# JSC Teliani Valley and Subsidiaries

## Consolidated financial statements

*For the year ended 31 December 2018*
*with independent auditor's report*

## Contents

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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 2018, 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 consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated 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.

### *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.

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***Responsibilities of management and the 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.

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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.

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

Marchello Gelashvili

On behalf of EY LLC

Tbilisi, Georgia

30 April 2019

# Consolidated statement of financial position

## As at 31 December 2018

*(Thousands of Georgian lari)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 100,081 | 102,168 |
| Intangible assets | | 991 | 723 |
| Prepayments | 10 | 2,057 | 1,658 |
| Amounts due from financial institutions | | 125 | – |
| Loans issued | 27 | 332 | – |
| **Total non-current assets** | | **103,586** | **104,549** |
| **Current assets** | | | |
| Inventories | 8 | 24,472 | 17,122 |
| Trade receivables | 9 | 13,377 | 11,900 |
| Prepayments | 10 | 3,264 | 2,795 |
| Other current assets | | – | 7 |
| Loans issued | 27 | 649 | – |
| Restricted cash | 11 | – | 4,381 |
| Cash and cash equivalents | 12 | 7,354 | 17,437 |
| **Total current assets** | | **49,116** | **53,642** |
| **Total assets** | | **152,702** | **158,191** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | | 5,525 | 5,200 |
| Share premium | | 83,992 | 78,748 |
| Foreign currency translation reserve | | (1,506) | (1,782) |
| Accumulated loss | | (36,207) | (11,829) |
| **Equity attributable to equity holders of the parent** | | **51,804** | **70,337** |
| Non-controlling interests | | 1 | 1 |
| **Total equity** | 13 | **51,805** | **70,338** |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 14 | 55,368 | 61,482 |
| **Total non-current liabilities** | | **55,368** | **61,482** |
| **Current liabilities** | | | |
| Trade and other accounts payable | 16 | 15,807 | 14,848 |
| Taxes payable, other than income tax | | 1,877 | 1,178 |
| Interest bearing loans and borrowings | 14 | 23,351 | 9,795 |
| Contract liabilities | | 2,857 | 95 |
| Other current liabilities | | 1,637 | 455 |
| **Total current liabilities** | | **45,529** | **26,371** |
| **Total liabilities** | | **100,897** | **87,853** |
| **Total equity and liabilities** | | **152,702** | **158,191** |

**Signed and authorized for release on behalf of the management of the Group on 30 April 2019**

Giorgi Tskhadadze — Chief Executive Officer

Giorgi Kasradze — Chief Financial Officer

*The accompanying notes on pages 9 to 39 are an integral part of these consolidated financial statements*

## Consolidated statement of profit or loss

## As at 31 December 2018

*(Thousands of Georgian lari)*

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| Revenue and gains | 19 | 70,085 | 55,228 |
| Cost of sales | 20 | (46,422) | (34,146) |
| **Gross profit** | | **23,663** | **21,082** |
| Selling and distribution expenses | 21 | (22,228) | (15,724) |
| Administrative expenses | 22 | (13,007) | (7,147) |
| Other operating expenses | 23 | (6,093) | (2,844) |
| **Operating result** | | **(17,665)** | **(4,633)** |
| Finance costs | 14 | (5,189) | (3,316) |
| Finance income | | 170 | 169 |
| Foreign exchange loss, net | | (77) | (7,024) |
| Management restructuring costs | 24 | (1,617) | – |
| Gain from sale of property, plant and equipment | | – | 558 |
| **Loss before tax** | | **(24,378)** | **(14,246)** |
| Income tax | 18 | – | – |
| **Loss for the year** | | **(24,378)** | **(14,246)** |

*The accompanying notes on pages 9 to 39 are an integral part of these consolidated financial statements*

## Consolidated statement of other comprehensive income

## As at 31 December 2018

*(Thousands of Georgian lari)*

| | *2018* | *2017* |
|---|---|---|
| **Loss for the year** | **(24,378)** | **(14,246)** |
| **Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | | |
| Exchange difference on translation of foreign operations | 276 | (42) |
| **Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | **276** | **(42)** |
| **Total comprehensive loss for the year, net of tax** | **(24,102)** | **(14,288)** |

*The accompanying notes on pages 9 to 39 are an integral part of these consolidated financial statements*

## Consolidated statement of changes in equity

## As at 31 December 2018

*(Thousands of Georgian lari)*

| | *Share capital* | *Share premium* | *Foreign currency translation reserve* | *Retained earnings/(loss)* | *Total* | *Non-controlling interests* | *Total* |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2016** | **2,771** | **38,846** | **(1,740)** | **2,417** | **42,294** | **1** | **42,295** |
| Loss for the year | – | – | – | (14,246) | **(14,246)** | – | **(14,246)** |
| Other comprehensive loss | – | – | (42) | – | **(42)** | – | **(42)** |
| Share issue (Note 13) | 2,429 | 39,902 | – | – | **42,331** | – | **42,331** |
| **As at 31 December 2017** | **5,200** | **78,748** | **(1,782)** | **(11,829)** | **70,337** | **1** | **70,338** |
| Loss for the year | – | – | – | (24,378) | **(24,378)** | – | **(24,378)** |
| Other comprehensive income | – | – | 276 | – | **276** | – | **276** |
| Share issue (Note 13) | 325 | 5,244 | – | – | **5,569** | – | **5,569** |
| **At 31 December 2018** | **5,525** | **83,992** | **(1,506)** | **(36,207)** | **51,804** | **1** | **51,805** |

*The accompanying notes on pages 9 to 39 are an integral part of these consolidated financial statements*

## Consolidated Statements of cash flows

*(Thousands of Georgian lari)*

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before tax | | (24,378) | (14,246) |
| **Adjustments to reconcile loss before tax to net cash flows** | | | |
| Depreciation of property, plant and equipment | 7 | 9,998 | 5,203 |
| Amortization of intangible assets | 22 | 251 | 31 |
| Finance cost | 14 | 5,189 | 3,316 |
| Finance income | | (170) | (169) |
| Inventory write off | 23 | 1,258 | – |
| Provision for expected credit losses | 23 | 546 | 633 |
| Fair value movement in biological produce | 19 | (635) | (253) |
| Gain on disposal of property, plant and equipment | | – | (558) |
| Net foreign exchange (gain)/loss attributable to financing and investing activities | | (1,035) | 6,577 |
| **Cash from operating activities before changes in working capital** | | **(8,976)** | **534** |
| **Working capital adjustments** | | | |
| Changes in inventories | | (7,973) | (7,691) |
| Changes in trade receivables | | (2,023) | (6,779) |
| Changes in prepayments | | (1,051) | (2,768) |
| Changes in other assets | | 7 | 22 |
| Changes in trade and other accounts payable | | 3,244 | 6,385 |
| Changes in other current liabilities | | 1,182 | 190 |
| Changes in taxes payables, other than income tax | | 699 | 3,958 |
| Changes in contract liabilities | | 2,762 | (45) |
| **Cash flows used in operating activities before interest and income tax** | | **(12,129)** | **(6,194)** |
| Income tax paid | | – | (642) |
| Interest paid | 14 | (3,106) | (3,956) |
| **Net cash flows used in operating activities** | | **(15,235)** | **(10,792)** |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | | (10,099) | (46,784) |
| Acquisition of intangible assets | | (516) | (274) |
| Placements of cash on restricted cash account | | – | (9,729) |
| Withdrawals from restricted cash account | | 4,381 | 22,539 |
| Proceeds from the sale of property, plant and equipment | | 93 | 717 |
| Interest received | | – | 31 |
| **Net cash flows used in investing activities** | | **(6,141)** | **(33,500)** |
| **Financing activities** | | | |
| Issuance of new shares | 13 | 5,569 | 42,331 |
| Repayment of borrowings | 14 | (14,964) | (47,747) |
| Issued Loans | | (981) | – |
| Proceeds from borrowings | 14 | 21,704 | 64,936 |
| **Net cash flows from financing activities** | | **11,328** | **59,520** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(10,048)** | **15,228** |
| Effect of exchange rate difference from cash and cash equivalents | | (35) | (190) |
| Cash and cash equivalents at the beginning of the period | 11 | 17,437 | 2,399 |
| **Cash and cash equivalents at the end of the year** | 11 | **7,354** | **17,437** |

