

JSC Georgian Beer Company

**Financial Statements
for 2017**

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KPMG Georgia LLC
5th Floor GMT Plaza
4 Liberty Square
0105 Tbilisi, Georgia
Telephone +995 322 93 5713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board
JSC Georgian Beer Company

Opinion

We have audited the financial statements of JSC Georgian Beer Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Management Report, we conclude whether the other information:

- Is consistent with the financial statements and does not contain material misstatement;
- Contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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



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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan

KPMG Georgia LLC
30 July 2018



JSC Georgian Beer Company
Statement of Financial Position as at 31 December 2017

'000 GEL	Notes	<u>31 December 2017</u>	<u>31 December 2016</u>
Assets			
Property, plant and equipment	10	76,817	76,116
Intangible assets		114	136
Prepayments for non-current assets		49	1,067
Equity accounted investee	11	3,801	-
Other non-current assets		163	163
Non-current assets		80,944	77,482
Inventories	12	15,112	11,410
Trade and other receivables	13	14,825	8,422
Cash and cash equivalents	14	1,050	1,834
Current assets		30,987	21,666
Total assets		111,931	99,148
Equity	15		
Share capital		56,520	56,520
Retained earnings/(accumulated losses)		3,420	(1,403)
Total equity		59,940	55,117
Loans and borrowings	16	31,782	31,469
Non-current liabilities		31,782	31,469
Loans and borrowings	16	7,604	6,070
Trade and other payables	17	8,523	6,492
Payable for equity accounted investee	11	3,888	-
Current income tax payable		194	-
Current liabilities		20,209	12,562
Total liabilities		51,991	44,031
Total liabilities and equity		111,931	99,148

JSC Georgian Beer Company
Statement of Profit or Loss and Other Comprehensive Income for 2017

000' GEL	Notes	2017	2016
Revenue from sale of goods		75,044	60,728
Cost of sales	5	(36,890)	(31,434)
Gross profit		38,154	29,294
Selling and distribution costs	7	(15,602)	(10,897)
General and administrative expenses	6	(7,393)	(7,240)
Bad debt expenses	-	(445)	(450)
Other operating income		15	1,155
Other operating expense	8	(3,833)	(2,901)
Results from operating activities		10,896	8,961
Finance income	9	-	323
Finance costs	9	(6,073)	(4,784)
Net finance costs		(6,073)	(4,461)
Profit before income tax		4,823	4,500
Income tax expense		-	210
Profit and other comprehensive income for the year		4,823	4,710

These financial statements were approved by management on 30 July 2018 and were signed on its behalf by:

Kakhaber Kotrikadze
Director



Giorgi Khubua
Chief accountant

'000 GEL

	<u>Attributable to equity holders of the Company</u>			
	<u>Share capital</u>	<u>Unpaid share capital</u>	<u>Retained earnings/ (accumulated losses)</u>	<u>Total equity</u>
Balance as at 1 January 2016	70,770	(14,250)	(4,213)	52,307
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	4,710	4,710
Transactions with owners of the Company				
Dividends	-	-	(1,900)	(1,900)
Reduction of share capital	(14,250)	14,250	-	-
Total transactions with owners of the Company	(14,250)	14,250	(1,900)	(1,900)
Balance as at 31 December 2016	56,520	-	(1,403)	55,117
Balance as at 1 January 2017	56,520	-	(1,403)	55,117
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	4,823	4,823
Balance as at 31 December 2017	56,520	-	3,420	59,940

'000 GEL	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		4,823	4,500
<i>Adjustments for:</i>			
Depreciation and amortisation		8,911	8,048
Loss on disposal of property, plant and equipment		286	-
Bad debt expense		445	450
Net finance costs		6,073	4,461
Cash from operating activities before changes in working capital		20,538	17,459
Change in inventories		(3,702)	(2,351)
Change in trade and other receivables		(6,861)	(1,421)
Change in trade and other payables		1,892	(555)
Cash flows from operations before income taxes paid		11,867	13,132
Net cash from operating activities		11,867	13,132
Cash flows from investing activities			
Acquisition of property, plant and equipment		(8,873)	(19,507)
Acquisition of intangible assets		-	(72)
Acquisition of other non-current assets		-	(274)
Net cash used in investing activities		(8,873)	(19,853)
Cash flows from financing activities			
Proceeds from borrowings	16(b)	5,078	83,971
Repayment of borrowings	16(b)	(7,512)	(74,305)
Interest paid	16(b)	(1,544)	(2,403)
Net cash (used in)/from financing activities		(3,978)	7,263
Net (decrease)/increase in cash and cash equivalents		(984)	542
Cash and cash equivalents at 1 January		1,834	1,272
Effect of movements in exchange rates on cash and cash equivalents		200	20
Cash and cash equivalents at 31 December	14	1,050	1,834

