Tegeta Motors Group

Consolidated Financial Statements
For the year ended 31 December 2022 together with Independent Auditor's report.

TEGETA MOTORS GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Tegeta Motors LLC and its subsidiaries (the "Group") as of 31 December 2022 and the results of its operations, changes in equity and cash flows for the year ended 31 December 2022, in compliance with International Financial Reporting Standards ("IFRS").

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

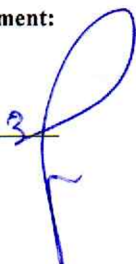
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient 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.
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report consistent with the consolidated financial statements.

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 Georgian legislation and 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.

The consolidated financial statements and of the Group for the year ended 31 December 2022 were approved by management on 28 September 2023.

On behalf of Management:



Vakhtang Kacharava
Executive Director

Maka Guruli
Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Tegeta Motors LLC

Opinion

We have audited the consolidated financial statements of Tegeta Motors LLC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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

Key Audit Matters

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

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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue recognition As disclosed in Note 18 to the consolidated financial statements, the revenue from contract with customers amounted to GEL 950,221 thousand including GEL 904,169 thousand of revenue from goods sold and GEL 46,052 thousand of revenue from rendered services. We identified revenue recognition as a key audit matter due to high volume of low value transactions, involving sales to more than 430,000 customers, as well as judgmental nature of estimation process when calculating the provision for returns. Moreover, revenue is one of the key indications based on which management performance is assessed. This could lead to an increased audit risk relating to sales cut-off and revenues not being recorded in the proper accounting period. The disclosures related to the recognition of revenue are presented in Notes 2 and 18 to the consolidated financial statements respectively.	We obtained an understanding of the revenue recognition process for significant revenue streams, including the evaluating the design and implementation of controls over revenue recognition. We inspected, on a sample basis, sales agreements, invoices and other supporting documents and compared to the amounts recognized in accounting systems. On a sample bases, we analysed contract terms against revenue recognition requirements set out in IFRS 15. We have considered the methodology applied in calculating the returns provision, and compared the calculated provision to the actual level of returns recorded subsequent to the period end. Using data extracted from the accounting system, we analyzed unusual journal entries such as those posted outside of expected hours or by unexpected individuals, and for large or unusual amounts impacting revenue, as well as other adjustments made in the preparation of the consolidated financial statements. We have examined that revenue transactions at the end of the financial year and at the beginning of the new financial year have been recognized in the proper accounting period. We compared the date of transfer of control in supporting documents to the date of revenue recognition in the accounting records for selected transactions. We analysed the disclosures in the consolidated financial statements related to revenue recognition.
Business combinations As disclosed in Note 6 during 2022 the Group acquired four subsidiaries resulting in recognition of Goodwill in the amount of GEL 82,593 thousand. The assets and liabilities acquired were stated at their fair values which were determined in the course of the purchase price allocation and fair value determination Business combination is a key audit matter in the audit due to the substantial effect on total assets and equity and due to judgements, estimates and assumptions in determining fair value and allocating the purchase price. Refer to Note 6 for further disclosures.	We have gained understanding of the management process related to acquisition accounting. We reviewed the underlying documentation, terms and conditions of the transaction, and assessed the accounting treatment of the consideration transferred and the assets and liabilities acquired in accordance with IFRS 3 'Business Combinations' We involved our internal valuation specialists to assist us in obtaining an understanding of management's analyses and checking the related purchase price allocation and impairment testing of Goodwill. We evaluated the work of the management' experts, including the competence and objectivity, with respect to the fair value determination and allocation. We evaluated whether the disclosures are in accordance with IFRS 3 Business Combinations

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 1 August 2022.

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 IFRS, 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.

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

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higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Shota Nanitashvili (Reg# SARAS-A-957146)
on behalf of Deloitte and Touche LLC (Reg# SARAS-F-107265)

28 September 2023
Tbilisi, Georgia

	Note	31 December 2022	31 December 2021
ASSETS			
Non–current assets			
Property, plant and equipment	8	173,258	114,845
Intangible assets	9	8,609	6,276
Right–of–use assets	10	25,809	29,429
Prepayments for fixed assets		8,065	2,267
Warranty related assets		1,344	765
Investments in associates	11	533	490
Goodwill	6	82,593	–
Total non–current assets		**300,211**	**154,072**
Current assets			
Warranty related asset		2,134	1,956
Inventories	12	276,331	127,663
Trade and other receivables	14	73,297	87,746
Prepayments to suppliers		27,475	14,755
Tax assets		466	670
Prepaid income tax		3,162	1,853
Loans issued	13	40,033	12,143
Cash and bank balances	15	78,904	60,654
Total current assets		**501,802**	**307,440**
TOTAL ASSETS		**802,013**	**461,512**
EQUITY			
Charter capital	26	44,733	44,733
Other reserves		(28,351)	(69,362)
Foreign currency translation reserve		(451)	–
Retained earnings	26	151,748	125,969
Equity attributable to the Company's owners		**167,679**	**101,340**
Non-controlling interest		2,179	–
TOTAL EQUITY		**169,858**	**101,340**
LIABILITIES			
Non–current liabilities			
Borrowings	16	202,764	80,084
Lease liabilities	10	20,174	25,779
Warranty provision		1,488	996
Other financial liabilities	27	28,571	34,532
Contract liabilities	18	5,308	8,528
Total non–current liabilities		**258,305**	**149,919**
Current liabilities			
Borrowings	16	82,438	90,124
Lease liabilities	10	4,492	5,418
Trade and other payables	17	186,339	56,022
Warranty provision		2,445	2,246
Financial guarantee contracts	27	–	46
Other financial liabilities	27	1,409	36,071
Tax payables, other than income tax		8,205	5,272
Contract liabilities	18	88,522	15,054
Total current liabilities		**373,850**	**210,253**
TOTAL LIABILITIES		**632,155**	**360,172**
TOTAL EQUITY AND LIABILITIES		**802,013**	**461,512**

Approved for issue and signed on 28 September 2023

Vakhtang Kacharava
Executive Director

Maka Guruli
Chief Accountant

	Note	2022	2021
Revenue from contract with customers	18	950,221	797,152
Cost of sales	19	(752,856)	(626,194)
Gross profit		**197,365**	**170,958**
General and administrative expenses	20	(100,133)	(71,754)
Selling and distribution expenses	21	(26,869)	(17,753)
Other operating income	22	14,695	3,961
Other operating expenses	23	(5,618)	(11,576)
Operating profit		**79,440**	**73,836**
Finance income		7,837	2,031
Finance costs	24	(46,329)	(30,540)
Share of results of associates	11	66	306
Profit before income tax		**41,014**	**45,633**
Income tax expense	25	(32)	(341)
Profit for the year		**40,982**	**45,292**
Exchange differences on translation of foreign operations		(451)	–
Total comprehensive income		**40,531**	**45,292**
Profit for the year attributable to:			
- Owners of the Group		40,779	45,292
- Non-controlling interest		203	–
Profit for the year		**40,982**	**45,292**
Total comprehensive income attributable to:			
- Owners of the Group		40,328	45,292
- Non-controlling interest		203	–
Total comprehensive income for the year		**40,531**	**45,292**

Approved for issue and signed on 28 September 2023

Vakhtang Kacharava
Executive Director

Maka Guruli
Chief Accountant

The accompanying notes on pages 10 to 45 are an integral part of these consolidated financial statement.