Non-cash transactions:

- In 2018, acquisition of property, plant and equipment included utilization of prepayments made for non-current assets for GEL 183.

*(Thousands of Georgian lari)*

## 1. Corporate information

JSC Teliani Valley (the "Company"), Identification number 203855444, 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.

These consolidated financial statements 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 activities of the Group are production and distribution of wine, beer, lemonade and other alcoholic beverages of own produce and distribution of imported beer and other beverages.

As at 31 December 2018, the ultimate parent of the Company is Georgia Capital PLC ("GCAP" or the "Ultimate Parent"). As at 31 December 2017, the ultimate parent of the Company was BGEO Group PLC ("BGEO"). On 29 May 2018, BGEO completed demerger of its business activities into a London-listed banking business, Bank of Georgia Group PLC and a London-listed investment business, GCAP. On the same date GCAP became the ultimate parent of the Company. No individual shareholder owns more than 8% of the GCAP shares as at 31 December 2018. The GCAP's registered legal address is 84 Brook Street, London, W1K 5EH, England and registration number is 10852406.

As at 31 December, the Company's shareholders were as follows:

| ***Shareholders*** | ***2018 (%)*** | ***2017 (%)*** |
|---|---|---|
| Georgia Capital PLC | 75.77 | 47.57 |
| JSC Liberty Consumer | 1.87 | 28.06 |
| Firebird Republics Fund Ltd. | 9.89 | 10.51 |
| Firebird Avrora Fund Ltd. | 8.07 | 8.57 |
| Firebird Fund LP | 4.04 | 4.29 |
| Other | 0.36 | 1.00 |
| **Total** | **100.00** | **100.00** |

## 2. Significant accounting policies

### 2.1 Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis except for biological produce, financial assets and financial liabilities that are measured at fair value.

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

### 2.2 Going concern

During 2018, the Group incurred net loss of GEL 24,378 (2017: GEL 14,246) and used GEL 15,235 of cash in operating activities (2017: GEL 10,792). The financial result is mainly attributed to operations of Global Beer Georgia LLC ("GBG"), a subsidiary of the Group and a start-up entity. During 2018, GBG incurred net loss of GEL 26,087 (2017: GEL 19,506) and used GEL 12,744 of cash in operating activities (2017: GEL 12,816). Since 2017, GBG has been gradually launching new beer and lemonade production lines. GBG plans to launch production of beer under Amstel and Heineken brands.

Management has assessed the GBG's cash needs during 12 months after the issuance of the financial statements and estimated that in order to support the operations of the new business lines and Heineken and Amstel launch, additional financing of GEL 20,163 (EUR 7 million) will be required. In March 2019, GBG obtained letters from the Bank of Georgia and TBC Bank, resident commercial banks, approving new credit line of EUR 25 million (GEL 80,112).

These financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

*(Thousands of Georgian lari)*

## 2. Significant accounting policies (continued)

### 2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. 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.

**Subsidiaries**

As at 31 December 2018 and 2017, the consolidated financial statements include the following subsidiaries:

| *Subsidiary* | *Ownership, %* | *Country* | *Industry* | *Acquisition/ incorporation date* |
|---|---|---|---|---|
| Georgia Distribution and Logistics 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 and distribution of beer and lemonade | 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 |

Le Caucase LLC and Kupa LLC do not have active operations since 2009. In 2018, Teliani Trading LLC (Georgia) was renamed to Georgia Distribution and Logistics LLC.

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)*

## 2. Significant accounting policies (continued)

### 2.4 Summary of significant accounting policies

#### a) Revenue from contracts with customers

*Revenue and gains*

Revenue from the sale of finished goods is recognised when the Group satisfies the performance obligation, i.e. at the point in time when the control of the goods has passed to the customer, usually on delivery of the goods.

For the finished goods sold on consignment basis, revenue is recognized when the goods are transferred to the end-customer or on expiration of specified period during which the retailer can return unsold goods.

Revenue is recognized in connection to the sale of finished goods at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Transaction price reflecting adjustments for the consideration payable to the customer (cash amounts that the Group pays, or expects to pay, to a customer) and for any volume discounts.

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled.

***Contract balances***

*Contract assets*

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

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs obligations under the contract.

*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.

#### b) Property, plant and equipment

Property, plant and equipment 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 consolidated statement of profit and loss as incurred.

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.

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### b) Property, plant and equipment (continued)

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 50 years |
| Machinery and equipment | 3 to 20 years |
| Vehicles | 5 to 7 years |
| Other | 3 to 8 years |

Assets are depreciated from the following month the asset is put into operation. Land and vineyard establishment are 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 consolidated statement of profit and loss 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 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).

### c) Biological assets and produce

Agricultural produce is accounted for under IAS 41 *Agriculture*. Harvesting of the grape crop is ordinarily carried out in October. Prior to harvest the costs of growing the grapes are carried forward in inventory. Upon harvest the grapes become agricultural produce and are, therefore, measured at fair value less costs to sell in accordance with IAS 41 with any fair value gain or loss recognised in the consolidated statement of profit and loss.

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. This measurement of fair value less costs to sell is the deemed cost of the grapes that is transferred into inventory upon harvest. Under IAS 41, the agricultural produce is also valued at the end of each reporting period, with any fair value gain or loss recognised in the revenue and gains.

Bearer plants are accounted for under IAS 16 *Property, Plant and Equipment* at cost.

### d) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- raw materials: purchase cost on a weighted average basis;
- finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Inventories are charged to cost of sales on a weighted average basis.

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.

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### e) Intangible assets

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

The Group's intangible assets have finite useful lives.

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

The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss as the expense category that is consistent with the function of the intangible assets. The intangible assets of the Group have useful lives from 5 to 10 years.

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 consolidated statement of profit or loss when the asset is derecognised.

