ANAGI GROUP

Consolidated Financial Statements, Management
Report and Independent Auditor’s Report
For Year Ended 31 December 2020

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Anagi LLC and its subsidiaries (the "Group") as of 31 December 2020 and the results of its operations, changes in equity and cash flows for the year ended 31 December 2020, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

Management is responsible for the preparation of the consolidated Management Report in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and for such internal control as management determines is necessary to enable the preparation of the consolidated Management Report that is free from material misstatement, whether due to fraud or error.

Management is responsible:

- The consolidated Management Report for the year ended 31 December 2020 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The consolidated Management Report for the year ended 31 December 2020 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing; and;
- The information provided in the consolidated Management Report is consistent, in all material respects, with the audited consolidated financial statements for the year ended 31 December 2020.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the management on 27 September 2021.

On behalf of the Management:

______________________________	______________________________
Irakli Gogolishvili	**Giorgi Chitashvili**
General Director	**Financial Director**
Tbilisi, Georgia	Tbilisi, Georgia
27 September 2021	27 September 2021

ANAGI GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

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The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the management on 27 September 2021.

On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

Deloitte & Touche LLC
King David Business Center
12 Merab Aleksidze Street
Tbilisi, 0171, Georgia

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INDEPENDENT AUDITOR'S REPORT

To the Owner and Management of Anagi LLC:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2020 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 Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report but does not include the consolidated financial statements and our auditor's report thereon. The management Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing ("the Law"), and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of the Law and includes the information required by the Law.

We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Group's policies, procedures, methodologies and reported information with the requirements of the Law, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended 31 December 2020 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended 31 December 2020 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the Management Report is consistent, in all material respects, with the consolidated financial statements for the year ended 31 December 2020.

Srbuhi Hakobyan
on behalf of Deloitte and Touche LLC
Deloitte & Touche

27 September 2021
Tbilisi, Georgia

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In our opinion:

- The management report for the year ended 31 December 2020 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
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Srbuhi Hakobyan
on behalf of Deloitte and Touche LLC
Deloitte & Touche

27 September 2021
Tbilisi, Georgia

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020
(In thousands of Georgian Lari)

	Notes	2020	2019
Revenue	5, 22	238,298	241,518
Cost of sales	6	(199,332)	(197,879)
Gross profit		38,966	43,639
General and administrative expenses	7	(19,431)	(13,022)
Foreign exchange gain, net		13,145	5,068
Share of gain of associates		(582)	-
Finance income		3,174	2,422
Finance cost		(1,921)	(895)
Other expense, net	8, 22	(6,670)	(2,273)
Profit before income tax		26,681	34,939
Income tax expense		(638)	(354)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,043**	**34,585**
Income Attributable to:			
Owner:		26,055	34,019
Non-controlling interests:		(12)	566
		26,043	**34,585**

On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

The notes on pages 9-37 form an integral part of these consolidated financial statements.

ANAGI GROUP

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(In thousands of Georgian Lari)

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General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2020
(In thousands of Georgian Lari)

	Notes	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	9	26,889	29,841
Intangible assets		1,500	58
Investment property	10	3,203	14,634
Investments in associates		1,960	2,491
Construction contract assets	11, 22	3,567	8,524
Prepayment for property, plant and equipment	15	3,187	2
Trade and other receivables	14	2,713	-
Loans issued to related parties	12, 22	1,114	1,949
Total non-current assets		**44,113**	**57,499**
CURRENT ASSETS:			
Inventories	13, 22	23,145	24,087
Loans issued to related parties	12	6,123	5,126
Bond		655	574
Construction contract assets	11, 22	118,943	85,953
Trade and other receivables	14, 22	10,979	8,912
Prepayments to suppliers	15	25,679	20,197
Taxes prepaid		1,541	-
Deposit in Bank	17	9,830	-
Cash and cash equivalents	16	2,023	35,386
Total current assets		**198,918**	**180,235**
TOTAL ASSETS		**243,051**	**237,734**
OWNERS' EQUITY AND LIABILITIES			
OWNER'S EQUITY:			
Charter capital		5	5
Retained earnings		130,515	130,446
Equity attributable to the Owner of the Company		130,520	130,451
Non-controlling interests		2,512	3,736
TOTAL OWNERS' EQUITY		**133,032**	**134,187**
NON-CURRENT LIABILITIES:			
Advances received	18	12,636	13,802
Provisions for possible defects		1,575	1,460
Total non-current liabilities		**14,211**	**15,262**
CURRENT LIABILITIES:			
Trade and other payables	19, 22	32,725	38,697
Taxes payable other than income tax		-	1,382
Advances received	18	41,235	45,709
Dividend Payable		1,684	1,938
Borrowings	20	20,164	559
Total current liabilities		**95,808**	**88,285**
TOTAL LIABILITIES		**110,019**	**103,547**
TOTAL OWNERS' EQUITY AND LIABILITIES		**243,051**	**237,734**

On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

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On behalf of the Management:

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General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

The notes on pages 9-37 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(In thousands of Georgian Lari)

	Note	Charter capital	Retained earnings attributable to owner	Total equity attributable to owner	Non-controlling interest	Total equity
Balance at 1 January 2019		**5**	**105,982**	**105,987**	**4,005**	**109,992**
Total comprehensive income for the year		-	34,019	34,019	566	34,585
Dividends declared		-	(9,555)	(9,555)	(835)	(10,390)
Balance at 31 December 2019		**5**	**130,446**	**130,451**	**3,736**	**134,187**
Total comprehensive income for the year		-	26,055	26,055	(12)	26,043
Dividends declared		-	(24,400)	(24,400)	(1,728)	(26,128)
Purchase of non-controlling interest	1	-	(1,586)	(1,586)	516	(1,070)
Balance at 31 December 2020		**5**	**130,515**	**130,520**	**2,512**	**133,032**

On behalf of the Management:

Irakli Gogolishvili	**Giorgi Chitashvili**
General Director	**Financial Director**
Tbilisi, Georgia	Tbilisi, Georgia
27 September 2021	27 September 2021

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ANAGI GROUP

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On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(In thousands of Georgian Lari)

	Notes	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers under construction contracts		242,370	233,686
Receipts from other customers		22,037	3,384
Payments to suppliers		(200,081)	(125,901)
Payments to employees		(49,865)	(44,338)
Payments for other operating expenses		(2,748)	(1,009)
Taxes paid other than on income tax		(36,325)	(34,351)
Cash (used)/generated from operations		(24,612)	31,471
Interest paid		(2,223)	(654)
Income tax paid		(648)	(354)
Net cash (used)/generated from operating activities		(27,483)	30,463
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from sale of property plant and equipment and investment property		7,263	5,656
Payments for property, plant and equipment		(2,869)	(9,194)
Payments for intangible		-	-
Receipts from loans issued		5,992	2,699
Disbursement of loans		(4,672)	(4,266)
Placemen of the term deposit		(38,841)	-
Receipt of the term deposit		29,011	-
Interest received		988	1,651
Investments in associates		(50)	-
Cash Receipt from Subsidiary Equity/Dividend		(815)	-
Net cash generated/(used) in investing activities		(3,993)	(3,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		203,191	156,412
Repayment of borrowings		(183,075)	(156,752)
Dividends paid to Owner of the Company		(25,076)	(9,555)
Net cash used in by financing activities		(4,960)	(9,895)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(36,436)	17,114
Effect of exchange rate changes on the balance of cash held in foreign currencies		3,073	649
CASH AND CASH EQUIVALENTS, at beginning of the period		35,386	17,623
CASH AND CASH EQUIVALENTS, at end of the period	16	**2,023**	**35,386**

On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

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ANAGI GROUP

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On behalf of the Management:

Irakli Gogolishvili
General Director

Tbilisi, Georgia
27 September 2021

Giorgi Chitashvili
Financial Director

Tbilisi, Georgia
27 September 2021

The notes on pages 9-37 form an integral part of these consolidated financial statements.