	Charter capital	Other reserves	Retained earnings	Foreign currency translation reserve	Attributable to owners of the Group	Non-controlling interest	Total equity
Balance at 1 January 2021	**44,733**	**(22,936)**	**90,788**	–	112,585	–	**112,585**
Profit for the year	–	–	45,292	–	45,292	–	**45,292**
Total comprehensive income for the year	–	–	**45,292**	–	**45,292**	–	**45,292**
Dividends declared (Note 26)	–	–	(10,111)	–	(10,111)	–	**(10,111)**
Other capital distributions (Note 26)	–	(46,426)	–	–	(46,426)	–	**(46,426)**
Balance at 31 December 2021	**44,733**	**(69,362)**	**125,969**	–	**101,340**		**101,340**
Profit for the year	–	–	40,779	–	40,779	**203**	**40,982**
Translation differences	–	–	–	(451)	(451)	–	**(451)**
Total comprehensive income for the year	–	–	**40,779**	**(451)**	**40,328**	**203**	**40,531**
Increase of charter capital	–	–	–	–	–	1,114	**1,114**
Additional non-controlling interests arising on the acquisition of subsidiary (Note 6)	–	–	–	–		862	**862**
Dividends declared (Note 26)	–	–	(15,000)	–	(15,000)	–	**(15,000)**
Other capital distributions (Note 26)	–	41,011	–	–	41,011	–	**41,011**
Balance at 31 December 2022	**44,733**	**(28,351)**	**151,748**	**(451)**	**167,679**	**2,179**	**169,858**

Approved for issue and signed on 28 September 2023

Vakhtang Kacharava
Executive Director

Maka Guruli
Chief Accountant

TEGETA MOTORS GROUP
Consolidated statement of cash flows
(Amounts in thousands of Georgian Lari)

	Note	2022	2021
Cash flows from operating activities			
Profit before income tax		41,014	45,633
Adjustments for:			
Depreciation of property, plant and equipment and right–of–use assets	8, 10	16,240	13,344
Amortization of intangible assets	9	1,113	943
(Reversal of) / Provision for expected credit losses for trade and other receivables	22	(7,369)	7,781
Provision for expected credit losses for issued loans	13	523	206
Gain on disposal of property, plant and equipment	22	(186)	(400)
Rent concession income and income from rent termination	10, 22	958	(48)
Interest income	13, 15	(5,316)	(2,031)
Interest expense		45,739	26,278
Foreign exchange losses		(210)	3,704
Trade payables forgiven		(134)	(47)
Write–down of inventories to net realizable value	12, 23	2,197	1,934
Share of results of associates	11	(66)	(306)
Operating cash flows before working capital changes		**94,503**	**96,991**
Changes in trade and other receivables		23,041	(15,096)
Changes in prepayments		(12,720)	6,748
Changes in inventories		(133,090)	(12,467)
Changes in trade and other payables		89,901	(2,830)
Changes in tax assets		204	7,696
Changes in warranty provision		691	111
Changes in warranty related asset		(757)	223
Changes in contract liabilities		67,768	(22,180)
Changes in other financial payables		(1,671)	–
Changes in tax payables		1,464	5,253
Changes in working capital		**34,831**	**(32,542)**
Income tax paid		(999)	(1,083)
Net cash from operating activities		**128,335**	**63,366**
Cash flows from investing activities			
Purchase of property, plant and equipment		(58,515)	(27,345)
Proceeds from sale of property, plant and equipment		6,818	6,305
Acquisition of intangible assets		(3,234)	(1,777)
Cash contribution into the capital of subsidiaries and associates		(42)	–
Acquisition of subsidiaries		(65,973)	–
Loans issued	13	(62,422)	(50,284)
Repayment of loans issued	13	27,953	37,890
Interest received		2,309	1,655
Cash arising from business combination		2,085	–
Dividends received		22	–
Net cash used in investing activities		**(150,999)**	**(33,556)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities	10	(5,251)	(4,906)
Repayment of interest on lease liabilities	10	(2,556)	(2,567)
Proceeds from borrowings	16	458,490	334,068
Repayment of borrowings	16	(353,861)	(306,177)
Interest paid	16	(37,633)	(21,802)
Dividends paid	26	(10,463)	(10,111)
Release of cash on restricted account	15	35,636	–
Placement of cash on restricted account	15	(65,240)	(11,405)
Net cash from financing activities		**19,122**	**(22,900)**
Effect of exchange rate changes on cash and cash equivalents		(7,812)	(3,885)
Net (decrease) / increase in cash and cash equivalents		**(11,354)**	**3,025**
Cash and cash equivalents at the beginning of the year	15	25,018	21,993
Cash and cash equivalents at the end of the year	**15**	**13,664**	**25,018**

Non–cash transactions are presented in Note 31.

Approved for issue and signed on 28 September 2023

Vakhtang Kacharava
Executive Director

Maka Guruli
Chief Accountant

The accompanying notes on pages 10 to 45 are an integral part of these consolidated financial statement.

1. Tegeta Motors Group

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

Shareholder structure of the Company is:

Shareholders	2022	2021
TGM Group LLC	98.78%	98.78%
Temur Kokhodze, (citizen of Georgia)	1.22%	1.22%

The ultimate controlling party of the Company as of 31 December 2022 and 2021 is Mr. Temur Kokhodze, citizen of Georgia (the "Ultimate Controlling Party").

The Group's principal business activity is trading with imported cars, specialized vehicles, auto tires, lubricants, batteries and other spare parts, as well as providing the automotive maintenance and repair services through servicing facilities located in different regions of Georgia and neighboring countries.

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

		Shareholding/voting (%)	
Subsidiary	Activity	31 December 2022	31 December 2021
Direct subsidiaries			
Tegeta Truck and Bus LLC	Retail and service of transportation trucks, buses and trailers	100%	100%
Tegeta Construction Equipment LLC	Retail and service of heavy duty construction vehicles	100%	100%
Tegeta Premium Vehicles LLC	Retail and service of Porsche and Mazda brand vehicles	100%	100%
Toyota Centre Tegeta LLC	Retail and service of Toyota brand vehicles	100%	100%
Scandinavian Auto Tegeta LLC	Retail and service of Volvo brand vehicles	100%	100%
Tegeta Automotive Imports LLC	Importer of tires, lubes, LV spare parts, batteries, garage equipment, etc	100%	100%
Tegeta Prime Products LLC	Importer of tires and lubricants	100%	100%
Tegeta Distribution LLC	Wholesale of imported brands and products	100%	100%
Tegeta Industry LLC	Retail of construction equipment and spare parts	100%	100%
TBA Tegeta LLC	Retail and service of Toyota brand vehicles	100%	100%
Tegeta Retail LLC	Retailer of imported products	100%	100%
Tegeta Leasing LLC	Leasing of heavy duty construction vehicles	100%	100%
Tegeta Academy LLC	Automotive direction training center	100%	100%
Construction Machinery Georgia LLC	Retail and service of heavy duty construction vehicles	100%	100%
Tegeta Commercial Vehicles LLC	Retail and service of heavy duty construction vehicles	100%	100%
Tegeta Tires Imports	Importer of tires	100%	–
Auto gallery LLC	Retail and rent of light vehicles	90%	–
Tegeta car rent (100% subsidiary of Auto gallery)	Rent of cars	100%	–
IAA Tegeta LLC (100% subsidiary of Auto gallery)	Inactive	51%	–
Segrex Auto Gallery LLC (100% subsidiary of Auto gallery)	Inactive	50%	–
Interauto Trading LLC	Retail and service of heavy-duty construction vehicles	100%	–
Tegeta Rentals LLC (100% subsidiary of Interauto Trading)	Rent of construction equipment	100%	–
Caucasus Automotive	Retail and service of Volvo brand vehicles	100%	–
Tegeta Approved	Retail of used cars	65%	–
Aztech Tegeta Motors LLC	Retail of spare parts	75%	–
Tegeta Real Estate LLC	Inactive	100%	–
Tegeta Capital LLC	Inactive	100%	100%
Tegeta Logistics LLC	Inactive	100%	100%
Geoprotector LLC	Inactive	60%	60%
Tegeta Motors Central Asia LLC	Inactive	100%	100%
Tegeta Motors Baku LLC	Inactive	100%	100%
Tegeta Motors Ukraine LLC	Inactive	100%	100%
Tegeta Motors Kazakhstan LLC	Inactive	100%	–
Agroservice LLC	Inactive	100%	100%

1. Tegeta Motors Group (continued)

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

The subsidiaries are united under two operating segments: Vehicles and related services and Automotive products and related services. The Company established new subsidiaries and allocated Group's principal activities between its subsidiaries.
List of associates of the Group is included in Note 11.

2. Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statement of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, except for application of new and amended standards discussed in Note 4 below.

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

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

(i) Business combination and goodwill

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

2. Summary of significant accounting policies (continued)

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

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(ii) Investments in associates

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

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

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within Share of profit of an associate in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(c) Revenue from contracts with customers

Revenue from sale of goods and rendered services

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

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

2. Summary of significant accounting policies (continued)

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

(iii) Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. A refund liability is recognised for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer included under inventories in the consolidated financial statements.

(iv) Customer loyalty points program

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

(v) Warranty obligations

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

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

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

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

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

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration. The Group does not have contract assets as of 31 December 2022 and 2021.

Trade receivables

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

Contract liabilities

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

2. Summary of significant accounting policies (continued)

(d) Finance income and costs

The Group's finance income include:

- Interest income;
- The foreign currency gain on financial assets and financial liabilities;
- Income from financial guarantee unwinding;
- Other finance income.