### f) Foreign currency translation

The Group's consolidated financial statements are presented in GEL, which is also the parent Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

*(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 of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income. Non-monetary items 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).

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

(Thousands of Georgian lari)

## 2.4 Summary of significant accounting policies (continued)

### f) 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 other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Where an exchange difference arises on an intragroup balance that, in substance, forms part of an entity's net investment in a foreign operation, then the exchange difference is not to be recognised in profit or loss in the consolidated financial statements, but is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

### g) Taxes

*Current income tax*

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

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

The profits earned in Ukraine that have been adjusted for permanent and temporary differences as permitted by local tax law are subject to income tax. Corporate income tax rate in Ukraine is 18%.

At Ukrainian entry, deferred tax is recognised whereby the deferred tax assets and liabilities arising from temporary differences between the carrying amounts and tax bases of assets and liabilities are recognised in the statement of financial position. In the consolidated financial statements, deferred tax liabilities are recognised in the statement of financial position in deferred tax liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

*Value added tax ("VAT")*

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

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

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

*Net presentation of tax assets and liabilities*

Starting form 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.

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### h) Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

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

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

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

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

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### i) Financial instruments – initial recognition & subsequent measurement (continued)

*Subsequent measurement*

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

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

*Financial assets at amortised cost (debt instruments)*

This category is most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

  and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortised cost includes, trade receivables, amounts due from credit institutions, and loans issued included under other current assets.

*Impairment of financial assets*

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

- significant accounting judgements, estimates and assumptions (Note 3);
- trade receivables (Note 9);
- changes in accounting policies and disclosures (Note 2).

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

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

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

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

(Thousands of Georgian lari)

## 2.4 Summary of significant accounting policies (continued)

### i) Financial instruments – initial recognition & subsequent measurement (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated profit or loss.

*Derecognition*

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

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

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

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

**Financial liabilities**

*Initial recognition and subsequent measurement*

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

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

As at 31 December 2018 and 2017, the Group's financial liabilities are limited to loans and borrowings category, which include trade and other payables and interest bearing loans and borrowings.

*Subsequent measurement*

The Group's financial liabilities, after initial recognition are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income. This category generally applies to interest-bearing loans and borrowings

*Loans and Borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as though the EIR amortized process.

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

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### i) Financial instruments – initial recognition & subsequent measurement (continued)

This category generally applies to interest bearing loans and borrowings.

*Derecognition*

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

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

*Offsetting of financial instruments*

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

### j) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

*Group as a lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

### k) Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.
The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared the Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of four years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fourth year.

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

### k) Impairment of non-financial assets (continued)

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

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

### l) Cash and cash equivalents

Cash and cash equivalents in the consolidated 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.

### m) 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 consolidated statement of profit or loss net of any reimbursement.

### n) Fair value measurement

The Group measures financial instruments and non-financial assets such as agricultural produce at fair value less cost to sell at each balance sheet date and at the time of harvest.

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

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

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

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

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.

*(Thousands of Georgian lari)*

## 2.4 Summary of significant accounting policies (continued)

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

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

## 2.5 Changes in accounting policies and disclosures

The Group adopted IFRS 9 *Financial Instruments* as at 1 January 2018. The nature and effect of the changes as a result of adoption of the accounting standard is described below.

Several other amendments and interpretations were applied for the first time in 2018, but did not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

*IFRS 9 Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 retrospectively. The Group did not to restate the comparative financial information for the period beginning 1 January 2018 and recorded the impact from adoption of IFRS 9 in the statement of comprehensive income for 2018 due to immateriality of the IFRS 9 adoption impact on that date.

*Classification and measurement*

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The assessment of the Group's business models was made as of 1 January 2018, the date of initial application and based on facts and circumstances as at initial recognition of the assets. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Classification and measurement requirements of IFRS 9 did not have significant impact on the Group's consolidated statement of financial position or equity on applying the classification. The Group continues measuring at amortized cost all financial assets and liabilities at amortized.

*Impairment*

The adoption of IFRS 9 changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognize an allowance for ELCs for all debt instruments not held at fair value through profit or loss and contract assets. The Group applies the simplified approach and records lifetime expected losses on all trade receivables and interest bearing loans and borrowings. The financial effect from adoption of this standard is deemed to be immaterial.

*(Thousands of Georgian lari)*

## 2. Significant accounting policies (continued)

### 2.5 Changes in accounting policies and disclosures (continued)

***Other standards and interpretations***

The following standards/interpretations that became effective on 1 January 2018 had no impact on the Group's consolidated financial position or results of operations:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters.

### 2.6 Standards issued but not yet effective

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

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17 and IFRIC 4.

The Group has adopted IFRS 16 using modified retrospective approach, i.e. the Group recognized cumulative catch-up adjustment on opening balance sheet without the restatement of prior period comparatives. The Group determined that the impact on the consolidated financial statements as at 1 January 2019 was an increase to right-of-use assets and increase of related lease liabilities of GEL 2,293. Lease liability was be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group has also recognised a right-of-use asset for such leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

*(Thousands of Georgian lari)*

## 2. Significant accounting policies (continued)

### 2.6 Standards issued but not yet effective (continued)

Other amendments issued but not yet effective that are not applicable for the Group are listed below:

- IFRS 17 *Insurance Contracts*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28: *Long-term interests in associates and joint ventures*
- Annual Improvements 2015-2017 Cycle (issued in December 2017):
  - IFRS 3 *Business Combinations*
  - IFRS 11 *Joint Arrangements*
  - IAS 12 *Income Taxes*
  - IAS 23 *Borrowing Costs*

## 3. 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

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

*Revenue recognition – transfer of control over goods*

Management uses judgment in determining whether the Group controls the goods delivered to the intermediate sellers before they are resold to the end-users. Under certain type of sales contracts, the intermediate sellers are obliged to pay for the goods only after they are resold to the end user and have unconditional right of return of unsold goods to the Group at any time before product expiration date is reached. Management believes that under these sales contracts, the Group retains control over the goods until these goods are not resold to the end-users and does not recognize revenue until that point.

*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 the near future and depends on the overall performance of its Ukrainian subsidiary. Therefore, these amounts form part of the Group's net investment into its subsidiary in Ukraine. Exchange differences arising on these instruments are recognised initially in other comprehensive income. Following this judgment, foreign gains of GEL 276 were classified as part of other comprehensive income in 2018 (2017: Loss - 564).

### 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.

*(Thousands of Georgian lari)*

## 3. Significant accounting judgments, estimates and assumptions (continued)

*GBG impairment*

The launch of Heineken and Amstel licensed beer production was initially planned in 2018 and 2019, respectively. However, due to technical reasons the management revisited the assumptions in respect of new launch dates of the licensed beer production and estimated the recoverable amount of the GBG's non-current assets as at 31 December 2018. The recoverable amount of property, plant and equipment has been determined based on value in use, using discounted cash flow (DCF) model. The value in use of property, plant and equipment has been defined as the value in use of the business, adjusted for fair value of net working capital.