1. Reporting entity

(a) Business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management's assessment of the impact of Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC Georgian Beer Company (the "Company") is a joint stock company, as defined under the Civil Code of Georgia, established on 9 June 2011. The Company constructed a new factory in Saguramo village, Georgia, which started operations in February 2012. The registration number of the Company is 404900737.

The Company's registered office is in Saguramo village, Mtskheta region, Georgia.

The Company's principal activity is the production of beer and non-alcoholic beverages at the brewery located in Saguramo village. These products are sold in Georgia and abroad.

As at 31 December 2017 and 2016 the Company is owned by Mixori LLC (63.5%), Georgian Industrial Group Holding LLC (24.11%) and LLC PSP Pharma (12.39%).

The Company is jointly controlled by two individuals, Tsezar Chocheli and Izolda Charigogdishvili, who have the power to direct the transactions of the Company at their own discretion and for their own benefit. They also have a number of other business interests outside the Company.

Related party transactions are detailed in note 22.

2. Basis of accounting

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

4. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 25 *d(iv)* – useful lives of property, plant and equipment.

Fair value of financial instruments

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted market price (unadjusted) in an active market for an identical instrument.
- *Level 2*: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the note 25(a) – *Accounting classifications and fair values*.

5. Cost of sales

'000 GEL	2017	2016
Direct costs	29,108	25,120
Indirect costs	6,561	5,225
Depreciation	1,221	1,089
	36,890	31,434

Direct costs include personnel expenses with the amount of GEL 2,329 thousand (2016: GEL 1,863 thousand).

6. General and administrative expenses

'000 GEL	2017	2016
Personnel expenses	3,639	3,379
Tax expenses, other than on income	866	792
Depreciation	725	698
Office expenses	487	591
Professional services	477	550
Representative and business trip expenses	271	259
Insurance expenses	228	268
Bank charges	101	341
Write off of prepayments received	-	110
Other	599	252
	7,393	7,240

7. Selling and distribution expenses

'000 GEL	2017	2016
Advertising and marketing expenses	8,366	4,461
Depreciation	3,083	3,273
Royalty fees	1,587	1,277
Distribution expenses	1,448	860
Personnel expenses	1,118	961
Other	-	65
	15,602	10,897

8. Other operating expense

'000 GEL	2017	2016
Depreciation	3,833	2,862
Other	-	39
	3,833	2,901

9. Net finance costs

'000 GEL	2017	2016
Interest income on loans and receivables	-	323
Finance income	-	323
Net foreign exchange loss	(4,387)	(2,878)
Interest expense on financial liabilities measured at amortized cost	(1,686)	(1,906)
Finance costs	(6,073)	(4,784)
Net finance costs	(6,073)	(4,461)

10. Property, plant and equipment

'000 GEL	Land and buildings	Plant and equipment	Office equipment	Merchandising and advertising equipment	Other	CIP & uninstalled equipment	Total
<i>Cost</i>							
Balance at 1 January 2016	16,338	65,847	913	21,647	2,255	34	107,034
Additions	-	65	43	4,764	149	14,486	19,507
Transfers	65	500	-	-	-	(565)	-
Balance at 31 December 2016	16,403	66,412	956	26,411	2,404	13,955	126,541
Balance at 1 January 2017	16,403	66,412	956	26,411	2,404	13,955	126,541
Additions	181	254	55	4,715	354	4,332	9,891
Disposals/write-offs	-	-	-	(90)	(3)	(208)	(301)
Transfers	169	17,810	-	-	-	(17,979)	-
Balance at 31 December 2017	16,753	84,476	1,011	31,036	2,755	100	136,131
<i>Depreciation and impairment losses</i>							
As at 1 January 2016	2,616	23,049	765	14,327	1,649	-	42,406
Depreciation for the year	741	3,674	87	3,134	383	-	8,019
At 31 December 2016	3,357	26,723	852	17,461	2,032	-	50,425
As at 1 January 2017	3,357	26,723	852	17,461	2,032	-	50,425
Depreciation for the year	740	4,730	58	3,117	259	-	8,904
Disposals/write offs	-	-	-	(14)	(1)	-	(15)
At 31 December 2017	4,097	31,453	910	20,564	2,290	-	59,314
<i>Carrying amounts</i>							
At 1 January 2016	13,722	42,798	148	7,320	606	34	64,628
At 31 December 2016	13,046	39,689	104	8,950	372	13,955	76,116
At 31 December 2017	12,656	53,023	101	10,472	465	100	76,817

