *31 December 2020* | *31 December 2019* |
|---|---|---|
| ***COMPANY*** | | |
| *Included in cost of sales* | *2,029* | *1,775* |
| *Included in general and administrative expenses* | *3,884* | *2,614* |
| ***Total depreciation expense*** | ***5,913*** | ***4,389*** |

Most of the additions in the Group and the Company during 2020 represents modernization of property, plant and equipment, required to comply with the requirements of various brands, for which the Group and the Company is an authorized representative in Georgia (2019: to the new branch that was opened in Batumi, western Georgia).

At 31 December 2020 the Group's and the Company's land, buildings, machinery and equipment with carrying value of GEL 91,276 and GEL 83,578 (2019: GEL 89,365 and GEL 81,542), respectively, have been pledged to third parties as collateral for borrowings (Refer to Notes 14 and 24).

The gross carrying amount of fully depreciated property and equipment that is still in use in the Group and the Company amounted to GEL 15,469 and GEL 13,116, respectively, as at 31 December 2020 (2019: GEL 14,292 and GEL 12,168).

*(Amounts in thousands of Georgian Lari)*

## 8. Right-of-use assets and lease liabilities

Set out below are the carrying amounts of the Group's right-of-use assets recognised and the movements during the period:

| **GROUP** | **Land and buildings** | **Vehicles** | **Total** |
|---|---|---|---|
| Cost | 27,242 | – | 27,242 |
| Accumulated depreciation | (5,406) | – | (5,406) |
| **Carrying amount at 1 January 2019** | **21,836** | **–** | **21,836** |
| Additions | 27 | – | 27 |
| Depreciation charge | (3,702) | – | (3,702) |
| **Carrying amount at 31 December 2019** | **18,161** | **–** | **18,161** |
| Cost | 27,269 | – | 27,269 |
| Accumulated depreciation | (9,108) | – | (9,108) |
| **Carrying amount at 31 December 2019** | **18,161** | **–** | **18,161** |
| Additions | 2,733 | 4,046 | 6,779 |
| Disposals | (7,565) | – | (7,565) |
| Depreciation charge | (3,662) | (341) | (4,003) |
| Accumulated depreciation for disposals | 2,509 | – | 2,509 |
| **Carrying amount at 31 December 2020** | **12,176** | **3,705** | **15,881** |
| Cost | 22,437 | 4,046 | 26,483 |
| Accumulated depreciation | (10,261) | (341) | (10,602) |
| **Carrying amount at 31 December 2020** | **12,176** | **3,705** | **15,881** |

Set out below are the carrying amounts of the Company's right-of-use assets recognised and the movements during the period:

| ***COMPANY*** | ***Land and buildings*** | ***Vehicles*** | ***Total*** |
|---|---|---|---|
| *Cost* | *23,470* | *–* | *23,470* |
| *Accumulated depreciation* | *(4,979)* | *–* | *(4,979)* |
| ***Carrying amount at 1 January 2019*** | ***18,491*** | ***–*** | ***18,491*** |
| *Additions* | *27* | *–* | *27* |
| *Depreciation charge* | *(3,418)* | *–* | *(3,418)* |
| ***Carrying amount at 31 December 2019*** | ***15,100*** | ***–*** | ***15,100*** |
| *Cost* | *23,497* | *–* | *23,497* |
| *Accumulated depreciation* | *(8,397)* | *–* | *(8,397)* |
| ***Carrying amount at 31 December 2019*** | ***15,100*** | ***–*** | ***15,100*** |
| *Additions* | *2,630* | *2,086* | *4,716* |
| *Disposals* | *(7,563)* | *–* | *(7,563)* |
| *Depreciation charge* | *(3,333)* | *(243)* | *(3,576)* |
| *Accumulated depreciation for disposals* | *2,504* | *–* | *2,504* |
| ***Carrying amount at 31 December 2020*** | ***9,338*** | ***1,843*** | ***11,181*** |
| *Cost* | *18,564* | *2,086* | *20,650* |
| *Accumulated depreciation* | *(9,226)* | *(243)* | *(9,469)* |
| ***Carrying amount at 31 December 2020*** | ***9,338*** | ***1,843*** | ***11,181*** |

*(Amounts in thousands of Georgian Lari)*

## 8. Right-off-use assets and lease liabilities (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | ***2019*** |
| **As at 1 January** | **19,064** | **21,111** | ***17,390*** | ***19,469*** |
| Additions | 6,779 | 27 | *4,716* | *27* |
| Accretion of interest | 2,036 | 1,894 | *1,834* | *1,726* |
| Termination | (6,389) | – | *(6,233)* | – |
| Payments | (4,047) | (5,206) | *(3,662)* | *(4,956)* |
| Concession income due to Covid 19 | (756) | – | *(674)* | – |
| The effect of changes in foreign exchange rates | 1,299 | 1,238 | *901* | *1,124* |
| **As at 31 December** | **17,986** | **19,064** | ***14,272*** | ***17,390*** |
| Current | 5,018 | 4,130 | *4,119* | *3,779* |
| Non-current | 12,968 | 14,934 | *10,153* | *13,611* |

The maturity analysis of lease liabilities is disclosed in note 25.

Following are the amounts recognized in profit or loss:

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Depreciation expense of right-of-use assets, included in general and administrative expenses (Note 18) | 4,003 | 3,702 | 3,576 | *3,418* |
| Interest expense on lease liabilities (Note 21) | 2,036 | 1,894 | 1,834 | *1,726* |
| The effect of changes in foreign exchange rates | 1,299 | 1,238 | 901 | *1,124* |
| Expenses related to the short term lease and leases of low value assets (Note 18) | 349 | 319 | *287* | *158* |
| Concession income due to Covid 19 (Note 19) | (756) | – | (674) | – |
| Income from termination of lease agreement (Note 19) | (1,333) | – | (1,174) | – |
| **Total amount recognised in profit or loss** | **5,598** | **7,153** | **4,750** | **6,426** |

The Group and the Company had total cash outflows for leases of GEL 4,396 and GEL 3,949, respectively, in 2020 (GEL 5,525 and GEL 5,114 in 2019).

