

Teliani Valley and Subsidiaries JSC

Consolidated financial statements

*For the year ended 31 December 2016
together with independent auditor's report*

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Independent auditor's report

To the Shareholders and Board of Directors of JSC Teliani Valley.

Opinion

We have audited the consolidated financial statements of JSC Teliani Valley and its subsidiaries the Group, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of 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 financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Revenue recognition

The Group has wide product assortment within its two main revenue streams, which includes distribution of own produced alcoholic drinks and re-sale of imported beverages. The Group has warehouses and distribution vehicles and sells to retail supermarket chains, other retail shops and restaurants. This matter was of most significant in our audit due to the risk of improper revenue recognition, particularly around period end dates, given the diversity of the Group's revenue streams. Furthermore, there is a risk that management may incorrectly determine whether the Group is acting as principal or agent in sales arrangements with key customers.

We tested relevant controls over revenue recognition process, including the timing of revenue recognition. We performed analytical procedures and tested a sample of revenue recognition transactions around the year-end. We reviewed the contractual arrangements with key customers and considered the appropriateness of the accounting with reference to the sales agreements. We compared a sample of sales transactions to invoices. We also evaluated a sample of new distribution agreements entered into during the year and assessed the Group's determination whether it was acting as a principal or an agent.

Information about revenue recognition is disclosed in notes 4, 6 and 19 to the consolidated financial statements.

Other information included in the Group's Annual report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

Responsibilities of management and Board of Directors for the consolidated financial statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Board of Directors 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 the Board of Directors, 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.

The partner in charge of the audit resulting in this independent auditor's report is Ruslan Khoroshvili.



Ruslan Khoroshvili

On behalf of EY Georgia LLC

29 March 2017

Tbilisi, Georgia

Consolidated statement of financial position**As at 31 December 2016***(Thousands of Georgian lari)*

	Note	2016	2015 Restated*	As at 1 January 2015 Restated*
Property, plant and equipment	9	71,631	13,198	11,200
Intangible assets		480	124	105
Prepayments for fixed assets		827	1,309	–
Prepayments		99	–	–
Deferred tax assets	10	–	340	72
Total non-current assets		73,037	14,971	11,377
Inventories	11	8,426	10,761	11,807
Trade receivables	12	6,755	6,470	7,898
Prepaid income tax		93	60	28
Taxes prepaid, other than income tax		–	2,057	2,002
Taxes prepaid, other than income tax, net		2,780	–	–
Other current assets		29	60	62
Prepayments		1,020	460	584
Restricted cash	13	17,034	2,375	1,265
Cash and cash equivalents	14	2,399	3,425	2,856
Total current assets		38,536	25,668	26,502
Total assets		111,573	40,639	37,879
Equity and liabilities				
Equity				
Issued capital		2,771	771	771
Share premium		38,846	12,958	12,958
Revaluation surplus arising from property, plant and equipment		3,755	3,214	1,849
Foreign currency translation reserve		(1,740)	(1,777)	(1,526)
Retained earnings		2,556	2,909	4,905
Equity attributable to equity holders of the parent		46,188	18,075	18,957
Non-controlling interests		1	1	1
Total equity	15	46,189	18,076	18,958
Non-current liabilities				
Interest bearing loans and borrowings	16	7,611	9,605	9,233
Deferred tax liabilities	10	–	1,585	1,190
Total non-current liabilities		7,611	11,190	10,423
Current liabilities				
Trade and other accounts payable	17	18,116	2,529	2,735
Income tax payable		642	605	892
Government grant		–	–	4
Interest bearing loans and borrowings	16	38,610	5,154	2,358
Taxes payable, other than income tax		–	2,438	1,960
Received advances		140	136	–
Other current liabilities		265	511	549
Total current liabilities		57,773	11,373	8,498
Total liabilities		65,384	22,563	18,921
Total equity and liabilities		111,573	40,639	37,879

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 29.

Signed and authorized for release on behalf of the management of the Group on 29 March 2017

Shota Kobelia

Chief Executive Officer

Koba Chanturia

Chief Financial Officer

The accompanying notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss**For the year ended 31 December 2016***(Thousands of Georgian lari)*

	Note	2016	2015 Restated*
Sale of goods	19	29,793	29,527
Cost of sales	20	(15,917)	(15,222)
Gross profit		13,876	14,305
Selling and distribution expenses	21	(7,797)	(7,907)
Administrative expenses	22	(4,325)	(3,712)
Other operating expenses, net	23	(254)	(850)
Operating result		1,500	1,836
Finance costs		(886)	(1,109)
Finance income		99	55
Foreign exchange loss, net		(1,043)	(2,318)
Other non-operating loss		(64)	-
Other non-operating gain		-	56
Loss before tax		(394)	(1,480)
Income tax benefit/(expense)	10	41	(516)
Loss for the year		(353)	(1,996)
Attributable to:			
- Shareholders of the Parent		(353)	(1,996)
- Non controlling interests		-	-
Earnings per share:			
- Basic and diluted loss per share	15	(0.0000018)	(0.000026)

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 29.

Consolidated statement of comprehensive income**For the year ended 31 December 2016***(Thousands of Georgian lari)*

	Note	2016	2015 Restated*
Loss for the year		(353)	(1,996)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operations		37	(251)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		37	(251)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment	9	–	1,606
Income tax relating to component of other comprehensive income		–	(241)
Effect of change in income tax legislation (Note 10)		541	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		541	1,365
Total comprehensive income/(loss) for the year, net of tax		225	(882)
Attributable to:			
- Shareholders of the Parent		225	(882)
- Non controlling interests		–	–

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 29.

Consolidated statement of changes in equity**For the year ended 31 December 2016***(Thousands of Georgian lari)*

	Share capital	Share premium	Revaluation surplus arising from property, plant and equipment	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At 1 January 2015	771	12,958	1,849	(1,526)	4,905	18,957	1	18,958
Loss for the year (restated*)	-	-	-	-	(1,996)	(1,996)	-	(1,996)
Other comprehensive income (restated*)	-	-	1,365	(251)	-	1,114	-	1,114
At 31 December 2015 (restated*)	771	12,958	3,214	(1,777)	2,909	18,075	1	18,076
Loss for the year	-	-	-	-	(353)	(353)	-	(353)
Other comprehensive income	-	-	541	37	-	578	-	578
Share issue (Note 15)	2,000	25,916	-	-	-	27,916	-	27,916
Transaction costs	-	(28)	-	-	-	(28)	-	(28)
At 31 December 2016	2,771	38,846	3,755	(1,740)	2,556	46,188	1	46,189

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 29.