Depreciation expense of GEL 1,221 thousand (2016: GEL 1,089 thousand) has been charged to cost of sales (see note 5), GEL 3,083 thousand (2016: GEL 3,273 thousand) to selling and distribution expenses (see note 7), GEL 3,833 thousand (2016: GEL 2,862 thousand) to other operating expenses (see note 8), GEL 725 thousand (2016: GEL 698 thousand) to general and administrative expenses (see note 6) and GEL 42 thousand has been included in the carrying amount of inventories as at 31 December 2017 (2016: GEL 97 thousand).

Other property, plant and equipment mainly consist of vehicles.

Security

At 31 December 2017 plant and equipment with a carrying amount of GEL 11,963 thousand (2016: GEL 13,117 thousand) are subject to a registered debenture to secure the payables for non-current assets (see note 16).

At 31 December 2017 all property, plant and equipment with a carrying amount of GEL 64,854 thousand (2016: GEL 62,999 thousand) excluding the plant and equipment described in the previous paragraph are subject to a registered debenture to secured bank loans (see note 16).

11. Equity accounted investee

On 25 December 2017 the Company participated in the foundation of a new company: Retail Investments LLC, registered in Georgia (the associate company). The investments made by the Company amounted to USD 1,500 thousand, by which the Company became owner of 33.3% of the shares and voting rights of Retail Investments LLC. During 2017 the associate company did not undertake any activities. As of 31 December 2017 the Company has not yet made the payment of the investment amount.

12. Inventories

'000 GEL	2017	2016
Raw and packaging materials	9,328	7,233
Finished goods	1,453	1,031
Work in progress	922	500
Goods for sale	834	1,168
Other inventory	2,575	1,478
	15,112	11,410

As at 31 December 2017 inventories with the total value of GEL 15,112 thousand (2016: GEL 11,410 thousand) are pledged under secured bank loans (see note 16).

13. Trade and other receivables

'000 GEL	2017	2016
Trade receivables	10,118	5,827
Other receivables	851	1,219
Total financial assets within trade and other receivables	10,969	7,046
Prepayments given	3,856	1,376
Total trade and other receivables	14,825	8,422

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 18.

14. Cash and cash equivalents

'000 GEL	2017	2016
Petty cash	-	1
Bank balances and demand deposits	1,050	1,833
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	1,050	1,834

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

15. Equity

Share capital

In September 2011 the general meeting of shareholders decided on the issue of 70,769,900 ordinary shares with nominal value of GEL 1. According to this decision each shareholder should perform a contribution (cash or non-cash) within a three year period, with an option to prolong the period for an indefinite time.

Based on the shareholders' meeting on 20 December 2016 the share capital of the Company was defined to be GEL 56,519,789 based on the Company's fully paid ordinary shares of 56,519,789 with nominal value of 1 GEL as of the date of that meeting.

<i>Number of shares</i>	Ordinary shares	
	2017	2016
Authorised shares	56,519,789	56,519,789
Par value	1GEL	1GEL
Issued and fully paid at 1 January	56,519,789	56,519,789
On issue at 31 December, fully paid	56,519,789	56,519,789

Non-cash owner contributions are recognised at the fair value of the assets contributed or liabilities set-off at the date of the contribution.

Dividends

No dividends were declared by the Company for the year ended 31 December 2017 (2016: GEL 1,900 thousands).