The Group's finance costs include:

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

Interest income or expense is recognized using the effective interest rate method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

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

(e) Tax

Current income tax

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

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

Value added tax ("VAT")

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

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

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

Net presentation of tax assets and liabilities

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

2. Summary of significant accounting policies (continued)

(f) Current versus non–current classification

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

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

All other assets are classified as non–current.

A liability is current when:

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

The Group classifies all other liabilities as non–current.

(g) Inventories

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

(h) Foreign currency

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

Foreign currency transactions and balances

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

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

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

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

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

2. Summary of significant accounting policies (continued)

Group companies

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

(i) Property, plant and equipment

Recognition and measurement

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

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

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

Depreciation

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

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

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

- ► Buildings 37–50 years;
- ► Machinery and equipment 1–10 years;
- ► Office fixtures, vehicles and others 1–10 years.

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

Depreciation charge

Depreciation charge of those property, plant and equipment which are directly involved in process are overheads and classified as cost of sales (if inventories were realized) or inventories (if produced inventories remained unrealized).

Borrowing costs

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

(j) Intangible assets

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

2. Summary of significant accounting policies (continued)

The Group's intangible assets have finite useful lives.

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

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

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

(k) Financial instruments

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

(i) Financial assets

Initial recognition and measurement

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

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
The Group's financial assets at amortised cost includes trade and other receivables and loans issued.

2. Summary of significant accounting policies (continued)

Impairment of financial assets

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

- Significant accounting judgments, estimates and assumptions – Note 5;
- Trade receivables – Note 14;
- Loans issued – Note 13;

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

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

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

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

For loans and financial guarantees issued, the credit exposure is considered to experience significant increase in credit risk or to be in default following significant deterioration of the credit quality, which is determined as a deterioration of the counterparties credit rating by two positions from initial recognition, or establishment of the credit rating at a level of Ca or below. The Group's issued loans and guarantees are all to entities under common control, therefore their repayments may not always follow the agreed schedule and they may be subject to multiple contract prolongations and restructurings. Therefore the Group does not consider overdue days as a trigger for significant increase in credit risk or credit impairment . However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the profit or loss.

Derecognition

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

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

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

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

(ii) Financial liabilities

Initial recognition and subsequent measurement

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

2. Summary of significant accounting policies (continued)

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

The Group's financial liabilities as at 31 December 2022 and 2021 include trade and other payables, other financial liabilities, financial guarantee contracts, borrowings and lease liabilities.

Other financial liabilities

The Group has entered into certain financial guarantee contracts securing the loans of the Ultimate Controlling Party and TGM Group LLC (parent entity of the Group) towards a Georgian commercial bank. As the main source of income of the Ultimate Controlling Party and the TGM Group LLC are dividends declared by the Company, the liabilities under these guarantee contracts were initially recognized, in correspondence with equity accounts at a best estimate of expected cash outflows associated with these contracts, adjusted for the time value of money. Subsequently, remeasurement of these liabilities is recognized in profit or loss, unless it relates to reduction through discharge of the underlying guaranteed liability by the primary obligors, in which case such reduction is recognized directly in consolidated statement of changes in equity.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition

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

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

(iii) Offsetting of financial instruments

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

(l) Impairment of non–financial assets

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

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

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

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

2. Summary of significant accounting policies (continued)

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

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(m) Fair value measurement

The Group measures financial instruments at fair value less cost to sell at initial recognition. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

(n) Charter capital

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

(o) Cash and bank balances

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

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in Note 15. If the contractual restrictions to use the cash extend beyond 12 months after the end of the reporting period, the related amounts are classified as non-current in the statement of financial position.

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

2. Summary of significant accounting policies (continued)

(p) Provisions

General provisions

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

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

Warranty provisions and related asset

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

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

(q) Leases

Determining whether an arrangement contains a lease

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

Group as a leesee

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

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

(i) Right–of–use assets

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

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

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

(ii) Lease liabilities

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

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

2. Summary of significant accounting policies (continued)

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

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

(iii) Short–term leases and leases of low–value assets

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

Group as a lessor

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

(r) Operating Segments

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

(s) Transactions with the Ultimate Controlling Party and entities under common control

Transactions with the Ultimate Controlling Party and entities under common control are accounted at nominal cost of the transaction, except of transactions involving financial instruments. Financial instruments are accounted following recognition policies set out in section (k) Financial Instruments, with the difference between the nominal cost of the transaction and a fair value accounted as part of equity. Any subsequent movements on these financial instruments are accounted for through statement of profit and loss.

3. Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new or amended standards and interpretations became effective on 1 January 2022, but did not have significant impact on the Group's and the Company's financial statements:

- *Amendments to IFRS 3* - Reference to the Conceptual Framework
- Amendments to IAS 16 Leases - Property, Plant and Equipment: Proceeds before Intended Use
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- *Amendments to IFRS 3* - Reference to the Conceptual Framework

4. New standards and interpretations issued but not yet effective

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

- Amendments to IFRS 17 *Insurance Contracts:* Recognition and measurement, presentation and disclosure;
- Amendments to IAS 1: *Classification of Liabilities as Current or Non–current;*
- Definition of Accounting Estimates – Amendments to IAS 8;
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2.

5. Critical accounting estimates and assumptions

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

Estimates and assumptions

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

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 6.

Provision for expected credit losses of financial assets

Trade and other receivables

The group has two approaches to calculate ECLs for trade receivables and contract assets: individual assessment and collective approach. Individual approach is only used for significant counteragents, related parties and state organizations.

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

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

The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 14.

Loans issued

Expected credit losses on loans issued are assessed individually considering the internal credit rating of the borrower based on certain financial and non–financial information. The Group measures loss allowances at an amount equal to 12–month ECL when loan is issued. Loans issued for which a 12–month ECL is recognized are referred to as 'Stage 1' financial instruments. Loans issued allocated to stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit–impaired. When determining whether the credit risk of loan issued has increased significantly since initial recognition and when estimating ECL, the Group considers borrower's internal credit rating for each reporting date. If the internal rating is downgraded, the Group identifies there is significant increase in credit risk since initial recognition and those loans issued are referred as 'Stage 2' financial instruments for which lifetime ELC is recognized.

If the Group has information, that the borrower has significant financial difficulties or it is probable that the borrower will enter bankruptcy or other financial reorganization, the respective instrument is considered as credit–impaired and is referred as 'Stage 3' Financial Instrument.

5. Critical accounting estimates and assumptions (continued)

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

PD for the loans issued is evaluated by an individual approach on a rating system based on a scoring questionnaire and represents the country's rating (based on Moddy's rating agency) adjusted by the individual risk characteristics of each individual borrower.

LGD is magnitude of likely loss if there a default. The group applies LGD parameters based on the statistical recovery rates of claims against defaulted counterparties published by Moddy's. LGD 45% is applied to all the loans issued in the stage 1.

ECL was applied on accrued interest on loans issued calculated similarly as for the outstanding principle on the same loan.
As at 31 December 2022 and 2021, all borrowers are related parties and are allocated to Stage 1 Financial instruments.
The information about the ECLs on the Group's loans issued is disclosed in Note 13.

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

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

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

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

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

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

6. Business combinations and goodwill

Acquisition of Auto Gallery LLC

On 7 June 2022, the Company acquired 80% of the voting shares of Auto Gallery LLC, a non-listed company based in Georgia. Company's main activities are retail of used and new cars of different brands. The Group has elected to measure the non-controlling interests in the acquire at fair value. Auto Gallery has the following subsidiaries: Car rent LLC (100%), IAA Tegeta LLC (51%), Segrex Auto Gallery LLC (50%).

On 22 July 2022, the Company also acquired 10% of shares on Auto Gallery LLC.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Auto Gallery LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property, plant and equipment (Note 8)	15,622
Intangible assets	182
Right-of-use assets	316
Investments in associates and joint venture	17
Cash and bank balances	112
Inventory	5,460
Tax assets	118
Loans issued	1,030
Trade and other receivables	1,670
Prepayments	981
	25,508
Liabilities	
Trade and other payables	7,170
Lease liabilities	1,464
Contract liabilities	739
Borrowings	13,831
	23,204
Total identifiable net assets at fair value	**2,304**
Non-controlling interest measured at fair value	(230)
Goodwill arising on acquisition	28,526
Purchase consideration transferred	**30,600**

The primary reason for the business combination was to enhance the operating segment of Vehicles and related services of the Group further and benefit by expected synergies from combining operations of the acquire and the Group.

Auto Gallery LLC and its subsidiaries contributed GEL 29,084 revenue and GEL 747 to the Group's profit for the period between the date of acquisition and the reporting date.