## 9. Investments in associates

| | GROUP | | *Company* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| **Carrying amount at 1 January** | **82** | **203** | ***206*** | ***206*** |
| Share of results | 182 | (84) | – | – |
| Dividends received | (37) | (37) | – | – |
| **Carrying amount at 31 December** | **227** | **82** | ***206*** | ***206*** |

The associates summarized financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

| **Name** | **Nature** | **Total assets** | **Total liabilities** | **Revenue** | **Net profit/ (loss)** | **Interest held** |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Tegeta Motors Meskheti LLC | Rent of commercial space | 556 | (128) | 145 | 128 | 34% |
| DSD Tegeta LLC | Rent of commercial space | 1,552 | (1,227) | 114 | (59) | 25% |
| Aztech and Tegeta Motors LLC | Retailer of spare parts | 6,338 | (7,200) | 12,753 | (527) | 20% |
| Tegeta and L LLC* | Retailer of spare parts | 201 | (200) | 613 | (50) | 15% |
| **At 31 December 2020** | | | | | | |
| Tegeta Motors Meskheti LLC | Rent of commercial space | 541 | (118) | 131 | 106 | 34% |
| DSD Tegeta LLC | Rent of commercial space | 1,543 | (1,309) | 215 | (90) | 25% |
| Aztech and Tegeta Motors LLC | Retailer of spare parts | 20,416 | (21,865) | 26,202 | 844 | 20% |

* In 2020 the company sold its shares in Tegeta and L LLC.

All associates are incorporated and domiciled in Georgia, except Aztech and Tegeta Motors LLC, which is under Azerbaijan's jurisdiction.

*(Amounts in thousands of Georgian Lari)*

## 10. Inventories

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Goods for resale (at lower of cost and net realizable value) | 78,023 | 85,508 | *18,595* | *61,768* |
| Goods in transit (at lower of cost and net realizable value) | 34,248 | 25,891 | *1,155* | *17,463* |
| Other (at cost) | 4,859 | 3,911 | *3,828* | *3,212* |
| **Total inventories** | **117,130** | **115,310** | ***23,578*** | ***82,443*** |

The cost of inventories recognised as expenses are included in the cost of sales, general and administrative expenses, selling and distribution expenses and other operating expenses of the Group and the Company and amounted to GEL 511,963 and GEL 307,996, respectively during 2020.

The Group's and the Company's inventories were written down to their net realizable values and expensed in cost of sales in amounts of GEL 1,786 and GEL 989 respectively (2019: GEL 1,223 and GEL 966) (refer to Note 20).

At 31 December 2020 the Group's and the Company's inventories, amounting to GEL 117,130 and GEL 23,578 (2019: GEL 115,310 and GEL 82,443), respectively, have been pledged to third parties as collateral for borrowings (refer to Note 24).

## 11. Loans issued

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Loan issued to third parties | 248 | 201 | *241* | *137* |
| Loan issued to owner (Note 27) | – | 2,108 | – | 2,108 |
| Loans issued to the subsidiaries (Note 27) | – | – | *24,860* | *937* |
| Provision for expected credit losses | (148) | (148) | *(148)* | *(148)* |
| **Total loans issued** | **100** | **2,161** | ***24,953*** | ***3,034*** |

The table below summarizes outstanding loans issued as at 31 December 2020:

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Loan issued to third parties, physical persons | 248 | 201 | *241* | *137* |
| Loan issued to owner | – | 2,108 | – | 2,108 |
| Loan issued to Tegeta Truck and Bus LLC | – | – | *16,826* | *937* |
| Loan issued to Tegeta Automotive Import LLC | – | – | *8,024* | – |
| Loan issued to TBA Tegeta LLC | – | – | *10* | – |
| Provision for expected credit losses | (148) | (148) | *(148)* | *(148)* |
| **Total loans issued** | **100** | **2,161** | ***24,953*** | ***3,034*** |

Movements in issued loans were as follows:

| **GROUP** | **2020** | **2019** |
|---|---|---|
| **At 1 January** | **2,161** | **28** |
| Loans issued | 13,334 | 3,768 |
| Repayment of loans issued | (15,648) | (4,625) |
| Interest received | (503) | (95) |
| Interest income | 479 | 174 |
| Recovery of impairment on issued loans (Note 19) | – | 2,668 |
| Foreign exchange gain, net | 277 | 243 |
| **At 31 December** | **100** | **2,161** |

*(Amounts in thousands of Georgian Lari)*

## 11. Loans issued (continued)

| *COMPANY* | *2020* | *2019* |
|---|---|---|
| ***At 1 January*** | ***3,034*** | ***7*** |
| *Loans issued* | *35,699* | *7,883* |
| *Repayment of loans issued* | *(14,406)* | *(7,838)* |
| *Interest received* | *(478)* | *(117)* |
| *Interest income* | *610* | *174* |
| *Recovery of impairment on issued loans (Note 19)* | *–* | *2,668* |
| *Foreign exchange gain, net* | *494* | *257* |
| ***At 31 December*** | ***24,953*** | ***3,034*** |

## 12. Trade and other receivables

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Trade receivables | 97,663 | 50,569 | *66,918* | *31,365* |
| Receivables from associates | 2,936 | 1,676 | *2,936* | *1,676* |
| Receivables from subsidiaries * | – | – | *39,390* | *1,501* |
| Less provision for expected credit losses | (7,710) | (1,027) | *(4,190)* | *(657)* |
| **Total trade receivables** | **92,889** | **51,218** | ***105,054*** | ***33,885*** |
| Dividends receivable | 39 | 73 | *1,733* | *1,768* |
| Other receivables | 846 | 1,194 | *654* | *1,151* |
| **Total trade and other receivables** | **93,774** | **52,485** | ***107,441*** | ***36,804*** |

* Receivables from subsidiaries increased during 2020 as a results of Group agile transformation described in note 1.