The accompanying notes on pages 10 to 37 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2016***(Thousands of Georgian lari)*

	Note	2016	2015 Restated*
Operating activities			
Loss before tax		(394)	(1,480)
Adjustments to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment	9	1,561	1,277
Amortization of intangible assets		21	23
Finance cost		886	1,109
Finance income		(99)	(55)
Allowance for doubtful accounts	12	79	238
Loss/(gain) on property, plant and equipment disposal		44	(16)
Net foreign exchange difference attributable to financing and investing activities		1,170	2,173
Cash from operating activities before changes in working capital		3,268	3,269
Working capital adjustments			
Decrease in inventories		2,335	1,046
(Increase)/decrease in trade receivables		(364)	1,190
(Increase)/decrease in prepayments		(659)	124
Decrease in other current assets		31	2
Increase/(decrease) in trade and other accounts payable		583	(206)
Decrease in other current liabilities		(246)	(38)
(Increase)/decrease in taxes prepaid, other than income tax		(390)	423
Increase in advances received		4	136
Cash flows from operating activities before interest and income tax		4,562	5,946
Income tax paid		(659)	(879)
Interest paid		(759)	(1,013)
Net cash flow from operating activities		3,144	4,054
Investing activities			
Acquisition of property, plant and equipment		(44,278)	(1,712)
Acquisition of intangible assets		(377)	(42)
Placements on restricted cash account		(22,544)	(750)
Withdrawal from restricted cash account		9,482	–
Prepayments made for acquisition of fixed assets		482	(1,309)
Proceeds from the sale of property, plant and equipment		62	38
Prepaid taxes other than income on acquired property, plant and equipment		(2,771)	–
Interest received		99	55
Net cash flow used in investing activities		(59,845)	(3,720)
Financing activities			
Issuance of new shares	15	27,888	–
Repayment of borrowings		(3,790)	(3,473)
Proceeds from borrowings		31,021	3,481
Net cash flow from financing activities		55,119	8
Net (decrease)/increase in cash and cash equivalents		(1,582)	342
Effect of exchange rate difference from cash and cash equivalents		556	227
Cash and cash equivalents at the beginning of the period	14	3,425	2,856
Cash and cash equivalents at the end of the year	14	2,399	3,425

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 29.

Non-cash transactions:

- ▶ During 2016, property, plant and equipment acquired on deferred terms amounted to GEL 15,004 (2015: GEL 0).
- ▶ During 2016 GEL 818 of borrowing costs were capitalized as part of property, plant and equipment (2015: GEL 0) and comprised of GEL 712 of finance costs (2015: nil) and GEL 106 of foreign exchange losses (2015: nil).

The accompanying notes on pages 10 to 37 are an integral part of these consolidated financial statements.

(Thousands of Georgian lari)

1. Corporate information

JSC Teliani Valley (the "Company"), is a joint stock company founded in 1997 under the laws of Georgia. The Company's registered office is located at Tbilisi highway No. 3, Telavi, Georgia. The Company's ordinary shares are listed on the Georgian Stock Exchange.

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). Its subsidiaries are disclosed in Note 2. The principal activity of the Group is production of wine and distribution of wine and other beverages. In 2015, the Group started expanding into new business line of beer production.

As at 31 December 2016 and 2015, the following shareholders owned more than 3% of the outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares.

Shareholders	2016, %	2015, %
Liberty Consumer JSC	47.75	50.23
BGEO Group JSC	23.67	20.47
Firebird Avrora Fund Ltd.	15.16	14.21
Firebird Republics Fund Ltd.	11.63	8.82
Shares listed on the Georgian Stock Exchange	0.74	2.66
Other	1.05	3.61
Total	100.00	100.00

As at 31 December 2016, members of the Supervisory Board and the Management Board of the Group have 1,830,111 or 0.66% (2015: 1,830,111 or 2.4%) shares of the Group.

Ultimate controlling party of the Group is BGEO Group PLC.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost convention except for the measurement at fair value of land and buildings, wine tanks, grape vines and harvested produce.

The consolidated financial statements are presented in Georgian lari (GEL) and all values are rounded to the nearest thousand, except when otherwise indicated.

Subsidiaries

The consolidated financial statements as of 31 December 2016 and 2015 include following subsidiaries:

Subsidiary	Ownership, %	Country	Industry	Acquisition/ incorporation date
Teliani Trading LLC	100.0	Georgia	Wholesale trade of goods	30 March 2007
Teliani Trading LLC	100.0	Ukraine	Wholesale trade of goods	31 July 2008
Global Beer Georgia LLC	100.0	Georgia	Production of beer	24 December 2014
Le Caucase LLC	100.0	Georgia	Production of brandy	26 March 2007
Kupa LLC	70.0	Georgia	Production of oak barrels	29 March 2007

Two subsidiaries of the Company (Le Caucase LLC and Kupa LLC) do not have active operations since 2009.

Global Beer Georgia LLC was founded in December 2014 and currently it is in the process of construction of a beer factory in Tsilkani, Georgia.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

(Thousands of Georgian lari)

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. 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; and
- ▶ 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 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 statement of comprehensive income 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 (OCI) 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.

4. Summary of significant accounting policies

Business combinations 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 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 and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures non-financial assets such as land and building, wine tanks, biological assets and produce at fair value at each balance sheet date.

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; or
- ▶ 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

External valuers are involved for valuation of significant assets, such as properties and biological assets. Involvement of external valuers is decided upon annually by the ultimate Parent. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

Fair-value related disclosures are summarised in the following notes:

- ▶ Property, plant and equipment under revaluation model (Note 9).

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The Group's consolidated financial statements are presented in GEL, which is also the Group'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.

i) 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 recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in 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 that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. 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 gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

*(Thousands of Georgian lari)***4. Summary of significant accounting policies (continued)****Foreign currency translation (continued)***ii) 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 OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

The official National Bank of Georgia ("NBG") exchange rates at 31 December 2016 and 2015 to convert 1 UAH into GEL were as follows:

	2016	2015
Period end	0.0977	0.0994
Period average	0.0927	0.1059

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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of profit and loss.

Taxes*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or 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 receivables or payables in the statement of financial position.

*(Thousands of Georgian lari)***4. Summary of significant accounting policies (continued)****Taxes (continued)***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.

