Georgian Beverages Holding JSC and Subsidiaries

Consolidated financial statements

For the year ended 31 December 2019
with independent auditor's report

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Independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
Georgian Beverages Holding JSC

Opinion

We have audited the consolidated financial statements of Georgian Beverages Holding JSC (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and 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 2019 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 of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (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 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 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 do not express any form of assurance conclusion thereon in our report on the audit of the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

We communicate with 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.

Alexey Loza

On behalf of EY LLC

Tbilisi, Georgia

21 August 2020

Consolidated statement of financial position

As at 31 December 2019

(Thousands of Georgian Lari)

	Note	31 December 2019	31 December 2018 (restated)	1 January 2018 (restated)
Non-current assets				
Property, plant and equipment	8	134,124	131,070	102,894
Goodwill	9	13,639	8,198	2,836
Intangible assets	9	8,195	2,094	1,799
Prepayments	12	1,996	2,056	1,577
Amounts due from financial institutions		152	136	–
Total non-current assets		**158,106**	**143,554**	**109,106**
Current assets				
Inventories	10	45,025	30,043	17,514
Trade receivables	11	23,713	14,738	12,179
Prepayments	12	4,442	3,367	2,807
Other current assets		1,555	–	7
Loans issued		–	474	–
Restricted cash		–	–	4,381
Cash and cash equivalents	13	9,348	9,504	17,455
Total current assets		**84,083**	**58,126**	**54,343**
Total assets		**242,189**	**201,680**	**163,449**
Equity and liabilities				
Equity				
Share capital		12,539	5,525	5,200
Share premium		173,063	83,992	78,748
Foreign currency translation reserve		30	(1,506)	(1,782)
Accumulated loss		(97,622)	(41,238)	(11,998)
Other capital reserves		(14,201)	7,737	5,747
Equity attributable to equity holders of the parent		**73,809**	**54,510**	**75,915**
Non-controlling interests		1	1	1
Total equity	14	**73,810**	**54,511**	**75,916**
Non-current liabilities				
Interest bearing loans and borrowings	15	101,742	55,368	61,482
Lease obligations	16	2,567	–	–
Government Grant	18	461	–	–
Total non-current liabilities		**104,770**	**55,368**	**61,482**
Current liabilities				
Trade and other accounts payable	19	20,056	16,416	14,335
Taxes payable, other than income tax		1,561	2,456	1,178
Lease obligations	16	207	–	–
Interest bearing loans and borrowings	15	35,760	68,938	9,948
Contract liabilities		1,125	1,523	95
Other current liabilities	21	4,900	2,468	495
Total current liabilities		**63,609**	**91,801**	**26,051**
Total liabilities		**168,379**	**147,169**	**87,533**
Total equity and liabilities		**242,189**	**201,680**	**163,449**

Signed and authorized for release on behalf of the management of the Group on 21 August 2020

Temur Jankarashvili Chief Executive Officer

The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

As at 31 December 2019

(Thousands of Georgian Lari)

	Note	*2019*	*2018 (restated)*
Revenue and gains	23	124,706	76,214
Cost of sales	24	(83,236)	(48,863)
Gross profit		**41,470**	**27,351**
Selling and distribution expenses	25	(26,626)	(22,601)
Administrative expenses	26	(22,886)	(15,974)
Other operating expenses	27	(5,594)	(6,273)
Provision for expected credit losses		(740)	(821)
Impairment expense	29	(25,207)	–
Operating result		**(39,583)**	**(18,318)**
Finance costs	17	(12,856)	(7,250)
Finance income		–	164
Foreign exchange loss, net		(3,435)	(1,950)
Management restructuring costs	28	(510)	(1,886)
Loss before tax		**(56,384)**	**(29,240)**
Income tax	22	–	–
Loss for the year		**(56,384)**	**(29,240)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operations		1,536	276
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**1,536**	**276**
Total comprehensive loss for the year, net of tax		**(54,848)**	**(28,964)**

The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

As at 31 December 2019

(Thousands of Georgian Lari)

	Share capital	*Share premium*	*Foreign currency translation reserve*	*Retained earnings/(loss)*	*Other capital reserves*	*Total*	*Non-controlling interests*	*Total*
As at 31 December 2017 (restated)	**5,200**	**78,748**	**(1,782)**	**(11,998)**	**5,747**	**75,915**	**1**	**75,916**
Loss for the year	–	–	–	(29,240)	–	**(29,240)**	–	**(29,240)**
Other comprehensive loss	–	–	276	–	–	**276**	–	**276**
Total comprehensive loss	**–**	**–**	**276**	**(29,240)**	**–**	**(28,964)**	**–**	**(28,964)**
Transaction under common control (Note 14)	–	–	–	–	1,990	**1,990**	–	**1,990**
Share issue (Note 14)	325	5,244	–	–	–	**5,569**	–	**5,569**
As at 31 December 2018 (restated)	**5,525**	**83,992**	**(1,506)**	**(41,238)**	**7,737**	**54,510**	**1**	**54,511**
Loss for the year	–	–	–	(56,384)	–	**(56,384)**	–	**(56,384)**
Other comprehensive loss	–	–	1,536	–	–	**1,536**	–	**1,536**
Total comprehensive loss	**–**	**–**	**1,536**	**(56,384)**	**–**	**(54,848)**	**–**	**(54,848)**
Share issue under common control transaction (Note 14)	2,686	47,894	–	–	(21,938)	**38,377**	–	**38,377**
Share issue (Note 14)	4,328	41,177	–	–	–	**35,770**	–	**35,770**
At 31 December 2019	**12,539**	**173,063**	**30**	**(97,622)**	**(14,201)**	**73,809**	**1**	**73,810**

The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

As at 31 December 2019

(Thousands of Georgian Lari)

	Note	2019	2018 (restated)
Operating activities			
Loss before tax		(56,384)	(29,240)
Adjustments to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment	8	16,006	11,530
Amortization of intangible assets	9	344	324
Impairment of property, plant and equipment	29	25,207	–
Impairment of prepayments		142	–
Finance cost	17	12,856	7,250
Finance income		–	–
Inventory write off	27	386	1,458
Provision for expected credit losses	11	740	821
Fair value movement in biological produce	23	(2,899)	(2,875)
Government grant received		69	–
Gain on disposal of property, plant and equipment		(96)	–
Net foreign exchange loss/(gain) attributable to financing and investing activities		5,040	(1,158)
Cash from operating activities before changes in working capital		**1,411**	**(11,890)**
Working capital adjustments			
Changes in inventories		(4,902)	(7,853)
Changes in trade receivables		(9,400)	(1,268)
Changes in prepayments		(635)	(647)
Changes in other assets		116	7
Changes in trade and other accounts payable		1,957	2,854
Changes in other current liabilities		4,796	703
Changes in taxes payables, other than income tax		(895)	1,278
Change advances received		(398)	1,428
Cash flows used in operating activities before interest and income tax		**(7,950)**	**(15,388)**
Interest paid		(9,533)	(3,826)
Net cash flows used in operating activities		**(17,483)**	**(19,214)**
Investing activities			
Acquisition of property, plant and equipment		(20,967)	(12,127)
Acquisition of intangible assets		(8,480)	(524)
Withdrawals from restricted cash account		–	4,381
Issued Loans		–	(474)
Proceeds from the sale of property, plant and equipment		2,018	554
Acquisition of a subsidiary, net of cash acquired	5	(33,062)	(24,312)
Net cash flows used in investing activities		**(60,491)**	**(32,502)**
Financing activities			
Issuance of new shares	14	35,770	7,559
Repayment of borrowings	17	(92,736)	(16,259)
Proceeds from borrowings	17	134,800	52,585
Net cash flows from financing activities		**77,834**	**43,885**
Net decrease in cash and cash equivalents		**(140)**	**(7,831)**
Effect of exchange rate difference from cash and cash equivalents		(16)	(120)
Cash and cash equivalents at the beginning of the period	13	9,504	17,455
Cash and cash equivalents at the end of the year	13	**9,348**	**9,504**

Non-cash transactions:

- In 2019, interest bearing loans and borrowings received from the Parent during 2018 and 2019 with carrying amount of GEL 9,734 were converted into the capital of Global Beer Georgia LLC, a subsidiary of the Company.
- Acquisition of property, plant and equipment included utilization of prepayments made for non-current assets of GEL 382 (2018: GEL 183).
- In 2019, payable balance increased by GEL 1,156 as a result of acquisition of property, plant and equipment.