Figures in tables are given in thousands of Georgian Lari

1. GENERAL INFORMATION

Anagi LLC (the "Company") was incorporated on 13 November 1995 in Georgia. The principal activity of the Group is construction. The Company offers a full or partial package of project-construction works including:

- Construction of residential, hotel, public, manufacturing and civil buildings or set of buildings;
- Management of construction projects and project activities;
- Design, decoration, finishing and MEP works;
- Production of construction designs and products, including: manufacturing of monolithic concrete, metal, carpentry, metal-plastic, aluminium, partition and small wall blocks.

The Company is a parent of a group of companies incorporated in Georgia (together referred to as the "Group" or "Anagi Group"), whose primary business activities include concrete production, renting construction vehicles and equipment, and real estate development.

As of 31 December 2020 and 2019 the Group was ultimately controlled by Mr. Zaza Gogotishvili.

These consolidated financial statements include the following principal subsidiaries:

Subsidiary	**31 December 2020 Ownership/ voting %**	**31 December 2019 Ownership/ voting %**	**Industry**
LLC Lugo	65.0%	65.0%	Concrete production
LLC Anagi Mechanization	100.0%	60.0%	Renting construction equipment
LLC Anagi Batumi	100.0%	100.0%	Real estate development
LLC Anagi Education	100.0%	-	Construction of school
LLC Anagi Hotel Development	100.0%	100.0%	Real Estate Development

These consolidated financial statements include the following associate:

Associate	**31 December 2020 Ownership/ voting %**	**31 December 2019 Ownership/ voting %**	**Industry**
LLC Supsa Energy	50.0%	50.0%	Dormant

Non-controlling interests in Lugo LLC were owned by Mr Ibrahim Shalikadze, David Shalikadze and Jambul Shalikadze with 25%, 5% and 5% ownership, respectively as at 31 December 2019 and 2020.

Non-controlling interests in Anagi Mechanization were owned by Mr Ibrahim Shalikadze, David Shalikadze and Irakli Gogolishvili with 25%, 10% and 5% ownership, respectively as at 31 December 2019.

In 2020 Mr Ibrahim Shalikadze, David Shalikadze and Irakli Gogolishvili disposed their shares in Anagi Mechanization LLC and LLC Anagi became 100% owner of the company.

The Company is the Group's main operating unit and accounts for most of the Group's activities. The Company's principal and registered address is at #37-39 Kostava Avenue, Tbilisi, Georgia.

As at 31 December 2020 and 2019 the Group employed 1,926 and 2,011 employees respectively.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

COVID-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new *Framework*. Not all amendments, however, update those pronouncements with regard to references to and quotes from the *Framework* so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the *Framework* they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The Standard which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Amendments to IFRS 3 Definition of a business

The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Figures in tables are given in thousands of Georgian Lari

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 Definition of material

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

New and revised Standards in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture*

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation - These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The consolidated financial statements have been prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset and liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Functional and presentation currency - The national currency of Georgia is the Georgian Lari ("GEL"), which is the functional currency of the Company, its subsidiaries and associates and the currency in which the Group's consolidated financial statements are presented. All amounts presented in the consolidated financial statements have been rounded to the nearest thousand.

Basis of consolidation - The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries- Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations - Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Investments in associates - Associates are entities over which the Company has significant influence (directly or indirectly), but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated statement of profit or loss and other comprehensive income as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Figures in tables are given in thousands of Georgian Lari

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currencies - In preparing consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing by National Bank of Georgia at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing by National Bank of Georgia at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing by National Bank of Georgia at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2020	**31 December 2019**
GEL/1 US Dollar	3.2766	2.8677
GEL/1 Euro	4.0233	3.2095

Property, plant and equipment - Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. Costs of minor repairs and maintenance are expensed when incurred.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of profit or loss and other comprehensive income within other operating income and expenses.

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

Categories of property, plant and equipment	**Depreciation rates**
Machinery	20%
Vehicles	20%
Buildings	5%
Office equipment	20%

Construction in progress is not depreciated until it will be ready for use.

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

Investment property - Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation is calculated on a straight line basis over the useful life of the assets, which on buildings is 5%. Freehold land is not depreciated.

For impairment analysis and disclosure purposes Group determines market value of investment property internally. Group holds relevant professional qualification for investment property valuation.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets - The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired computer and accounting software licences which are stated at cost less accumulated amortisation. Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful live for computer software licenses are determined to be 5 years and accounting software for 10 years.

Impairment of tangible and intangible assets - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash- generating unit) in prior years.

A reversal of an impairment loss is recognized immediately in profit or loss.

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

Income taxes - Income taxes have been provided for in accordance with Georgian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. The Group´s liability for current tax is calculated as a sum of tax liability of each consolidated entity.

In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on 1 January 2017 for all entities apart from certain financial institutions. The changed model implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status.

The amendments to the Georgian tax law described above also provide for charging income tax on certain transactions that are considered as profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 Income Taxes and is accounted similar to taxes other than on income starting from 1 January 2017 in accordance with IAS 37 provisions when respective transactions occur; respective reimbursements if any are recognized as assets when the reimbursement is virtually certain.

The Group recognizes tax asset due from Revenue Service under Georgian tax law, when the Group makes withholding tax payments in relation to loans issued to non-residents, in such non-resident's country of incorporation.

Value added tax ('VAT') - Output VAT related to sales is payable to tax authorities upon delivery of the goods to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis per each Group entity and disclosed as either an asset or a liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories - Inventories are stated at the lower of cost and net realisable value. The cost of 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Repossessed assets - In certain circumstances, assets are repossessed following the foreclosure construction contracts that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Disclosures are made in these separate financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

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.

Classification of financial assets - Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The assessment of the Group's business model was made as of the date of initial application of IFRS 9, 1 January 2018. All financial instruments and operations performed by the Group are pointed to collect contractual cash flows. Historically, the Group has never sold it's financial instruments. Based on the past experience all financial assets are held in order to collect contractual cash flows and are classified into first business model – Held to collect (H2C).