Property, plant and equipment

Machinery and heavy equipment, vehicles, office equipment and fixtures and construction in progress are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. 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 income statement as incurred.

Land, buildings, specialized wine tanks and grape vines are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Grape vine establishment represents the expenditure incurred to plant and maintain new grape vines until the vines reach productivity. Once the grape vines are productive the accumulated cost is transferred to mature grape vines and depreciated over the expected useful economic life of the grape vine. Grape vine establishment is not depreciated.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold, leased under finance lease or dismantled is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Grape vines	45 to 50 years
Buildings	7 to 20 years
Machinery and heavy equipment	5 to 13 years
Specialized wine tanks	11 to 13 years
Vehicles	5 to 7 years
Office equipment and fixtures	3 to 8 years

Assets are depreciated from the month of acquisition or, in respect of self-constructed assets, from the month the asset is completed and put into operation. Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

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

Depreciation charge

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

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Biological assets (grape vines)

Following the adoption of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) the financial statements have been restated to reflect that bearer plants such as grape vines are no longer included within the classification of biological assets under IAS 41 *Agriculture*. In accordance with the amendments biological assets held by the Group are now accounted for under IAS 16 *Property, Plant and Equipment* and held at fair value. The biological assets have been transferred to Property, plant and equipment as at 1 January 2015 at deemed cost, being their fair value at that date. This is in line with the transitional guidance which permits the transfer to be at the deemed cost of the historic fair value under old IAS 41. The impact of the adoption is shown in Note 29.

Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite.

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 income statement as the expense category that is consistent with the function of the intangible assets. The intangible assets of the Group have useful lives from 5 to 10 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Financial instruments – initial recognition & subsequent measurement

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.

Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Group's financial assets include cash, trade receivables, loans and other receivables, which are all included in loans and receivables category as defined by IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and other operating expenses for receivables.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Financial instruments – initial recognition & subsequent measurement (continued)

Derecognition

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is primarily derecognised when:

- ▶ The right to receive the cash flows from the asset has expired;
- ▶ 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 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 as pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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.

Impairment of financial assets

The Group assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs.

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities are limited to loans and borrowings category, which include trade and other payables and interest bearing loans.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Financial instruments – initial recognition & subsequent measurement (continued)

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of profit or loss.

Derecognition

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

Offsetting of financial instruments

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

Inventories

Finished goods

Inventories are valued at the lower of cost or net realisable value. Costs of finished goods sold are assigned on a weighted average cost basis. Included within the cost of inventory is the fair value of the grapes (agricultural produce) at the time the grapes are harvested.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Agricultural produce

Harvesting of the grape crop is ordinarily performed in autumn. Costs incurred in growing the grapes, including any applicable harvest costs incurred on the biological asset that are of operating nature, are initially expensed as other operating cost. At the point of harvest, the harvested produce is recorded at its fair value in accordance with IAS 41 *Agriculture*. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvest. Fair value adjustment is recorded net, together with the growing and harvesting costs as other operating costs.

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 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 five 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 income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

(Thousands of Georgian lari)

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets (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 recognised in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

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 of sale are capitalized 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.

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 income statement net of any reimbursement.

5. Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments which are effective for annual periods beginning on or after 1 January 2016:

- ▶ IFRS 14 *Regulatory Deferral Accounts*;
- ▶ Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*;
- ▶ Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- ▶ Amendments to IAS 27 *Equity Method in Separate Financial Statements*.

Annual improvements 2012-2014 cycles:

- ▶ IFRS 7 *Financial Instruments: Disclosures*;
- ▶ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- ▶ IAS 19 *Employee Benefits*;
- ▶ IAS 34 *Interim Financial Reporting*;
- ▶ Amendments to IAS 1 *Disclosure Initiative*;
- ▶ Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*.

Adoption of these new and amended standards and interpretations did not have material impact on the financial position or performance of the Group.

(Thousands of Georgian lari)

6. New standards and interpretations issued but not yet effective

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements, which may have impact on the Group's consolidated financial statements, are listed below.

The group is considering early adoption of the following standard:

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to call outside the scope of IFRS 15 and will be regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 should be adopted using either a full retrospective or a modified retrospective approach. The Group plans to early adopt new standard from 1 January 2017 using modified retrospective approach. During 2016, the Group performed a preliminary assessment of IFRS 15 and its effects to the Group, which is subject to changes arising from a more detailed ongoing analyses. As a result of adoption of IFRS 15 following adjustment is anticipated to be made to the financial statements as at 1 January 2017:

- ▶ Decrease in receivables: GEL 1,000;
- ▶ Increase in Inventory: GEL 604;
- ▶ Decrease in retained earnings: GEL 396.

The Group is in the business of wholesale trade of wine, alcoholic and non-alcoholic beverages. The Group expects the revenue recognition not to occur on certain contracts at a point in time on delivery of the goods.

Other standards and interpretations issued but not yet effective that are not expected to have a material effect on the Group's consolidated financial statements are listed below:

- ▶ IFRS 9 *Financial Instruments*;
- ▶ Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- ▶ IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* – Amendments to IAS 12;
- ▶ IFRS 16 *Leases*;
- ▶ IAS 7 *Statement of Cash Flows*;
- ▶ IFRS 2 *Share-based Payments*.

7. Significant accounting judgments, estimates and assumptions

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

Judgments

Net investment in a subsidiary

The Group treats part of its trade accounts receivable and payable towards its subsidiary in Ukraine as part of its net investment. Management believes that recovery of these intra-Group amounts is not expected in near future and they depend on the overall performance of its Ukrainian subsidiary, therefore they form part of the Group's net investment into its subsidiary in Ukraine. Exchange differences arising on these monetary items are recognised initially in other comprehensive income. Following this judgment foreign losses differences of GEL 54 were classified as part of other comprehensive income in 2016 (2015: 1,137).

(Thousands of Georgian lari)

7. Significant accounting judgments, estimates and assumptions (continued)

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 consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment and biological assets

The Group carries its land, buildings, specialized wine tanks and biological assets at fair value, with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2015 for non-agricultural land, buildings, biological assets and agricultural land. The specialized wine tanks were last time revalued on 1 October 2013. The management did not revalue its assets carried at fair value as at 31 December 2016, since it estimated that from the last revaluation dates of these assets, the fair value did not change materially.

Fair value of harvested produce

The Group's harvested produce is measured at fair value less costs to sell at the point of harvest. The fair value of grapes is determined by reference to estimated market prices at the time of harvest. Generally there is no readily obtainable market price for the Group's grapes because they are not sold on the open market, therefore management set the values based on their experience and knowledge of the sector including past purchase transactions.