The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Corporate information

JSC Teliani Valley (identification number 203855444) is a joint stock company founded in 1997 under the laws of Georgia. On 17 December 2019, JSC Teliani Valley underwent a corporate reorganization. As the result of the reorganization, JSC Georgian Beverages Holding (the "Company") (identification number 404589913), was created as a joint stock company under the laws of Georgia. The Company succeeded JSC Teliani Valley as the parent entity of the group comprising JSC Teliani Valley and its subsidiaries. These consolidated financial statements of the Company are continuation of consolidated financial statements of JSC Teliani Valley.

The Company's registered address is Tbilisi Melikishvili 8 / Tatishvili 1, 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. In 2015, the Group signed the Trade Mark License Agreements ("TMLA") with Heineken Brouwerijen B.V, Heineken Ceska Republika A.S and Amstel Brouwerij B.V. (the "Heineken Group") and obtained exclusive right to produce beer under the brand names Amstel, Krusovice and Heineken, and distribute these brands in Georgia, Armenia and Azerbaijan.

As at 31 December 2019 and 2018, the ultimate parent of the Company was Georgia Capital PLC ("GCAP" or the "Ultimate Parent"), a company incorporated in the United Kingdom and listed on the London Stock Exchange. The immediate parent of the Company is Georgia Capital JSC ("the Parent").

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

Shareholders	***2019 (%)***	***2018 (%)***
Georgia Capital PLC	85.99	75.77
JSC Liberty Consumer	0.82	1.87
Firebird Republics Fund Ltd.	6.67	9.89
Firebird Avrora Fund Ltd.	4.05	8.07
Firebird Fund LP	2.30	4.04
Other	0.17	0.36
Total	**100**	**100**

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 2019, the Group incurred net loss of GEL 56,384 (2018: GEL 29,240) and used GEL 17,483 (2018: 19,214) of cash in operating activities. The financial result is mainly attributable to operations of Global Beer Georgia LLC ("GBG"), a subsidiary of the Group. During 2019, the beer business was mainly focused on launching new brands: in March the business acquired a prominent Georgian beverages brand – Kazbegi, followed by launch of Kazbegi beer and lemonade in April. Krusovice, Amstel and a local light beer, Kayaki, three upper-mainstream segment beer brands, were launched in May 2019. In July 2019 business achieved a significant milestone and launched locally brewed Heineken.

In March 2020, the World Health Organization confirmed the novel coronavirus ("COVID-19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy (Note 33). Due to the economic uncertainty and market volatility caused by the COVID-19 outbreak, the Group assessed its ability to continue as going concern. Management revised 12 months sales plan considering that some channels, e. g. hotels, restaurant, cafe, are more effected by the measures aimed at containment of the spread of COVID-19, than off-trade sales through supermarkets.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.2 Going concern (continued)

Management also considered situations in the Group export countries. Currently, the export sales are unaffected by the pandemic. The Group's main export markets are in the CIS countries.

The ongoing plans considers GEL depreciation effect and its impact on major foreign currency denominated expense categories, e.g. imported materials for brewery.

Management performed Liquidity analysis of the Group's financial performance with the assumption of COVID-19 effects negatively impacting the Group through the end of 2020:

1. Wine segment will generate sufficient operating cash to fund its working capital and continue operation on a going concern basis. Wine segment's budgeted expenses include incremental expenses for additional marketing activities. In extreme case, Wine segment will be able to reduce projected expenses by 17% and reallocate cash to other parts of the Group, if needed.
2. On 31 July 2020, GBG negotiated 8-month grace period (i.e. through April 2021) on debt repayments with Bank of Georgia and TBC Bank. The parent support letter was provided on 7 August 2020 for the required amount, GEL 15 million of interest and guarantee fee to be paid in April 2021. Furthermore, in case of exercise of guarantee due to the request of accelerated repayment as the result of covenant breach in the subsequent period, parent intends to collect reimbursement due from GBG under the same terms and payment schedule as it is in the original contract.

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.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. 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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (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 in 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.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.3 Basis of consolidation (continued)

Subsidiaries

As at 31 December 2019 and 2018, the consolidated financial statements include the following subsidiaries:

Subsidiary	*Ownership %, 2019*	*Ownership %, 2018*	*Country*	*Industry*	*Control*	*Acquisition/ incorporation date*
Georgia Distribution and Logistics LLC	100	100	Georgia	Wholesale trade of goods	GBH	27 March 2007
JSC Teliani Valley	100	100	Georgia	Winery	GBH	28 February 2007
Teliani Trading LLC	100	100	Ukraine	Wholesale trade of goods	Teliani Valley JSC	31 December 2007
Global Beer Georgia LLC	100	100	Georgia	Production of alcohol and non-alcohol beverages	GBH	24 December 2014
Le Caucase LLC	100	100	Georgia	Cognac Production	GBH	20 March 2007
Kupa LLC	70	70	Georgia	Oak Barrel Production	GBH	20 March 2007
Kindzmarauli Marani LLC	100	100	Georgia	Winery	Harvest Georgia JSC	25 April 2018
Alcoholic Beverage Company Alaverdi LLC	100	−	Georgia	Winery	Harvest Alaverdi JSC	19 August 2019
Global Coffee Georgia LLC	100	100	Georgia	Coffee Distribution	GBH	26 December 2016
New Coffee Company LLC	100	100	Georgia	Coffee Distribution	Global Coffee Georgia LLC	15 February 2017
Genuine Brewing Company LLC	100	100	Georgia	Beer Production	GBH	7 February 2018
Craf and Draft LLC	100	−	Georgia	Beer Production	Genuine Brewing Company LLC	20 February 2019
Harvest Georgia JSC	100	−	Georgia	Winery	Controlled through a management agreement	25 April 2018
Harvest Alaverdi JSC	100	−	Georgia	Winery	Controlled through a management agreement	19 August 2019

The Group exercises control over Kindzmarauli Marani LLC (“Kindzmarauli Marani”) and Alcoholic Beverage Company Alaverdi LLC (“Alaverdi”) by virtue of rights exercised under management agreement that provides the Group with the power and rights to direct relevant activities of these entities in exchange for variable consideration linked to their net profit. The Group assessed that the terms of the management agreements provide the Group with control over entities, which represents a significant judgment. Accordingly, the Group consolidated Kindzmarauli Marani and Alaverdi in these consolidated financial statements.

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.

2.4 Summary of significant accounting policies

a) Business combinations and goodwill

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

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

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

b) Business combination under common control

The business combinations under common control are accounted for using pooling of interest method with restatement of periods prior to the combination under common control.

The assets and liabilities acquired are recognised at carrying amounts to reflect the combination as if it had occurred from the beginning of the earliest period presented and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognised as a result of business combination under common control.

c) 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.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Trade receivables

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

Contract liabilities

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

d) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

e) 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.

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

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

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

f) 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.

g) 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.

h) 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 related expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

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

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

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

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

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

i) 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.

(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 reclassified to 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.

j) 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 levied on profit distributed as dividends to the owners 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 owner of the Company is recognized as deduction from equity in the consolidated statement of changes in equity.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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%.

In respect of assets and liabilities of foreign subsidiaries, deferred tax assets and liabilities are recognized in the consolidated statement of financial position in respect of temporary differences between the carrying amounts and tax bases of assets and 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 consolidated 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.

k) 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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

l) 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 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 Company has applied the practical expedient are measured at the transaction price as disclosed in section *(a) 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.

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.

<u>Financial assets at amortised cost (debt instruments)</u>

Financial assets at amortised cost are subsequently measured using the effective interest 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 11);
- Changes in accounting policies and disclosures (Note 2).

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

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 statement of profit or loss.

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 2019 and 2018, the Group’s financial liabilities 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition

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

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

Offsetting of financial instruments

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

m) Leases

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

Group as a lessee

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

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets, as follows:

- Building 7 to 50 years
- Vehicles 5 to 7 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicles and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) across the Group. The Group also applies low value lease exemption to its low value leases such as computers and furniture (assets with a value, when new, of GEL 15 or less). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

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

n) Impairment of non-financial assets

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

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

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

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 profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as revaluation increase.

o) 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 highly liquid deposits with original maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

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

p) 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.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

q) 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.

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, disclosures and restatement

New and amended standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the 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 16 Leases

IFRS 16 supersedes 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 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.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.5 Changes in accounting policies, disclosures and restatement (continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 on retained earning was immaterial.

	1 January 2019
Assets	
Property, plant and equipment (Note 8)	2,293
Total assets	**2,293**
Liabilities	
Lease liabilities	2,293
Total liabilities	**2,293**

Weighted average incremental borrowing rate – 7%.

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and warehouses for its distribution activities. Before the adoption of IFRS 16, the Group only had lease arrangements that were classified as operating leases and were not reported on a Group's balance sheet. Such leases were accounted for similarly to service contracts, with the Group reporting a rental expense in the income statement. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets as described below.