Forecasted cash flows are based on approved financial budgets covering 2019-2022 period. The results of the assessment of value in use are sensitive to expected sales volumes, sales price, expected capital expenditures and start date of production and sale of beer under Amstel and Heineken brands. The value in use was estimated using a discount rate of 15,4% and terminal growth rate of 3,5%. As a result of analysis, the carrying amount of property, plant and equipment nearly equalled its carrying amount. Any adverse change in these estimates might result in impairment of the GBG's property, plant and equipment.

The calculation of value in use is most sensitive to the assumption associated with launch dates for Amstel and Heineken brands. The shift of start date by one year will result in decrease of recoverable amount by GEL 6,103.

*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 trade receivables*

The Group recognises allowances for expected credit losses for trade accounts receivables, and applied the standard's simplified approach.

The Group calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors to the debtors and the economic environment.

For cash and cash equivalents held in financial institutions, the Group estimated that expected credit losses were immaterial.

As at 31 December 2018, provision for expected credit losses of GEL 2,866 (2017: GEL 2,320) is the best estimate of possible losses from impairment of debt financial assets (Note 9).

## 4. Operating environment

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets, including the risk that the Georgian Lari is not freely convertible outside the country, there are currency exchange fluctuation risks, debt and equity markets are not well developed. However, over the last years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to enhance banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation, including new Tax Code and procedural laws. In the view of the Management, these steps contribute to mitigation of the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries.

Group's one subsidiary, Teliani Trading Ukraine LLC is operating in Ukraine and the developments in the Ukrainian environment have significant impact on the Group's business. Economic growth in Ukraine increased to 3.3 percent during 2018 from 2.5 percent in 2017. The growth was led by continued strong growth in key services, an early agriculture harvest, and the resumption of growth in the mining sector. The investor confidence has been weighed down by delays in implementing key reforms as well as uncertainty related to the elections. Sustaining reform memorandum through 2019 is critical to meet major financial needs. In case the reforms continue and agreement with IMF is reached, economic growth is projected at 3.5 percent in 2019, rising above 4 percent in 2020-2021 period after the election related uncertainties abate.

*(Thousands of Georgian lari)*

## 4. Operating environment (continued)

In 2018, consumption of alcoholic beverages in Ukraine (in volume terms) increased by 1.6% to 22,261mn litres. The sector is recovering gradually after a difficult period characterised by elevated inflation and steep increases in excise taxes during 2016-2017. The recovery is expected to strengthen further in 2019-2020 period.

On a per capita basis, Ukraine's wine consumption remained low at 2.6 litres in 2018. The Group expects the consumption to rise gradually over the coming five years, reaching 3.0 litres by 2023. Wine sales are projected to be supported by rising household incomes and purchasing power, amid moderating inflation, over the next few years. The Group believes that low-priced wines will also remain popular, given low overall household incomes.

At 31 December 2018, the Group’s net assets exposure to Ukrainian risks amounted to approximately GEL 6,440 (2017: GEL 4,419). Negative developments in Ukraine could adversely impact results and financial position of the Group and its Ukrainian subsidiary in a manner not currently determinable.

## 5. Reclassification of prior year balances

During 2018, the Group reconsidered presentation of certain gains and expenses in its consolidated statement of profit or loss by using new analytical approach. The presentation of comparative figures has been adjusted to be consistent with the presentation of the current period amounts:

| ***Consolidated statement of profit or loss for the year ended 31 December 2017*** | ***As previously reported*** | ***Reclassification*** | ***As reclassified*** |
|---|---|---|---|
| Revenue and gains (a) (Note 19) | – | 55,228 | 55,228 |
| Sales of goods (a) | 54,975 | (54,975) | – |
| Fair value movement in biological produce (a) | 253 | (253) | – |
| | | | |
| Cost of sales (b) (Note 20) | (34,433) | 287 | (34,146) |
| Other operating expenses (b) (Note 23) | (2,557) | (287) | (2,844) |
| | | | |
| Other non-operating gain (c) | 558 | (558) | – |
| Gain from sale of property, plant and equipment (c) | – | 558 | 558 |

a) In 2018, the Group reconsidered classification of fair value movement in biological produce and included it together with sale of goods under Revenue and gains in the consolidated statement of profit or loss.

b) In 2017, the inventory write-off expenses were included under Cost of sales. In 2018, the Group reconsidered its presentation and classified it under Other operating expenses.

c) In 2017, the gain from sale of property, plant and equipment was classified as Other non-operating gain. In 2018, the Group reconsidered its presentation and classified the Gain from sale of property, plant and equipment as a separate line item.

## 6. Earnings before interest, tax, depreciation and amortization (EBITDA)

The Group presented adjusted EBITDA as a performance measure management believes to be relevant to an understanding of the Group’s financial performance. EBITDA is calculated by adjusting profit to exclude the impact of taxation, net finance costs, depreciation, amortisation, foreign exchange gain/loss and other non-operating income and expenses. EBITDA is not a defined performance measure in IFRSs. The Group’s definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of adjusted EBITDA to loss for the year is as follows:

| | ***Note*** | ***2018*** | ***2017*** |
|---|---|---|---|
| **Loss for the year** | | **(24,378)** | **(14,246)** |
| **Adjustments for:** | | | |
| Depreciation | 7 | 9,883 | 5,203 |
| Amortization | 22 | 251 | 31 |
| Finance costs | 14 | 5,189 | 3,316 |
| Finance income | | (170) | (169) |
| Foreign exchange loss, net | | 77 | 7,024 |
| Management restructuring costs | 25 | 1,617 | – |
| Gain from sale of property, plant and equipment | | – | (558) |
| **Adjusted EBITDA** | | **(7,531)** | **601** |