Analysis by credit quality of financial assets within trade and other receivables for the Group and the Company as at 31 December 2020 is as follows:

| **GROUP** | **Current** | **<31 days** | **31-93 days** | **93-186 days** | **186-341 days** | **>341 days** | **Total** |
|---|---|---|---|---|---|---|---|
| Estimated total gross carrying amount at default | 59,202 | 16,950 | 7,677 | 3,526 | 3,844 | 10,285 | **101,484** |
| Expected credit loss | 6 | 17 | 112 | 228 | 743 | 6,604 | **7,710** |
| Expected loss rate | 0.01% | 0.10% | 1.46% | 6.47% | 19.33% | 64.21% | **7.60%** |

| ***COMPANY*** | ***Current*** | ***<31 days*** | ***31-93 days*** | ***93-186 days*** | ***186-341 days*** | ***>341 days*** | ***Total*** |
|---|---|---|---|---|---|---|---|
| *Estimated total gross carrying amount at default* | *64,569* | *18,579* | *16,047* | *3,622* | *2,773* | *6,041* | ***111,631*** |
| *Expected credit loss* | *6* | *16* | *47* | *77* | *95* | *3,949* | ***4,190*** |
| *Expected loss rate* | *0.01%* | *0.09%* | *0.29%* | *2.13%* | *3.43%* | *65.37%* | ***3.75%*** |

Analysis by credit quality of financial assets within trade and other receivables for the Group and the Company as at 31 December 2019 is as follows:

| **GROUP** | **Current** | **<31 days** | **31-93 days** | **93-186 days** | **186-341 days** | **>341 days** | **Total** |
|---|---|---|---|---|---|---|---|
| Estimated total gross carrying amount at default | 13,288 | 14,811 | 16,378 | 1,513 | 4,236 | 3,286 | **53,512** |
| Expected credit loss | 28 | 36 | 67 | 102 | 113 | 681 | **1,027** |
| Expected loss rate | 0.21% | 0.24% | 0.41% | 6.74% | 2.67% | 20.72% | **1.92%** |

| ***COMPANY*** | ***Current*** | ***<31 days*** | ***31-93 days*** | ***93-186 days*** | ***186-341 days*** | ***>341 days*** | ***Total*** |
|---|---|---|---|---|---|---|---|
| *Estimated total gross carrying amount at default* | *13,964* | *9,203* | *10,096* | *1,532* | *646* | *2,020* | ***37,461*** |
| *Expected credit loss* | *25* | *35* | *54* | *13* | *10* | *520* | ***657*** |
| *Expected loss rate* | *0.18%* | *0.38%* | *0.53%* | *0.85%* | *1.55%* | *25.74%* | ***1.75%*** |

*(Amounts in thousands of Georgian Lari)*

## 12. Trade and other receivables (continued)

Movements in the provision for expected credit losses are as follows:

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| **Provision for expected credit losses at 1 January** | **1,027** | **615** | ***657*** | ***307*** |
| Charge for the year (Note 20) | 6,749 | 542 | *3,558* | *404* |
| Utilization of allowance of expected credit losses | (66) | (130) | *(25)* | *(54)* |
| **Provision for expected credit losses at 31 December** | **7,710** | **1,027** | ***4,190*** | ***657*** |

## 13. Cash and cash equivalents

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Current accounts with banks | 16,396 | 19,716 | *6,442* | *7,297* |
| Cash in transit | 163 | 429 | *71* | *427* |
| Cash on hand | 5,434 | 2,308 | *5,383* | *2,263* |
| Restricted cash | 24,231 | 352 | – | – |
| **Total cash and cash equivalents** | **46,224** | **22,805** | ***11,896*** | ***9,987*** |
| Restricted amounts | (24,231) | – | – | – |
| **Total cash and cash equivalents in the consolidated and separate statements of cash flows** | **21,993** | **22,805** | ***11,896*** | ***9,987*** |

Major cash and cash equivalents balances are held by the Group with Georgian commercial bank, having Standard and Poor's and Fitch rating of BB-.

Out of total restricted cash GEL 23,813 is restricted for the guarantee issued on behalf of the Ultimate Controlling Party of the Company (Note 24).

In 2020 interest income on cash and cash equivalents amounted to GEL 336 and GEL 186 for the Group and the Company, respectively (2019: GEL 204 and GEL 82).

## 14. Borrowings

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Loans received – non-current portion | 72,873 | 79,888 | *59,265* | *64,070* |
| Loans received – current portion | 75,128 | 31,909 | *60,136* | *20,243* |
| **Total borrowings** | **148,001** | **111,797** | ***119,401*** | ***84,313*** |

*(Amounts in thousands of Georgian Lari)*

## 14. Borrowings (continued)

The table below summarizes outstanding loans received as at 31 December 2020:

| Original currency | Agreement date | Maturity date | Lender | GROUP | *COMPANY* |
|---|---|---|---|---|---|
| GEL | 2020 | 2021 | Georgian commercial bank | 41,470 | *40,968* |
| GEL | 2019 | 2022 | Bonds | 30,613 | *30,613* |
| EUR | 2018 | 2024 | Georgian commercial bank | 19,915 | *19,915* |
| GEL | 2019 | 2025 | Georgian commercial bank | 16,463 | – |
| GEL | 2018 | 2024 | Georgian commercial bank | 13,613 | *13,613* |
| GEL | 2019 | 2021 | Georgian commercial bank | 12,040 | – |
| GEL | 2019 | 2024 | Georgian commercial bank | 6,344 | *6,344* |
| EUR | 2020 | 2021 | Georgian commercial bank | 4,911 | *3,415* |
| JPY | 2020 | 2021 | Georgian commercial bank | 932 | – |
| EUR | 2020 | 2021 | Caucasus Automotive LLC | 913 | *913* |
| GEL | 2018 | 2021 | Georgian commercial bank | 756 | *756* |
| USD | 2020 | 2021 | Georgian commercial bank | 31 | *31* |
| GEL | 2020 | 2021 | Toyota Center Tegeta LLC | – | *1,021* |
| EUR | 2019 | 2021 | Tegeta Premium Vehicles LLC | – | *1,005* |
| USD | 2020 | 2021 | Toyota Center Tegeta LLC | – | *465* |
| GEL | 2019 | 2021 | Tegeta Premium Vehicles LLC | – | *237* |
| USD | 2019 | 2021 | Tegeta Premium Vehicles LLC | – | *105* |
| | | | | **148,001** | ***119,401*** |

The table below summarizes outstanding loans received as at 31 December 2019:

| Original currency | Agreement date | Maturity date | Lender | GROUP | *COMPANY* |
|---|---|---|---|---|---|
| GEL | 2019 | 2022 | Bonds | 30,465 | *30,465* |
| EUR | 2018 | 2024 | Georgian commercial bank | 19,619 | *19,619* |
| GEL | 2019 | 2025 | Georgian commercial bank | 18,247 | – |
| GEL | 2018 | 2024 | Georgian commercial bank | 15,552 | *15,553* |
| GEL | 2019 | 2020 | Georgian commercial bank | 12,749 | *5,035* |
| GEL | 2019 | 2024 | Georgian commercial bank | 7,416 | *7,416* |
| JPY | 2019 | 2020 | Georgian commercial bank | 4,069 | – |
| EUR | 2019 | 2020 | Georgian commercial bank | 1,426 | *5* |
| USD | 2018 | 2020 | Georgian commercial bank | 1,421 | *1,421* |
| GEL | 2018 | 2020 | Georgian commercial bank | 755 | *755* |
| USD | 2019 | 2020 | Georgian commercial bank | 78 | *62* |
| EUR | 2019 | 2020 | Tegeta Premium Vehicles LLC | – | *1,668* |
| GEL | 2019 | 2020 | Tegeta Premium Vehicles LLC | – | *216* |
| USD | 2019 | 2020 | Tegeta Premium Vehicles LLC | – | *86* |
| EUR | 2019 | 2020 | Toyota Center Tegeta LLC | – | *2,012* |
| | | | | **111,797** | ***84,313*** |

For details of assets pledged for bank loans as collateral and discussion of compliance with covenants refer to Note 24.