<u>Leases previously accounted for as operating leases</u>

The Group recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. Lease liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. A right-of-use asset was recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17 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 also applied the available practical expedients wherein it:

- Used a single discounted rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	1 January 2019
Liabilities	
Operating lease commitments as at 31 December 2018	**2,629**
Weighted average incremental borrowing rate as at 1 January 2019	5.98%
Discounted operating lease commitments as at 1 January 2019	**2,378**
Less:	
Commitments relating to short-term leases	85
Commitments relating to leases of low-value assets	–
Lease payments relating to renewal and termination periods not included in operating lease commitments as at 31 December 2018	–
Lease liabilities as at 1 January 2019	**2,293**

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.5 Changes in accounting policies, disclosures and restatement (continued)

The following amendments had no impact on the Group's consolidated financial statements:

- IAS 23 *Borrowing Costs*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- 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.

2.6 Restatement of comparative balances previously reported in the interim condensed consolidated financial statements for the period ended 30 June 2019

In the course of preparing its annual financial statement for the year ended 31 December 2019, the Group adjusted the effect of pooling of interest method which was previously reported in the interim condensed consolidated financial statements for the period ended 30 June 2019 (the "Interim financial statements").

The error resulted from non-recognition of loan of GEL 27,881 payable by JSC Harvest Georgia's (the Group subsidiary) to the Ultimate parent Georgian Capital PLC ("GCAP") in the Group's financial position as at 31 December 2018 presented in Group's interim report for the period ended 30 June 2019.

Loans received by Harvest Georgia's ("HG") from the GCAP was accounted for as if it was transferred from GCAP to the Group from the acquisition date together with the control of Kindzmarauli Marani LLC when pooling of interest was accounted for (Note 5). The following transaction has to be accounted for when the transaction legally became effective in April 2019 and is not part of pooling of interest accounting. The Loan represented a liability due to a party outside the GBH Group (towards Ultimate parent "GCAP) and it may not be accounted for as of a date earlier than when the transaction is actually consummated (i.e. April 2019). GCAP transferred the loan to the Group on 4 April 2019.

Furthermore, the equity transfer under common transactions was not properly presented as at 31 December 2018, as at 31 December 2017 and for the six-month period ended 30 June 2019 as share capital, share premium and other reserve were misstated as increase in the share capital was recognised earlier than the actual date of share issuance in April 2019.

Effect on the consolidated statement of financial position as at 31 December 2018, previously reported in the Interim financial statements is as follows:

Effect on consolidated statement of financial position as at 31 December 2018, previously reported in the Interim financial statements is as follows:

Interim consolidated statement of financial position
As at 30 June 2019
(Thousands of Georgian lari)

Consolidated statement of financial position as at 31 December 2018	*As previously reported*	*Adjustment for pooling of interest method as presented in the interim financial statements*	*As restated for application of pooling of interest method, as presented in the interim financial statements*	*Correction of error*	*As restated*
Current liabilities					
Interest bearing loans and borrowings	23,351	17,706	41,057	27,881	68,938
Total current liabilities	**45,529**	**18,401**	**63,930**	**27,881**	**91,801**

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.6 Restatement of comparative balances previously reported in the interim condensed consolidated financial statements for the period ended 30 June 2019 (continued)

Effect on consolidated statement of changes in Equity attributable to equity holders of the parent' equity previously reported in the Interim financial statements is as follows:

Interim consolidated statement of financial position
As at 30 June 2019
(Thousands of Georgian lari)

Consolidated statement of financial position as at 31 January 2018	*As previously reported*	*Adjustment for pooling of interest method as presented in the interim financial statements*	*As restated for application of pooling of interest method, as presented in the interim financial statements*	*Correction of error*	*As restated*
Share capital	5,525	2,685	8,210	(2,685)	5,525
Share premium	83,992	47,895	131,887	(47,895)	83,992
Foreign currency translation reserve	(1,506)	–	(1,506)	–	(1,506)
Retained earnings/(loss)	(36,207)	(5,030)	(41,237)	(1)	(41,238)
Other capital reserves	–	(14,971)	(14,971)	22,708	7,737
Equity attributable to equity holders of the parent	**51,804**	**30,579**	**82,383**	**(27,873)**	**54,510**
Non-controlling interest	1	–	1	–	1
Total equity (31 December 2018)	**51,805**	**30,579**	**82,384**	**(27,873)**	**54,511**

Consolidated statement of financial position as at 31 December 2017	*As previously reported*	*Adjustment for pooling of interest method as presented in the interim financial statements*	*As restated for application of pooling of interest method, as presented in the interim financial statements*	*Correction of error*	*As restated*
Share capital	5,200	355	5,555	(355)	5,200
Share premium	78,748	6,311	85,059	(6,311)	78,748
Other capital reserves	–	(949)	(949)	6,696	5,747
Foreign currency translation reserve	(1,782)	–	(1,782)	–	(1,782)
Retained earnings/(loss)	(11,829)	(147)	11,976	(22)	11,998
Equity attributable to equity holders of the parent	**70,337**	**5,570**	**75,907**	**(8)**	**75,915**
Non-controlling interests	1	–	1	–	1
Total equity (31 December 2017)	**70,338**	**5,570**	**75,908**	**(8)**	**75,916**

2.7 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 Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

(Thousands of Georgian Lari)

2. Significant accounting policies (continued)

2.7 Standards issued but not yet effective (continued)

Standards and amendments issued but not yet effective that are either not applicable for the Group or that the Group is currently assessing impact of are listed below:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*.

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:

Control over Kindzmarauli Marani and Alaverdi

Management uses judgement in determining whether the Group has the ability to direct relevant activities of Kindzmarauli Marani and Alaverdi in exchange for variable consideration linked to their net profit by virtue of rights exercised through loan and management agreement (Notes 2 and 5). Management believes the Group has the power, exposure to variability of returns and the ability to use the power to affect the returns of Kindzmarauli Marani and Alaverdi.

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 1,536 were classified as part of other comprehensive income in 2019 (2018: Gain 276).

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.

Impairment of property, plant and equipment (Beer segment)

The Beer segment of the Group continued to incur operating losses in 2019 (Note 6) due to delay in commencement of Heineken and Amstel licenced beer production. Although the production commenced in May 2019, financial performance of the Beer segment remained below the expected targets on a cumulative basis in 2019. Therefore, management considered that impairment indicators existed as at 31 December 2019 in respect of the Beer segment and performed an impairment test at that date. Impairment test was performed at the level of the Beer segment CGU.

(Thousands of Georgian Lari)

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

Estimates and assumptions (continued)

As a result of the analysis the CGU recoverable amount exceeded its carrying value and the Group recognised an impairment charge of GEL 21,057 in respect of the property, plant and equipment of the Beer segment in 2019.
The recoverable amount of the CGU of GEL 75,718 as at 31 December 2019 was based on the value in use of assets of Global Beer Georgia LLC ("GBG"), a subsidiary. Value in use of the CGU is determined using cash flow projections from financial budgets approved by the management covering 2020-2024 period. The pre-tax discount rate applied to the cash flow projections is 14.7% and cash flows beyond the five-year period are extrapolated using a 3% growth rate. Terminal growth rate corresponds to target long-term inflation rate in Georgia. The fair value less costs of disposal did not exceed the value in use.

The calculation of value in use is most sensitive to the following assumptions:

- Gross margins;
- Discount rate;
- Market share during the forecast period;
- Capital expenditure (CAPEX);
- Terminal growth rate.

Gross margins are based on average values achieved in 2017-2019, adjusted, if relevant, over the budgeted period for anticipated efficiency improvements. For newly launched products gross margins were determined based on market analysis.

Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the CGU and its operating segment and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. Beta factor is derived from the median beta value of similar companies over a five-year period.

Market share in the forecasted period was estimated by the Group using publicly available information from official sites of Government of Georgia, as well as past statistics and future projections about the beverage industry.

Capital expenditure was forecasted considering that GBG's factory is brand new and requires less maintenance capital expenditure as compared to the annual depreciation to be able to implement its operations. The Company's capital expenditure to sales ratio in the terminal period is 3.2%, which is within the industry range.

The Group believes that all its valuation inputs are reasonable, consistent with the internal reporting and reflect management's best estimates. The Group performed sensitivity analysis for key assumptions including the weighted average cost of capital and the terminal growth rate.

Impairment of Goodwill and intangible assets

The Group annually performs impairment testing for intangible assets with indefinite useful life, goodwill acquired in a business combination and any assets for which impairment indicators have been identified. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

As at 31 December 2019, the Group performed impairment test for the assets of its beer business (cash-generating unit or CGU). The recoverable amount of the CGU was determined as its value in use based on a DCF model.
The values assigned to the key assumptions represent management's assessment of the Group's future performance, competition analysis, macro-economic factors and trends in the beverages industry. The calculations use cash flow projections based on approved financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rate.