Allowance for impairment of receivables

The Group regularly reviews its receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in case where a borrower is in financial difficulties and there are few available historical data relating to similar debtors. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of receivables.

Management believes that allowance for uncollectable amounts of GEL 1,687 (2015: GEL 1,608) is the best estimate of possible losses from impairment of accounts receivables (Note 12).

8. Ukrainian economic environment

In 2014, the economic and political situation in Ukraine deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves.

In 2016 economy in Ukraine started to recover slowly. The National bank of Ukraine met the 2016 inflation target of 12%+/- 3 base point, set out in the monetary policy guidelines for 2016-2020. The rapid inflation slowdown in 2016 was, primarily, driven by subsiding underlying inflation pressure.

In September 2016, the International Monetary Fund disbursed to Ukraine the third tranche of USD 1 billion under the EFF program. This was a positive signal for foreign partners and helped Ukraine to receive funding from other international donors. In particular, at the end of September, the Ministry of Finance placed USD 1 billion of five-year Eurobonds, guaranteed by the US government. Thanks to external financing, international reserves have grown by 16% over the past 12 months. This became a soothing factor for the FX market and facilitated the stability of the financial sector as a whole. That also gave the Fitch agency grounds to raise Ukraine's long-term rating from CCC to B-. Further rating upgrades depend on the acceleration of economic recovery, slowdown of inflation, and subsiding foreign exchange risks.

At 31 December 2016, the Group's net assets exposure to Ukrainian risk amounted to approximately GEL 3,600 (2015: GEL 2,597). These and any further negative developments in Ukraine could adversely impact results and financial position of the Group and its Ukrainian subsidiary in a manner not currently determinable.

(Thousands of Georgian lari)

9. Property, plant and equipment

	Land	Buildings	Machinery and heavy equipment	Specialized wine tanks	Vehicles	Office equip. furniture and fixtures	Grape vines establishment	Construction in progress	Total
Cost or revalued amount									
As restated at 1 January 2015	1,704	3,170	4,612	2,857	1,027	537	26	1,202	15,135
Additions	856	33	458	-	127	63	82	-	1,690
Revaluation adjustment	(785)	1,162	-	-	-	-	8	853	1,238
Disposals	-	-	(14)	-	(80)	-	-	-	(94)
Translation difference	-	-	-	-	(4)	(10)	-	-	(14)
As restated at 31 December 2015	1,775	4,365	5,056	2,857	1,070	590	116	2,055	17,955
Additions	-	24	945	-	251	63	30	-	60,100
Disposal	(31)	-	(7)	(8)	(175)	(29)	-	(70)	(320)
Translation difference	-	-	-	-	-	-	-	-	-
As at 31 December 2016	1,744	4,389	5,994	2,849	1,146	624	146	1,985	77,735
Depreciation and impairment									
As at 1 January 2015	-	177	2,560	239	522	437	-	-	3,935
Depreciation charge for the year, restated	-	183	587	265	183	38	-	21	1,277
Depreciation on disposals	-	-	(5)	-	(67)	-	-	-	(72)
Revaluation adjustment, restated	-	(347)	-	-	-	-	-	(21)	(368)
Translation difference	-	-	-	-	(2)	(13)	-	-	(15)
As at 31 December 2015	-	13	3,142	504	636	462	-	-	4,757
Depreciation charge for the year	-	279	711	262	183	52	-	74	1,561
Depreciation on disposals	-	-	(6)	(2)	(174)	(28)	-	(4)	(214)
As at 31 December 2016	-	292	3,847	764	645	486	-	70	6,104
As restated at 1 January 2015	1,704	2,993	2,052	2,618	505	100	26	1,202	11,200
As restated at 31 December 2015	1,775	4,352	1,914	2,353	434	128	116	2,055	13,198
As at 31 December 2016	1,744	4,097	2,147	2,085	501	138	146	1,915	71,631

(Thousands of Georgian lari)

9. Property, plant and equipment (continued)**Revaluation of Property, plant and equipment**

Land, buildings, specialized wine tanks and grape vines are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The wine tanks were last time revalued on 1 October 2013. The Group engaged an independent valuator to revalue buildings, land and grape vines as at 31 December 2015. The valuation of buildings and non-agricultural land was performed by Colliers Georgia LLC, while grape vines and agricultural land were valued by Georgian Valuation Company LLC, both represent accredited independent valutors with a recognised and relevant professional qualifications. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. Fair value was determined by reference to market comparable method. This means that valuations performed by the valuator are based on data available on the market, adjusted for any difference in the nature, location or condition of the specific property. Fair value measurement disclosures for revalued land, buildings, wine tanks and grape vines provided in Note 26.

If land, buildings, specialized wine tanks and grape vines were measured using the cost model, the carrying amounts would be as follows:

2016	Land	Buildings	Specialized wine tanks	Grape vines
Gross value	1,265	4,091	3,165	1,274
Accumulated depreciation and impairment	–	(1,542)	(1,447)	(80)
Net book value	1,265	2,549	1,718	1,194
2015	Land	Buildings	Specialized wine tanks	Grape vines
Gross value	1,265	4,091	3,165	1,309
Accumulated depreciation and impairment	–	(1,337)	(1,242)	(30)
Net book value	1,265	2,754	1,923	1,279

As at 31 December 2016 and 2015, property plant and equipment with total carrying value of GEL 15,728 and GEL 17,852, respectively, were pledged for loans received. For more details on pledge terms please see Note 18.

Capitalised borrowing costs

The Group started the construction of a brewery in December 2015. This project is expected to be completed in March 2017. The carrying amount of the brewery at 31 December 2016 was 58,858 (2015: GEL 71).

The amount of borrowing costs capitalised during the year ended 31 December 2016 was GEL 818 (2015: nil) and comprised of GEL 712 of finance costs (2015: nil) and GEL 106 of foreign exchange losses (2015: nil). The average rate used to determine the amount of borrowing costs eligible for capitalisation was 11%, which is the average EIR of the specific borrowings.

Agriculture: Bearer Plants: Amendments to IAS 16 and IAS 41

Following the adoption of *Agriculture: Bearer Plants: Amendments to IAS 16 and IAS 41* the Group's grape vines are no longer classified as biological assets. Accordingly the vines have been transferred to plant, property and equipment as at 1 January 2015. The effect of the Amendments to IAS 16 and IAS 41 are disclosed in Note 29.