Movements in borrowings were as follows:

| GROUP | 2020 | 2019 |
|---|---|---|
| **At 1 January** | **111,797** | **102,057** |
| Receipts from borrowings | 163,271 | 153,714 |
| Interest expense (Note 21) | 19,733 | 13,444 |
| Interest capitalized on property, plant and equipment | – | 682 |
| Interest payments | (19,095) | (13,222) |
| Principal repayments | (134,870) | (148,060) |
| Foreign exchange loss, net | 7,165 | 3,182 |
| **At 31 December** | **148,001** | **111,797** |

The amount of undrawn borrowing facilities that are available in the future for the operating activities and settling capital commitments amounts to GEL 1,100.

*(Amounts in thousands of Georgian Lari)*

### 14. Borrowings (continued)

| *COMPANY* | *2020* | *2019* |
|---|---|---|
| ***At 1 January*** | ***84,313*** | ***72,031*** |
| *Receipts from borrowings* | *141,362* | *94,763* |
| *Interest expense (Note 21)* | *15,940* | *9,506* |
| Interest capitalized on property, plant and equipment | – | *682* |
| *Interest payments* | *(15,034)* | *(9,537)* |
| *Principal repayments* | *(113,920)* | *(84,421)* |
| *Foreign exchange loss, net* | *6,740* | *1,289* |
| ***At 31 December*** | ***119,401*** | ***84,313*** |

### 15. Trade and other payables

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Trade payables | 57,321 | 55,701 | *16,380* | *44,341* |
| Payables for non–current assets | 1,839 | 1,861 | *1,877* | *2,066* |
| Payables to subsidiaries | – | – | *5,285* | *654* |
| Payables to associates | 631 | 90 | *631* | *90* |
| Dividends payable | 13 | 13 | *13* | *13* |
| **Total financial liabilities within trade and other payables** | **59,804** | **57,665** | ***24,186*** | ***47,164*** |
| Accrued employee benefit costs | 6,386 | 4,097 | *4,808* | *2,948* |
| Other | 960 | 1,430 | *834* | *579* |
| **Total trade and other payables** | **67,150** | **63,192** | ***29,828*** | ***50,691*** |

### 16. Revenue from contract with customers

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Revenue from goods sold | 634,885 | 605,315 | *391,672* | *295,161* |
| Revenue from rendered services | 24,561 | 24,706 | *19,351* | *21,243* |
| **Total revenues** | **659,446** | **630,021** | ***411,023*** | ***316,404*** |

Goods were transferred at a point in time, while rendered service was transferred over time during 2020 and 2019.

The Group and the Company has recognized the following revenue-related trade receivables and contract liabilities:

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Trade receivables (Note 12) | 92,889 | 51,218 | *105,054* | *33,885* |
| Contract liabilities – non-current portion | 5,754 | 600 | *3,456* | *–* |
| Contract liabilities – current portion | 40,253 | 21,136 | *35,146* | *4,567* |

Accounts receivable are recognized when the right to consideration becomes unconditional. Contract liabilities are received consideration from the customers and represent the Group's obligation to transfer goods or services to these customers.

Contract liabilities of the Group and the Company in the amount of GEL 40,253 and GEL 35,146 is expected to be recognised as revenue in 2021 related to performance obligations that are unsatisfied at the reporting date. In 2020, the Group and the Company recognized as revenue GEL 21,136 and GEL 4,567 that was included under contract liabilities at the beginning of the reporting period.

Current portion of contract liabilities of the Group and the Company as of 31 December 2020 includes advances received in the amount of GEL 32,830 to supply heavy vehicles and buses in 2021 under contracts with two customers.

Contract liabilities of the Group as of 31 December 2019 includes advances received in the amount of GEL 7,374 to supply light vehicles during the year 2020.

Non-current portion of contract liabilities are fully attributable to the service-type warranties provided for the buses sold by the Group.

*(Amounts in thousands of Georgian Lari)*

## 17. Cost of sales

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | ***2019*** |
| Cost of goods sold at a point of time | (505,347) | (512,051) | *(303,292)* | *(228,172)* |
| Cost of services rendered over time: | | | | |
| Staff costs | (16,069) | (16,778) | *(11,783)* | *(14,247)* |
| Depreciation and amortization | (2,588) | (2,380) | *(2,071)* | *(1,807)* |
| Consumable materials used | (1,017) | (1,039) | *(589)* | *(736)* |
| Purchased services | (443) | (1,006) | *(1,837)* | *(1,376)* |
| Other costs | (856) | (818) | *(659)* | *(661)* |
| **Total cost of sales** | **(526,320)** | **(534,072)** | ***(320,231)*** | ***(246,999)*** |

## 18. General and administrative expenses

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Staff costs | (27,563) | (25,725) | *(21,842)* | *(22,006)* |
| Depreciation and amortisation | (5,395) | (3,872) | *(4,567)* | *(3,219)* |
| Depreciation expense of right-of-use assets (Note 8) | (4,003) | (3,702) | *(3,576)* | *(3,418)* |
| Professional services | (2,871) | (1,378) | *(2,987)* | *(1,881)* |
| Office expense | (2,693) | (2,822) | *(2,355)* | *(2,284)* |
| Taxes other than on income | (2,530) | (2,594) | *(1,862)* | *(1,794)* |
| Utility | (1,390) | (1,461) | *(1,219)* | *(1,268)* |
| Communication expense | (883) | (726) | *(812)* | *(670)* |
| Security | (553) | (525) | *(490)* | *(463)* |
| Repair and maintenance | (486) | (649) | *(444)* | *(604)* |
| Bank charges | (411) | (385) | *(310)* | *(317)* |
| Expenses related to the short-term lease and leases of low value assets (Note 8) | (349) | (319) | *(287)* | *(158)* |
| Audit fee | (324) | (220) | *(191)* | *(128)* |
| Fuel expense | (231) | (347) | *(220)* | *(329)* |
| Business trip expense | (225) | (1,276) | *(135)* | *(982)* |
| Other expenses | (1,021) | (768) | *(813)* | *(580)* |
| **Total general and administrative expenses** | **(50,928)** | **(46,769)** | ***(42,110)*** | ***(40,101)*** |