(Thousands of Georgian Lari)

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

Estimates and assumptions (continued)

The following table sets out the key assumptions for the Beer segment CGU impairment test:

Assumption	***Value***
WACC	14.70%
Terminal growth rate	3%
Beer sales volume growth CAGR in five-year period	9.7%

Based on the above assumptions, goodwill and intangible assets of the Beer segment were impaired by GEL 2,226 and GEL 1,924, respectively in 2019. Following the impairment loss recognized in the CGU, the recoverable amount was equal to the carrying amount. Sensitivity analysis for changes in key assumptions (lower forecast volumes, lower terminal period growth rates or higher discount rates) was performed. Any adverse movements in a key assumption would lead to further impairment.

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 2019, provision for expected credit losses of GEL 3,882 (2018: GEL 3,141) is the best estimate of possible losses from impairment of debt financial assets.

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, such as economic uncertainty caused by the global COVID-19 pandemic (Note 33).

Teliani Trading Ukraine LLC, a subsidiary, operates in Ukraine and the developments in the Ukrainian environment may have a significant impact on the Group's business. Economic growth in Ukraine increased to 3.9% in 2019 (2018: 3.3%). The growth was led by continued strong growth in key services, an early agriculture harvest and the resumption of the mining sector growth.

(Thousands of Georgian Lari)

4. Operating environment (continued)

Ukraine mainly imports wine and spirits from over 24 countries, out of which the biggest importer is Georgia with 15%, Italy with 13.8% and Germany with 11.1%. Wine imports from Georgia over the past five years increased by 6% CAGR. The sector is recovering gradually after a period of higher inflation and steep increases in excise taxes during 2016-2017. Consumer inflation slowed from 9.8% in 2018 to 4.1% in 2019. The key contributor to the noticeable slowdown in consumer price growth was the strengthening of the Ukrainian hryvnia exchange rate.

The Group expects the consumption in Ukraine to rise gradually over the coming five years, 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 2019, the Group's net assets exposure to Ukrainian risks amounted to approximately GEL 5,305 (2018: GEL 4,253). Negative developments in Ukraine could adversely impact results and financial position of the Group and its Ukrainian subsidiary in a manner not currently determinable.

(Thousands of Georgian Lari)

5. Business combinations

In April 2019, GCAP transferred to the Group controlling stakes in Global Coffee Georgia LLC (“GCG”) (ultimate parent company of New Coffee Georgia LLC), Genuine Brewing Company LLC (“GBC”) and control over the Loan and Management Agreement concluded with JSC Harvest Georgia (ultimate parent company of Kindzmarauli Marani). In return, the Group issued 268,571,429 shares with cost of GEL 43,400. As a result, GCAP’s shareholding in the Group increased from 75.77% to 84.76%.

The Group accounted for these transactions under common control using pooling of interest method with the retrospective restatement of comparative financial information. Under the pooling of interest method, the assets and liabilities of GCG, GBC and JSC Harvest are recognized in the Group’s consolidated financial statements as if the business combination occurred at the beginning of the earliest period presented at their carrying values, with the corresponding adjustment to the Group’s equity.

GCAP acquired controlling stakes in GCG, GBC, and concluded the Loan and Management Agreement with JSC Harvest on 15 February 2017, 7 February 2018, and 26 April 2018, respectively. Therefore, consolidated statement of financial position of the Group as at 1 January 2018 was restated for the effect of GCC business combination using pooling of interest method. The impact of change due to pooling of interest was GEL 5,570 and GEL 30,579 on net assets as of 1 January and 31 December 2018, respectively.

Consolidated statement of financial position as at 31 December 2018	*The Group before common control transactions*	*Financial position of Global Coffee Georgia LLC (Unaudited)*	*Financial position of Genuine Brewing Company LLC*	*Financial position of JSC Harvest*	*Intragroup eliminations*	*The Group after common control transactions*
Non-current assets						
Property, plant and equipment	100,081	916	4,681	25,426	(34)	131,070
Intangible assets	991	2	60	28	1,013	2,094
Prepayments	2,056	–	–	–	–	2,056
Amounts due from financial institutions	125	–	–	9	2	136
Loans issued	332	–	–	–	(332)	–
Goodwill	–	–	–	–	8,198	8,198
Investments in associates	–	–	–	6,439	(6,439)	–
Total non-current assets	**103,585**	**918**	**4,741**	**31,902**	**2,408**	**143,554**
Current assets						
Inventories	24,472	108	401	5,672	(610)	30,043
Trade receivables	13,377	494	270	2,903	(2,306)	14,738
Prepayments	3,264	10	2,378	70	(2,355)	3,367
Loans issued	649	–	–	474	(649)	474
Cash and cash equivalents	7,354	4	247	1,899	–	9,504
Total current assets	**49,116**	**616**	**3,296**	**11,018**	**(5,920)**	**58,126**
Total assets	**152,701**	**1,534**	**8,037**	**42,920**	**(3,512)**	**201,680**

(Thousands of Georgian Lari)

5. Business combinations (continued)

Consolidated statement of financial position as at 31 December 2018	***The Group before common control transactions***	***Financial position of Global Coffee Georgia LLC (Unaudited)***	***Financial position of Genuine Brewing Company LLC***	***Financial Position of JSC Harvest***	***Intragroup eliminations***	***The Group after common control transactions***
Equity and liabilities						
Equity						
Share capital	5,525	–	–	–	–	5,525
Share premium	83,992	–	–	–	–	83,992
Foreign currency translation reserve	(1,506)	–	–	–	–	(1,506)
Accumulated loss	(36,207)	(99)	(4,462)	(9,054)	8,584	(41,238)
Other reserves	–	1,504	9,064	10,748	(13,579)	7,737
Equity attributable to equity holders of the parent	**51,804**	**1,405**	**4,602**	**1,694**	**(4,995)**	**54,510**
Non-controlling interests	1	–	–	–	–	1
Total equity	**51,805**	**1,405**	**4,602**	**1,694**	**(4,995)**	**54,511**
Non-current liabilities						
Interest bearing loans and borrowings	55,368	–	–	–	–	55,368
Total non-current liabilities	**55,368**	**–**	**–**	**–**	**–**	**55,368**
Current liabilities						
Trade and other accounts payable	15,807	60	87	2,852	(2,390)	16,416
Taxes payable, other than income tax	1,877	69	343	167	–	2,456
Interest bearing loans and borrowings	23,351	–	3,005	36,427	6,155	68,938
Contract liabilities	2,857	–	–	939	(2,273)	1,523
Other current liabilities	1,637	–	–	841	(10)	2,468
Total current liabilities	**45,529**	**129**	**3,435**	**41,226**	**1,482**	**91,801**
Total liabilities	**100,897**	**129**	**3,435**	**41,226**	**1,482**	**147,169**
Total equity and liabilities	**152,702**	**1,534**	**8,037**	**42,920**	**(3,513)**	**201,680**

(Thousands of Georgian Lari)

5. Business combinations (continued)

The reconciliation of previously reported amounts for the effect of common control business combinations as at 1 January 2018 is disclosed below:

Consolidated statement of financial position as at 1 January 2018	*The Group before common control transactions*	*Financial position of Global Coffee Georgia LLC*	*Intragroup eliminations*	*The Group after common control transactions*
Non-current assets				
Property, plant and equipment	102,168	726	–	102,894
Intangible assets	723	3	1,073	1,799
Prepayments	1,658	–	(81)	1,577
Goodwill	–	–	2,836	2,836
Total non-current assets	**104,549**	**729**	**3,828**	**109,106**
Current assets				
Inventories	17,122	392	–	17,514
Trade receivables	11,900	835	(556)	12,179
Prepayments	2,795	12	–	2,807
Other current assets	7	–	–	7
Restricted cash	4,381	–	–	4,381
Cash and cash equivalents	17,437	18	–	17,455
Total current assets	**53,642**	**1,257**	**(556)**	**54,343**
Total assets	**158,191**	**1,986**	**3,272**	**163,449**
Equity and liabilities				
Equity				
Share capital	5,200	–	–	5,200
Share premium	78,748	–	–	78,748
Foreign currency translation reserve	(1,782)	–	–	(1,782)
Accumulated loss	(11,829)	238	(407)	(11,998)
Other capital reserves	–	1,504	4,243	5,747
Equity attributable to equity holders of the parent	**70,337**	**1,742**	**3,836**	**75,915**
Non-controlling interests	1	–	–	1
Total equity	**70,338**	**1,742**	**3,836**	**75,916**

(Thousands of Georgian Lari)