The Group cash flows from construction contract assets and trade and other receivables pass the SPPI test, because there are not any interest rates for these financial instruments. Issued loans also meet the criterion of solely payments of principal and interests, since all interest rates on issued loans are fixed.

Construction contract assets, trade and other receivables, term deposit in banks and loans issued - Construction receivables, trade and other receivables, term deposit in banks and loans issued are carried at amortised cost using the effective interest method.

Cash and cash equivalents - Cash and cash equivalents comprise cash on hand and cash deposited in banks due on demand or with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments at amortised cost. 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). The Group provides 12-months ECLs for cash and bank balances.

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.

The management have concluded that it would require cost and effort to determine the credit risk of each loan on their respective dates of initial recognition. The Group defined full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3). Issued loans are allocated to stage 2. For approach of PD estimations the Group uses historical PDs produced by the rating agencies. The Group calculates ECL amount on other receivables using the loss rates determined by applying the expert judgment. Application of expert judgment was assumed as reasonable due to inexistence of historical information that would allow producing provision matrix. Impairment rates are multiplied on the respective receivables balance for the period that calculates the amount, which is considered to be non-recoverable.

In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 90 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.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Derecognition of financial assets - The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities and equity instruments

Classification as debt or equity - Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments - An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group entity are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Group’s own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Financial liabilities - The Group's financial liabilities include trade and other payables and borrowings.

Trade and other payables - Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Trade payables are stated inclusive of value added tax.

Borrowings - Borrowings are recognised initially at their fair values less transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument. Subsequent to initial recognition, borrowings are carried at amortised cost using the effective interest method, with any difference between the amount at initial recognition and redemption amount being recognised in profit or loss as an interest expense over the period of the borrowings.

Initial recognition of financial instruments - All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Charter capital - The amount of authorised charter capital is defined by the Group's charter. The changes in the Group's charter shall be made only based on the decision of the Group's owner. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owner to the Group.

Dividends - Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for liabilities and charges - Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue recognition - Group generates revenue from construction contracts, sale of goods, and operating rent income. The Group's policy for revenue recognition described below: Construction contracts, Sales of goods and Leasing.

Construction contracts - When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured as completion of physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as unbilled construction contract assets. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts construction contract liabilities. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under billed construction contract assets.

The performance obligations the Group has under its contracts with customers are satisfied and revenue is recognized over time. The Group transfers service over time and, therefore, satisfies a performance obligation and recognises revenue over time, based on the assumption that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Sale of goods - Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income - Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leases - Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance income and expenses - Finance income and expenses comprise interest expense on borrowings, interest income on loans issued and foreign exchange gains and losses that relate to borrowings and cash and cash equivalents.

Employee benefits - Wages, salaries, paid annual leave, sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments. Starting from 1 January, 2019 the Group will have legal obligation to make pension amounting to 2% of employees gross salaries and benefits.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Figures in tables are given in thousands of Georgian Lari

Completion stage. The Group recognizes construction revenue according to IFRS 15 Construction Contracts by determination of the completion of a physical proportion of the work for each construction contract. The management estimates the stage of completion of a contract by assessing actual number work units completed as at reporting date and total number of work units to be completed for the whole contract.

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

Tax legislation and accounting for provisions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the consolidated statement of financial position date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Actual charges could differ from these estimates.

Expected Credit Loss. The Group creates expected credit loss to account for estimated losses resulting from the inability of customers to make the required payments or suppliers to deliver agreed products or service. When evaluating the adequacy of an expected credit loss, management bases its estimate on current overall economic conditions, ageing of the receivables and prepayments balances, historical write-off experience, customer and supplier creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer and supplier conditions may require adjustments to the expected credit loss recorded in the separate financial statements.

Provision for obsolete inventory. Management is required to exercise judgement in estimating the provision for obsolete stock resulting from change in technology, regulatory requirements and stock nearing expiry dates.

5. REVENUE

During the years ended 31 December 2020 and 2019 revenue of the Group consisted of:

	2020	**2019**
Construction contract revenue	230,041	231,184
Revenue from the sale of produced goods	7,973	9,287
Other revenue	284	1,047
Total	**238,298**	**241,518**

Figures in tables are given in thousands of Georgian Lari

6. COST OF SALES

During the years ended 31 December 2020 and 2019 cost of sales of the Group consisted of:

	2020	2019
Construction contract cost of sales	190,278	188,368
Cost of materials sold	9,054	9,511
Total	**199,332**	**197,879**

Construction contract cost of sales consisted of:

	2020	2019
Cost of materials	75,057	70,980
Cost of service	56,955	57,532
Payroll and related charges	43,468	45,232
Depreciation expense	7,928	6,394
Rent expense	4,129	4,414
Cost of bank guarantee	1,108	1,137
Cost of utilities	771	544
Cost of possible defects	114	866
Cost of transportation	748	1,269
Total	**190,278**	**188,368**

7. GENERAL AND ADMINISTRATIVE EXPENSES

During the years ended 31 December 2020 and 2019 general and administrative expenses consisted of:

	2020	2019
Payroll and related charges	16,559	10,186
Depreciation and amortization expense	956	880
Professional services	589	468
Tax and duties	255	199
Communication	139	126
Bank charges	137	101
Insurance expenses	90	68
Rent expenses	75	84
Marketing expenses	12	64
Utilities	4	59
Service expenses	-	472
Transportation expense	-	240
Other	615	75
Total	**19,431**	**13,022**

Figures in tables are given in thousands of Georgian Lari

8. OTHER EXPENSES, NET

	2020	2019
Provision for impairment on loans issued, prepayments, cash and cash equivalents and trade receivables	13,023	448
Provision on construction receivable	2,345	1,163
Provision for inventory	528	349
Other expense	1,856	1,823
Gain from disposal of property, plant and equipment and investment property	(9,151)	(203)
Other income	(1,931)	(1,307)
Total	**6,670**	**2,273**

9. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment for the years ended 31 December 2020 and 2019 was as follows:

	Land	Buildings	Construction in progress	Vehicles	Machinery	Office equipment	Total
Cost at 1 January 2019	**2,354**	**8,357**	**4**	**7,817**	**25,870**	**1,738**	**46,140**
Additions	95	161	-	831	8,136	503	9,726
Disposals	(991)	(202)	-	(86)	(44)	(49)	(1,372)
Write offs	-	-	-	-	(1,699)	(32)	(1,731)
Cost at 31 December 2019	**1,458**	**8,316**	**4**	**8,562**	**32,263**	**2,160**	**52,763**
Additions	-	519	1	1,249	4,028	237	6,034
Disposals	-	(25)	-	(425)	(62)	(102)	(614)
Cost at 31 December 2020	**1,458**	**8,810**	**5**	**9,386**	**36,229**	**2,295**	**58,183**
Accumulated depreciation at 1 January 2019	**-**	**459**	**-**	**3,315**	**11,905**	**1,080**	**16,759**
Charge for the year	-	367	-	900	5,547	319	7,133
Eliminated on disposal	-	-	-	(10)	(38)	(46)	(94)
Eliminated on write offs	-	-	-	-	(866)	(10)	(876)
Accumulated depreciation at 31 December 2019	**-**	**826**	**-**	**4,205 -**	**16,548**	**1,343**	**22,922**
Charge for the year	-	181	-	998	7,150	381	8,710
Eliminated on disposal	-	(23)	-	(220)	(55)	(40)	(338)
Accumulated depreciation at 31 December 2020	**-**	**984**	**-**	**4,983**	**23,643**	**1,684**	**31,294**
As at 31 December 2019	**1,458**	**7,490**	**4**	**4,357**	**15,715**	**817**	**29,841**
As at 31 December 2020	**1,458**	**7,826**	**5**	**4,443**	**12,586**	**611**	**26,889**

As at 31 December 2020 and 2019, cost of fully depreciated assets included in property, plant and equipment was GEL 7,236 thousand, GEL 5,927 thousand respectively.

Figures in tables are given in thousands of Georgian Lari

As at 31 December 2020 and 2019, property, plant and equipment with the carrying value of GEL 9,032 thousand and GEL 5,941 thousand respectively, were pledged as collateral against bank guarantee.

10. INVESTMENT PROPERTY

Movement of investment property for the years ended 31 December 2020 and 2019 was as follows:

	Land	Buildings	Total
Cost at 1 January 2019	**8,514**	**9,456**	**17,970**
Transfer from repossessed assets	-	-	-
Additions	2,211	-	2,211
Disposals	(3,715)	(280)	(3,995)
Cost at 31 December 2019	**7,010**	**9,176**	**16,186**
Additions	-	-	-
Disposals	(5,896)	(6,605)	(12,500)
Cost at 31 December 2020	**1,114**	**2,571**	**3,686**
Accumulated depreciation at 1 January 2019	**-**	**1,436**	**1,436**
Charge for the year	-	228	228
Eliminated on disposals	-	(112)	(112)
Accumulated depreciation at 31 December 2019	**-**	**1,552**	**1,552**
Charge for the year	-	155	155
Eliminated on disposals	-	(1,225)	(1,225)
Accumulated depreciation at 31 December 2020	**-**	**482**	**482**
As at 31 December 2019	**7,010**	**7,624**	**14,634**
As at 31 December 2020	**1,114**	**2,089**	**3,203**

The land plots classified as investment property are located in Tbilisi, Batumi and Chaqvi resort.

As at 31 December 2020 and 31 December 2019, investment property with a carrying value of GEL 16 thousand and GEL 6,663 thousand were pledged as collateral for bank guarantee.

The fair value of the Group's investment property at 31 December 2020 and 31 December 2019 has been arrived at on the basis of a valuation carried out on the respective date by the Group's internal valuators. They have appropriate experience in the valuation of properties in the relevant locations.

The fair value of the investment property was determined in USD based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of the investment property as at 31 December 2020 and 2019 was GEL 6,118 thousand and 29,232 thousand respectively.

Figures in tables are given in thousands of Georgian Lari

11. CONSTRUCTION CONTRACT ASSETS

	31 December 2020	31 December 2019
Billed amount due from costumers under construction contracts	122,402	96,087
Unbilled amount due from costumers under construction contracts	10,845	6,782
	133,247	**102,869**
Less: allowance for irrecoverable amounts	(10,737)	(8,392)
Total	**122,510**	**94,477**
Current term portion	**118,943**	**85,953**
Non-current portion	**3,567**	**8,524**
	122,510	**94,477**

As at 31 December 2020 and 2019, construction retentions in construction receivables were GEL 3,567 thousand and GEL 8,524 thousand respectively.

In determining the recoverability of a construction assets, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Company does not hold any collateral over these balances.

Movement in the allowance for irrecoverable amounts:

31 December 2020	**Not past due**	**- less than 30 days overdue**	**- 30 to 60 days overdue**	**- 61 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	119,969	2,004	2,287	2,422	6,565	**133,247**
Lifetime ECL	(2,308)	(200)	(457)	(1,207)	(6,565)	**(10,737)**

31 December 2019	**Not past due**	**- less than 30 days overdue**	**- 30 to 60 days overdue**	**- 61 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	95,551	654	191	260	6,213	**102,869**
Lifetime ECL	(1,946)	(65)	(38)	(130)	(6,213)	**(8,392)**

Figures in tables are given in thousands of Georgian Lari

The table below provides a credit risk rating grade disclosures:

	31 December 2019		
	Lifetime ECL - not credit- impaired	**Lifetime ECL – credit-impaired**	**Total**
Non-overdue	(2,308)	-	**(2,308)**
0-30 past due	(200)	-	**(200)**
30-60 past due	(457)	-	**(457)**
60-90 past due	(1,207)	-	**(1,207)**
90> past due	-	(6,565)	**(6,565)**
Total	**(4,172)**	**(6,565)**	**(10,737)**

	31 Deember 2019		
	Lifetime ECL - not credit- impaired	**Lifetime ECL – credit-impaired**	**Total**
Non-overdue	(1,946)	-	**(1,946)**
0-30 past due	(65)	-	**(65)**
30-60 past due	(38)	-	**(38)**
60-90 past due	(130)	-	**(130)**
90> past due	-	(6,213)	**(6,213)**
Total	**(2,179)**	**(6,213)**	**(8,392)**

	2020	**2019**
Balance as at the beginning of the year	**8,392**	**7,229**
Additional provisions recognized	4,884	4,984
Recovery of provisions	(2,539)	(3,821)
Balance as at the end of the period	**10,737**	**8,392**

12. LOANS ISSUED TO RELATED PARTIES

	Interest rate	**CCY**	**Maturity**	**31 December 2020**	**31 December 2019**
LLC Lugo Trade	8%	USD	2021	4,116	2,849
LLC Sakhli Bulvarshi	8%	USD	2021	744	943
LLC H1	7%	USD	2029	655	-
LLC Sheni Batumi	14%	GEL	2021	605	860
LLC Beta Company	8%	USD	2021	578	506
LLC Anagi Consulting	11%	USD	2021	44	-
LLC H1	-	-	-	-	590
LLC Anagi Development	12%	GEL	2021	-	1,305
Other	10-12%	GEL/USD	2021-2025	1,180	559
Gross loans issued				**7,922**	**7,612**
Less - allowance for impairment				(685)	(537)
Loans issued, net				**7,237**	**7,075**
Non-current portion of loans issued				1,114	1,949
Current portion of loans issued				6,123	5,126
Total				**7,237**	**7,075**

Accrued interest as at 31 December 2020 and 2019 were GEL 876 thousand and GEL 568 thousand, respectively.