## 19. Other operating income

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Gain on disposal of property, plant and equipment | 1,641 | – | *1,348* | – |
| Income from termination of lease agreement (Note 8) | 1,333 | – | *1,174* | – |
| Rent concession income (Note 8) | 756 | – | *674* | – |
| Operating lease income (b) | 415 | 533 | *5,069* | *926* |
| Gain from remeasurement of warranty provision | 353 | 480 | – | – |
| Professional services | 307 | 99 | *968* | *364* |
| Storage Services | 238 | 145 | *218* | *133* |
| Insurance claim reimbursement | 145 | 335 | *154* | *205* |
| Dividend income | – | – | *37* | *5,037* |
| Reversal of expected credit losses on loans issued (a) | – | 2,668 | – | *2,668* |
| Other | 2,384 | 1,647 | *1,404* | *1,814* |
| **Total other operating income** | **7,572** | **5,907** | ***11,046*** | ***11,147*** |

(a) In 2019 provision for expected credit losses on loan issued to the Company's shareholder, Ms. Tina Kokhodze was recovered (Note 11).

(b) The Group and the company had entered into operating leases consisting of certain buildings and office equipment. These leases have terms of between one and nine years.

*(Amounts in thousands of Georgian Lari)*

## 20. Other operating expenses

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Provision for expected credit losses for trade and other receivables (Note 12) | (6,749) | (542) | *(3,558)* | *(404)* |
| Write-down of inventories to net realizable value (Note 10) | (1,786) | (1,223) | *(989)* | *(966)* |
| Charity expenses | (256) | (95) | *(256)* | *(92)* |
| Fines, penalties and tax related expenses | (181) | (1,419) | *(145)* | *(370)* |
| Tender participation expenses | (59) | (88) | *(53)* | *(44)* |
| Other | (1,368) | (899) | *(924)* | *(849)* |
| **Total other operating expenses** | **(10,399)** | **(4,266)** | ***(5,925)*** | ***(2,725)*** |

## 21. Finance costs

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| Interest expenses (Note 14) | (19,733) | (13,444) | *(15,940)* | *(9,506)* |
| Interest expenses on lease liabilities (Note 8) | (2,036) | (1,894) | *(1,834)* | *(1,726)* |
| Foreign exchange losses, net | (9,709) | (8,831) | *(8,088)* | *(7,125)* |
| Interest expenses on other financial liabilities | (266) | – | – | – |
| Other | (520) | (305) | *(436)* | *(146)* |
| **Total finance costs** | **(32,264)** | **(24,474)** | ***(26,298)*** | ***(18,503)*** |

## 22. Income tax expenses

The current income tax represents tax on dividends declared to the shareholders of the Company.

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| **Total dividends declared** | **(1,391)** | **(9,578)** | **(1,391)** | ***(9,578)*** |
| *Out of which:* | | | | |
| Non-taxable dividends paid | (1,256) | (7,279) | *(1,256)* | *(7,279)* |
| Taxable dividends paid | (135) | (2,299) | *(135)* | *(2,299)* |
| Tax rate used (%) | 15/85 | 15/85 | 15/85 | *15/85* |
| **Theoretical income tax expense at the statutory rate** | **(24)** | **(406)** | ***(24)*** | ***(406)*** |
| Non-deductible expenses and other permanent differences | – | (1,014) | – | *(792)* |
| Offset against income tax paid related to 2008-2016 | – | 320 | – | *320* |
| **Income tax expense** | **(24)** | **(1,100)** | ***(24)*** | ***(878)*** |

Dividends in the amount of GEL 1,256, distributed to the TGM Group LLC during 2020 is non-taxable dividends (2019: GEL 7,279).

## 23. Equity

### 23.1 Charter capital

In 2019, based on the majority vote of the shareholders meeting the charter capital of the Group and the Company was increased by cash contribution of GEL 26,600.

### 23.2 Dividends declared and paid

The Company declared and paid dividends to its existing shareholders in the amount of GEL 1,391 in 2020 (2019: GEL 9,578).

### 23.2 Other capital distribution

The Group entered into guarantee agreement to guarantee obligation of the Ultimate Controlling Party towards a Georgian bank. Such transaction would meet a definition of a transaction with owner acting in a capacity of owner and as such recognized directly as other reserves in statement of changes in equity, in the amount of GEL 22,936 (Note 5). Changes in the amount of liability recognized after the date of issuing a guarantee are attributable to accrued interest and changes in foreign currency exchange rates.

## 24. Contingencies and commitments

### Legal proceedings

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that the ultimate liability not already provided for, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

### Tax legislation

The taxation system in Georgia is relatively new and is characterized 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.

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 the financial statements, if the authorities were successful in enforcing their own interpretations, could be significant.

### Assets pledged

The following assets were pledged as collateral towards the borrowings from banks (Note 14):

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Land and buildings (Notes 7, 14) | 85,215 | 82,627 | *78,219* | *75,499* |
| Machinery and equipment (Notes 7, 14) | 6,061 | 6,738 | *5,359* | *6,043* |
| Inventories (Notes 10, 14) | 117,130 | 115,310 | *23,578* | *82,443* |

Cash in the amount of GEL 23,813 is pledged as a collateral for the guarantee on obligation of the Ultimate Controlling Party of the Group as at 31 December 2020 (Note 23).

### Guarantees – intra-Group

The Company and its subsidiaries enter into guarantee agreements to guarantee obligation of the Group entities towards banks. The guarantees are irrevocable assurances that the Group will make payments if its subsidiaries (or the Company) cannot meet its obligations.