5. Business combinations (continued)

Consolidated statement of financial position as at 1 January 2018	*The Group before common control transactions*	*Financial position of Global Coffee Georgia LLC*	*Intragroup eliminations*	*The Group after common control transactions*
Non-current liabilities				
Interest bearing loans and borrowings	61,482	–	–	61,482
Total non-current liabilities	**61,482**	**–**	**–**	**61,482**
Current liabilities				
Trade and other accounts payable	14,848	43	(556)	14,335
Taxes payable, other than income tax	1,178	–	–	1,178
Interest bearing loans and borrowings	9,795	153	–	9,948
Contract liabilities	95	–	–	95
Other current liabilities	455	48	(8)	495
Total current liabilities	**26,371**	**244**	**(564)**	**26,051**
Total liabilities	**87,853**	**244**	**(564)**	**87,533**
Total equity and liabilities	**158,191**	**1,986**	**3,272**	**163,449**

(Thousands of Georgian Lari)

5. Business combinations (continued)

Acquisition of Alaverdi

On 20 August 2019, Group acquired 100% equity interest in Alaverdi, producer of exquisite Georgian wines and spirits. The acquisition was carried out through locally established special purpose vehicle JSC Harvest Alaverdi (SPV). The control over Alaverdi is obtained through the Loan and Management Agreements signed with SPV (JSC Harvest Alaverdi), which provides the Group with the power, exposure to variability of returns and the ability to use the power to affect the returns of Alaverdi.

Final, Estimated net assets of Alaverdi at the acquisition date comprised GEL 25,619, total consideration comprised of GEL 33,286. The fair value of aggregate identifiable assets and liabilities of the companies as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	223
Accounts receivable[1]	315
Inventories	7,567
Property and equipment	19,713
Prepayments	140
Other assets	1,671
	29,629
Borrowings	2,910
Accounts payable	527
Other liabilities	573
	4,010
Total identifiable net assets	**25,619**
Goodwill arising on business combination	7,667
Purchase consideration	**33,286**

[1] The fair value of the accounts receivables amounted to GEL 315. The gross amount of receivables is GEL 315.

The net cash outflow on acquisition was as follows:

	31 December 2019
Cash paid	(33,286)
Cash acquired with the subsidiary	223
Net cash outflow	**(33,063)**

Alaverdi owns vineyards and free land plot in Kakheti region, Georgia, available for immediate vineyard development. The acquisition of Alaverdi is in line with the Group's strategy to reach a vineyard base of 1,000 hectares.

Since the acquisition, Alaverdi recognized GEL 3,111 and GEL 809 of revenue and profit, respectively. If the acquisition had taken place at the beginning of the period, the Group would have recorded GEL 10,480 and GEL 603 of revenue and profit, respectively.

The goodwill on acquisition is primarily attributable to the assembled workforce, premises and experienced management that is expected to generate future economic benefits.

Acquisition of Kindzmarauli Marani

On 26 April 2018, GCAP acquired 60.5% interest in Kindzmarauli Marani, a producer of high-quality Georgian wines and spirits, which owns 350 hectares of vineyards in Kakheti region, Georgia, from individual investors. The acquisition was carried out through a locally established SPV (JSC Harvest Georgia). The control over Kindzmarauli Marani is obtained through the Loan and Management Agreements signed with SPV, which provide GCAP with the power, exposure to variability of returns and the ability to use the power to affect the returns of Kindzmarauli Marani.
In April 2019, GCAP transferred to the Group control over the Loan and Management Agreement.

(Thousands of Georgian Lari)

5. Business combinations (continued)

Acquisition of Kindzmarauli Marani (continued)

The fair values of aggregate identifiable assets and liabilities of Kindzmarauli Marani as at the date of the acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	1,209
Accounts receivable[1]	1,899
Inventories	2,817
Property and equipment	26,299
Intangible assets	28
Prepayments	19
	32,271
Borrowings	14,560
Accounts payable	2,114
Deferred income	836
Other liabilities	82
	17,592
Total identifiable net assets	**14,679**
Non-controlling interests	–
Goodwill arising on business combination	3,136
Purchase consideration	**17,815**

1 The fair value of the receivables amounted to GEL 1,899. The gross amount of receivables is GEL 1,899.

For the purposes of non-controlling interest calculation, net assets of Kindzmarauli Marani are derived after deducting liabilities outstanding to GCAP at the acquisition date fair value.

The net cash outflow on acquisition was as follows:

Cash paid[2]	(17,816)
Cash acquired with the subsidiary	1,209
Net cash outflow	**(16,607)**

2 Purchase consideration comprises of GEL 6,143 cash payment for acquisition of equity stake in the company and GEL 11,673 paid to acquire a loan to the acquire from its previous controlling shareholder.

In August 2018, the Group through SPV acquired additional 39.5% interest in Kindzmarauli Marani for a consideration of GEL 5,667, of which GEL 651 is holdback outstanding as at 31 December 2018, and recorded GEL 7,022 unrealised loss from the acquisition of non-controlling interest in existing subsidiary.

The acquisition of Kindzmarauli Marani is in line with the Group's strategy to reach a vineyard base of 1,000 hectares.

Since the acquisition, April 2018 Kindzmarauli Marani has recognized GEL 6,698 and GEL 1,207 of revenue and loss, respectively. Group's profit and revenue would not have been materially different if the acquisition had taken place at the beginning of the year 2018.

The goodwill on acquisition is primarily attributable to the positive synergy that is expected to be brought into the Group's operations.

Acquisition of Genuine Brewing Company

On 7 February 2018 GCAP acquired 100% equity stake in a Georgian craft beer producer, Genuine Brewing Company LLC. Net assets of Genuine Brewing Company LLC at acquisition date comprised GEL 5,609 Consideration comprised of GEL 7,835.

(Thousands of Georgian Lari)

5. Business combinations (continued)

Acquisition of Genuine Brewing Company (continued)

The fair values of aggregate identifiable assets and liabilities of Genuine Brewing Company LLC as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	129
Accounts receivable[1]	214
Inventories	442
Property and equipment	5,297
Intangible assets	74
Other assets	1
	6,157
Accounts payable	195
Other liabilities	353
	548
Total identifiable net assets	**5,609**
Goodwill arising on business combination	2,226
Purchase consideration	**7,835**

1 The fair value of the receivables amounted to GEL 214. The gross amount of receivables is GEL 214.

The net cash outflow on acquisition was as follows:

	31 December 2018
Cash paid	(7,835)
Cash acquired with the subsidiary	129
Net cash outflow	**(7,706)**

Since the acquisition, Genuine Brewing Company LLC has recorded GEL 1,967 and GEL 2,183 of revenue and loss, respectively during 2018 year.

The primary factor that contributed to the cost of the business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations.

6. Segment information

The Group is organised into three operating segments: wine production, beer production and distribution.

Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the interim condensed consolidated financial statements. Transactions between segments are accounted for at actual transaction prices.

(Thousands of Georgian Lari)

6. Segment information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments:

Profit or loss statement for the year ended 31 December 2019

	Wine	*Beer*	*Distribution*	*Inter-business eliminations/ consolidations*	*Group total*
Revenue	42,150	43,628	80,254	(41,326)	**124,706**
Cost of sales	(23,355)	(31,424)	(66,397)	40,827	**(80,349)**
Gross profit	**18,795**	**12,204**	**13,857**	**(499)**	**44,357**
Operating expenses and impairment	(10,064)	(18,654)	(13,522)	(143)	**(42,383)**
EBITDA	**8,731**	**(6,450)**	**335**	**(642)**	**1,974**
Depreciation and amortization	(3,490)	(11,185)	(1,635)	(40)	**(16,350)**
Finance expense	(3,928)	(8,816)	(160)	35	**(12,869)**
Finance income	47	1	–	(35)	**13**
Foreign exchange gain/(loss), net	67	(3,480)	(5)	(17)	**(3,435)**
Net operating income/(loss) before non-recurring items	**1,427**	**(29,930)**	**(1,465)**	**(699)**	**(30,667)**
Non-recurring expense	(410)	(25,307)	–	–	**(25,717)**
Profit/(loss) before income tax	**1,017**	**(55,237)**	**(1,465)**	**(699)**	**(56,384)**
Income tax	–	–	–	–	**–**
Profit/(loss) for the period	**1,017**	**(55,237)**	**(1,465)**	**(699)**	**(56,384)**