*(Thousands of Georgian lari)*

## 7. Property, plant and equipment

| | *Land* | *Buildings* | *Machinery and equipment* | *Vehicles* | *Other* | *Grape wines* | *Vineyard establishment* | *Construction in progress* | *Total* |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| **As at 31 December 2016** | **1,115** | **2,873** | **8,248** | **1,146** | **624** | **1,085** | **146** | **58,858** | **74,095** |
| Additions | – | 11 | 18,286 | 4,864 | 942 | – | 2 | 15,436 | 39,541 |
| Disposals | – | (202) | (71) | (130) | (10) | – | – | – | (413) |
| Transfer from Construction in progress | – | 14,917 | 59,202 | – | – | – | – | (74,119) | – |
| Translation difference | – | – | – | – | (5) | – | – | – | (5) |
| **As at 31 December 2017** | **1,115** | **17,599** | **85,665** | **5,880** | **1,551** | **1,085** | **148** | **175** | **113,218** |
| Additions | – | 1,887 | 4,928 | 481 | 701 | – | – | – | 7,997 |
| Disposal | – | – | (335) | (62) | (82) | – | – | – | (479) |
| Reclassification | – | – | – | – | – | (1,085) | 1,085 | – | – |
| Transfer from Construction in progress | – | 165 | (22) | 11 | 21 | – | – | (175) | – |
| Translation difference | – | – | – | (1) | (3) | – | – | – | (4) |
| **As at 31 December 2018** | **1,115** | **19,651** | **90,236** | **6,309** | **2,188** | **–** | **1,233** | **–** | **120,732** |
| **Depreciation** | | | | | | | | | |
| **As at 31 December 2016** | **–** | **212** | **4,548** | **645** | **486** | **70** | **–** | **–** | **5,961** |
| Depreciation charge for the year | – | 445 | 4,000 | 664 | 172 | 70 | – | – | 5,351 |
| Depreciation on disposals | – | (60) | (69) | (115) | (18) | – | – | – | (262) |
| Transfer | – | – | – | – | – | (140) | 140 | – | – |
| **As at 31 December 2017** | **–** | **597** | **8,479** | **1,194** | **640** | **–** | **140** | **–** | **11,050** |
| | – | | | | | – | | – | |
| Depreciation charge for the year | – | 471 | 8,073 | 1,026 | 376 | – | 52 | – | 9,998 |
| Depreciation on disposals | – | – | (262) | (52) | (72) | – | – | – | (386) |
| Transfer | – | (8) | 8 | – | – | – | – | – | – |
| Translation difference | – | – | – | (2) | (9) | – | – | – | (11) |
| **As at 31 December 2018** | **–** | **1,060** | **16,298** | **2,166** | **935** | **–** | **192** | **–** | **20,651** |
| **Net book value** | | | | | | | | | |
| **At 31 December 2017** | **1,115** | **17,002** | **77,186** | **4,686** | **911** | **1,085** | **8** | **175** | **102,168** |
| **At 31 December 2018** | **1,115** | **18,591** | **73,938** | **4,143** | **1,253** | **–** | **1,041** | **–** | **100,081** |

*(Thousands of Georgian lari)*

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

The Group pledged its property, plant and equipment (excluding vehicles owned by the GBG) and inventories as collateral of its borrowings from local commercial banks and from external financial institution, including Overseas Private Investments Corporation ("OPIC"), European Bank for Reconstruction and Development ("EBRD") and the Deutsche Investitions und Entwicklungsgesellschaft Mbh ("DEG") (Notes 14, 17).

Depreciation expense has been allocated as follows:

| | ***2018*** | ***2017*** |
|---|---|---|
| Selling and distribution expenses | 4,717 | 2,481 |
| Other operating expenses | 3,193 | 1,162 |
| Cost of sales | 1,309 | 1,145 |
| Administrative expenses | 664 | 415 |
| Capitalized part remaining in inventories | 115 | 148 |
| | **9,998** | **5,351** |

## 8. Inventories

As at 31 December inventory balances were as follows:

| | ***2018*** | ***2017*** |
|---|---|---|
| Raw materials | 12,580 | 8,037 |
| Finished goods (own production) | 4,243 | 2,976 |
| Finished goods (imported products) | 3,749 | 2,150 |
| Production supporting materials | 2,735 | 3,005 |
| Work in progress | 446 | 291 |
| Other inventories | 719 | 663 |
| | **24,472** | **17,122** |

## 9. Trade receivables

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

| | ***2018*** | ***2017*** |
|---|---|---|
| Trade receivables | 16,243 | 14,220 |
| Less: provision for expected credit losses | (2,866) | (2,320) |
| | **13,377** | **11,900** |

Movement of provision for expected credit losses is as follows:

| | ***2018*** | ***2017*** |
|---|---|---|
| **At 1 January** | **2,320** | **1,687** |
| Charge for the year (Note 23) | 546 | 633 |
| **At 31 December** | **2,866** | **2,320** |

Trade receivables are non-interest bearing and are generally settle in on 30-90 days.

*(Thousands of Georgian lari)*

## 9. Trade receivables (continued)

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

| *2018* | *Neither past due nor impaired* | *<30 days* | *30-90 days* | *90-180 days* | *Total* |
|---|---|---|---|---|---|
| Estimated total gross carrying amount at default | 5,483 | 4,357 | 2,175 | 4,228 | **16,243** |
| Expected loss rate | 0% | 2% | 15% | 58% | |
| Expected credit loss | – | (86) | (317) | (2,463) | **(2,866)** |

| *2017* | *Neither past due nor impaired* | *<30 days* | *30-90 days* | *90-180 days* | *Total* |
|---|---|---|---|---|---|
| Estimated total gross carrying amount at default | 8,328 | 2,464 | 1,227 | 2,201 | **14,220** |
| Expected loss rate | 0% | 2% | 7% | 99% | |
| Expected credit loss | – | (46) | (86) | (2,188) | **(2,320)** |

## 10. Prepayments

As at 31 December, non-current prepayments included:

| | *2018* | *2017* |
|---|---|---|
| Prepayments to customers (a) | 1,674 | 1,092 |
| Prepayments for fixed assets | 383 | 566 |
| | **2,057** | **1,658** |

As at 31 December, current prepayments included:

| | *2018* | *2017* |
|---|---|---|
| Prepayments to customers (a) | 1,721 | 1,710 |
| Prepayments for raw materials and goods | 935 | 300 |
| prepayment for marketing services | 148 | 227 |
| Other | 460 | 558 |
| | **3,264** | **2,795** |

(a) The Group pays to customers up-front fees for signing new contracts or for renewing existing ones. Those fees are amortized on a straight-line basis, over the period of sales contract – from one to three years. Amortization amount is treated as a reduction of transaction price in accordance with IFRS 15.

## 11. Restricted cash

As at 31 December 2017, the Group's restricted cash comprised cash on deposits as a guarantee for the loans and borrowing from OPIC and TBC Bank. In 2018, the Group repaid the loans (Note 14) and the restriction was released.

*(Thousands of Georgian lari)*

## 12. Cash and cash equivalents

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

| | *2018* | *2017* |
|---|---|---|
| Current accounts with banks | 7,167 | 16,862 |
| Cash on hand | 187 | 575 |
| | **7,354** | **17,437** |

Current accounts earn interest at annual 2%-5%. In 2018, Interest income on deposits totaled GEL 155 during 2018 (2017: GEL 169).

## 13. Equity

As at 31 December 2018, authorized share capital comprised 620,000,000 (2017: 520,000,000) common shares, out of which 552,500,000 were issued and paid (2017: 520,000,000). Each share has a nominal value of GEL 0.00001.

In 2018, the Group issued 32,500 new shares (2017: 242,595) for the consideration of GEL 5,569 (2017: 42,331), to finance working capital for beer production.

Share capital of the Group was paid by the existing shareholders in Georgian lari and they are entitled to dividends in Georgian Lari.

No dividends were declared or paid in 2018 and 2017.