The following guarantees were issued in thousands of US Dollars and presented in GEL:

| | | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|---|
| **Issuer** | **Beneficiary – related parties** | **Maximum exposure** | **Amounts at risk** | **Maximum exposure** | **Amounts at risk** |
| Tegeta Truck and Bus LLC | The Company | 163,830 | 85,188 | 143,385 | 49,574 |
| Tegeta Construction Equipment LLC | | 163,830 | | 143,385 | |
| Tegeta Premium Vehicles LLC | | 163,830 | | 143,385 | |
| Toyota Center Tegeta LLC | | 163,830 | | 143,385 | |
| The Company | Toyota Center Tegeta LLC | 34,404 | 20,208 | 30,111 | 21,968 |
| The Company | Tegeta Premium Vehicles LLC | 17,038 | 2,413 | 14,912 | 5,457 |
| The Company | Tegeta Truck and Bus LLC | 4,260 | 4,260 | 3,728 | 3,728 |
| The Company | Transcaucasian Distribution Company LLC | 3,932 | 3,568 | 3,441 | 3,441 |
| Tegeta Construction Equipment LLC | Tegeta Truck and Bus LLC | 163,830 | 8,039 | 143,385 | 3,764 |
| Tegeta Construction Equipment LLC | Tegeta Premium Vehicles LLC | 163,830 | 2,413 | 143,385 | 5,457 |
| Tegeta Premium Vehicles LLC | Tegeta Truck and Bus LLC | 65,532 | 8,039 | 57,354 | 3,764 |
| Tegeta Truck and Bus LLC | Tegeta Premium Vehicles LLC | 32,766 | 2,413 | 28,677 | 5,457 |
| Tegeta Truck and Bus LLC | Tegeta Construction Equipment LLC | 3,277 | – | 2,868 | – |
| Tegeta Truck and Bus LLC | Toyota Center Tegeta LLC | 163,830 | 20,208 | 143,385 | 21,968 |

Guarantees represent integral part of related loan agreements, and therefore are not accounted for separately.

*(Amounts in thousands of Georgian Lari)*

## 24. Contingencies and commitments (continued)

### Guarantees – third parties

The Group has entered into guarantee agreements to guarantee obligation of the Ultimate Controlling Party towards Georgian bank. The transaction met a definition of a transaction with owner acting in a capacity as owner and was recognized directly in statement of changes in equity (Note 5, 23).

### Compliance with contractual covenants

The Group is subject to certain covenants related primarily to its bank loans (Refer to Note 14). Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As at 31 December 2020, the Group was in compliance with all the contractual covenants, except certain financial and non-financial covenants under loan agreements, from which the Group received the waiver for the total amount of the loans as of 31 December 2020.

### Contractual commitments

As at 31 December 2020 the Group had received funds of GEL 32,830 (2019: GEL 0) to supply heavy vehicles for contracts with two customers during the year 2021.

As at 31 December 2020 the Group had contractual commitment for the acquisition of property, plant and equipment in the amount of GEL 486 (2019: GEL 0).

The Group's and the Company's future minimum rentals receivable under non-cancellable operating leases as at 31 December 2020 are as follows:

| GROUP | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Rent income | 16 | 30 | 32 | – | – | **78** |
| **Total future payments** | **16** | **30** | **32** | **–** | **–** | **78** |

| *COMPANY* | *Demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| *Rent income* | *1,418* | *2,832* | *11,392* | *20,345* | *–* | ***35,987*** |
| ***Total future payments*** | ***1,418*** | ***2,832*** | ***11,392*** | ***20,345*** | ***–*** | ***35,987*** |

The Group's and the Company's future minimum rentals receivable under non-cancellable operating leases as at 31 December 2019 are as follows:

| GROUP | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Rent income | 46 | 92 | 121 | 4 | – | **263** |
| **Total future payments** | **46** | **92** | **121** | **4** | **–** | **263** |

| *COMPANY* | *Demand and less than 1 month* | *From 1 to 3 months* | *From 3 to 12 months* | *From 1 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| *Rent income* | *96* | *191* | *370* | *622* | *39* | ***1,318*** |
| ***Total future payments*** | ***96*** | ***191*** | ***370*** | ***622*** | ***39*** | ***1,318*** |

## 25. Financial risk management

The Group's principal financial liabilities comprise borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations and investing activities. The Group has trade and other receivables, amounts due from the financial institutions and cash and cash equivalents and loans issued that arrive directly from its operations. The Group is exposed to credit risk, foreign currency risk, liquidity risk and interest rate risk.

*(Amounts in thousands of Georgian Lari)*

## 25. Financial risk management (continued)

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks.

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

| | GROUP | | *COMPANY* | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Trade and other receivables (Note 12) | 93,774 | 52,485 | *107,441* | *36,804* |
| Loans issued (Note 11) | 100 | 2,161 | *24,953* | *3,034* |
| Cash and cash equivalents (Note 13) | 46,224 | 22,805 | *11,896* | *9,987* |
| **Total maximum exposure to credit risk** | **140,098** | **77,451** | ***144,290*** | ***49,825*** |

***Trade receivables***

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established by the use of a credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions. The Group has established policies, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on the extensive analysis of the creditworthiness of the customer and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events and current conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collaterals or letter of credit.

The Group's management review ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both private individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to beyond the provisions already recorded in the consolidated and separate financial statements.

***Cash on current account and short-term deposits***

The Group manages the credit risk by depositing the majority of available cash with well-known banks in Georgia. Management of the Group continually monitors the status of the banks where deposits are maintained, also status of major customers and respective receivables are monitored on daily bases.

### Market risk

Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities all of which are 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.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group companies are primarily the Georgian Lari (GEL). The currencies in which these transactions primarily are denominated are USD, EUR, Pound Sterling and Japanese Yen of which transactions in USD and EUR are most significant.