Profit or loss statement for the year ended 31 December 2018

	Wine	*Beer*	*Distribution*	*Inter-business eliminations/ consolidations*	*Group total*
Revenue	29,352	29,308	24,896	(7,342)	**76,214**
Cost of sales	(15,310)	(19,231)	(19,644)	7,201	**(46,984)**
Gross profit	**14,042**	**10,077**	**5,252**	**(141)**	**29,230**
Operating expenses and impairment	(6,891)	(23,841)	(4,627)	(335)	**(35,694)**
EBITDA	**7,151**	**(13,764)**	**625**	**(476)**	**(6,464)**
Depreciation and amortization	(1,435)	(9,719)	(791)	91	**(11,854)**
Finance expense	(3,098)	(4,221)	(1)	70	**(7,250)**
Finance income	226	9	–	(71)	**164**
Foreign exchange gain/(loss), net	(2,139)	300	(30)	(81)	**(1,950)**
Net operating income/(loss) before non-recurring items	**705**	**(27,395)**	**(197)**	**(467)**	**(27,354)**
Non-recurring expense	(796)	(1,090)	–	–	**(1,886)**
Profit/(loss) before income tax	**(91)**	**(28,485)**	**(197)**	**(467)**	**(29,240)**
Income tax	–	–	–	–	**–**
Profit/(loss) for the period	**(91)**	**(28,485)**	**(197)**	**(467)**	**(29,240)**

(Thousands of Georgian Lari)

7. 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, impairment expense and management restructuring costs. 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	*2019*	*2018*
Loss for the year		**(56,384)**	**(29,240)**
Adjustments for:			
Depreciation	8	16,006	11,530
Amortization	9	344	324
Finance costs	16	12,856	7,250
Finance income		−	(164)
Foreign exchange loss, net		3,435	1,950
Management restructuring costs	26	510	1,886
Impairment expense	8, 9	25,207	−
Adjusted EBITDA		**1,974**	**(6,464)**

(Thousands of Georgian Lari)

8. Property, plant and equipment

	Land	*Buildings*	*Machinery and equipment*	*Vehicles*	*Other*	*Grape wines*	*Vineyard establish-ment*	*Construc-tion in progress*	*ROU Asset*	*Total*
Cost										
As at 1 January 2018 restated	**1,115**	**17,599**	**86,634**	**5,868**	**1,551**	**1,085**	**148**	**175**	**–**	**114,175**
Additions	–	1,887	5,698	481	597	–	–	–	–	**8,663**
Disposal	–	(460)	(350)	(62)	(104)	–	(5)	–	–	**(981)**
Business combination (Note 5)	5,854	4,560	8,515	823	884	–	10,961	–	–	**31,597**
Reclassification	–	–	–	–	–	(1,085)	1,085	–	–	**–**
Transfer from construction in progress	–	145	4	9	17	–	–	(175)	–	**–**
Translation difference	–	–	–	(1)	(3)	–	–	–	–	**(4)**
As at 31 December 2018	**6,969**	**23,731**	**100,501**	**7,118**	**2,942**	**–**	**12,189**	**–**	**–**	**153,450**
Additions	266	694	13,685	1,271	404	–	874	50	2,678	**19,922**
IFRS 16 transition effect	–	–	–	–	–	–	–	–	2,293	**2,293**
Disposal	(467)	–	(571)	(276)	(458)	–	(66)	–	(1,490)	**(3,328)**
Business combination (Note 5)	3,926	4,210	3,098	709	49	–	7,720	–	–	**19,712**
Transfer	–	–	88	(88)	–	–	50	(50)	–	**–**
As at 31 December 2019	**10,694**	**28,635**	**116,801**	**8,734**	**2,937**	**–**	**20,767**	**–**	**3,481**	**192,049**
Depreciation and impairment										
As at 1 January 2018	**–**	**597**	**8,729**	**1,197**	**640**	**–**	**140**	**–**	**–**	**11,303**
Depreciation charge for the year	–	726	8,677	1,174	658	–	295	–	–	**11,530**
Depreciation on disposals	–	–	(318)	(52)	(72)	–	–	–	–	**(442)**
Transfer	–	(8)	8	–	–	–	–	–	–	**–**
Translation difference	–	–	–	(2)	(9)	–	–	–	–	**(11)**
As at 31 December 2018	**–**	**1,315**	**17,096**	**2,317**	**1,217**	**–**	**435**	**–**	**–**	**22,380**
Depreciation charge for the year	–	721	11,299	1,434	609	–	639	–	1,304	**16,006**
Depreciation on disposals	–	–	(620)	(205)	(272)	–	(50)	–	(371)	**(1,518)**
Impairment (Note 29)	241	3,804	16,238	625	149	–	–	–	–	**21,057**
Transfer	–	–	88	(88)	–	–	–	–	–	**–**
As at 31 December 2019	**241**	**5,840**	**44,101**	**4,083**	**1,703**	**–**	**1,024**	**–**	**933**	**57,925**
Net book value										
At 31 December 2018	**6,969**	**22,416**	**83,405**	**4,801**	**1,725**	**–**	**11,754**	**–**	**–**	**131,070**
At 31 December 2019	**10,453**	**22,795**	**72,700**	**4,651**	**1,234**	**–**	**19,743**	**–**	**2,548**	**134,124**

(Thousands of Georgian Lari)

8. 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. The carrying amount of the pledged property as at 31 December 2019 was GEL 138,935 (31 December 2018: GEL 142,617) (Notes 15, 16).

Depreciation expense has been allocated as follows:

	2019	*2018*
Selling and distribution expenses	5,902	4,717
Administrative expenses	5,171	1,591
Cost of sales	2,887	1,879
Other operating expenses	2,046	3,343
	16,006	**11,530**

Impairment for property, plant and equipment

Management has recognised an impairment charge of GEL 21,057 in the current year against property, plant and equipment in the beer production segment. This was recognized in the Statement of Profit or Loss. The recoverable amount of GEL 75,718 as at 31 December 2019 was based on value in use and was determined at the level of the beer production CGU. The CGU consisted of assets of Global Beer Georgia LLC ("GBG"), a subsidiary. Value in use for the CGU was determined using cash flow projections from financial budgets approved by senior management covering 2020-2024-year period. The pre-tax discount rate applied to cash flow projections is 14.7% and cash flows beyond the five-year period are extrapolated using a 3% growth rate. Terminal growth rate of the company corresponds to target long-term inflation rate in Georgia. It was concluded that the fair value less costs of disposal did not exceed the value in use.

	Land	*Buildings*	*Machinery and equipment*	*Vehicles*	*Other*	*Total*
Impairment	241	3,804	16,238	625	149	**21,057**

9. Goodwill and intangible assets

	Computer software	*Goodwill*	*Other*	*Total*
Cost				
At 31 December 2017	**288**	**2,836**	**1,679**	**4,803**
Additions	396	−	128	**524**
Business combination (Note 5)	28	5,362	84	**5,474**
Disposals	(17)	−	−	**(17)**
At 31 December 2018	**695**	**8,198**	**1,891**	**10,784**
Additions	261	−	8,219	**8,480**
Business combination (Note 5)	−	7,667	−	**7,667**
Disposals	(28)	−	(104)	**(132)**
At 31 December 2019	**928**	**15,865**	**10,006**	**26,799**
Amortization				
At 31 December 2017	**100**	**−**	**69**	**169**
Amortization charge	166	−	158	**324**
Disposals	(1)	−	−	**(1)**
At 31 December 2018	**265**	**−**	**227**	**492**
Amortization				
Amortization charge	125	−	219	**344**
Disposals	−	−	(21)	**(21)**
Impairment (Note 29)	50	2,226	1,874	**4,150**
At 31 December 2019	**440**	**2,226**	**2,299**	**4,965**
Net book value				**−**
At 31 December 2018	**430**	**8,198**	**1,664**	**10,292**
At 31 December 2019	**488**	**13,639**	**7,707**	**21,834**

(Thousands of Georgian Lari)

9. Goodwill and intangible assets (continued)

Increase in intangible assets during 2019 is mostly attributable to acquisition of the Kazbegi brand name. Group determined that Kazbegi brand has an indefinite useful life.

Amortization expense has been allocated as follows:

	2019	*2018*
Administrative expenses	344	324
	344	**324**

Impairment Test for goodwill and intangible asset with indefinite useful life

Goodwill acquired through business combinations have been allocated to three individual cash-generating units, for impairment testing: wine production, beer production and distribution. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	31 December 2019	*CGU's*
Harvest Georgia JSC	3,136	Wine
Alcoholic Beverage Company Alaverdi LLC	7,667	Wine
New Coffee Company LLC	2,836	Distribution
Total	**13,639**	

As at 31 December 2019, the Group performed impairment test for the assets of its beer business (cash-generating unit or CGU). The recoverable amount of the CGU was determined as its value in use based on a DCF model. The values assigned to the key assumptions represent management's assessment of the Company's future performance, competition analysis, macro-economic factors and trends in the beverages industry. The calculations use cash flow projections based on approved financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rate.