If the acquisition of Auto Gallery LLC and its subsidiaries had been completed on the first day of the financial year, Group revenues for the year would have been GEL 43,533 and Group profit would have been GEL 2,221.

Acquisition of Interauto Trading

On 10 June 2022, the Company acquired 90% of the voting shares of Interauto Trading LLC, a non-listed company based in Georgia. Companies main activities are rental of heavy vehicles. The Group has elected to measure the non-controlling interests in the acquire at fair value. Interauto Trading has subsidiary – Tegeta Rentals LLC (100%).

On 22 July 2022, the Company also acquired 10% of shares on Interauto trading LLC.

6. Business combinations and goodwill (continued)

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Interauto Trading LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property, plant and equipment (Note 8)	5,883
Intangible assets	11
Right-of-use assets	3,322
Cash and bank balances	424
Inventory	29
Trade and other receivables	1,589
Prepayments	40
	11,298
Liabilities	
Trade and other payables	5,554
Lease liabilities	4,400
Contract liabilities	213
Borrowings	228
	10,395
Total identifiable net assets at fair value	**903**
Goodwill arising on acquisition	11,104
Purchase consideration transferred	**12,007**

The primary reason for the business combination was to enhance the operating segment of Vehicles and related services of the Group further and benefit by expected synergies from combining operations of the acquiree and the Group.

Interauto Trading LLC and its subsidiary contributed GEL 3,365 revenue and GEL 970 to the Group's profit for the period between the date of acquisition and the reporting date.

If the acquisition of Interauto Trading LLC and its subsidiary had been completed on the first day of the financial year, Group revenues for the year would have been GEL 5,285 and Group profit would have been GEL 1,451.

Acquisition of Caucasus Automotive LLC

On 1 July 2022, the Company acquired 90% of the voting shares of Caucasus Automotive LLC, a non-listed company based in Georgia. Companies main activities are retail and service of Volvo brands vehicles. The Group has elected to measure the non-controlling interests in the acquire at fair value.

On 22 July 2022, the Company also acquired 10% of shares of Caucasus Automotive LLC.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Caucasus Automotive LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property, plant and equipment (Note 8)	31
Cash and bank balances	1,038
Inventory	8,813
Trade and other receivables	3,243
Loans issued	9,499
Prepayments	7
Tax assets	168
	22,799

6. Business combinations and goodwill (continued)

Liabilities	
Trade and other payables	12,476
Contract liabilities	1,445
Borrowings	5,613
	19,534
Total identifiable net assets at fair value	**3,265**
Goodwill arising on acquisition	38,803
Purchase consideration transferred	**42,068**

The primary reason for the business combination was to enhance the operating segment of Vehicles and related services of the Group further and benefit by expected synergies from combining operations of the acquiree and the Group.

Caucasus automotive LLC contributed GEL 8,161 revenue and GEL 1,464 to the Group's profit for the period between the date of acquisition and the reporting date.

If the acquisition of Caucasus automotive LLC had been completed on the first day of the financial year, Group revenues for the year would have been GEL 14,614 and Group profit would have been GEL 941.

Acquisition of additional interest in Aztech Tegeta Motors LLC

On 7 June 2022, the Company acquired 25% of the voting shares of Aztech Tegeta Motors LLC, a non-listed company based in Azerbaijan. The Company's main activities are retail of spare parts. The Group has elected to measure the non-controlling interests in the acquire at fair value.

On 22 July 2022, the Company also acquired 25% of shares of Aztech Tegeta Motors LLC.

The fair values of the identifiable assets and liabilities of Aztech Tegeta Motors LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property, plant and equipment (Note 8)	501
Intangible assets	20
Cash and bank balances	510
Inventory	3,425
Trade and other receivables	12,145
Prepayments	141
	16,742
Liabilities	
Trade and other payables	4,038
Contract liabilities	45
Tax payables	1,490
Borrowings	8,651
	14,224
Total identifiable net assets at fair value	**2,518**
Non-controlling interest measured at fair value	(632)
Previously held shares	(632)
Goodwill arising on acquisition	4,160
Purchase consideration transferred	**5,414**

6. Business combinations and goodwill (continued)

The primary reason for the business combination was to enhance the operating segment of Automotive products and related services of the Group further and benefit by expected synergies from combining operations of the acquiree and the Group.

Aztech and Tegeta Motors LLC contributed GEL 9,099 revenue and GEL 2,106 to the Group's profit for the period between the date of acquisition and the reporting date.

If the acquisition of Aztech and Tegeta Motors LLC had been completed on the first day of the financial year, Group revenues for the year would have been GEL 16,260 and Group loss would have been GEL 20.

Goodwill

The Group recognized following goodwill arisen from the business combinations that took place during the reporting periods:

	31 December 2022	31 December 2021
Caucasus Automotive LLC	38,803	–
Auto Gallery LLC	28,526	–
Interauto Trading	11,104	–
Aztech Tegeta Motors LLC	4,160	–
Total goodwill	**82,593**	–

The Group carried out the impairment test of goodwill as at 31 December 2022 and as at acquisition date of each CGU. For every company, their recoverable amount and carrying amount were compared to each other to determine whether goodwill impairment had occurred. The recoverable amount of CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts prepared by management covering a five-year period. As a result, there was no goodwill impairment.

Assumptions used for value-in-use calculations were:

	Caucasus Automotive LLC	Auto Gallery LLC	Interauto Trading	Aztech Tegeta Motors LLC
Average annual sales growth	31%	15%	22%	38%
Growth rate beyond five years	5%	5%	5%	5%
Discount rate	17.84%	17.84%	17.84%	16.9%

7. Segment information

For management purposes, the Group identified two operating segments: Vehicles and related services and Automotive products and related services.

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

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

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

Information related to each reportable segment is set out below as at 31 December 2022:

	Vehicles and related services	Automotive products and related services	Total segments	Adjustments and eliminations	Consolidated
Revenue from contract with customers	702,198	655,304	1,357,502	(407,281)	950,221
Cost of sales	(591,968)	(579,056)	(1,171,024)	418,168	(752,856)
Gross profit	**110,230**	**76,248**	**186,478**	**10,887**	**197,365**
General and administrative expenses	(24,619)	(100,525)	(125,144)	25,011	(100,133)
Selling and distribution expenses	(13,096)	(28,876)	(41,972)	15,103	(26,869)
Other operating income	6,447	116,834	123,281	(108,586)	14,695
Other operating expenses	(1,791)	(4,289)	(6,080)	462	(5,618)
Finance income	1,799	11,033	12,832	(4,995)	7,837
Finance costs	(10,353)	(42,444)	(52,797)	6,468	(46,329)
Share of results of associates	–	–	–	66	66
Reportable segment profit 2022	**68,617**	**27,981**	**96,598**	**(55,584)**	**41,014**
Total assets	**388,103**	**703,668**	**1,091,771**	**(289,758)**	**802,013**
Total liabilities	**290,396**	**615,024**	**905,420**	**(273,265)**	**632,155**

Information related to each reportable segment is set out below as at 31 December 2021:

	Vehicles and related services	Automotive products and related services	Total segments	Adjustments and eliminations	Consolidated
Revenue from contract with customers	620,363	455,522	1,075,885	(278,733)	797,152
Cost of sales	(501,465)	(415,924)	(917,389)	291,195	(626,194)
Gross profit	**118,898**	**39,598**	**158,496**	**12,462**	**170,958**
General and administrative expenses	(31,653)	(62,262)	(93,915)	22,161	(71,754)
Selling and distribution expenses	(13,588)	(14,015)	(27,603)	9,850	(17,753)
Other operating income	3,257	45,799	49,056	(45,095)	3,961
Other operating expenses	(4,649)	(7,036)	(11,685)	109	(11,576)
Finance income	1,397	4,538	5,935	(3,904)	2,031
Finance costs	(16,445)	(17,960)	(34,405)	3,865	(30,540)
Share of results of associates	–	–	–	306	306
Reportable segment profit 2021	**57,217**	**(11,338)**	**45,879**	**(246)**	**45,633**
Total assets	**174,611**	**399,343**	**573,954**	**(112,442)**	**461,512**
Total liabilities	**104,929**	**328,059**	**432,988**	**(72,816)**	**360,172**