## 14. Interest bearing loans and borrowings

| | *Maturity* | *Currency* | *2018* | *2017* |
|---|---|---|---|---|
| **Non-current interest bearing loans and borrowings** | | | | |
| EUR 18.5M loan from International financial institution (a) | 20 October 2025 | EUR | 48,508 | 56,307 |
| USD 2.8 M loan from Georgian commercial bank (b) | 20 August 2025 | USD | 6,203 | – |
| EUR 0.75 M loan from Georgian commercial bank (b) | 5 September 2025 | EUR | 657 | – |
| USD 8M loan from International financial institution (b) | 31 March 2021 | USD | – | 5,175 |
| | | | **55,368** | **61,482** |
| **Current interest bearing loans and borrowings** | | | | |
| EUR 18.5M loan from international financial institution (a) | 20 October 2025 | EUR | 9,383 | 1,972 |
| GEL 5M loan from Ultimate Parent Company (d) | 28 December 2019 | GEL | 6,422 | – |
| EUR 2M loan form Georgian commercial bank (b) | 30 November 2019 | EUR | 6,141 | – |
| USD 2.8 M loan from Georgian commercial bank (b) | 20 August 2025 | USD | 1,003 | – |
| EUR 0.75 M loan from Georgian commercial bank (b) | 5 September 2025 | EUR | 315 | – |
| USD 8M loan from International financial institution (b) | 31 March 2021 | USD | – | 2,902 |
| GEL 5M loan form Georgian commercial bank (c) | 15 December 2018 | GEL | – | 4,868 |
| Other | 31 December 2017 | USD | 87 | 53 |
| | | | **23,351** | **9,795** |

*(Thousands of Georgian lari)*

## 14. Interest bearing loans and borrowings (continued)

(a) In 2017, the Group borrowed EUR 12,333 from EBRD and EUR 6,167 from DEG .The loan facility was used for repaying outstanding short term loans from shareholders and for investing in the construction of the brewery.

The loan agreement imposed certain financial and non-financial covenants on the Group, which will be applied from the post project completion phase. This phase will start when the Group receives written notification from EBRD and DEG after certain production requirements are met.

(b) In 2011, the Group obtained borrowing in the amount of USD 8,000 from OPIC. In 2018, the Group obtained loans from Georgian commercial bank in the amount of USD 2,800 to fully repay outstanding balance of the loan obtained from OPIC and 2,750 EUR to finance working capital in wine business.

The loan agreement with Georgian commercial bank has imposed certain financial and non-financial covenants on the Group. In particular, the Group should maintain (i) Debt to EBITDA ratio of not more than 3, (ii) Debt to Equity ratio of not more than 1.5 (iii) DSCR (debt service coverage ratio) ratio not less than 1.2. The Group has complied with all financial and non-financial covenants as of 31 December 2018.

(c) In 2017, the Group obtained short-term loans from Georgian commercial bank to finance working capital. In 2018, the Group fully repaid these loans.

(d) In 2018, the Group borrowed additional funds from GCAP to finance working capital needs related to launching new beer brands. GCAP is also a guarantor for the EBRD and DEG loans. The amount due to GCAP includes guarantee fee payable in the amount of GEL 714 as at 31 December 2018 (2017: GEL 954).

## 15. Changes in liabilities arising from financing activities

| | ***2018*** | ***2017*** |
|---|---|---|
| **As at 1 January** | **71,277** | **46,221** |
| Finance cost accrued in the statement of profit and loss | 5,189 | 3,316 |
| Cash flows | 3,634 | 13,233 |
| Foreign exchange loss accrued in the statement of profit and loss | (1,381) | 6,358 |
| Finance cost capitalized on construction in progress (a) | – | 1,710 |
| Foreign exchange loss capitalized on construction in progress (a) | – | 439 |
| **As at 31 December** | **78,719** | **71,277** |

(a) The Group completed construction of the brewery in May 2017. The borrowing costs capitalised during 2017 was GEL 2,521 and comprised of GEL 2,082 of interest costs and GEL 439 of foreign exchange losses.

## 16. Trade and other accounts payable

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

| | ***2018*** | ***2017*** |
|---|---|---|
| Trade payables | 9,081 | 8,930 |
| Payables for brewery construction and other fixed assets | 3,066 | 5,351 |
| Trade payable due to related party (Note 27) | 3,660 | 567 |
| | **15,807** | **14,848** |

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

*(Thousands of Georgian lari)*

## 17. Contingencies, commitments and operating risks

### Georgian and Ukrainian tax environment

Georgian and Ukrainian tax and transfer pricing 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. Management believes that its interpretations of laws and regulations is adequate and it has declared and accounted for all tax risks adequately.

### Collateral on assets

As at 31 December, the Group's pledged property, plant and equipment and inventories as collateral of its borrowings from EBRD, DEG, Georgian Commercial Banks (2018) and OPIC (2017) consisted of the following.

| | *2018* | *2017* |
|---|---|---|
| Property plant and equipment pledged | 96,963 | 96,826 |
| Inventories pledged | 14,556 | 13,558 |
| | **111,519** | **110,384** |

## 18. Income tax

In 2018 and 2017 the Group has not distributed profits (dividends) and did not recognize income tax charge in profit or loss.

## 19. Revenue and gains

| | *2018* | *2017* |
|---|---|---|
| Sales of finished goods of own production (a) | 41,780 | 32,624 |
| Resale of goods (b) | 27,550 | 22,333 |
| Fair value movement in biological produce (c) | 635 | 253 |
| Other Revenue | 120 | 18 |
| | **70,085** | **55,228** |

(a) Revenue from sale of finished goods of own production includes revenue from wine products (wine, sparkling wine, chacha and brandy) and beer and lemonade. For details please refer to schedule below:

| | *2018* | *2017* |
|---|---|---|
| Wine products | 25,376 | 21,755 |
| Beer | 14,511 | 10,869 |
| Lemonade | 1,893 | – |
| | **41,780** | **32,624** |

(b) The Group imports and resells various types of alcoholic and non-alcoholic beverages to Georgia. Revenue received from resale of goods is presented below by product types:

| | *2018* | *2017* |
|---|---|---|
| Beer | 11,657 | 9,489 |
| Juice | 4,092 | 3,794 |
| Sparkling wine | 3,985 | 2,811 |
| Vodka | 3,861 | 3,321 |
| Coffee | 3,172 | 2,205 |
| Whiskey | 427 | 385 |
| Other | 356 | 328 |
| | **27,550** | **22,333** |

*(Thousands of Georgian lari)*

## 19. Revenue and gains (continued)

(c) The gain from grapes harvested in own vineyards is as follows:

| | *2018* | *2017* |
|---|---|---|
| Fair value of grapes harvested and transferred to inventory | 1,284 | 840 |
| Crop growing costs | (649) | (587) |
| **Fair value movement in biological produce** | **635** | **253** |

The fair value of grapes harvested is determined by reference to estimated market price less cost to sell at the time of harvest. The estimated market price for grapes used in respect of the 2018 and 2017 harvest is GEL 1.87 and 1.42 per tonne.

A 10% change in the estimated market price of grapes per tonne in 2018 and 2017 would result in a change of GEL 129 and GEL 64 in the fair value of the grapes harvested in the year.

This measurement of fair value less costs to sell is the deemed cost of the grapes that is transferred into inventory upon harvest.