(Thousands of Georgian lari)

10. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016	2015 Restated
Consolidated statement of profit and loss		
Current income tax charge	663	630
Deferred income tax benefit	(704)	(114)
Income tax (benefit)/expense reported in the consolidated statement of profit or loss	(41)	516
Income tax charged to other comprehensive income		
Deferred income tax (benefit)/expense, directly recognized in other comprehensive income	(541)	241
Total income tax (benefit)/expense to other comprehensive income	(541)	241

Reconciliation between income tax (benefit)/expense and the product of accounting profit multiplied by Georgia's domestic tax rate of 15% for the years ended as at 31 December 2016 and 2015 is as follows:

	2016	2015 Restated
Loss before tax	(394)	(1,480)
Income tax benefit using the domestic corporation tax rate 15%	(59)	(222)
Effect of higher tax rates in Ukraine	(55)	(87)
Non-deductible income and expenses		
Free of charge supplies	136	148
Marketing expenses	69	70
Income from resident financial institutions	(15)	(5)
Other	-	14
Change in allowance of deferred tax asset	329	598
Effect of change in income tax legislation (a)	(446)	-
Income tax (benefit)/expense	(41)	516

(a) Effect of change in income tax legislation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Group reversed in full its deferred tax assets and liabilities, originated within Georgian activities, based on IAS 12 *Income Taxes* requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017. Tax law amendments related to such deemed profit distribution did not have any effect on the Group's financial statements for the year ended 31 December 2016.

(Thousands of Georgian lari)

10. Income tax (continued)

Deferred tax assets and liabilities as at 31 December 2016 and their movements with respective years are as follows:

	2015 Restated	Change through income statement	Change through other comprehen- sive income	2016
Deferred tax assets				
Trade receivable	261	(261)	–	–
Inventories	49	(49)	–	–
Other liabilities	65	(65)	–	–
Tax losses carried forward	1,228	149	–	1,377
Gross deferred tax assets	1,603	(226)	–	1,377
Unrecognized deferred tax asset	(1,263)	(114)	–	(1,377)
Total deferred tax assets	340	(340)	–	–
Deferred tax liabilities				
Property, plant and equipment	(1,545)	1,004	541	–
Interest bearing loans and borrowings	(44)	44	–	–
Intangible assets	(11)	11	–	–
Prepayments	15	(15)	–	–
Total deferred tax liabilities	(1,585)	1,044	541	–
Net deferred tax liability	(1,245)	704	541	–

Deferred tax assets and liabilities as at 31 December 2015 and their movements with respective years are as follows:

	2014 Restated	Change through income statement	Change through other comprehen- sive income	2015
Deferred tax assets				
Trade receivable	180	81	–	261
Trade and other accounts payable	116	(116)	–	–
Inventories	31	18	–	49
Other current assets	3	(3)	–	–
Other liabilities	64	1	–	65
Tax losses carried forward	618	610	–	1,228
Gross deferred tax assets	1,012	591	–	1,603
Unrecognized deferred tax asset	(665)	(598)	–	(1,263)
Total deferred tax assets	347	(7)	–	340
Deferred tax liabilities				
Biological assets	(184)	(141)	–	(325)
Inventories	(39)	39	–	–
Property, plant and equipment	(1,175)	196	(241)	(1,220)
Interest bearing loans and borrowings	(35)	(9)	–	(44)
Intangible assets	(4)	(7)	–	(11)
Prepayments	(28)	43	–	15
Total deferred tax liabilities	(1,465)	121	(241)	(1,585)
Net deferred tax liability	(1,118)	114	(241)	(1,245)

As at 31 December 2016 the Group had tax loss carry forward of GEL 7,650 (2015: GEL 6,822) from Ukrainian Subsidiary without expiration date. Due to the unpredictability of future utilization of the above mentioned losses the Group recognized allowance for the related deferred tax asset.

*(Thousands of Georgian lari)***11. Inventories**

As at 31 December inventory balances were as follows:

	<u>2016</u>	<u>2015</u>
Bulk wine inventory	3,763	4,782
Production supporting materials	1,546	1,607
Finished goods (imported products)	1,306	2,170
Finished goods (own production)	1,181	1,268
Work in progress	296	271
Other inventories	334	663
Total inventories	<u>8,426</u>	<u>10,761</u>

During 2016 GEL 97 (2015: 109) was recognised as an expense for inventories carried at net realisable value under cost of sales account.

12. Trade receivables

As at 31 December, trade receivables balances were as follows:

	<u>2016</u>	<u>2015</u>
Trade receivables	8,442	8,078
Less: allowance for doubtful accounts	(1,687)	(1,608)
Total	<u>6,755</u>	<u>6,470</u>

Movement of allowance for doubtful accounts as at 31 December is as follows:

	<u>2016</u>	<u>2015</u>
At 1 January	1,608	1,387
Charge for the year	79	238
Translation difference	-	(17)
At 31 December	<u>1,687</u>	<u>1,608</u>

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

<u>2016</u>	<u>Neither past due nor impaired</u>	<u><30 days</u>	<u>30-90 days</u>	<u>90-180 days</u>	<u>Total</u>
Trade receivables	6,468	211	58	18	6,755
<u>2015</u>	<u>Neither past due nor impaired</u>	<u><30 days</u>	<u>30-90 days</u>	<u>90-180 days</u>	<u>Total</u>
Trade receivables	6,280	108	56	26	6,470

13. Restricted cash

Restricted cash account includes cash in the amount of GEL 13,738 (2015: GEL 0) placed as guarantee of letter of credit issued for the Group's main equipment supplier. Remaining amounts represents cash placed on the Georgian Bank account to serve as debt service account under loan agreement signed with the OPIC (Note 16) and local financial institution.

(Thousands of Georgian lari)

14. Cash and cash equivalents

As at 31 December, cash and cash equivalent balances were as follows:

	2016	2015
Current accounts with banks	2,093	3,120
Cash on hand	306	305
	2,399	3,425

Current accounts earn interest at annual 2%.

15. Equity

As at 31 December 2016, authorized share capital comprised 400,000,000 (2015: 280,000,000) common shares, of which 277,094,255 were issued and fully paid (2015: 77,094,255). Each share has a nominal value of GEL 0.00001. In May 2016, the Group issued 200,000,000 new shares for the consideration of GEL 27,916, for funding construction of brewery (Note 9).