Figures in tables are given in thousands of Georgian Lari

	2020	2019
Balance as at the beginning of the year	**537**	**682**
Additional provisions recognized	148	-
Recovery of provisions	-	(145)
Balance as at the end of the period	**685**	**537**

13. INVENTORIES

	31 December 2020	31 December 2019
Raw materials	22,287	23,017
Spare parts and consumables	2,204	1,923
Other	107	72
Total gross inventory	**24,598**	**25,012**
Less: provision for inventory losses	(1,453)	(925)
Inventory, net	**23,145**	**24,087**

	2020	2019
Balance as at the beginning of the year	**925**	**575**
Additional provisions recognized	528	350
Recovery of provisions	-	-
Balance as at the end of the period	**1,453**	**925**

14. TRADE AND OTHER RECEIVABLES

	31 December 2020	31 December 2019
Trade receivable	15,076	7,890
Less: allowance for irrecoverable amounts	(1,983)	(2,078)
Trade receivables, net	**13,093**	**5,812**
Receivables from sale of ownership interest in subsidiaries	575	3,036
Due from employees	24	64
Prepaid taxes other than income tax	-	-
Other receivables	**599**	**3,100**
Non-current portion of trade and other receivables	2,713	-
Current portion of trade and other receivables	10,979	8,912
Total	**13,692**	**8,912**

Provision and write off amount of GEL 12,640 thousand relates to the receivable as a result of sale of investment properties during the 2020 year.

The Group has made provision for all trade receivables aged more than 90 days because historical experience is such that receivables that are past due beyond 90 days are generally not recoverable.

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Figures in tables are given in thousands of Georgian Lari

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Company does not hold any collateral over these balances.

31 December 2020	**Not past due**	**- less than 30 days overdue**	**- 30 to 60 days overdue**	**- 61 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	13,661	253	34	95	1,632	**15,675**
Lifetime ECL	(271)	(25)	(7)	(48)	(1,632)	**(1,983)**

31 December 2019	**Not past due**	**- less than 30 days overdue**	**- 30 to 60 days overdue**	**- 61 to 90 days overdue**	**- over 90 days overdue**	**Total**
Estimated total gross carrying amount at default	8,688	-	-	592	1,710	**10,990**
Lifetime ECL	(154)	-	-	(214)	(1,710)	**(2,078)**

The table below provides a credit risk rating grade disclosures:

	31 December 2020		
(GEL'000)	**Stage 2 Lifetime ECL - not credit- impaired**	**Stage 3 Lifetime ECL – credit-impaired**	**Total**
Non-overdue	(271)	-	**(271)**
0-30 past due	(25)	-	**(25)**
30-60 past due	(7)	-	**(7)**
60-90 past due	(48)	-	**(48)**
90> past due	-	(1,632)	**(1,632)**
Total	**(351)**	**(1,632)**	**(1,983)**

	1 January 2020		
(GEL'000)	**Stage 2 Lifetime ECL - not credit- impaired**	**Stage 3 Lifetime ECL – credit-impaired**	**Total**
Non-overdue	(154)	-	**(154)**
0-30 past due	-	-	**-**
30-60 past due	-	-	**-**
60-90 past due	(214)	-	**(214)**
90> past due	-	(1,710)	**(1,710)**
Total	**(368)**	**(1,710)**	**(2,078)**

	2020	**2019**
Balance as at the beginning of the year	**2,078**	**1,714**
Additional provisions recognized	13,731	1,672
Recovery of provisions	(1,186)	(1,308)
Write off	(12,640)	-
Balance as at the end of the period	**1,983**	**2,078**

Figures in tables are given in thousands of Georgian Lari

15. PREPAYMENTS TO SUPPLIERS

	31 December 2020	31 December 2019
Prepayments for inventory	18,801	8,686
Prepayments for service	7,186	11,326
Prepayments for property, plant and equipment	3,187	2
Other prepayments	263	428
	29,437	**20,442**
Less: allowance for irrecoverable amounts	(571)	(243)
Total	**28,866**	**20,199**

	2020	2019
Balance as at the beginning of the year	**243**	**215**
Additional provisions recognized	387	123
Recovery of provisions	(59)	(95)
Balance as at the end of the period	**571**	**243**

16. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash on hand	1	2
Cash in bank	2,024	35,384
Expected Credit Loss	(2)	-
Total	**2,023**	**35,386**

17. DEPOSIT IN BANKS

As at 31 December 2020 deposit in bank represents two term deposits placed at commercial bank in Georgia with a maturity date on 18 January 2021 and 15 January 2021 and with interest rate of 2.5%

18. ADVANCES RECEIVED

Advances received represents advances received for the construction contracts. The Company does not offset advances received against construction receivables due the fact that advances are received for specific sub-works of the construction contracts and agreed term of advances amortization exists.

Figures in tables are given in thousands of Georgian Lari

19. TRADE AND OTHER PAYABLE

	31 December 2020	31 December 2019
Trade payables for service to sub-contractors	12,146	13,985
Trade payables for inventory	8,518	11,490
Salaries payable	6,801	7,416
Payables for non-current assets	2,361	3,325
Other payables	2,899	2,481
Total	**32,725**	**38,697**

20. BORROWINGS

	Interest rate	Maturity	CCY	31 December 2020	31 December 2019
JSC TBC Bank Loan 3	10.75%	2021	GEL	5,000	-
JSC TBC Bank Loan 2	11.50%	2021	GEL	3,605	-
JSC TBC Banl Loan 1	10.50%	2021	GEL	3,000	-
JSC Bank of Georgia Loan 4	11.90%	2021	GEL	2,290	-
JSC Bank of Georgia Loan 1	11.90%	2021	GEL	2,169	-
JSC Bank of Georgia Loan 2	11.90%	2021	GEL	2,000	-
JSC Bank of Georgia Loan 3	11.90%	2021	GEL	2,000	-
JSC TBC Bank Loan 4	12.00%	2021	GEL	100	-
LLC Anagi Tbilisi Loan	10.00%	2019	USD	-	142
LLC Lugo Loan	5.00%	2019	USD	-	205
LLC Lugo Trade Loan	13.00%	2019	USD	-	212
Total				**20,164**	**559**
Long-term portion				-	-
Short-term portion				20,164	559
Total				**20,164**	**559**

	31 January 2019	Financing cash flows (i)	Interest changes (ii)	Foreign exchange gain	31 December 2020
Borrowings	559	20,164	(559)	-	20,164

	1 January 2019	Financing cash flows (i)	Interest changes (ii)	Foreign exchange gain	31 December 2019
Borrowings	464	(120)	-	215	559

i) The financing cash flows represents the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.
ii) Interest changes include interest accruals and payments.

21. FINANCIAL INSTRUMENTS

Fair value measurements- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Figures in tables are given in thousands of Georgian Lari

The fair values of the financial assets and liabilities are included in Level 3 category and have been determined in accordance with below described methodology.

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

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

Capital risk management – The Group manages its capital to ensure that entity will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance. Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, as well as taking of new borrowings or redemption of existing ones.