8. Property, plant and equipment

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

	Land and buildings*	Machinery and equipment	Office fixtures and vehicles	Others	Construction in progress *	Total
Cost	94,917	18,868	18,462	9,127	1,815	**143,189**
Accumulated depreciation	(9,702)	(12,807)	(9,941)	(5,650)	–	**(38,100)**
Carrying amount at 31 December 2020	**85,215**	**6,061**	**8,521**	**3,477**	**1,815**	**105,089**
Additions	5,680	892	8,395	8,512	1,868	**25,347**
Transfers	573	1,407	2,226	(4,094)	(112)	**–**
Disposals	(85)	(209)	(9,082)	(651)	–	**(10,027)**
Depreciation charge	(1,645)	(2,030)	(2,635)	(1,808)	–	**(8,118)**
Transfers – accumulated depreciation	(12)	15	1	(4)	–	**–**
Accumulated depreciation for disposals	7	157	2,254	136	–	**2,554**
Carrying amount at 31 December 2021	**89,733**	**6,293**	**9,680**	**5,568**	**3,571**	**114,845**
Cost	101,085	20,958	20,001	12,894	3,571	**158,509**
Accumulated depreciation	(11,352)	(14,665)	(10,321)	(7,326)	–	**(43,664)**
Carrying amount at 31 December 2021	**89,733**	**6,293**	**9,680**	**5,568**	**3,571**	**114,845**
Additions	23,148	4,019	9,805	12,172	7,953	57,097
Acquisition of subsidiaries (Note 6)**	15	5,566	16,095	361	–	22,037
Transfers	232	2,000	3,602	(5,834)	–	–
Disposals	–	(4,034)	(8,848)	(343)	–	(13,225)
Depreciation charge	(1,897)	(2,584)	(4,363)	(1,481)	–	(10,325)
Accumulated depreciation for disposals	–	1,232	1,318	279	–	2,615
Carrying amount at 31 December 2022	***111,231***	***12,492***	***27,289***	***10,722***	***11,524***	**173,258**
Cost	124,480	28,509	40,655	19,250	11,524	224,418
Accumulated depreciation	(13,249)	(16,017)	(13,366)	(8,528)	–	(51,160)
Carrying amount at 31 December 2022	**111,231**	**12,492**	**27,289**	**10,722**	**11,524**	**173,258**

* Most of the additions during 2022 relates to the expansion and improvement of existing branch and also, construction of a new branch in Tbilisi.

**The acquisition of subsidiaries line includes property, plant, and equipment held by the acquired subsidiaries as of the acquisition date, which is initially measured at fair value at the acquisition date and amounted to GEL 22,037. Subsequent to initial recognition, property, plant and equipment acquired in a business combination are reported at cost less accumulated depreciation and accumulated impairment losses, on the same basis as property, plant and equipment that are acquired separately.

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

	31 December 2022	31 December 2021
Included in cost of sales	4,360	2,672
Included in general and administrative expenses	5,965	5,446
Total depreciation expense	**10,325**	**8,118**

At 31 December 2022 the Group's land, buildings, machinery and equipment with carrying value of GEL 123,723 (2021: GEL 96,026), have been pledged to third parties as collateral for borrowings (Refer to Notes 16 and 27).

The gross carrying amount of fully depreciated property and equipment that is still in use in the Group amounted to GEL 21,213 as at 31 December 2022 (2021: GEL 18,758).

The Group started the improvement and construction of new branches in 2022. This project is expected to be completed in December 2023. The amount of borrowing costs capitalized during the year ended 31 December 2022 was GEL 1,378.

9. Intangible assets

	SAP system costs and licenses	Others	Total
Cost	7,744	1,518	9,262
Accumulated amortization	(3,001)	(819)	(3,820)
Carrying amount at 31 December 2020	**4,743**	**699**	**5,442**
Additions	1,746	31	1,777
Disposals	–	(70)	(70)
Amortization charge	(892)	(51	(943)
Eliminated upon disposal	–	70	70
Carrying amount at 31 December 2021	**5,597**	**679**	**6,276**
Cost	9,490	1,479	10,969
Accumulated amortization	(3,893)	(800)	(4,693)
Carrying amount at 31 December 2021	**5,597**	**679**	**6,276**
Additions	3,178	59	3,237
Acquisition of subsidiaries	192	20	212
Disposals	(3)	–	(3)
Amortization charge	(1,071)	(42)	(1,113)
Carrying amount at 31 December 2022	**7,893**	**716**	**8,609**
Cost	12,857	1,558	14,415
Accumulated amortization	(4,964)	(842)	(5,806)
Carrying amount at 31 December 2022	**7,893**	**716**	**8,609**

In 2022, the Company established and enhanced its existing software applications and websites. The remuneration of employees engaged in these projects was capitalized as part of intangible assets and amounted GEL 1,156.

10. Right–of–use assets and lease liabilities

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

	Land and buildings	Vehicles	Total
Cost	22,437	4,046	**26,483**
Accumulated depreciation	(10,261)	(341)	**(10,602)**
Carrying amount at 1 January 2021	**12,176**	**3,705**	**15,881**
Additions	12,574	6,691	**19,265**
Disposals	(230)	(1,089)	**(1,319)**
Modification	209	15	**224**
Depreciation charge	(3,784)	(1,442)	**(5,226)**
Accumulated depreciation for disposals	119	150	**269**
Accumulated depreciation for modification	335	–	**335**
Carrying amount at 31 December 2021	**21,399**	**8,030**	**29,429**
Cost	34,990	9,663	**44,653**
Accumulated depreciation	(13,591)	(1,633)	**(15,224)**
Carrying amount at 31 December 2021	**21,399**	**8,030**	**29,429**
Additions	7,762	8,290	**16,052**
Transfer Cost due to Business combination	5,565	-	**5,565**
Elimination Cost due to Business combination	(8,544)	(12,048)	**(20,592)**
Disposals	(664)	(1,634)	**(2,298)**
Modification	(80)	–	**(80)**
Transfer Accumulated Depreciation due to Business combination	(1,990)	–	**(1,990)**
Elimination Accumulated Depreciation due to Business combination	2,969	2,111	**5,080**
Depreciation charge	(4,633)	(1,282)	**(5,915)**
Accumulated depreciation for disposals	164	360	**524**
Accumulated depreciation for modification	34	–	**34**
Carrying amount at 31 December 2022	**21,982**	**3,827**	**25,809**
Cost	39,029	4,271	43,300
Accumulated depreciation	(17,047)	(444)	(17,491)
Carrying amount at 31 December 2022	**21,982**	**3,827**	**25,809**

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

	2022	2021
As at 1 January	**31,197**	**17,986**
Additions	14,895	19,265
Accretion of interest	2,556	2,567
Termination	(1,767)	(1,091)
Modification	(47)	560
Payments	(7,807)	(7,473)
Transfer to payables	(467)	–
Business combination effect	5,802	–
Elimination due to business combination*	(17,238)	–
Concession income due to Covid 19	–	(7)
The effect of changes in foreign exchange rates	(2,458)	(610)
As at 31 December	**24,666**	**31,197**
Current	4,492	5,418
Non–current	20,174	25,779

10. Right–of–use assets and lease liabilities (continued)

*The business combination effect comprises the lease liability balances of acquired subsidiaries as of the acquisition date, which were transferred as part of the business combination and amounted to GEL 5,802. The elimination due to the business combination line involves the elimination of lease liability balances as at acquisition date recognized under leases formed with acquired subsidiaries and amounted to GEL 17,238.

The maturity analysis of lease liabilities is disclosed in Note 28.

Following are the amounts recognized in profit or loss:

	2022	2021
Depreciation expense of right–of–use assets, included in general and administrative expenses	5,915	5,226
Interest expense on lease liabilities (Note 24)	2,556	2,567
The effect of changes in foreign exchange rates	(2,458)	(610)
Expenses related to the short term lease and leases of low value assets (Note 19,20,21)	1,411	966
Concession income due to Covid 19 (Note 22)	–	(7)
Income from termination of lease agreement (Note 22)	–	(41)
Total amount recognised in profit or loss	**7,424**	**8, 101**

The Group had total cash outflows for leases of GEL 9,218, in 2022 (GEL 8,439 in 2021).

11. Investments in associates

	2022	2021
Carrying amount at 1 January	**490**	**227**
Share in results	66	306
Transfer due to Business combination	17	–
Acquisition of share	42	–
Increase of charter capital	(12)	–
Dividends received	(70)	(43)
Carrying amount at 31 December	**533**	**490**

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

Name	Nature	Total assets	Total liabilities	Revenue	Net profit/ (loss)	Interest held
At 31 December 2021						
Tegeta Motors Meskheti LLC	Rent of commercial space	556	(96)	169	143	34%
DSD Tegeta LLC	Rent of commercial space	1,271	(35)	148	1,027	25%
Aztech and Tegeta Motors LLC	Retailer of spare parts	18,570	(22,065)	11,117	(1,119)	20%
At 31 December 2022						
Tegeta Motors Meskheti LLC	Rent of commercial space	505	(66)	181	139	34%
DSD Tegeta TTL	Rent of commercial space	1,264	(8)	205	76	25%

All associates are incorporated and domiciled in Georgia, except Aztech and Tegeta Motors LLC domiciled in Azerbaijan.