The dividends declared for the year ended 31 December 2016 were not paid in cash but have been set off against loans receivable from shareholders as repayment of the principal owed.

16. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 18.

'000 GEL	2017	2016
<i>Non-current liabilities</i>		
Secured bank loans	20,575	20,473
Payables for non-current assets	11,207	10,996
	31,782	31,469
<i>Current liabilities</i>		
Current portion of secured bank loans	3,164	1,884
Current portion of payables for non-current assets	4,440	4,186
	7,604	6,070
	39,386	37,539

(a) **Terms and debt repayment schedule:**

Terms and conditions of outstanding loans were as follows:

As at 31 December 2017

'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Secured bank loan	EUR	8%	2023	9,368	9,368
Secured bank loan	EUR	5.5% -7.2% + Euribor	2023	14,371	14,371
Payables for non-current assets	EUR	0%-8%	2018	2,516	2,516
Payables for non-current assets	EUR	5%	2022	13,131	13,131
Total				39,386	39,386

As at 31 December 2016

'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Secured bank loan	EUR	8%	2023	8,430	8,430
Secured bank loan	EUR	7.2% + Euribor	2023	13,927	13,927
Payables for non-current assets	EUR	0%-8%	2018	2,007	2,007
Payables for non-current assets	EUR	5%	2022	13,175	13,175
Total				37,539	37,539

Bank loans are secured by the following:

- property, plant and equipment of GEL 64,854 thousand (2016: GEL 62,999 thousand) (see note 10);
- Inventory of GEL 15,112 thousand (2016: GEL 11,410 thousand) (see note 12).

As at 31 December 2017 the payables for non-current assets are also secured by underlying plant and equipment of GEL 11,963 thousand (2016: GEL 13,117 thousand) (see note 10).

(b) **Reconciliation of movements of liabilities to cash flows arising from financing activities**

'000 GEL	1 January 2017	Cash inflow	Interest expense	Foreign exchange loss	Cash outflow (principal)	Cash outflow (interest)	31 December 2017
Borrowed funds	37,539	5,078	1,686	4,139	(7,512)	(1,544)	39,386

(c) **Payables for non-current assets**

The Company acquired production equipment under a number of agreements with deferred terms of payments.

For contracts for non-current assets the title of the underlying assets is transferred to the Company when the assets are delivered to the Company. As at 31 December 2017 and 2016 deferred payments of these contracts are recognized at amortised cost using the effective interest rate method and are shown as payables for non-current assets. The Company recognizes the cost of these assets based on their current cash prices at the recognition dates.

17. Trade and other payables

'000 GEL	2017	2016
Trade payables	6,880	4,808
Taxes payable other than on income	722	774
Liabilities for purchased property, plant and equipment	614	570
Other payables	109	230
Total financial liabilities within trade and other payables	8,325	6,382
Prepayments received	198	110
Total trade and other payables	8,523	6,492

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

18. Fair value and risk management

(a) Accounting classifications and fair values

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined the fair values of financial assets and liabilities using valuation techniques. The objective of the valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the fair values of the Company's financial assets and liabilities approximate their carrying amounts.

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk (see 18 (b) (ii));
- liquidity risk (see 18 (b) (iii));
- market risk (see 18 (b) (iv)).

(i) Risk management framework

The Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

'000 GEL	Notes	Carrying amount	
		2017	2016
Trade receivables	13	11,013	6,277
Other receivables	13	851	1,219
Cash and cash equivalents	14	1,050	1,833
		12,914	9,329
Issued financial guarantee contract		-	13,970

On 30 March 2017 the Company signed a termination agreement with TBC Bank by which the Company's guarantee provided to its immediate parent (Mixori LLC, former Concrete Sleeper Plant LLC) was terminated (note 21(c)).

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Approximately 51% (2016: 51%) of the Company's revenue is attributable to sales transactions with a single domestic customer. The Company has assessed that the credit risk is not increased due to high concentration of revenue and receivables. The Company have been transacting with the customers from date of incorporation and losses have not incurred.