The gearing ratio at end of the reporting period was as follows:

	31 December 2020	**31 December 2019**
Borrowings	20,164	559
Deposits in bank	(9,830)	-
Cash and cash equivalents	(2,023)	(35,386)
Net borrowings	8,311	-
Equity	133,032	134,187
Net debt to equity ratio	6.2%	-

Major categories of financial instruments – The Group's principal financial liabilities comprise borrowings, and trade and other accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has following financial assets: Cash and cash equivalents, construction receivable, loans issued, trade and other accounts receivable and amounts due from customers under construction contracts.

	31 December 2020	**31 December 2019**
Financial assets		
Cash and cash equivalents	2,023	35,386
Deposit in Bank	9,830	-
Construction receivables	111,665	87,695
Trade and other receivables	13,692	8,912
Loans issued	7,237	7,075
Bond	655	574
Total financial assets	**145,102**	**139,642**

Figures in tables are given in thousands of Georgian Lari

	31 December 2020	31 December 2019
Financial liabilities		
Trade and other payables	32,725	38,697
Borrowings	20,164	599
Total financial liabilities	**52,889**	**39,296**

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk – Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020		31 December 2019	
	USD USD 1 = 3.2766 GEL	**EUR** EUR 1 = 4.0233 GEL	**USD** USD 1 = 2.8677 GEL	**EUR** EUR 1 = 3.2095 GEL
Financial assets				
Cash and cash equivalents	1,232	35	10,952	748
Deposit in Bank	9,830		-	-
Construction receivables	96,039	-	80,304	287
Trade and other accounts receivables	8,910	-	1,237	-
Loans issued	6,632	-	6,088	-
Total financial assets	**122,643**	**35**	**98,851**	**1,035**
Financial liabilities				
Trade and other payables	7,916	1,704	11,061	5,125
Borrowings	-	-	559	-
Total financial liabilities	**7,916**	**1,704**	**11,620**	**5,125**
Total net position	**114,727**	**(1,669)**	**87,231**	**(4,090)**

The table below details the Group's sensitivity to strengthening/weakening of functional currency against foreign currencies by 20% as at 31 December 2020 and 31 December 2019. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

As at 31 December 2020:

	USD impact		**EUR impact**	
	USD/GEL + 20%	**USD/GEL – 20%**	**EUR/GEL + 20%**	**EUR/GEL – 20%**
Profit/(loss) before tax	22,945	(22,945)	(334)	334

As at 31 December 2019:

	USD impact		**EUR impact**	
	USD/GEL + 20%	**USD/GEL – 20%**	**EUR/GEL + 20%**	**EUR/GEL – 20%**
Profit/(loss) before tax	17,392	(17,392)	(818)	818

Interest rate risk – Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group has limited exposure to the interest rate risk as it borrows funds only at fixed interest rates.

Figures in tables are given in thousands of Georgian Lari

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Group 's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk – Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. All clients go through client acceptance procedures before forming an agreement with the Group and, as a result, only creditworthy clients are selected. The Group also establishes credit limits to its customers.

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as at 31 December 2020 and 31 December 2019. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because this amount is based on discounted cash flows. The tables include both interest and principal cash flows.

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
31 December 2020						
Borrowings	201	450	20,183	-	-	**20,834**
Trade and other payables	30,702	-	2,023	-	-	**32,725**
	30,903	**450**	**22,206**	**-**	**-**	**53,559**

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
31 December 2019						
Borrowings	599	-	-	-	-	599
Trade and other payables	20,430	6,233	12,034	-	-	38,697
	21,029	**6,233**	**12,034**	**-**	**-**	**39,296**

Figures in tables are given in thousands of Georgian Lari

22. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include owners, entities under common ownership and control with the Group and members of key management personnel.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and conditions as transactions between unrelated parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following balances and transactions with related parties:

	31 December 2020			
	Owners	**Entities under common control with the Group**	**Other**	**Total**
Trade and other receivables	-	750	7,385	8,135
Construction receivables	2,707	-	29,284	31,991
Loans issued	-	3,255	2,077	5,331
Trade and other payables	-	2,369	1,358	3,727
Construction revenue	420	68	17,753	18,241
Other revenue	10	54	5	69
Other expenses, net	-	-	3,489	3,489

	31 December 2019			
	Owners	**Entities under common control with the Group**	**Other**	**Total**
Trade and other receivables	-	781	3,098	3,879
Construction receivables	-	-	5,864	5,864
Loans issued	-	3,344	3,038	6,382
Trade and other payables	-	2,370	1,642	4,012
Construction revenue	5,453	3,824	-	9,277
Other revenue	3,750	-	-	3,750

The compensation of the key management personnel, represented with short-term employee benefits, for the year ended 31 December 2020 and 2019 was GEL 12,634 thousand and GEL 6,652 thousand.

23. COMMITMENTS AND CONTINGENCIES

Commitments – The Group as at 31 December 2020 and 31 December 2019 had contractual construction commitments towards customers as follows:

	31 December 2020		
	USD	**GEL**	**EUR**
Construction commitments	11,827	46,304	-

	31 December 2019		
	USD	**GEL**	**EUR**
Construction commitments	16,850	31,831	-

Legal proceedings - As at 31 December 2019 and 31 December 2018 the Group was not engaged in any significant litigation proceedings. Management is of the opinion that no material un-accrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxes – Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.
Additionally, the construction sector in Georgia is impacted by legislative in Georgia.

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

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Croups's business largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

Pandemic is at the phase of vaccination all over the world including Georgia that will have a positive effect on economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies.

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

24. EVENTS AFTER THE REPORTING PERIOD

No subsequent event have occurred that would require recognition or disclosure in the consolidated financial statements.

Figures in tables are given in thousands of Georgian Lari

1. COMPANY AND ITS ACTIVITIES

The Anagi Group is the largest construction Group in Georgia. Parent Company LLC Anagi was founded in 1989 and shortly afterward took up the leading position in the construction sector of the country, currently maintaining this position with dignity.

100% of LLC Anagi shares are effectively owned by its ultimate beneficiary Mr Zaza Gogotishvili. The main activity of Anagi is civil and industrial construction; the scope of its activities includes the full spectrum of the construction field. The company is ready to offer a full-service package to a customer – starting from design works and completing with the commissioning of the site.

Anagi offers a full package of design and construction services or any part, thereof, to interested natural and legal persons, including:

- Construction of hotels, residential, public, industrial buildings, and single-family homes
- Interior design and indoor works
- Exterior finishing works
- Management of design and construction activities
- Provision of motor vehicles and construction machinery services
- Laboratory services to determine the quality of building materials and products, and the compliance with Standards
- Advisory services regarding the organization, technology, legal procedures, and other directions of the field.

Since 2011 Quality Management System – ISO 9001 has been introduced in the company, which continues to function efficiently. In 2017, Anagi successfully completed recertification in accordance with the rules established by the International Organization for Standardization and obtained ISO 9001:2015 certificate. Implementation of modern technologies and systems in management, and in the first place in construction, is the main priority of Anagi.