12. Inventories

	31 December 2022	31 December 2021
Goods for resale (at lower of cost and net realizable value)	209,062	91,570
Goods in transit (at lower of cost and net realizable value)	60,600	30,851
Other (at cost)	6,669	5,242
Total inventories	**276,331**	**127,663**

The cost of inventories recognised as expenses are included in the cost of sales, general and administrative expenses, selling and distribution expenses and other operating expenses of the Group amounted to GEL 727,306 during 2022 (2021: GEL 612,502).

The Group’s inventories were written down to their net realizable values and expensed in Other operating expenses in amounts of GEL 2,197 (2021: GEL 1,934) (refer to Note 23).

At 31 December 2022 all of the Group’s inventories have been pledged to third parties as collateral for borrowings (refer to Note 27).

13. Loans issued

	31 December 2022	31 December 2021
Loan issued to entities under common control	19,410	5,820
Loan issued to the ultimate parent company	21,500	6,677
Provision for expected credit losses	(877)	(354)
Total loans issued	**40,033**	**12,143**

Movements in issued loans were as follows:

	2022	2021
At 1 January	**12,143**	**100**
Loans issued	62,422	50,284
Business combination*	(2,649)	–
Repayment of loans issued	(27,953)	(37,890)
Interest received	(1,781)	(1,286)
Interest income	4,783	1,662
Netting with liabilities	(4,363)	(208)
Provision for expected credit losses	(523)	(206)
Foreign exchange loss	(2,046)	(313)
At 31 December	**40,033**	**12,143**

*The business combination line comprises two elements: firstly, the consolidation of subsidiary loans in the amount of GEL 10,536 as of the acquisition date, which were integrated into the Group as part of the business combination, and secondly, the elimination of intergroup loans in the amount of GEL 13,185 as of the acquisition date resulting from the business combination.

14. Trade and other receivables

	31 December 2022	31 December 2021
Trade receivables	78,411	96, 983
Receivables from associates	–	3,417
Less provision for expected credit losses	(7,462)	(15,105)
Total trade receivables	**70,949**	**85,295**
Dividends receivable	–	37
Other receivables	2,348	2,414
Total trade and other receivables	**73,297**	**87,746**

Analysis by credit quality of financial assets within trade and other receivables for the Group as at 31 December 2022 is as follows:

	Current	<31 days	31–93 days	93–186 days	186–341 days	>341 days	Total
Estimated total gross carrying amount at default	6,836	39,691	8,297	6,852	3,277	15,806	**80,759**
Expected credit loss	68	33	236	564	814	5,747	**7,462**
Expected loss rate	0.99%	0.08%	2.84%	8.23%	24.84%	36.36%	**9.24%**

Analysis by credit quality of financial assets within trade and other receivables for the Group as at 31 December 2021 is as follows:

	Current	<31 days	31–93 days	93–186 days	186–341 days	>341 days	Total
Estimated total gross carrying amount at default	46,400	14,872	18,387	7,153	3,420	12,619	**102,851**
Expected credit loss	42	163	1,794	1,946	1,919	9,241	**15,105**
Expected loss rate	0.09%	1.09%	9.76%	27.20%	56.12%	73.23%	**14.69%**

14. Trade and other receivables (continued)

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

	2022	2021
Provision for expected credit losses at 1 January	**15,105**	**7,710**
(Recovery) / Charge for the year, net	(7,643)	7,395
Provision for expected credit losses at 31 December	**7,462**	**15,105**

15. Cash and bank balances

	31 December 2022	31 December 2021
Current accounts with banks	11,662	22,978
Cash in transit	244	229
Cash on hand	1,758	1,811
Restricted cash	65,240	35,636
Total cash and bank balances	**78,904**	**60,654**
Restricted amounts	(65,240)	(35,636)
Total cash and cash equivalents in the consolidated statement of cash flows	**13,664**	**25,018**

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

As at 31 December 2022, substantial amount of the restricted cash balance primarily comprises advance payments received from clients. These funds additionally serve as collateral for banking products that are issued in conjunction with above mentioned clients.

As at 31 December 2021, restricted cash serves as a security for other financial liabilities (Note 27).

In 2022, interest income on cash and bank balances amounted to GEL 533 for the Group (2021: GEL 369).

16. Borrowings

	31 December 2022	31 December 2021
Loans received – non–current portion	202,764	80,084
Loans received – current portion	82,438	90,124
Total borrowings	**285,202**	**170,208**

During 2022 the Company issued bonds in the amount of GEL 150,000 maturing in 2025, with variable interest rate of 3.5% + TIBR 3M issued by the National Bank of Georgia. The bonds were used to refinance existing loans from the Georgian commercial banks.

The table below summarizes outstanding loans received as at 31 December 2022:

Original currency	Agreement date	Maturity date	Lender	Amount
GEL	2022	2025	Bonds	149,479
GEL	2018	2032	Georgian commercial bank	103,145
EUR	2022	2025	Georgian commercial bank	10,971
USD	2022	2023	Georgian commercial bank	24
RUB	2021	2022	Georgian commercial bank	6,654
JPY	2022	2023	Georgian commercial bank	7,694
GEL	2022	2023	Legal Entity	1,438
EUR	2021	2023	Legal Entity	209
USD	2022	2023	Legal Entity	4,990
GEL	2022	2023	Physical person	598
				285,202

16. Borrowings (continued)

In the fiscal year 2022, the weighted average interest rates for loans denominated in the local currency exhibited a range of 13% to 14%, as compared to the preceding fiscal year 2021, where the range stood at 14% to 15%. The average maturity period for these loans during the fiscal year 2022 was 831 days, in contrast to the previous fiscal year 2021, where the average maturity period was 717 days.

Similarly, the weighted average interest rates for loans denominated in foreign currency during the fiscal year 2022 displayed a range of 8% to 9%, mirroring the range observed in fiscal year 2021, which also spanned from 8% to 9%. Notably, the average maturity period for foreign currency loans in fiscal year 2022 was 338 days, markedly different from the corresponding period in fiscal year 2021, where the average maturity period was only 91 days.

The table below summarizes outstanding loans received as at 31 December 2021:

Original currency	Agreement date	Maturity date	Lender	Amount
GEL	2019	2022	Bonds	30,632
GEL	2018	2025	Georgian commercial bank	126,289
RUB	2020	2022	Georgian commercial bank	7,530
JPY	2021	2022	Georgian commercial bank	2,625
EUR	2021	2022	Georgian commercial bank	2,177
GBP	2017	2022	Georgian commercial bank	11
USD	2020	2022	Georgian commercial bank	2
USD	2021	2022	Legal Entity	632
EUR	2021	2022	Legal Entity	310
				170,208

For details of assets pledged for bank loans as collateral and discussion of compliance with covenants refer to Note 27.

Movements in borrowings were as follows:

	2022	2021
At 1 January	**170,208**	**148,001**
Receipts from borrowings	458,490	334,068
Acquisition of subsidiaries*	28,335	–
Elimination due to business combination*	(13,185)	–
Interest expense (Note 24)	37,044	21,640
Capitalized interest	1,378	–
Interest payments	(37,633)	(21,802)
Principal repayments	(353,861)	(306,177)
Foreign exchange gain net	(5,107)	(5,522)
Netting with trade receivable	(467)	–
At 31 December	**285,202**	**170,208**

* The 'Acquisition of subsidiaries' line represents the consolidation of acquired subsidiary loans totaling GEL 28,335 as of the acquisition date, which were incorporated into the Group as part of the business combination. Conversely, the 'Elimination Due to Business Combination' line reflects the removal of intergroup loans amounting to GEL 13,185 as of the acquisition date arising from the business combination.

17. Trade and other payables

	31 December 2022	31 December 2021
Trade payables	140,729	45,681
Dividends payable	2,752	13
Payables for non–current assets	2,552	698
Payables to associates	26	617
Total financial liabilities within trade and other payables	**146,059**	**47,009**
Payables related to acquisitions of subsidiaries*	26,562	–
Accrued employee benefit costs	12,290	8,397
Other	1,428	616
Total trade and other payables	**186,339**	**56,022**

*As at December 31, 2022, the Group holds payables associated with the acquisition of subsidiaries from former owners, valued at GEL 26,562. These liabilities are initially measured at fair value as of the acquisition date and discounted using the prevailing market rate.