### Contract assets and liabilities

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

| | *31 December 2018* | *31 December 2017* |
|---|---|---|
| Trade receivables | 13,377 | 11,900 |
| Contract liabilities | 2,857 | 95 |

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

Contract liabilities in the amount of GEL 2,857 is expected to be recognised as revenue in 2019 related to performance obligations that are unsatisfied at the reporting date. In 2018, the Group recognized as revenue GEL 95 that was included under contract liabilities at the beginning of the reporting period.

## 20. Cost of sales

| | *2018* | *2017* |
|---|---|---|
| Cost of sales of finished goods of own produce | 25,125 | 17,524 |
| Cost of re-sold goods | 21,297 | 16,622 |
| | **46,422** | **34,146** |

Cost of sales by expense types:

| | *2018* | *2017* |
|---|---|---|
| Resale of goods | 21,297 | 16,622 |
| Raw materials | 20,259 | 14,753 |
| Depreciation | 1,309 | 1,145 |
| Employee benefits | 1,235 | 456 |
| Utility expenses | 1,170 | 664 |
| Other production costs | 1,152 | 506 |
| | **46,422** | **34,146** |

*(Thousands of Georgian lari)*

## 21. Selling and distribution expenses

| | *2018* | *2017* |
|---|---|---|
| Sales promotion and advertising expense | 6,151 | 4,825 |
| Employee benefits | 5,530 | 4,299 |
| Transportation expense | 4,691 | 2,926 |
| Depreciation | 4,717 | 2,481 |
| Rent and utility | 1,028 | 1,035 |
| Sales and marketing export | – | 52 |
| Other | 111 | 106 |
| | **22,228** | **15,724** |

## 22. Administrative expenses

| | *2018* | *2017* |
|---|---|---|
| Employee benefits | 5,922 | 2,824 |
| Professional services | 1,732 | 835 |
| Taxes, other than income tax | 1,312 | 974 |
| Office expenses | 729 | 271 |
| Depreciation | 664 | 415 |
| Rent and utility | 501 | 539 |
| Business trips | 397 | 212 |
| Amortization | 251 | 31 |
| Maintenance and repairs | 173 | 145 |
| Communication expenses | 133 | 124 |
| Bank charges | 76 | 89 |
| Insurance | 74 | 46 |
| Fuel expenses | 46 | 41 |
| Other | 997 | 601 |
| | **13,007** | **7,147** |

Professional services include fees for the audit of the Group's consolidated financial statements for the year ended 31 December 2018 in the amount of GEL 212 (2017: GEL 110) and fees accrued for consultants to improve Heineken production line in the amount of GEL 665 (2017: 538).

*(Thousands of Georgian lari)*

## 23. Other operating expenses

| | *2018* | *2017* |
|---|---|---|
| Depreciation (a) | 3,193 | 1,162 |
| Write off of inventory | 1,258 | 287 |
| Employee benefits | 1,096 | 551 |
| Provision for expected credit losses (Note 9) | 546 | 633 |
| Other | – | 211 |
| | **6,093** | **2,844** |

(a) In 2018 and 2017, the brewery has not operated at its full capacity. As a result, overhead expenses was not fully allocated to production due to low output or idle capacity. The unallocated overheads were classified as other operating expenses in the Group's consolidated statement of profit and loss.

## 24. Management restructuring cost

In 2018, the Group incurred management restructuring expenses of GEL 1,617, comprising signing bonuses to the new management of GEL 865 and termination bonuses to the former management of GEL 752.

## 25. Financial instruments risk management objectives and policies

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 cash equivalents and loans issued 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 exposure to interest risk is also limited - all interest-bearing loans and borrowings and cash and cash equivalents have fixed interest rates and therefore management does not believe the Group is exposed to the interest rate risk from these financial assets and liabilities.

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, cash held on current accounts with banks, loans issued and short term deposits as at 31 December 2018 and 2017.

The extent of the Group's credit exposure is represented by the aggregate balance of trade receivables, cash held on current accounts with banks, amounts due from financial institutions, restricted cash and loans issued at 31 December 2018 and 31 December 2017. At 31 December 2018 total credit risk exposure equalled to GEL 21,650 (2017: GEL 33,143).

*Trade receivables*

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service and ageing of receivables. Counterparty limits are established by the use of a credit terms. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

*(Thousands of Georgian lari)*

## 25. Financial instruments risk management objectives and policies (continued)

Group performs impairment analysis as on individual basis also on collective basis. Group conducts individual assessments for export counterparties. As they are characterized by low risk.

As at 31 December 2018, Group had 16 customers (2017 : 20) , that account for 13% (2017 19%) of total receivables and owed more than GEL 1,864 each (2017: GEL 2,246).

On collective basis the Group conducts impairment assessment for customers in distribution business. Those customers are divided in three different risk groups (high, low and medium). High risk group consists of individuals. Low risk group consists from major clients with whom the Group has significant turnover, such as widely spread retail, hotel and restaurant chains. Medium risk group consists of other legal entities.

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

Maximum exposure to credit risk and credit quality by trade receivables in the consolidated statement of financial position is disclosed in Note 9.

*Loans issued*

The Group issues loans only to companies under common control of GCAP. Issued loans are in market terms (5.6% in EUR) and short term in nature.

At the end of the reporting period, the Group performed impairment assessment on issued loans, no impairment risk has been noted.

*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.

### 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 indicates the currencies to which the Group had significant exposure at 31 December 2017 and 2016 on monetary assets and liabilities (expressed in GEL):

| ***2018*** | ***USD*** | ***UAH*** | ***EUR*** |
|---|---|---|---|
| **Assets** | | | |
| Trade receivables | 504 | 4,114 | 1,144 |
| Cash and cash equivalents | 3,500 | 217 | 1,403 |
| **Liabilities** | | | |
| Interest bearing loans and borrowings | (7,298) | – | (65,015) |
| Trade and other accounts payable | (840) | (78) | (4,374) |
| **Net position** | **(4,134)** | **4,253** | **(66,842)** |

*(Thousands of Georgian lari)*

## 25. Financial instruments risk management objectives and policies (continued)

| *2017* | *USD* | *UAH* | *EUR* |
|---|---|---|---|
| **Assets** | | | |
| Trade and other accounts receivable | 592 | 3,236 | 1,317 |
| Cash and cash equivalents | 13,478 | 239 | 1,268 |
| Restricted cash | 1,759 | – | – |
| **Liabilities** | | | |
| Interest bearing loans and borrowings | (8,130) | – | (58,279) |
| Trade and other accounts payable | (928) | (193) | (6,754) |
| **Net position** | **6,771** | **3,282** | **(62,448)** |

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 consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

| *2018* | *Change in currency rate in %* | *Strengthening* | *Weakening* |
|---|---|---|---|
| USD | 15.00% | (620) | 620 |
| EUR | 15.00% | (10,026) | 10,026 |
| UAH | 30.00% | 1,276 | (1,276) |

| *2017* | *Change in currency rate in %* | *Strengthening* | *Weakening* |
|---|---|---|---|
| USD | 13.50% | 914 | (914) |
| EUR | 16.00% | (9,992) | 9,992 |
| UAH | 30.00% | 985 | (985) |