Share capital of the Group was paid by the existing shareholders in Georgian lari and they are entitled to dividends in Georgian Lari. The weighted average number of ordinary and diluted ordinary shares outstanding in 2016 was 197,642,200 (2015: 77,094,255). The basic and diluted losses per share comprised GEL -0.000018 (2015: loss per share GEL -0.000026). No dividends were declared or paid in 2016 and 2015.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year. The Group's diluted earnings per share equal basic earnings per share as there are no dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016	2015 Restated
Net loss attributable to ordinary equity holders	(353)	(1,996)
Weighted average number of ordinary shares	197,642,200	77,094,255
Basic and diluted earnings per share	(0.000018)	(0.000026)

16. Interest bearing loans and borrowings

	2016	2015
Non-current interest bearing loans and borrowings	7,611	9,605
Current portion of interest bearing loans and borrowings	3,108	2,329
Other current interest bearing loans and borrowings	35,502	2,825
	46,221	14,759

	Interest rate	Maturity	Currency	2016
USD 6 million loan from shareholders (b)	10%-15%	15 February 2017	USD	16,597
EUR 0.5 million loan from Related Parties (b)	10.00%	28 February 2017	EUR	1,538
USD 0.7 million loan from shareholder (b)	10.00%	24 February 2017	USD	2,027
EUR 5 million Bank Loan (b)	14.22%	30 June 2017	EUR	13,791
USD 8 million loan from International financial institution (a)	7.81%	31 March 2021	USD	10,731
GEL 1.5 million loan from Georgian commercial bank (c)	11.00%	15 June 17	GEL	1,482
Other		31 December 2016	USD	55
				46,221

(Thousands of Georgian lari)

16. Interest bearing loans and borrowings (continued)

	Interest rate	Maturity	Currency	2015
USD 8 million loan from International financial institution (a)	7.81%	31 March 2021	USD	11,996
GEL 0.75 million loan from Georgian commercial bank (c)	11.00%	31 March 2016	GEL	760
GEL 0.6 million loan from Georgian commercial bank (c)	11.00%	31 March 2016	GEL	693
EUR 0.5 million loan from Related Parties (b)	10.00%	30 June 2016	EUR	1,310
				<u>14,759</u>

(a) In 2011 the Group obtained USD 8,000,000 loan facility from Overseas Private Investment Corporation (OPIC), which is fully drawn. As at 31 December 2016, property plant and equipment and inventories with carrying value of GEL 15,728 (2015: GEL 17,852) are pledged under this loan agreement.

The loan agreement with OPIC has imposed certain financial and non-financial covenants on the Group. The Group should maintain current assets to current liabilities ratio more than 2, Debt service ratio not less than 1.4 and Indebtedness to tangible net worth ratio of not more than 1.5. Commencing on 1 April 2016 and ending on 31 March 2018, OPIC temporarily waived compliance with financial ratio covenants and made consent to the issuance of new shares.

(b) To finance construction of the brewery in Tsilkani, Georgia (Note 2) the Group obtained short term bridge loans from shareholders, other related parties and Georgian commercial bank. The Bridge loans were fully repaid via issuance of new shares and refinancing from the funds received from EBRD and DEG (Note 30).

(c) Short-term loans were acquired from Georgian commercial bank to finance working capital.

During 2016 interest expense on these loans was GEL 1,598 (2015: GEL 1,109), out of which GEL 712 was capitalized (2015: GEL 0).

17. Trade and other accounts payable

As at 31 December trade and other accounts payable were as follows:

	2016	2015
Trade payables	3,063	2,466
Payables for brewery construction	15,004	–
Trade payable due to related party	49	63
	<u>18,116</u>	<u>2,529</u>

Trade payables are non-interest bearing and are normally settled within 30 to 90 days term.

18. Contingencies, commitments and operating risks**Georgian and Ukrainian tax environment**

The Group has accrued provisions based on the management's best estimates. Georgian and Ukrainian tax and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant state authorities. As such, significant additional taxes, penalties and interests may be assessed.

*(Thousands of Georgian lari)***18. Contingencies, commitments and operating risks (continued)****Collateral on assets**

The Group has provided property, plant and equipment and inventories owned by the Group as collateral to guarantee external loans received from the OPIC.

According to loan agreements the Group is responsible with total carrying value of property, plant and equipment and total inventory balance including production supporting materials and finished goods.

The schedule below discloses assets pledged as at 31 December:

	<u>2016</u>	<u>2015</u>
Property plant and equipment pledged	10,173	11,025
Inventories pledged	5,555	6,827
Total	<u>15,728</u>	<u>17,852</u>

19. Revenue

	<u>2016</u>	<u>2015</u>
Sales of finished goods (own production)	17,675	17,825
Re-sale of goods	12,118	11,702
	<u>29,793</u>	<u>29,527</u>

Revenue from sale of finished goods of own production includes revenue from sale of own produced wine, Chacha, sparkling wine and brandy. For details please refer to schedule below:

	<u>2016</u>	<u>2015</u>
Wine	15,124	14,741
Sparkling wine	1,978	2,389
Brandy	49	151
Chacha	524	544
	<u>17,675</u>	<u>17,825</u>

The Group also imports and resells various types of alcoholic and non-alcoholic beverages to Georgia. Revenue received from re-sale of goods is presented below by product types:

	<u>2016</u>	<u>2015</u>
Vodka	4,271	5,935
Beer	4,730	4,487
Juice	2,315	676
Whiskey	295	209
Coffee	268	123
Energetic drinks	110	171
Other	129	101
	<u>12,118</u>	<u>11,702</u>

The Group has warehouses and distribution vehicles and sells to retail supermarket chains, other retail shops and restaurants.

20. Cost of sales

	<u>2016</u>	<u>2015</u>
Cost of sales of finished goods of own production	8,256	8,549
Cost of re-sold goods	7,661	6,673
	<u>15,917</u>	<u>15,222</u>

*(Thousands of Georgian lari)***20. Cost of sales (continued)**

Below is disclosed cost of sales by expense types:

	2016	2015
Inventory	7,470	7,696
Re-sale of goods	7,661	6,672
Depreciation	544	598
Wages and salaries	192	197
Utility expenses	50	59
	15,917	15,222

21. Selling and distribution expenses

	2016	2015
Sales promotion and advertising expense	4,110	4,247
Wages and salaries	1,311	1,430
Transportation expense	1,213	1,220
Depreciation and amortization	540	408
Rent and utility	306	287
Sales and marketing export	265	264
Other	52	51
	7,797	7,907

22. Administrative expenses

	2016	2015 Restated
Wages and salaries	2,220	1,953
Depreciation and amortization	455	287
Taxes other than income tax	393	90
Rent and utility	265	323
Professional services	182	244
Business trips	162	101
Communication expenses	68	51
Bank charges	49	57
Maintenance and repairs	48	144
Fuel expenses	31	22
Insurance	10	11
Other	442	429
	4,325	3,712

23. Other operating expenses

	2016	2015
Allowance charge on trade receivables (Note 12)	79	238
Research fee	45	68
Project costs (a)	–	295
Loan negotiation fee (b)	–	102
Other	130	147
	254	850

(a) The Group contracted consultants for the design and assistance in the beer factory construction process. The prepayment to the consultants was written off after the parties cancelled the agreement.