18. Revenue from contract with customers

	2022	2021
Revenue from goods sold	904,169	765,035
Revenue from rendered services	46,052	32,117
Total revenues	**950,221**	**797,152**

Goods were transferred at a point in time, while rendered service was transferred over time during 2022 and 2021.

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

	31 December 2022	31 December 2021
Trade receivables (Note 14)	70,949	85,295
Contract liabilities – non–current portion	5,308	8,528
Contract liabilities – current portion	88,522	15,054

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

Contract liabilities of the Group in the amount of GEL 88,522 is expected to be recognised as revenue in 2023 related to performance obligations that are unsatisfied at the reporting date. In 2022, the Group recognized as revenue GEL 15,054 that was included under current portion of contract liabilities at the beginning of the reporting period.

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

19. Cost of sales

	2022	2021
Cost of goods sold at a point of time	(710,928)	(599,727)
Cost of services rendered over time:		
Staff costs	(24,978)	(19,095)
Purchased services	(7,032)	(2,288)
Depreciation and amortization	(4,375)	(2,705)
Consumable materials used	(1,656)	(1,365)
Depreciation expense of right-of-use assets	(540)	–
Other costs	(3,347)	(1,014)
Total cost of sales	**(752,856)**	**(626,194)**

20. General and administrative expenses

	2022	2021
Staff costs	(55,254)	(38,673)
Taxes other than on income	(7,601)	(3,260)
Depreciation and amortisation	(7,063)	(6,356)
Professional services	(5,846)	(4,753)
Depreciation expense of right–of–use assets	(5,247)	(5,226)
Office expense	(5,065)	(3,915)
Utility	(2,787)	(2,472)
Communication expense	(2,369)	(1,726)
Business trip expense	(1,952)	(402)
Fuel expense	(1,466)	(786)
Expenses related to the short–term lease and leases of low value assets	(1,351)	(966)
Bank Charges	(854)	(562)
Security	(848)	(661)
Repair and maintenance	(839)	(628)
Other expenses	(1,591)	(1,368)
Total general and administrative expenses	**(100,133)**	**(71,754)**

21. Selling and distribution expenses

	2022	2021
Staff costs	(10,933)	(8,768)
Advertising expenses	(9,770)	(4,558)
Distribution costs	(3,018)	(1,744)
Fuel expense	(1,077)	(822)
Transportation expenses	(450)	(366)
Depreciation expense of right-of-use assets	(128)	–
Repair and maintenance	(69)	(97)
Rent expense	(57)	(30)
Other expenses	(1,367)	(1,368)
Total Selling and distribution expenses	**(26,869)**	**(17,753)**

22. Other operating income

	2022	2021
Recovery / charge of impairment on receivables, net	7,369	–
Professional services	890	518
Operating lease income (a)	443	358
Insurance claim reimbursement	352	162
Storage services	315	252
Income from penalties	286	23
Gain on disposal of property, plant and equipment	186	400
Redemption of trade payables	134	47
Gain from remeasurement of warranty provision	–	433
Gain from termination of lease agreement (Note 10)	–	41
Rent concession gains (Note 10)	–	7
Other	4,720	1,720
Total other operating income	**14,695**	**3,961**

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

23. Other operating expenses

	2022	2021
Write–down of inventories to net realizable value (Note 12)	(2,197)	(1,934)
Fines, penalties and tax related expenses	(548)	(236)
Provision for expected credit losses for issued loans (Note 13)	(523)	(206)
Provision/ (Charge), net for expected credit losses for trade and other receivables (Note 14)	–	(7,781)
Charity expenses	(83)	(34)
Other	(2,267)	(1,385)
Total other operating expenses	**(5,618)**	**(11,576)**

24. Finance costs

	2022	2021
Interest expenses on borrowings (Note 16)	(37,044)	(21,640)
Interest expenses on lease liabilities (Note 10)	(2,556)	(2,567)
Foreign exchange losses, net	–	(3,704)
Interest expenses on other financial liabilities	(3,681)	(2,071)
Other	(3,048)	(558)
Total finance costs	**(46,329)**	**(30,540)**

25. Income tax expenses

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

	2022	2021
Total dividends declared	**(15,000)**	**(10,111)**
Out of which:		
Non–taxable dividends	(14,817)	(9,128)
Taxable dividends	(183)	(983)
Tax rate used (%)	15/85	15/85
Theoretical income tax expense at the statutory rate	**(32)**	**(173)**
Non–deductible expenses and other permanent differences	–	(168)
Income tax expense	**(32)**	**(341)**

Dividends in the amount of GEL 14,817 distributed to the TGM Group LLC are non–taxable as they occur between Georgian legal entities (2021: GEL 9,128).

26. Equity

26.1 Dividends declared and paid

The Company declared and paid dividends to its existing shareholders in the amount of GEL 15,000 in 2022 (2021: GEL 10,111).

26.2 Other capital distribution

Other capital distributions relate to recognition of financial guarantee contracts and other financial liabilities in line with the Group's accounting policies (Note 27).

27. Contingencies and commitments

Tax legislation

The taxation system in Georgia is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial statements, if the authorities were successful in enforcing their own interpretations, could be significant.

Assets pledged

The following assets were pledged as collateral towards the borrowings from banks (Note 16):

	31 December 2022	31 December 2021
Land and buildings (Notes 8, 16)	111,231	89,733
Machinery and equipment (Notes 8, 16)	12,492	6,293
Inventories (Notes 12, 16)	276,331	127,663

As at 31 December 2021, cash in the amount of GEL 35,118 is pledged as a collateral for other financial liabilities.

Financial guarantee contracts and other financial liabilities

As at 31 December 2021 the Company has entered into two-‘blanket’ guarantee contracts with the Georgian commercial bank. Under Guarantee 1, the Company guarantees performance of entities under common control (including its parent entity) related to their loans towards the bank. In addition, during 2021 and 2020 Tegeta Truck and Bus LLC– subsidiary of the Group, entered into a guarantee contract with the bank to secure personal loan of the Ultimate Controlling Party. In July 2022 the Ultimate Controlling Party fully paid its loans toward the Georgian commercial bank on which the Group had entered into guarantee obligation. As a result, restrictions on the Group’s cash accounts were released.

As at 31 December 2022, guarantees were as follows:

Instrument	Issuer	Beneficiary	Currency	Maximum exposure	Net book value of other financial liabilitites
Guarantee 1	Tegeta Motors LLC	TGM Group LLC	GEL	120,000	29,980
					29,980

As at 31 December 2021, guarantees were as follows:

Instrument	Issuer	Beneficiary	Currency	Maximum exposure	Net book value of other financial liabilitites
Guarantee 1	Tegeta Motors LLC	TGM Group LLC	GEL	83,000	36,091
Guarantee 2	Tegeta Truck and Bus LLC	Shareholder (physical person)	USD	35,118	34,512
					70,603

Under guarantee 1, only maximum exposure limit was changed during 2022 year and amounted GEL 120,000 instead of GEL 83,000.

Compliance with contractual covenants

The Group is subject to certain covenants related primarily to its bank loans (Note 16). Non–compliance with such covenants may result in negative consequences for the Group. As at 31 December 2022, the Group was in compliance with all the contractual covenants, except certain financial and non–financial covenants under loan agreements, for which the Group received the waiver for the total amount of the loans as of 31 December 2022.

The Group is in compliance with all contractual covenants related to its bonds.

27. Contingencies and commitments (continued)

Contractual commitments – the Group as a lessor

The Group's future minimum rentals receivable under non–cancellable operating leases as at 31 December 2022 are as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Rent income	48	91	342	1,309	216	**2,006**
Total future payments	**48**	**91**	**342**	**1,309**	**216**	**2,006**

The Group's future minimum rentals receivable under non–cancellable operating leases as at 31 December 2021 are as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Rent income	24	48	140	246	–	**458**
Total future payments	**24**	**48**	**140**	**246**	**–**	**458**

28. Financial risk management

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

Credit risk

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

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

	31 December 2022	31 December 2021
Trade and other receivables (Note 14)	73,297	87,746
Loans issued (Note 13)	40,033	12,143
Cash and bank balances (Note 15)	78,904	60,654
Total maximum exposure to credit risk	**192,234**	**160,543**

Trade receivables

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

The Group's management review ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 14.