The following table sets out the key assumptions for the beer CGU impairment test:

Assumption	*Value*
WACC	14.70%
Terminal growth rate	3%
Beer sales volume growth CAGR in five-year period	9.7%

Based on the above assumptions, Goodwill and intangible assets of beer business impaired by GEL 2,226 and GEL 1,924 respectively for the year ended 31 December 2019. Following the impairment loss recognized in the Group's beer CGU, the recoverable amount was equal to the carrying amount. Sensitivity analysis for changes in key assumptions (lower forecast volumes, lower terminal period growth rates or higher discount rates) was performed. Any adverse movements in a key assumption would lead to further impairment.

10. Inventories

As at 31 December inventory balances were as follows:

	2019	*2018*
Raw materials	26,990	15,616
Production supporting materials	7,076	2,761
Finished goods (own production)	5,568	6,384
Finished goods (imported products)	3,160	3,866
Work in progress	927	609
Other inventories	1,304	807
	45,025	**30,043**

(Thousands of Georgian Lari)

11. Trade receivables

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

	2019	*2018*
Trade receivables	27,595	17,879
Less: provision for expected credit losses	(3,882)	(3,141)
	23,713	**14,738**

Movement of provision for expected credit losses is as follows:

	2019	*2018*
At 1 January	**3,142**	**2,320**
Charge for the year (Note 28)	740	821
At 31 December	**3,882**	**3,141**

Movements in gross carrying values that significantly contributed to changes in expected credit losses during 2019 and 2018 are mostly represented by recognition of new financial assets.

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

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

2019	*Not past due*	*<30 days*	*30-90 days*	*90-180 days*	*Total*
Estimated total gross carrying amount at default	2,267	8,343	9,473	7,512	**27,595**
Expected loss rate	0%	1%	7%	42%	
Expected credit loss	–	(79)	(633)	(3,170)	**(3,882)**

2018	*Not past due*	*<30 days*	*30-90 days*	*90-180 days*	*Total*
Estimated total gross carrying amount at default	3,177	5,809	4,421	4,472	**17,879**
Expected loss rate	0%	2%	12%	56%	
Expected credit loss	–	(87)	(534)	(2,520)	**(3,141)**

12. Prepayments

As at 31 December, non-current prepayments included:

	2019	*2018*
Prepayments to customers (a)	1,886	1,674
Equity investments at fair value	110	–
Prepayments for fixed assets	–	382
	1,996	**2,056**

As at 31 December, current prepayments included:

	2019	*2018*
Prepayments for raw materials and goods	1,653	1,005
Prepayments to customers (a)	1,337	1,755
prepayment for marketing services	483	148
Other	969	459
	4,442	**3,367**

(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.

(Thousands of Georgian Lari)

13. Cash and cash equivalents

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

	2019	*2018*
Current accounts with banks	9,220	9,313
Cash on hand	128	191
	9,348	**9,504**

Current accounts earn interest at annual 2%-5%. Interest income on deposits totaled GEL 153 during 2019 (2018: GEL 155).

14. Equity

As at 31 December 2019, authorized share capital comprised 1,700,000,000 (2018: 620,000,000) common shares, out of which 1,253,902,801 were issued and paid (2018: 552,500,000). Each share has a nominal value of GEL 0.00001.

In 2019 the Group issued 432,831,372 new shares (2018: 32,500) for the consideration of GEL 35,770 (2018: 5,569) to finance working capital for beverage production, and 268,571,429 new shares under the common control transaction (Note 5).

	Share capital	*Share premium*
As at 31 December 2018	**5,525**	**83,992**
JSC Teliani valley share issue	3,719	36,239
JSC Georgian Beverages Holding share issue	609	4,938
Share issue under common control transaction (Note 5)	2,686	47,894
At 31 December 2019	**12,539**	**173,063**

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 2019 and 2018.

15. Interest bearing loans and borrowings

	2019	*2018*
Borrowings from local financial institutions	134,108	29,107
Borrowings from international financial institutions	–	57,177
Borrowings from ultimate parent Company	3,394	38,022
Total	**137,502**	**124,306**

As at 31 December 2019, borrowings from local financial institutions are denominated in GEL, EUR and USD, carry interest rates from 5% to 13.5%, with remaining terms of maturity from 1 to 7 years.

In 2019, the Company refinanced Long term borrowings from international credit institutions by a syndicated loan provided by local financial institutions.

As at 31 December 2019, other borrowings are denominated in EUR, carry interest rated 2%, with remaining terms of maturity of 6 years.

(Thousands of Georgian Lari)

16. Leases

The Group has lease contracts for various items of items of buildings and warehouses for its distribution activities. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. Some lease contracts include extension and termination options and variable lease payments. The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Gross balance	***Buildings***	***Total***
At 1 January 2019	**2,293**	**2,293**
Additions	2,678	**2,678**
Business combination (Note 5)	–	**–**
Disposals	(1,490)	**(1,490)**
Transfers from (to) PPE	–	**–**
Currency translation differences	–	**–**
Change in investment entity status	–	**–**
At 31 December 2019	**3,481**	**3,481**
Accumulated depreciation		
At 1 January 2019	**–**	**–**
Additions	–	**–**
Disposals	(371)	**(371)**
Depreciation charge for the year	1,304	**1,304**
Currency translation differences	–	**–**
Change in investment entity status	–	**–**
At 31 December 2019	**933**	**933**
Net book value		
Balance at 1 January 2019	**2,293**	**2,293**
Balance at 31 December 2019	**2,548**	**2,548**

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

	2019
At 1 January 2019	**2,293**
Additions	2,253
Business combination (Note 5)	–
Interest expense on lease liabilities	229
Payments of principal portion of lease liabilities	(1,793)
Payment of interest portion of lease liabilities	(208)
At 31 December 2019	**2,774**

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	(933)
Interest expense on lease liabilities	(229)
Expense relating to short-term leases (included in administrative expenses)	(515)
Expense relating to leases of low-value assets (included in administrative expenses)	–
Variable lease payments (included in administrative expenses)	–
Total amount recognized in profit or loss	**(1,677)**

Total lease payments including low-value and short-term leases during the year was GEL 515.

(Thousands of Georgian Lari)

17. Changes in liabilities arising from financing activities

	Loans and borrowings	*Lease liability*	*Total*
As at 1 January 2018	**71,430**	**–**	**71,430**
Finance cost accrued in the statement of profit and loss	7,250	–	**7,250**
Interest paid	(3,826)	–	**(3,826)**
Repayment of borrowings	(16,259)	–	**(16,259)**
Proceeds from borrowings	52,585	–	**52,585**
Foreign exchange loss accrued in the statement of profit and loss	(1,434)	–	**(1,434)**
Acquisition of a subsidiary, net of cash acquired	14,560	–	**14,560**
As at 31 December 2018	**124,306**	**–**	**124,306**
IFRS 16 transition effect	–	2,293	**2,293**
Addition	–	2,253	**2,253**
Finance cost accrued in the statement of profit and loss	12,627	229	**12,856**
Interest paid	(9,533)	(2,001)	**(11,534)**
Repayment of borrowings	(92,736)	–	**(92,736)**
Proceeds from borrowings	134,800	–	**134,800**
Foreign exchange loss accrued in the statement of profit and loss	3,504	–	**3,504**
Acquisition of a subsidiary (Note 5)	2,910	–	**2,910**
Proceeds from share issue (Note 14)	(38,376)	–	**(38,376)**
As at 31 December 2019	**137,502**	**2,774**	**140,276**

18. Government grant

	2019	*2018*
At 1 January	**–**	**–**
Business Combination	393	–
Received during the year	69	–
Released to the statement of profit or loss	(1)	–
Total	**461**	**–**

Government grant has been received for the vineyard and water system development.

19. Trade and other accounts payable

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

	2019	*2018*
Trade payables	18,337	11,381
Trade payable due to related party (Note 32)	1,462	1,953
Payables for brewery construction and other fixed assets	257	3,082
	20,056	**16,416**

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

20. Other current liabilities

	2019	*2018*
Bonus payable	3,436	936
Other	1,464	1,532
	4,900	**2,468**

Other current liabilities in 2019 mainly is attributable to bonus payable of GEL 3,436.

(Thousands of Georgian Lari)

21. 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 Georgian Commercial Banks (2019) and EBRD, DEG, Georgian Commercial Banks (2018) consisted of the following.

	2019	*2018*
Property plant and equipment pledged	106,644	122,389
Inventories pledged	32,291	20,228
	138,935	**142,617**

22. Income tax

In 2019 and 2018 the Group has not distributed profits (dividends) and did not recognize income tax charge in profit or loss.