(b) The Group was negotiating the loan with OPIC for the construction of the beer factory. However, the loan issuance process was not finalised and the negotiation fee was expensed.

(Thousands of Georgian lari)

24. Risk management

The Group's principal financial liabilities comprise interest-bearing loans and borrowings, trade and other payables and other current liabilities. The main purpose of these financial liabilities is to raise finances for the Group's operations and investing activities. The Group has trade receivables, amounts due from the financial institutions and cash and current accounts that arrive directly from its operations.

The Group is exposed to credit risk, liquidity risk and foreign currency risk.

The Group's exposure to market risk is not significant since it does not have significant assets or liabilities for which value of future cash flows will fluctuate because of changes in market prices.

The Group's senior management oversees the management of these risks. The Group's financial risk-taking activities are very limited. The Group has no derivative activities for risk management or other purposes.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The extent of the Group's credit exposure is represented by the aggregate balance of trade receivables, restricted cash, cash held on current accounts with banks, and short term deposits as at 31 December 2016 and 2015.

Trade receivables

Credit quality of a customer is assessed based on an extensive credit analyses and individual credit limits are defined in accordance with this assessment. Due to the circumstances described in Note 8 subsidiary of the Group in Ukraine suspended the credit limits offered to the customers.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data.

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.

At 31 December 2016 total credit risk exposure equalled to GEL 25,882 (2015: GEL 11,965).

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to Group's net investments in foreign subsidiaries.

The Group enters into contracts in USD, EUR, UAH and GEL. The Group does not use currency derivatives to hedge future transactions and cash flows.

The table below indicate the currencies to which the Group had significant exposure at 31 December 2016 and 2015 on monetary assets and liabilities (expressed in GEL):

2016	GEL	USD	UAH	EUR	Total
Assets					
Trade receivables	3,837	93	2,321	504	6,755
Cash and cash equivalents	758	4	199	1,438	2,399
Restricted cash	1,500	1,796	–	13,738	17,034
Liabilities					
Interest bearing loans and borrowings	(1,482)	(29,410)	–	(15,329)	(46,221)
Trade and other accounts payable	(2,292)	(1,731)	(42)	(14,051)	(18,116)
Net position	2,321	(29,248)	2,478	(13,700)	(38,149)

(Thousands of Georgian lari)

24. Risk management (continued)**Foreign currency risk (continued)**

2015	GEL	USD	UAH	EUR	Total
Assets					
Trade receivables	4,035	404	1,423	608	6,470
Cash and cash equivalents	1,159	484	249	1,533	3,425
Restricted cash	750	1,625	–	–	2,375
Liabilities					
Interest bearing loans and borrowings	(1,452)	(11,996)	–	(1,311)	(14,759)
Trade and other accounts payable	(1,752)	(164)	(51)	(562)	(2,529)
Net position	2,740	(9,647)	1,621	268	(5,018)

Analysis provided below calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

2016	Change in currency rate in %	Strengthening	Weakening
USD	14.0%	4,095	(4,095)
EUR	17.5%	2,398	(2,398)
UAH	30.0%	(743)	743

2015	Change in currency rate in %	Strengthening	Weakening
USD	15.0%	1,447	(1,447)
EUR	20.0%	(54)	54
UAH	20.0%	(324)	324

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts and monitoring forecast and actual cash flows and matching cash resources with the maturity profiles of financial statements.

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted repayment obligations:

2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Interest bearing loans and borrowings	–	21,100	17,621	9,330	–	48,051
Trade and other accounts payable	–	18,116	–	–	–	18,116
	–	39,216	17,621	9,330	–	66,167

2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Interest bearing loans and borrowings	–	2,075	3,842	10,774	592	17,283
Trade and other accounts payable	–	2,529	–	–	–	2,529
	–	4,604	3,842	10,774	592	19,812

(Thousands of Georgian lari)

24. Risk management (continued)

As at 31 December 2016 the Group has a negative net current assets balance of GEL 19,237 due to bridge loans obtained to finance the construction of the brewery plant (Note 16). On 22 December 2016, the Group signed the long-term loan agreements in the amount of EUR 18,5 million (GEL 51, 689) with European Bank for Reconstruction and Development (the EBRD) and German Investment Corporation (the DEG). In March 2017, the total loan facility was utilized by the Group. EUR 10.5 million (GEL 29,200) out of the EBRD and DEG loan were used to refinance the bridge loans outstanding as at 31 December 2016 and subsequently obtained loan on 10 January 2017 (Note 30). The remaining funds in the amount of approximately EUR 8 million (GEL 22,352) will be used to finance the purchase of all remaining equipment and machinery for the new product lines. In addition, the Group issued additional shares to its existing shareholder and settled another bridge loan in the amount of USD 6 million (GEL 16,163). As a result of subsequent settlements of the bridge loans, net current deficit of the Group was fully recovered.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. However, changes in interest rates do not impact any component of the Group's financial assets or liabilities. All interest-bearing loans and borrowings and cash and cash equivalents have fixed interest rates and therefore management do not believe the Group is exposed to the interest rate risk from these financial assets and liabilities.

25. Fair value of financial assets and financial liabilities**Fair value of financial assets and liabilities not carried at fair value**

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2016	Fair value 2016	Unrecognised loss 2016	Carrying value 2015	Fair value 2015	Unrecognised loss 2015
Financial assets						
Restricted cash	17,034	17,034	–	2,375	2,375	–
Trade receivables	6,755	6,755	–	6,470	6,470	–
Cash and cash equivalents	2,399	2,399	–	3,120	3,120	–
Financial liabilities						
Interest bearing loans and borrowings	(46,221)	(46,407)	186	14,759	15,025	266
Trade and other accounts payable	(18,116)	(18,116)	–	2,529	2,529	–
Total unrecognised change in fair value			186			266

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements. All fair values are determined based level 3 fair value hierarchies.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

Financial liabilities carried at amortized cost

The fair value of interest bearing loans and borrowings is estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities.