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

Cash on current account and short–term deposits

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

28. Financial risk management (continued)

Loans issued

Loans are issued to entities under common control and the Ultimate Controlling Party as part of a finance management function for a wider group of companies under common control. ECL estimation on the loans issued is described in Note 5. Management believes that there is no significant risk of loss to beyond the provisions already recorded in the consolidated financial statement.

Market risk

Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

Currency risk

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

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

	31 December 2022			31 December 2021		
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
US Dollars	48,149	(69,475)	**(21,326)**	63,295	(95,238)	**(31,943)**
Euros	64,230	(102,160)	**(37,930)**	57,276	(14,379)	**42,897**

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

	2022	2021
	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 10%	(2,133)	(3,194)
US Dollar weakening by 10%	2,133	3,194
Euro strengthening by 10%	(3,793)	4,290
Euro weakening by 10%	3,793	(4,290)

Interest rate risk

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

	31 December 2022	31 December 2021
Borrowings	206,123	156,940

A reasonably possible change of 100 basis points in interest rates at the reporting date would have affected profit or loss of the Group by GEL 2,061 (2021: GEL 1,569). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

28. Financial risk management (continued)

Liquidity risk

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

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

The table below shows liabilities by their remaining contractual maturity. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The following are the remaining contractual maturities of financial liabilities at the 31 December 2022. The amounts are gross and undiscounted and include estimated interest payments. Financial guarantee contracts include the gross amount of guaranteed obligations at the reporting dates. The management does not expect that guarantee contracts will be settled by the Group.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total	Total carrying amount
Borrowings	3,960	9,930	100,407	253,975	9,617	**377,889**	**285,202**
Lease liabilities	536	1,062	4,586	17,668	3,906	**27,758**	**24,666**
Other financial liabilities	967	1,934	10,098	60,675	34,330	**108,004**	**29,980**
Trade and other payables	166,684	–	–	25,146	–	**191,830**	**186,339**
Total future payments	**172,147**	**12,926**	**115,091**	**357,464**	**47,853**	**705,481**	**526,187**

The following are the remaining contractual maturities of financial liabilities at the 31 December 2021. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total	Total carrying amount
Borrowings	6,063	9,222	92,423	96,889	–	**204,597**	**170,208**
Lease liabilities	714	1,363	5,853	24,826	7,839	**40,595**	**31,197**
Financial guarantee contracts	–	–	46	–	–	**46**	**46**
Other financial liabilities	195	375	36,657	6,195	73,580	**117,002**	**70,603**
Trade and other payables	56,022	–	–	–	–	**56,022**	**56,022**
Total future payments	**62,994**	**10,960**	**134,979**	**127,910**	**81,419**	**418,262**	**328,076**

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

29. Fair value of financial instruments

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

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

All of the financial assets and financial liabilities for which fair values are disclosed are measured at level 3 of fair value hierarchy, except for cash and bank balances, which is measured at level 1 and except bonds, which is measured at level 2.

30. Balances and transactions with related parties

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

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

At 31 December 2022, the outstanding balances with related parties were as follows:

	Owners	Key management	Associates	Other related parties	Total
Trade and other receivables	178	653	–	5,456	**6,287**
Less provision for ECL	(99)	(359)	–	(1,246)	**(1,704)**
Prepayments	–	–	–	8,067	**8,067**
Loans issued	21,500	–	–	18,895	**40,395**
Less provision for ECL	(89)	–	–	(523)	**(612)**
Borrowings	–	(595)	-	(4,314)	**(4,909)**
Lease liabilities	(7,720)	–	(335)	–	**(8,055)**
Other financial liabilities	(29,980)	–	–	–	**(29,980)**
Trade and other payables	(458)	–	(26)	(8,737)	**(9,221)**
Dividends payable	(187)	–	–	(2,565)	**(2,752)**
Accrued employee benefit costs	–	(4,688)	–	–	**(4,688)**

At 31 December 2021, the outstanding balances with related parties were as follows:

	Owners	Key management	Associates	Other related parties	Total
Trade and other receivables	74	252	3,417	16,819	**20,562**
Less provision for ECL	(38)	(201)	(2,858)	(4,342)	**(7,439)**
Prepayments	–	6	–	2,590	**2,596**
Loans issued	6,677	–	–	5,820	**12,497**
Less provision for ECL	–	–	–	(354)	**(354)**
Borrowings	–	–	–	(942)	**(942)**
Lease liabilities	(6,857)	–	(584)	(15,322)	**(22,763)**
Other financial liabilities	(70,540)	–	–	(63)	**(70,603)**
Trade and other payables	(139)	(3)	(617)	(5,472)	**(6,231)**
Contract liabilities	–	–	–	(61)	**(61)**
Dividends receivable	–	–	37	–	**37**
Dividends payable	(13)	–	–	–	**(13)**
Accrued employee benefit costs	(13)	(3,231)	–	–	**(3,244)**
Financial guarantee contracts	–	–	–	(46)	**(46)**

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

The transaction amounts with related parties for the year ended 31 December 2022 were as follows:

	Owners	Key management	Associates	Other related parties	Total
Sale of goods	69	422	–	14,766	**15,257**
Revenue from services rendered	49	88	–	827	**964**
Rental income	–	–	–	344	**344**
Purchases of goods for resale	–	(75)	–	(6,661)	**(6,736)**
Purchases of property and services	–	–	–	(673)	**(673)**
Rent expense	(1,422)	(3)	(270)	-	**(1,695)**
Professional service expenses	–	–	–	(3,689)	**(3,689)**
Staff costs	–	(5,935)	–	(21)	**(5,956)**
Interest income	2,904	3	–	1,492	**4,399**
Interest expense	(122)	–	–	(231)	**(353)**
Share of results	–	–	66	–	**66**
Dividend income	–	–	70	–	**70**
Dividends paid	(14,817)	–	–	–	**(14,817)**
Others	1	(306)	–	(980)	**(1,285)**

30. Balances and transactions with related parties (continued)

The transaction amounts with related parties for the year ended 31 December 2021 were as follows:

	Owners	Key management	Associates	Other related parties	Total
Sale of goods	35	110	762	28,289	**29,196**
Revenue from services rendered	50	41	–	997	**1,088**
Rental income	–	–	–	267	**267**
Purchases of goods for resale	–	–	(4)	(34,939)	**(34,943)**
Purchases of property and services	–	–	(16)	(1,680)	**(1,696)**
Rent payments	(1,467)	(31)	(269)	(3,775)	**(5,542)**
Salaries and bonuses	(404)	(6,812)	–	(518)	**(7,734)**
Interest income	1,038	–	–	614	**1,652**
Interest expense	–	–	–	(184)	**(184)**
Share of results	–	–	306	–	**306**
Dividend income	–	–	43	–	**43**
Dividends paid	(10,111)	–	–	–	**(10,111)**

31. Non–cash transactions

The Group netted off tax payables and current income tax prepaid with the amount of GEL 205 (2021: GEL 158).

During 2022 the Group netted off dividend payables and issued loans with the amount of GEL 4,363.

The other capital distribution of GEL (41,011) (2021: GEL 46,426) was recognized together with assumption of financial guarantee obligations and represents a non–cash transaction for the Group (Note 27).

In 2022 The Group also had non–cash additions to right–of–use assets and lease liabilities of GEL 14,895.

32. Subsequent events

In August 2023, the Company declared dividends to its existing shareholders in the amount of GEL 19,486.

On 29 June 2023, the Company introduced bonds valued at GEL 20,000,000 (ISIN: GE 2700604376), with variable interest rate of 3.5% + TIBR 3M issued by the National Bank of Georgia. These represent the first GEL-denominated green bonds and represent the largest green bond transaction on the local stock exchange. The Asian Development Bank fully subscribed to these bonds, marking the first foreign direct investment for the Group. The funds raised through these bonds will be entirely dedicated to green initiatives, emphasizing the long-term commitment to sustainable development of the Group.

In April 2023, the Company successfully listed bonds, with a total value of USD 25,000,000 (ISIN: GE 2700604327) and EUR 5,000,000 (ISIN: GE 2700604335), with interest rates of 8.5% and 7%, respectively. This marked the Companies first foreign-currency listing accessible to individual investors. The proceeds from this listing were entirely allocated to refinancing of the existing debt obligations of the Group.

The new subsidiary – Caucasus Machinery LLC was founded on 27 February 2023;

The Company purchased the remaining 10% of Auto Gallery LLC shares on 13 January 2023 and obtained full control of this entity with 100% of ownership;