*(Amounts in thousands of Georgian Lari)*

**25. Financial risk management (continued)**

**Currency risk (continued)**

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

| | **31 December 2020** | | | **31 December 2019** | | |
|---|---|---|---|---|---|---|
| **GROUP** | **Monetary financial assets** | **Monetary financial liabilities** | **Net position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net position** |
| US Dollars | 48,654 | (45,510) | **3,144** | 20,848 | (51,670) | **(30,822)** |
| Euros | 61,278 | (67,593) | **(6,315)** | 7,533 | (38,823) | **(31,290)** |

| | ***31 December 2020*** | | | ***31 December 2019*** | | |
|---|---|---|---|---|---|---|
| ***COMPANY*** | ***Monetary financial assets*** | ***Monetary financial liabilities*** | ***Net position*** | ***Monetary financial assets*** | ***Monetary financial liabilities*** | ***Net position*** |
| *US Dollars* | *14,989* | *(24,562)* | ***(9,573)*** | *9,194* | *(52,365)* | ***(43,171)*** |
| *Euros* | *66,232* | *(31,417)* | ***34,815*** | *4,276* | *(33,259)* | ***(28,983)*** |

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

| | **GROUP** | **GROUP** | ***COMPANY*** | ***COMPANY*** |
|---|---|---|---|---|
| | **2020** | **2019** | ***2020*** | ***2019*** |
| | **Impact on profit or loss** | **Impact on profit or loss** | ***Impact on profit or loss*** | ***Impact on profit or loss*** |
| US Dollar strengthening by 10% | 314 | (3,082) | *(957)* | *(4,317)* |
| US Dollar weakening by 10% | (314) | 3,082 | *957* | *4,317* |
| Euro strengthening by 10% | (631) | (3,129) | *3,482* | *(2,896)* |
| Euro weakening by 10% | 631 | 3,129 | *(3,482)* | *2,896* |

**Interest rate risk**

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Group's and the Company's exposure to interest rate risks. The table presents the aggregated amounts of the financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest, reprising or maturity dates.

| | **GROUP** | | ***COMPANY*** | |
|---|---|---|---|---|
| | **31 December 2020** | **31 December 2019** | ***31 December 2020*** | ***31 December 2019*** |
| Borrowings | 128,115 | 106,480 | *117,632* | *83,313* |

A reasonably possible change of 100 basis points in interest rates at the reporting date would have affected profit or loss of the Group by GEL 1,281 (2019: GEL 1,065), and profit and the loss of the Company by GEL 1,176 (2019: GEL 833). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

*(Amounts in thousands of Georgian Lari)*

## 25. Financial risk management (continued)

### Liquidity risk (continued)

The table below shows liabilities by their remaining contractual maturity. 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 following are the remaining contractual maturities of financial liabilities at the 31 December 2020. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

| **GROUP** | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **From 1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Borrowings | 34,247 | 13,678 | 36,561 | 81,754 | – | **166,240** |
| Lease liabilities | 622 | 804 | 3,631 | 13,084 | 5,563 | **23,704** |
| Other financial liabilities | 149 | 272 | 24,309 | – | – | **24,730** |
| Trade and other payables | 67,150 | – | – | – | – | **67,150** |
| **Total future payments** | **102,168** | **14,754** | **64,501** | **94,838** | **5,563** | **281,824** |

| ***COMPANY*** | ***Demand and less than 1 month*** | ***From 1 to 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
|---|---|---|---|---|---|---|
| *Borrowings* | *33,538* | *12,447* | *20,890* | *64,615* | *–* | ***131,490*** |
| *Lease liabilities* | *530* | *667* | *2,964* | *10,029* | *4,433* | ***18,623*** |
| *Trade and other payables* | *29,828* | *–* | *–* | *–* | *–* | ***29,828*** |
| ***Total future payments*** | ***63,896*** | ***13,114*** | ***23,854*** | ***74,644*** | ***4,433*** | ***179,941*** |

The following are the remaining contractual maturities of financial liabilities at the 31 December 2019. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

| **GROUP** | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **From 1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Borrowings | 8,154 | 8,979 | 25,885 | 94,591 | 3,379 | **140,988** |
| Lease liabilities | 357 | 704 | 3,129 | 14,647 | 7,372 | **26,209** |
| Trade and other payables | 63,192 | – | – | – | – | **63,192** |
| **Total future payments** | **71,703** | **9,683** | **29,014** | **109,238** | **10,751** | **230,389** |

| ***COMPANY*** | ***Demand and less than 1 month*** | ***From 1 to 3 months*** | ***From 3 to 12 months*** | ***From 1 to 5 years*** | ***Over 5 years*** | ***Total*** |
|---|---|---|---|---|---|---|
| *Borrowings* | *7,172* | *3,213* | *12,694* | *76,572* | *–* | ***99,651*** |
| *Lease liabilities* | *318* | *636* | *2,826* | *13,615* | *6,069* | ***23,464*** |
| *Trade and other payables* | *50,691* | *–* | *–* | *–* | *–* | ***50,691*** |
| ***Total future payments*** | ***58,181*** | ***3,849*** | ***15,520*** | ***90,187*** | ***6,069*** | ***173,806*** |

The Group does not have formal objectives set in respect of management of capital.

*(Amounts in thousands of Georgian Lari)*

## 26. Fair value of financial instruments

Fair value of financial assets and financial liabilities approximates carrying value.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than twelve months), and for the financial liabilities with floating interest rates, it is assumed that the carrying amounts approximate to their fair value. The fair value of borrowings with fixed interest rates is estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities.

All of the financial assets and financial liabilities for which fair values are disclosed are measured at level 3 of fair value hierarchy, except for cash and cash equivalents, which is measured at level 1.

## 27. Balances and transactions with related parties

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.

Transactions with other related parties are mainly purchase and sale of vehicles and automotive products.

At 31 December 2020, the outstanding balances with related parties were as follows:

| | **GROUP** | | | | ***COMPANY*** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Owners** | **Key management** | **Associates** | **Other related parties** | ***Owners*** | ***Key management*** | ***Subsidiaries*** | ***Associates*** | ***Other related parties*** |
| Trade and other receivables | – | 347 | 2,936 | 16,602 | – | *32* | *39,390* | *2,936* | *4,637* |
| Less provision for ECL | – | (16) | (1,304) | (2,919) | – | *(10)* | – | *(1,304)* | *(623)* |
| Prepayments | – | – | – | 2,112 | – | – | *11,047* | – | *1,756* |
| Loans issued (Note 11) | – | – | – | – | – | – | *24,860* | – | – |
| Borrowings (Note 14) | – | – | – | (913) | – | – | *(2,833)* | – | *(913)* |
| Lease liabilities | – | (134) | (512) | (11,181) | – | – | *(49)* | *(512)* | *(7,847)* |
| Other financial liabilities | – | (24,286) | – | – | – | – | – | – | – |
| Trade and other payables | (35) | (3) | (631) | (5,751) | *(35)* | *(2)* | *(5,285)* | *(631)* | *(707)* |
| Contract liabilities | – | – | (41) | (135) | – | – | – | *(41)* | – |
| Dividends receivable | – | – | 39 | – | – | – | *1,694* | *39* | – |
| Dividends payable | (13) | – | – | – | *(13)* | – | – | – | – |
| Salary payable | (2) | (2,989) | – | – | *(2)* | *(2,803)* | – | – | – |
| Financial guarantee provision | – | – | – | – | – | – | *(334)* | – | – |