23. Revenue and gains

	2019	*2018*
Sales of finished goods of own production	97,956	45,860
Resale of goods	23,454	27,377
Fair value movement in biological produce (a)	2,899	2,875
Other revenue	397	102
	124,706	**76,214**

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

	2019	*2018*
Fair value of grapes harvested and transferred to inventory	5,300	4,897
Crop growing costs	(2,401)	(2,022)
Fair value movement in biological produce	**2,899**	**2,875**

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 weighted average market price for grapes used in respect of the 2019 and 2018 harvest is GEL 1.79 and 1.67 per tonne.

A 10% change in the estimated market price of grapes per tonne in 2019 and 2018 would result in a change of GEL 529 and GEL 489 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.

(Thousands of Georgian Lari)

23. Revenue and gains (continued)

Contract assets and liabilities

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

	31 December 2019	*31 December 2018*
Trade receivables	23,713	14,738
Prepayments	6,438	5,423
Contract liabilities	1,125	1,523

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.

24. Cost of sales

	2019	*2018*
Cost of sales of finished goods of own produce	71,892	27,742
Cost of re-sold goods	11,344	21,121
	83,236	**48,863**

Cost of sales by expense types:

	2019	*2018*
Raw materials	41,786	20,288
Resale of goods	29,004	22,641
Utility expenses	3,132	1,311
Depreciation	2,887	1,879
Employee benefits	2,468	1,394
Property tax	381	449
Other production costs	3,578	901
	83,236	**48,863**

25. Selling and distribution expenses

	2019	*2018*
Employee benefits	9,411	5,530
Transportation expense	6,260	4,751
Depreciation	5,902	4,717
Sales promotion and advertising expense	4,569	6,464
Rent and utility	310	1,028
Other	174	111
	26,626	**22,601**

(Thousands of Georgian Lari)

26. Administrative expenses

	2019	*2018*
Employee benefits	10,037	7,256
Depreciation	5,171	1,591
Professional services	2,928	1,796
Office expenses	972	748
Amortization	344	324
Maintenance and repairs	338	287
Insurance	304	75
Rent and utility	286	530
Taxes, other than income tax	237	1,355
Business trips	221	406
Communication expenses	201	266
Bank charges	95	82
Fuel expenses	86	55
Other	1,666	1,203
	22,886	**15,974**

Professional services include fees for the audit of the Group's consolidated financial statements for the year ended 31 December 2019 in the amount of GEL 433 (2018: GEL 212).

27. Other operating expenses

	2019	*2018*
Employee benefits	2,251	1,387
Depreciation (a)	2,046	3,343
Write off of inventory	386	1,458
Prepayment write-off	142	–
Other	769	85
	5,594	**6,273**

(a) In 2019 and 2018, 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.

28. Management restructuring cost

In 2019 and 2018, the Group incurred management restructuring expenses of GEL 510 and GEL 1,886, respectively. Out of GEL 510 of 2019 expense, GEL 435 is attributable to the termination bonuses to the former management and GEL 75 to signing bonuses to the new management, while out of GEL 1,886 of 2018 expense GEL 1,021 and GEL 865 are attributable to termination and signing bonuses, respectively.

29. 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 the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. Cash at banks earns interest at fixed rates.

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.

(Thousands of Georgian Lari)

29. Financial instruments risk management objectives and policies (continued)

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 2019 and 2018.

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 and loans issued at 31 December 2019 and 31 December 2018. At 31 December 2019 total credit risk exposure equalled to GEL 33,213 (2018: GEL 24,852).

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. 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.

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.

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 11.

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, which are rated BB- based on Fitch ratings. 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 loans and borrowings in foreign currency.

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.

(Thousands of Georgian Lari)

29. Financial instruments risk management objectives and policies (continued)

Foreign currency risk (continued)

The table below indicates the currencies to which the Group had significant exposure at 31 December 2019 and 2018 on monetary assets and liabilities (expressed in GEL):

2019	***USD***	***UAH***	***EUR***
Assets			
Trade receivables	2,044	5,175	1,925
Cash and cash equivalents	4,105	–	1,699
Liabilities			
Interest bearing loans and borrowings	(6,736)	–	(104,173)
Trade and other accounts payable	(3,049)	(130)	(4,562)
Net position	**(3,636)**	**5,045**	**(105,111)**

2018	***USD***	***UAH***	***EUR***
Assets			
Trade receivables	1,720	4,114	1,129
Cash and cash equivalents	3,684	217	1,403
Liabilities			
Interest bearing loans and borrowings	(21,699)	–	(65,015)
Trade and other accounts payable	(2,930)	(78)	(5,135)
Net position	**(19,225)**	**4,253**	**(67,618)**

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.

2019	***Change in currency rate in %***	***Strengthening***	***Weakening***
USD	10.00%	1,593	(1,593)
EUR	11.00%	12,359	(12,359)
UAH	30.00%	1,592	(1,592)

2018	***Change in currency rate in %***	***Strengthening***	***Weakening***
USD	15.00%	(2,884)	2,884
EUR	15.00%	(10,143)	10,143
UAH	30.00%	1,276	(1,276)

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.

(Thousands of Georgian Lari)

29. Financial instruments risk management objectives and policies (continued)

Liquidity risk and funding management (continued)

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations:

2019	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***>5 years***	***Total***
Lease liabilities	–	207	2,223	344	–	**2,774**
Interest bearing loans and borrowings	3,484	4,256	35,693	114,906	7,323	**165,662**
Other current liabilities	–	4,900	–	–	–	**4,900**
Trade and other accounts payable	–	20,056	–	–	–	**20,056**
	3,484	**29,212**	**35,693**	**114,906**	**7,323**	**190,618**

2018	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***>5 years***	***Total***
Interest bearing loans and borrowings	–	1,282	54,496	77,622	8,693	**142,093**
Other current liabilities	–	2,468	–	–	–	**2,468**
Trade and other accounts payable	–	16,416	–	–	–	**16,416**
	–	**20,166**	**54,496**	**77,622**	**8,693**	**160,977**

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 73,809 as at 31 December 2019 (2018: GEL 54,510).

30. 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.

31. 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)

31. Related party disclosures (continued)

Operating transactions

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

Entities under common control	*Purchases*	*Rent and utility expense*	*Insurance expense*	*Contract liabilities*	*Amounts owed to related parties*	*Amounts owed by related parties/ advances paid*
2019	161	41	389	–	1,462	24
2018	–	936	327	–	1,953	33

Investing and financing transactions

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

Shareholders	*Finance cost*	*Finance cost capitalized*	*Finance income*	*Cash and cash equivalents*	*Amounts owed to related parties*	*Amounts owed by related parties*
2019						
JSC Georgia Capital (Note 15)	3,420	–	–	–	3,394	–
2018						
JSC Georgia Capital (Note 15)	116	–	–	–	38,022	–

32. Compensation of key management personnel of the Group

In 2019 and 2018, the amounts recognised as an expense related to the key management personnel are as follows:

	2019	*2018*
Management bonuses	3,049	3,191
Key Management salary	1,753	1,339
Total	**4,802**	**4,530**

33. Events after the reporting period

New financing received

On 11 February 2020, GCAP contributed USD 1,744 million (GEL 5,000) the Group's capital.

February 2020, the Group received financing from local financial institution of GEL 2,000 for financing the working capital needs of distribution business.

On 14 March 2020, the Group received financing from GCAP of GEL 5,000 for financing the working capital needs of beer business.

In first quarter of 2020, the Group received Agro loan from local financial institution of GEL 500 for financing the capital expenditure of wine business.

(Thousands of Georgian Lari)

33. Events after the reporting period (continued)

Impact of COVID-19

In March 2020 the World Health Organization confirmed the novel coronavirus (COVID-19) as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID-19 infection was confirmed by the Georgian Centre for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID-19, which have significant social and economic impact. On 21 March 2020, the President of Georgia adopted Decree No. 1, which was later approved by the Parliament of Georgia and which declared a state of emergency on the entire territory of Georgia until 21 April 2020. On 23 March 2020, the Government issued Ordinance N181 regarding Approval of Measures to be taken for the Prevention of Spreading of the New COVID-19 (the Ordinance on COVID-19). Since its adoption, the Ordinance on COVID-19 has been amended multiple times to address the rapid changes and challenges of the existing situation. The Ordinance on COVID-19 prohibits gathering of more than 3 people subject to certain exceptions.

The Group is monitoring impact of coronavirus (COVID-19) outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity. The further spread of COVID-19 in Georgia and globally, is expected to have a negative impact on the economy, however it is too early to fully understand the impact this may have on the Group. The Group considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event. Management considered the COVID-19 impact in the going concern assessment (Note 2).