(Thousands of Georgian lari)

26. Fair value of non-financial assets and non-financial liabilities

Fair value hierarchy for non-financial assets and non-financial liabilities, measured at fair value as at 31 December 2016:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Revalued property, plant and equipment (Note 9)					
Land	31 December 2015	1,744	–	1,744	–
Buildings	31 December 2015	4,097	–	4,097	–
Specialized wine tanks	1 October 2013	2,085	–	2,085	–
Revalued biological assets	31 December 2015	2,061	–	2,061	–

There have been no transfers between levels of the hierarchy during the year.

27. Related party disclosure

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2016		2015	
	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Cash and cash equivalents and restricted cash (a)	14,146	–	1,927	–
Prepayments and other current assets	24	–	26	–
Trade and other accounts payable	49	–	63	–
Loans from parent (b)	13,479	–	–	–
Loans from entities under common control (b)	1,397	–	2,003	–
Interest expense	–	–	130	–
Insurance expense	67	–	23	–
Kay management salary expenses	–	610	–	556
Management bonuses	–	380	–	320

(a) As at 31 December 2016 the Group had placed GEL 14,146 at the Bank of Georgia, an entity under common control (2015: GEL 1,927).

(b) The Group has interest bearing loans received from Galt & Taggart Holding Limited and from BGEO Group JSC.

28. Segment information

For management purposes, the Group is organized into single reportable segment – trading with alcoholic and non-alcoholic beverages. The management organizes sale of own produced finished goods and resale of imported goods under four regions: Georgia, Ukraine, Other CIS and Other countries.

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Geographical performance is evaluated based on revenue and operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

(Thousands of Georgian lari)

28. Segment information (continued)

The information regarding income and expenses provided for the geographical regions for the year ended 31 December 2016 and 2015 is as follows:

For the year ended 31 December 2016	Georgia	Ukraine	Other CIS	Other countries	Unallocated	Total
Revenue from external customers	18,977	4,959	2,238	3,619	–	29,793
Cost of sales	(11,268)	(2,045)	(857)	(1,747)	–	(15,917)
Financial cost	(886)	–	–	–	–	(886)
Financial income	99	–	–	–	–	99
Loss before tax	–	–	–	–	(394)	(394)
Income tax benefit	–	–	–	–	41	41
Loss for the year	–	–	–	–	(353)	(353)

For the year ended 31 December 2015	Georgia	Ukraine	Other CIS	Other countries	Unallocated	Total
Revenue from external customers	18,874	4,468	2,563	3,622	–	29,527
Cost of sales	(9,886)	(2,536)	(1,068)	(1,732)	–	(15,222)
Financial cost	(1,109)	–	–	–	–	(1,109)
Financial income	56	–	–	–	–	56
Loss before tax	–	–	–	–	(1,480)	(1,480)
Income tax expense	–	–	–	–	(516)	(516)
Loss for the year	–	–	–	–	(1,996)	(1,996)

The information regarding non-current assets provided for the geographical regions for the year ended 31 December 2016 and 2015 is as follows:

For the year ended 31 December 2016	Georgia	Ukraine	Other CIS	Other countries	Unallocated	Total
Property, plant and equipment	71,568	63	–	–	–	71,631
Intangible assets	227	253	–	–	–	480
Total	71,795	316	–	–	–	72,111

For the year ended 31 December 2015	Georgia	Ukraine	Other CIS	Other countries	Unallocated	Total
Property, plant and equipment	13,184	14	–	–	–	13,198
Intangible assets	123	1	–	–	–	124
Deferred tax assets	–	–	–	–	340	340
Total	13,307	15	–	–	340	13,662

(Thousands of Georgian lari)

29. Adoption of Agriculture: Bearer plants: Amendments to IAS 16 and IAS 41

Following the adoption of *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41) the financial statements have been restated to reflect that bearer plants such as grape vines are no longer included within the classification of biological assets under IAS 41 *Agriculture*. In accordance with the amendments biological assets held by the Group are now accounted for under IAS 16 *Property, Plant and Equipment* and held at fair value. The tables below presents a summary of the qualitative effects of the above change in accounting policy. The effect on earnings per share was immaterial and is therefore not presented.

Effects on consolidated statement of financial position

1 January 2015	Note	Previously reported	Restatement adjustments	As restated
Property, plant and equipment	(a)	9,973	1,227	11,200
Biological assets	(a)	1,227	(1,227)	–
31 December 2015	Note	Previously reported	Restatement adjustments	As restated
Property, plant and equipment	(a)	11,028	2,170	13,198
Biological assets	(a)	2,170	(2,170)	–
Revaluation surplus arising from property, plant and equipment	(c)	2,464	750	3,214
Retained earnings	(c)	3,659	(750)	2,909

Effects on consolidated statement of comprehensive income

31 December 2015	Note	Previously reported	Restatement adjustments	As restated
Fair value movement on biological assets	(c)	861	(861)	–
Administrative expenses	(b)	(3,691)	(21)	(3,712)
Income tax benefit/(expense)	(c)	(648)	132	(516)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods				
Revaluation of property, plant and equipment	(c)	724	882	1,606
Income tax relating to component of other comprehensive income	(c)	(109)	(132)	(241)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		615	750	1,365

Explanations of changes to previously reported loss attributable to owners of the Group:

- (a) Transfer of biological assets (Grape vines) to property plant and equipment at deemed cost;
- (b) Depreciation of GEL 21 for the year ended 31 December 2015;
- (c) Transfer of "fair value movement on biological assets", with related income tax effect, from profit and loss statement to other comprehensive income.

30. Events after the reporting period

On 10 January 2017, the Group obtained short term bridge loan from BGEO Group JSC in the amount of USD 4.7 million (GEL 12,440)

On 17 January 2017, the Group issued new shares for existing shareholders, funds obtained from issuing new 92,310,000 shares was equal to USD 6 million (GEL 16,193). Obtained funds were used to refinance the USD 6 million loan obtained from shareholders, which was outstanding as at 31 December 2016.

On 7 March 2017, the Group received EBRD and DEG loan in amount of EUR 18.5 million (approximately GEL 51,689), out of which EUR 10.5 million (approximately GEL 29,200) was used to refinance the bridge loans outstanding as at 31 December 2016 and received on 10 January 2017.