The company employs highly qualified engineering personnel, most of them having over 10 years of work experience. Currently, the company employs almost 3 000 people.

The Company has three active Subsidiary companies, share-holding as at 31 December 2020.

	Ownership%	Industry
Lugo LLC	65%	Production of concrete
Anagi Mechanization LLC	100%	Rental of construction machinery
Anagi Batumi LLC	100%	Real estate development
Anagi Hotel Development	100%	Real estate development
Anagi Education	100%	School Construction

The Company and its subsidiary companies will hereinafter be referred to as the Group.

Lugo LLC operates a cutting-edge concrete production facility, which manufactures modern construction materials from all classes of concrete. The Company owns an internationally certified laboratory equipped with all the necessary testing devices and equipment manufactured in Italy.

Main activities of **Anagi Mechanization LLC** consist in renting the company-owned construction machinery. Its main customer is the mother company, Anagi LLC. Another activity Anagi Mechanization is involved in is servicing company customers with various construction equipment and systems, such as scaffolding and uprights. The Company provides construction machinery and equipment rentals to any individual or corporate entity. It owns over 125 units of multifunctional machinery serviced by highly qualified and technicians.

Anagi Batumi LLC is mainly involved in development and sale of real estate. Currently, the company is inactive, but owns property in a development project.

Anagi Hotel Development LLC is mainly involved in development and sale of real estate. Currently, the company is inactive, but owns property in a development project.

Anagi Education constructs private school intended for long term operating investment.

2. DEVELOPMENT PLANS OF THE COMPANY

Many years of successful activity and experience of Anagi in the construction field allowed the Group to obtain high qualifications in the field of construction production and enabled it to develop a flexible and comfortable environment for relations with customers.

Rapidly developing technologies and highly competitive environment creates additional motivation for the Group to utilize new, innovative approaches in the construction, as well as in the management. The engineering team, procurement, and technology departments constantly search for, test and implement the innovations offered in the construction sector.

1) <u>Quality Control</u>

I - development of an efficient cooperation mechanism with the production department to serve both the executive and the quality team.

II - Assessment of efficiency and scope of growth. By holding SWOT analysis strengths, weaknesses, opportunities and treats are identified by internal audit. Internal audit is specific to the Group in this case, it consists of specialists from different departments which cooperate in this process to include all factors together which is than documented and introduced to responsible parties. According to identified factors KPIs are given to
Management which include lots of qualitative characteristics to improve. The Group is in constant ongoing process of development as required by industry specification.

III - Formation of a team of quality engineers and their assistance and provision of appropriate training. Team of internal quality engineers assesses work performed on sites and assists remediation of deficiencies if any. Team is expanding yearly and currently quality control department consists of 37 engineers. In order to provide for efficient experience sharing, raising motivation and refining structure management, the division has established a ranking system, by introducing 5 ranks: senior quality engineer, quality engineer, quality specialist, assistant, and trainee with a trial period, and defined the scope of financial reimbursement.

IV - beginning of on-site work, refinement of record-taking and progress control mechanisms, which gives the Group management opportunity to directly observe process and eradicate any deficiency in a quick and effective manner.

V - Refining normative requirements based on the available experience and information
Synchronisation of normative documents - it has been decided to synchronise the normative base developed in the division with the documents currently effective in the country to simplify communication with customers and their supervisors. About 10 such documents have already been drafted.

2) <u>Construction Technologies</u>

I - employment of engineering staff using the rotation principle in order to maximise the use of leading engineers and experience in the Group.

In order to raise awareness of the issues dealt with by conditional opponents of quality engineers, aka administrators, the Group introduced a medium-term production on-site training for quality engineers, which will improve their knowledge in construction planning, workforce management and existing processes.

II - determining and archiving of the problems found at construction sites;

*I*n order to improve the quality of archiving for the administrative documents managed in the division, the Viber platform was replaced with Workplace, which will maintain continuity and availability of the production documents collected in the past periods;

III - organization of trainings, with priority given to trainings and seminars organised by the world’s leading manufacturers;

IV - organisation of thematic search and development of alternative methodology in order to ensure fundamental resolution of pending technical problems;

*I*n order to improve the existing technology and ensure a higher quality in recommendations made based on the historical information, the division has created industry-specific teams, which, apart from standard works, also specialise in monitoring specific technologies, such as hydro-isolation, automated plastering, wet facade technology, etc, to strengthen the quality teams working at the sites with personnel experienced in the kind of work in progress and shorten the time required for sharing the experience.

✓ 3) Workplace hygiene and labor protection is a part of Anagi LLC’s Health and Safety Policy.

The key objective of the Workplace Safety Policy is to ensure all employees with such a work environment where they will enjoy a high level of adherence to the principles of equality, collegiality and mutual respect and will have all the tools and aids necessary to carry out their duties effectively.

This commitment is supported by the Group’s Policies through its Health, Safety, and Environmental Management System.

The tasks of workplace hygiene, safety, and environmental protection are the main motive force for the Labor Protection and Safety Policy Department of Anagi LLC. This Department was created for effective, everyday control of operational and strategic issues.

Labor Health and Safety Engineering Department of Anagi LLC is committed to the following ideas:

- Ensure systematic improvement of working conditions
- Protect employees' labor rights
- Improve working conditions
- Improve hygiene and sanitary conditions
- Provide necessary training and instruction for the employees

Figures in tables are given in thousands of Georgian Lari

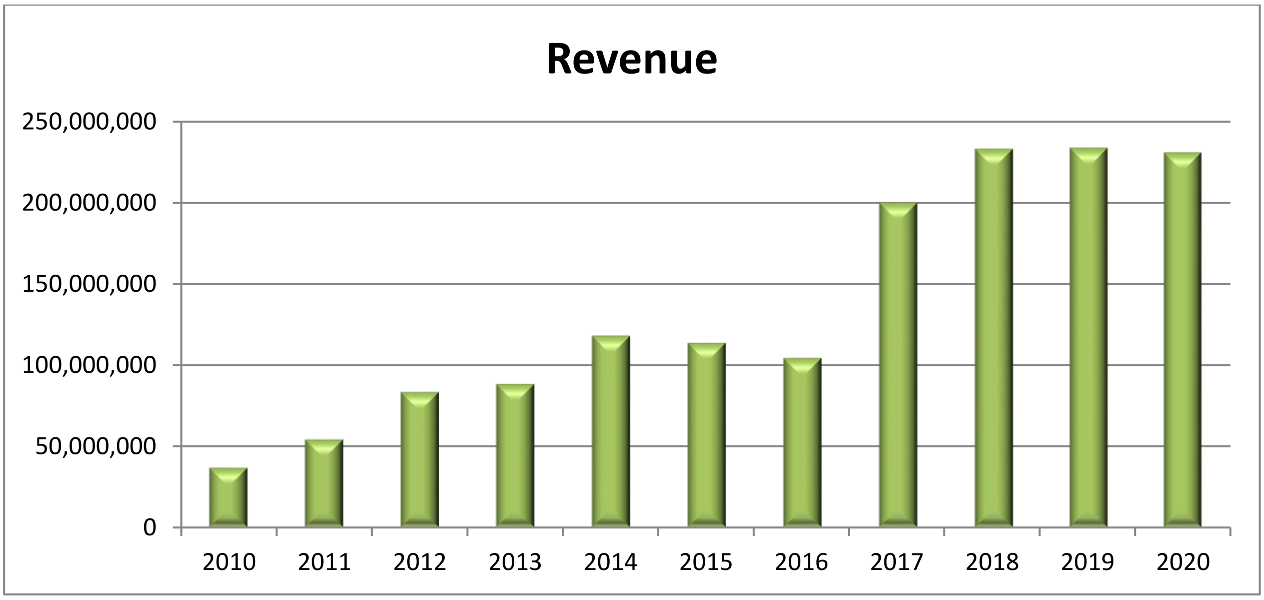
3. MAIN FINANCIAL AND NON-FINANCIAL INDICATORS, AND ADDITIONAL DISCLOSURES REGARDING THE AMOUNTS RECORDED IN THE FINANCIAL STATEMENTS