At 31 December 2019, the outstanding balances with related parties were as follows:

| | **GROUP** | | | | ***COMPANY*** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Owners** | **Key management** | **Associates** | **Other related parties** | ***Owners*** | ***Key management*** | ***Subsidiaries*** | ***Associates*** | ***Other related parties*** |
| Trade and other receivables | – | 12 | 1,676 | 9,678 | – | *3* | *1,501* | *1,676* | *4,452* |
| Less impairment loss provision | – | – | – | (171) | – | – | – | – | *(171)* |
| Loans issued (Note 11) | 2,108 | – | – | – | *2,108* | – | *937* | – | – |
| Borrowings | – | – | – | – | – | – | *(3,982)* | – | – |
| Lease liabilities | – | – | – | (7,650) | – | – | – | – | *(6,264)* |
| Trade and other payables | (35) | – | (90) | (6,678) | *(35)* | – | *(654)* | *(90)* | *(2,139)* |
| Dividends receivable | – | – | 73 | – | – | – | *1,695* | *73* | – |
| Dividends payable | (13) | – | – | – | *(13)* | – | – | – | – |
| Salary payable | – | (1,349) | – | – | – | *(921)* | – | – | – |
| Financial guarantee provision | – | – | – | – | – | – | *(419)* | – | – |

Other related parties mainly represent entities and/or individuals related to the ultimate controlling party of the Company.

*(Amounts in thousands of Georgian Lari)*

## 27. Balances and transactions with related parties (continued)

The transaction amounts with related parties for the year ended 31 December 2020 were as follows:

| | **GROUP** | | | | ***COMPANY*** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Owners** | **Key management** | **Associates** | **Other related parties** | ***Owners*** | ***Key management*** | ***Subsidiaries*** | ***Associates*** | ***Other related parties*** |
| Sale of goods | – | 314 | 3,637 | 78,302 | *–* | *27* | *43,463* | *3,571* | *8,640* |
| Revenue from services rendered | 42 | 26 | – | 315 | *42* | *6* | *1,314* | *–* | *282* |
| Rental income | – | – | – | 321 | *–* | *–* | *4,735* | *–* | *282* |
| Purchases of goods for resale | – | – | (517) | (18,195) | *–* | *–* | *(36,278)* | *(517)* | *(7,684)* |
| Purchases of property and services | – | (112) | – | (2,562) | *–* | *–* | *(2,514)* | *–* | *(2,537)* |
| Rent payments | – | (102) | (214) | (2,797) | *–* | *–* | *(88)* | *(214)* | *(2,439)* |
| Salaries and bonuses | (4) | (6,956) | – | (8) | *–* | *(5,547)* | *–* | *–* | *(8)* |
| Interest income | 87 | 332 | – | 75 | *87* | *316* | *171* | *–* | *53* |
| Interest expense | – | (266) | – | (39) | *–* | *–* | *(351)* | *–* | *(39)* |
| Share of results | – | – | 182 | – | *–* | *–* | *–* | *–* | *–* |
| Dividend income | – | – | 37 | – | *–* | *–* | *–* | *37* | *–* |
| Dividends paid | (1,391) | – | – | – | (1,391) | *–* | *–* | *–* | *–* |
| Gain from remeasurement of financial guarantee | – | – | – | – | *–* | *–* | *85* | *–* | *–* |

The transaction amounts with related parties for the year ended 31 December 2019 were as follows:

| | **GROUP** | | | | ***COMPANY*** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Owners** | **Key management** | **Associates** | **Other related parties** | ***Owners*** | ***Key management*** | ***Subsidiaries*** | ***Associates*** | ***Other related parties*** |
| Sale of goods | 31 | 120 | 6,448 | 65,578 | *11* | *47* | *1,669* | *6,448* | *6,463* |
| Revenue from services rendered | 10 | 45 | – | 143 | *1* | *12* | *423* | *–* | *93* |
| Rental income | – | – | – | – | *–* | *–* | *405* | *–* | *–* |
| Purchases of goods for resale | – | – | (2) | (28,373) | *–* | *–* | *(2,367)* | *(2)* | *(15,068)* |
| Purchases of property and services | – | – | (2) | (51) | *–* | *–* | *(2,260)* | *(2)* | *(51)* |
| Purchases of other services | – | – | – | (237) | *–* | *–* | *(277)* | *–* | *–* |
| Lease payments | – | – | (222) | (1,008) | *–* | *–* | *(111)* | *(222)* | *(915)* |
| Salaries and bonuses | – | (3,693) | – | – | *–* | *(2,537)* | *–* | *–* | *–* |
| Interest expense | – | – | – | (7) | *–* | *–* | *(39)* | *–* | *(7)* |
| Share of results | – | – | (84) | – | *–* | *–* | *–* | *–* | *–* |
| Dividends paid | (9,578) | – | – | – | *(9,578)* | *–* | *–* | *–* | *–* |

## 28. Non-cash transactions

In 2020, the Group netted off tax payables and current income tax prepaid with the amount of GEL 271 (2019: GEL 69).

The other capital distribution of GEL GEL 22,936 during 2020 (Note 23) represents non-cash transaction.

In 2020, the Group and the Company netted off prepayments for non-current assets and trade receivables in the amount GEL 1,000.

In 2020 The Group and the Company also had non-cash additions to right-of-use assets and lease liabilities of GEL 6,779 and GEL 4,716.

In 2019, acquisition of property, plant and equipment of the Group and the Company included capitalized interest expense of GEL 682 with capitalized rate of 11% and foreign exchange loss of GEL 138.

In 2019, the Company netted off dividend receivables and borrowings from subsidiaries with total amount GEL 2,205 (Principal – GEL 2,028 and Interest accrued – GEL 177).

## 29. Subsequent events

In April 2021, the Group completed transformation process (Note 1). As a result, the operations of the Group have been fully reallocated from the Company to its subsidiaries and from 1 April 2021 the Company only acts as a corporate center.

On 23 June 2021, Mr. Zauri Tskhadadze sold 100% of his shares in the Company to the TGM Group LLC. The Group has entered into guarantee agreement to guarantee the obligation of the TGM Group LLC towards Mr. Zauri Tskhadadze for the amount of GEL 42,596 (USD 13,000).

In April 2021 the Company declared dividends to its existing shareholders in the amount of GEL 10,112.