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit, as well as through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty. No collateral in respect of trade receivables is generally required. With foreign customers, the Company mainly enters into prepayment arrangements. A major part of the Company's revenue is attributable to sales transactions with domestic customers.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 GEL	Carrying amount	
	2017	2016
Domestic	10,562	6,037
CIS	451	240
	11,013	5,827

Impairment losses

The aging of trade receivables at the reporting date was:

'000 GEL	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	5,267	-	4,609	-
Past due 0- 90 days	4,640	-	569	-
Past due 91-180 days	190	-	1	-
Past due 181-365 days	3	-	90	-
Past due more than one year	913	895	1,008	450
	11,013	895	6,277	450

The Company believes that the unimpaired amounts that are past due are probable to be collected, based on historic payment behavior and analyses on the underlying customers' credit ratings, when available.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 GEL	Individual impairments	
	2017	2016
Balance at beginning of the year	450	-
Impairment loss recognised	445	450
Balance at end of the year	895	450

Cash and cash equivalents

The cash and cash equivalents are held with banks in Georgia with short term issuer default rating of B issued by Fitch Ratings.

(iii) Liquidity risk

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

The Company aims to maintain the level of cash and cash at an amount in excess of expected cash outflows on financial liabilities over the succeeding 60 days.

To manage the liquidity requirements, the Company makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Exposure to liquidity risk:

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements. For issued financial guarantee contract, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called:

'000 GEL	Carrying amount	Contractual cash flows	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loan	23,739	25,977	1,632	2,243	5,331	14,423	2,348
Payables for non-current assets	15,647	14,069	2,159	2,281	3,152	6,477	-
Trade and other payables	8,325	8,325	8,325	-	-	-	-
Payables for equity accounted investees	3,888	3,888	3,888				
	51,599	52,259	16,004	4,524	8,483	20,900	2,348

31 December 2016

'000 GEL	Carrying amount	Contractual cash flows	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Over 5 yrs
Non-derivative financial liabilities							
Secured bank loan	22,357	27,553	1,351	1,351	3,564	14,228	7,059
Payables for non-current assets	15,182	16,201	2,319	2,105	3,389	5,989	2,399
Trade and other payables	6,382	6,382	6,382	-	-	-	-
Contingent consideration (note 21(c))	-	13,970	13,970	-	-	-	-
	43,921	64,106	24,022	3,456	6,953	20,217	9,458

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company incurs financial liabilities, in order to manage market risks. The Company does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company. The currencies in which these transactions primarily are denominated are EUR and USD.

Generally, borrowings are denominated in currencies that primarily mismatch the cash flows generated by the underlying operations of the Company. Consequently, this does not provide an economic hedge. The Company does not enter into derivatives contracts to hedge its exposure to currency risk.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 GEL	USD-	EUR-	USD-	EUR-
	denominated	denominated	denominated	denominated
	2017	2017	2016	2016
Cash and cash equivalents	457	290	138	647
Trade and other receivables	478	-	-	-
Secured bank loans	-	(23,739)	-	(22,357)
Payables for non-current assets	-	(15,647)	-	(15,182)
Trade and other payables	(238)	(2,306)	(529)	(253)
Net exposure	697	(41,402)	(391)	(37,145)

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
USD 1	2.5086	2.3667	2.5922	2.6484
EUR 1	2.8322	2.6172	3.1044	2.7940

Sensitivity analysis

A 10% weakening of the GEL, as indicated below, against the USD and EUR at 31 December 2017 would have increased/(decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016 for 10% weakening of the GEL.

'000 GEL:	<u>Profit or loss</u>
2017	
USD (10% movement)	70
EUR (10% movement)	(4,140)
2016	
USD (10% movement)	(39)
EUR (10% movement)	(3,715)

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Exposure to interest rate risk:

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

'000 GEL	Carrying amount	
	2017	2016
Fixed rate instruments		
Financial liabilities	(25,015)	(23,612)
Variable rate instruments		
Financial liabilities	(14,371)	(13,927)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore, a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

'000 GEL	Profit or loss	
	100 bp increase	100 bp Decrease
2017		
Variable rate instruments	144	(144)
Cash flow sensitivity (net)	144	(144)
'000 GEL	Profit or loss	
	100 bp increase	100 bp Decrease
2016		
Variable rate instruments	139	(139)
Cash flow sensitivity (net)	139	(139)

19. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's debt to capital ratio at the end of the reporting period was as follows:

'000 GEL	2017	2016
Total liabilities	51,991	44,031
Less: cash and cash equivalents	(1,050)	(1,834)
Net debt	50,941	42,197
Total equity	59,940	55,117
Debt to capital ratio at 31 December	0.85	0.77

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

20. Capital commitments

As at 31 December 2017 the Company does not have any capital commitments (2016: nil).