According to the Group financial statements, the revenue for the year 2020 was 238,298 thousand (2019 -241,518 thousand, 0.1 decrease to compare 2020 to 2019), 97% of which is revenue from construction activities amounted - 230,461 thousand. The revenue from construction activities for the year has shown a slight decrease if compared to 2019 (231,185 thousand) amounted 0.3% which is mainly caused by Covid 19 pandemic, which in the mid of the year caused partial termination of the works for about 1 month. To go in more details construction revenue in April 2019 amounted 14,685 thousand, while same figure for 2020 amounted 5,729 thousand because of the strong restrictions active in the entire country established by the government to defend against spread of pandemic.

There should be mentioned that the Group successfully and effectively managed to recovery from pandemic results and reached almost the same results as in pre pandemic period.

The Group expects that its activities will remain stable in 2021-22.

The chart below shows the trend in the revenue of parent company Anagi LLC from 2010 to 2020 which represents 97% of group revenue:



Financial indicators for the Group:
Liquidity Ratio

	31 December 2020	**31 December 2019**
Quick liquidity ratio	193%	173%
Current liquidity ratio	218%	198%

Quick liquidity ratio is calculated by dividing the sum of current deposits, cash and cash equivalents, trade and other receivables and other current assets by the current liabilities including taxes payable, current borrowings, trade and other payables and current part of advances received.

Figures in tables are given in thousands of Georgian Lari

The Group does not experience any problem with liquidity. The management believes that it will be able to settle all the current liabilities without having to attract additional funds.

Profitability ratios

	2020	2018
Net profit margin	11%	13%
Gross profit margin	17%	16%
Rate of return on equity	20%	25%

The existing trend in the rate of return demonstrates that the Management is effective in managing the Group assets to generate profit, while profitability of sales is indicative that the Group is able to generate profit from its revenues.

The Group has been active on the Georgian market for years and regards 3 companies as its rivals. However, unlike its rivals, which operate in certain construction industries, the Group is active in all the industries of its competitors, which contributes to its strength on the market. The Group cooperates with largest commissioners in Georgia through to its brand and image of a stable and trustworthy Group, including its 32-year long experience, customer-oriented approach, financial solidity and sustainable settlement of its liabilities.

The management believes that the success enjoyed by the Group is largely due to the high professionalism of its team. Majority of the engineering and technical staff involved in the construction processes have the experience of over 10 years, and in some cases, over 20 years as well.

4. MAIN RISKS AND UNCERTAINTIES

4.1 Market Risks and Their Management

Currently, the main uncertainty faced by the Group is the market demand for large-scale projects. However, the Group does not expect risks to be exaggerated in this regard.

The Group is exposed to market risks, which include fluctuation of the fair value of cash flows from financial instruments due to variability of market prices. This might be mainly caused by currency and interest risks.

Uncertainties also include the potential future strengthening of financial and other regulations, which will directly or indirectly cause stagnation or reduction of the real estate market. On the other hand, historical evidence shows that such regulations, when they brought about adverse effects after initiation or implementation, may be reviewed or even softened.

4.1.1 Currency risk

The Group is exposed to the currency devaluation risk, as the primary economic currency of the Group (Georgian Lari) has shown strong fluctuation tendencies. In the recent years, devaluation of Georgian Lari has significantly affected the Group’s financial indicators and profitability ratios. The Group has several contracts denominated in US Dollar and its expenses are mainly paid in USD. However, there are contracts (several current agreements) denominated in Georgian Lari. In order to mitigate the risk, the Group maintains its USD-denominated cash in in a bank account and attracts the working funds in GEL.

4.1.2 Interest risk

In order to mitigate its interest risk, the Group borrows and lends money using fixed interest rates or LIBOR, which is a sign of stability. The Group does not expect any significant change in fixed interest rates, including in the national currency. Therefore, the fair value of the Group’s cash flows is not expected to change due to fluctuations in interest rates.

4.2 Credit risk and its management

The Group is exposed to a certain amount of credit risk, which consists in the possibility that its counter-agents will fail to perform on the liabilities to the Group. The credit risk is mainly caused by trade receivables and loans issued.

Procedures are in place to mitigate the credit risk, which are used by the Group to assess solvency of a counter-agent based on historical data. There is also a maximum credit limit set for counter-agents and an individual approach with large trade debtors.

4.3 Regulation risk and its management

The Group also faces regulation risk, which consists in the possible imposition of restrictions on mortgage loans for bank, which would significantly reduce issuance of such loans and, consequently, the demand for residential estate. This would, in turn, affect the turnover of development companies and bring about a reduction in future construction projects, including commissions to the Group. However, such revenue makes up but a small part of the Group and does not endanger continuity of the Group's business. A lesser risk is the risk of strengthening regulations in general, in all areas, which generally slows down economic growth and may indirectly affect construction industry as well.

4.4 Operation risks and their management

The Group's main operational risks are the risk of fulfilling market demands under the quality promised to the customers of the Group, in order to avoid reputational problems and further operation. To manage the risk the Group has created a quality control system, which ensures

monitoring of all processes in the Group, and elimination and reduction of deficiencies. To this end, the Group also employs highly professional and experienced personnel.

4.5 Liquidity risk and its management

The section on financial indicators above shows why the Group does not face a problem with liquidity, which means that the Group's current assets exceed its current liabilities. In order to prevent a problem with liquidity and be able to cover all the liabilities when they fall due, the Group also uses a bank credit line. In order to mitigate liquidity risk, the Group uses diversified financial assets, such as bank deposits, loans issued and trade receivables.

The Group reviews its financial position including its liquidity risk on a regular basis, at least once in a month assessing cash inflow against outflow and identifying remedies where necessary.