### 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 consolidated financial statements.

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations:

| *2018* | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|
| Interest bearing loans and borrowings | 1,282 | 26,615 | 59,885 | 8,693 | **96,475** |
| Other current liabilities | 1,637 | – | – | – | **1,637** |
| Trade and other accounts payable | 15,807 | – | – | – | **15,807** |
| | **18,726** | **26,615** | **59,885** | **8,693** | **113,919** |

| *2017* | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *>5 years* | *Total* |
|---|---|---|---|---|---|
| Interest bearing loans and borrowings | 1,933 | 9,366 | 63,226 | 17,925 | **92,450** |
| Other current liabilities | 455 | – | – | – | **455** |
| Trade and other accounts payable | 14,848 | – | – | – | **14,848** |
| | **17,236** | **9,366** | **63,226** | **17,925** | **107,753** |

*(Thousands of Georgian lari)*

## 25. Financial instruments risk management objectives and policies (continued)

### 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.

### Capital management

For the purpose of the Group's capital management, capital includes share capital, share premium and all other equity reserves attributable to the equity holders of the Parent and is measured at GEL 51,805 as at 31 December 2018 (2017: GEL 70,338).

## 26. Fair value of financial assets and financial liabilities

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

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

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.

## 27. Related party disclosures

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.

*(Thousands of Georgian lari)*

## 27. Related party disclosures (continued)

### Operating transactions

The following table provides the total amount of transactions that have been entered into with related parties:

| | *Purchases* | *Rent and utility expense* | *Insurance expense* | *Contract liabilities* | *Advances paid to Related Parties* | *Amounts owed to related parties* | *Amounts owed by related parties/advances paid* | *Sales* | *Other Income* |
|---|---|---|---|---|---|---|---|---|---|
| **Entities under common control** | | | | | | | | | |
| **2018** | | | | | | | | | |
| Insurance Company Aldagi JSC | – | – | 120 | – | – | 10 | 4 | – | – |
| New Coffee Company LLC (a) | 2,385 | – | – | – | – | 437 | – | – | 12 |
| Insurance Company Imedi LJSC | – | – | 72 | – | – | 50 | – | – | – |
| Genuine Brewing Company LLC (b) | 744 | 5 | – | 2,379 | – | – | 19 | 77 | 39 |
| JSC Insurance Company Tao | – | – | 135 | – | – | 17 | 8 | – | – |
| JSC m2 Real Estate (c) | | 925 | – | – | – | 1,876 | – | – | – |
| Kindzmarauli Marani LLC (d) | 537 | – | – | – | – | 1,269 | 574 | 488 | – |
| Georgian Water and Power LLC | – | 11 | – | – | – | 1 | 21 | – | – |
| **2017** | | | | | | | | | |
| Insurance Company Aldagi JSC | – | – | 273 | – | 94 | – | 94 | – | – |
| New Coffee Company LLC (a) | 2,212 | 60 | – | – | – | 544 | – | – | – |
| Insurance Company Imedi LJSC | – | – | 47 | – | – | 23 | – | – | – |
| Georgian Water and Power LLC | – | – | – | – | 21 | – | 21 | – | – |

(a) Purchases in 2018 and 2017 represent the purchases of coffee for resale purposes. Additionally, the company leases storage space from the Group. The amount owed to related parties represent payables for mentioned products and services.

(b) Genuine Brewing Company LLC, a producer of craft beer under brand name Shavi Lomi, sells and purchases raw materials to/from the Group.

(c) JSC m2 Real Estate provided administrative building construction service to the Group. Additionally, the Group paid GEL 925 to JSC m2 Real Estate to share costs with an advertising agency for media coverage of its products.

(d) In 2018, Kindzmarauli Marani LLC sold and purchased raw materials from the Group to be used in wine production.

*(Thousands of Georgian lari)*

## 27. Related party disclosures (continued)

### Investing and financing transactions

The following table provides the total amount of transactions that have been entered into with related parties:

| | *Finance cost* | *Finance cost capitalized* | *Finance income* | *Cash and cash equivalents* | *Amounts owed by related parties* | *Amounts owed to related parties* |
|---|---|---|---|---|---|---|
| **Shareholders** | | | | | | |
| **2018** | | | | | | |
| JSC Georgia Capital (Note 14) | 116 | – | – | – | – | 6,422 |
| Firebird Republics Fund Ltd. | – | – | – | – | – | 53 |
| **2017** | | | | | | |
| JSC Georgia Capital (Note 14) | 337 | 617 | – | – | – | 954 |
| Firebird Republics Fund Ltd | – | 29 | – | – | – | – |
| Firebird Avrora Fund Ltd | – | 29 | – | – | – | – |
| **Other** | | | | | | |
| **2018** | | | | | | |
| Kindzmarauli Marani LLC (a) | – | – | 15 | – | 981 | – |
| **2017** | | | | | | |
| Bank of Georgia | – | – | – | 14,377 | – | – |
| Galt and Taggart Holdings Limited (b) | – | 27 | – | – | – | – |

(a) In 2018, the Group issued loans to Kindzmarauli Marani LLC EUR 314. Interest expenses amounted to GEL 15 during 2018. The loan matures in March 2019 and September 2023.

### Compensation of key management personnel of the Group

In 2018 and 2017, the amounts recognised as an expense related to the key management personnel are as follows:

| | *2018* | *2017* |
|---|---|---|
| Key Management salary | 1,339 | 703 |
| Management bonuses | 1,305 | 400 |
| Sign in bonuses to new management (Note 24) | 865 | – |
| Termination bonuses (Note 24) | 752 | – |
| | **4,261** | **1,103** |

## 28. Events after the reporting period

***Acquisition of Kazbegi***

On 25 March 2019, the Group acquired the brand name and commercial assets of JSC Kazbegi, a local company producer and seller of lemonade and beer under brand name Kazbegi for a total consideration of GEL 9,746, net of VAT.

***Aragveli Litigation***

On 19 December 2018, Capital Club LLC and Georgian Brand Company LLC (together “the Claimants”) filed a claim against the Company alleging infringement of the Aragveli trademark rights in respect of local beer produced and sold by the Company. On 1 April 2019, the Company reached an out-of-court settlement agreement with the Claimants. The Claimants withdrew the claim on condition that the Company pays onetime fee of GEL 50 and royalties of US$0.02 for each litre of Aragveli sold in the local market through 2022.

*(Thousands of Georgian lari)*

## 28. Events after the reporting period (continued)

***New financing received***

On 14 March 2019, the Group received financing from GCAP of EUR 1,750 (or GEL 5,311) for working capital needs. The loan matures in May 2019.

***Capital contribution***

In April 2019, GCAP contributed to the capital of the Company USD 18,800 thousand in the form of 100 % ownerships (i) in Genuine Brewing Company LLC, prominent brewery in Georgia and (ii) Global Coffee Georgia LLC, official importer of coffee brand Lavazza and (iii) loan receivable from JSC Harvest Georgia, ultimate owner of Kindzmarauli Marani LLC.

***Issue of share capital***

In April 2019, the Group issued 3,184 ordinary shares for cash consideration of USD 223,000.