21. Contingencies

(a) Litigation

In the ordinary course of business, the Company is subject to legal actions, litigations and complaints.

Management believes that the ultimate liability, if any, arising from legal actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Guarantee to the parent

In July 2014 the Company guaranteed the performance of its parent, Concrete Sleeper Plant LLC (subsequently merged with Mixori LLC in 2016), under the loan agreement (the Agreement) with TBC Bank for EUR 5,000 thousand. The loan agreement is signed for five years period.

In July 2014 according to the Supervisory Board's decision the Company becomes guarantor in relation to the Agreement bearing maximum monthly credit exposure of EUR 250 thousand, and that each payment, if any, should be considered as a loan issued to the parent company.

On 30 March 2017 the Company signed a termination agreement with TBC Bank by which the Company's guarantee provided to its immediate parent (Mixori LLC, former Concrete Sleeper Plant LLC) was terminated.

22. Related party transactions

(a) Parent and ultimate controlling party

As at 31 December 2017 the Company's immediate and ultimate parent company is Mixori LLC. As at 31 December 2016 the Company's immediate parent company was Mixori LLC. The Company's ultimate controlling parties are individuals: Tsezar Chocheli and Izolda Charigogdishvili.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel expenses (see note 6):

'000 GEL:	<u>2017</u>	<u>2016</u>
Salaries and bonuses	<u>1,121</u>	<u>1,355</u>

(ii) ***Other related party transactions***

During 2017 the Company had purchases of construction materials from Mixori LLC, which amounted GEL 110 thousand (2016: nil).

23. Events subsequent to the reporting date

No significant events have occurred after the reporting date.

24. Basis of measurement

The financial statements have been prepared on the historical cost basis.

25. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) **Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

(b) **Financial instruments**

(i) ***Non-derivative financial assets***

Non-derivative financial assets comprise trade and other receivables, and cash and cash equivalents.

The Company initially recognises receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

The Company classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 13 and cash and cash equivalents as presented in note 14.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances with original maturities of three months or less.

(ii) *Non-derivative financial liabilities*

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(c) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Unpaid share capital

The unpaid share capital is determined based on the difference between the authorized and subscribed share capital of the Company and actual contributions made by the shareholders (paid share capital).

(d) *Property, plant and equipment*

(i) *Recognition and measurement*

Items of property, plant and equipment, are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

(iv) Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

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

– buildings	20-25 years;
– plant and equipment	8-15 years;
– office equipment	3-6 years;
– merchandising and advertising equipment	2-6 years;
– other	2-5 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

(i) Intangible assets

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely

reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- software 5 years;
- licenses 25 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Interests in equity-accounted investees

The Company's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Interests in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

(g) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows

at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognized when losses are considered probable and can be measured reliably.

(l) Revenue

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognized on dispatch when significant risks and rewards of ownership are transferred.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(n) Finance income and costs

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method.

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

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

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(ii) Deferred tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

26. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2017, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's *operations*. The Company plans to adopt these pronouncements when they become effective.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenues is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(i) Sale of goods

Under IFRS 15, the total consideration in the sale of goods contracts will be allocated to all performance obligations based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the list prices at which the Company sells the goods in separate transactions.

The Company does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these sale of goods and the effect of the transition to IFRS 15 would have no material effect on Company's financial statements.

(ii) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised in equity at 1 January 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented. This adjustment will be presented in full within the financial statements to be prepared for the year ending 31 December 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for financial assets.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not result in a material increase over the impairment recognised under IAS 39.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and the Company has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular credit risk and expected credit losses. The Company's preliminary assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

The Company will use the modified retrospective approach to transition and not present restated comparative information for prior periods. Adjustments to in the carrying amounts of financial assets arising from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

(c) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including 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*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company is in the process of evaluating potential impact on its financial statements and has not yet completed its assessment.

(d) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.