

JSC Iberia Refreshments

Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2019

JSC IBERIA REFRESHMENTS

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Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC Iberia Refreshments (the "Company") as of 31 December 2019, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS"). Management is also responsible for the preparation of management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing.

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern;
- Disclosing the information in the management report as required by the Law of Georgia on Accounting, Reporting and Auditing;
- Preparation of the management report in consistent with the financial statements.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with Georgian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2019 were approved by management on 21 September 2020:

On behalf of the Management:



Raikhan Aubakirova
Managing Director

21 September 2020



Nikoloz Kurashvili
Finance Controller

21 September 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Iberia Refreshments:

Qualified Opinion

We have audited the financial statements of JSC Iberia Refreshments (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

We did not verify existence of coolers included in the machinery and equipment category of property, plant and equipment with the net book value of GEL 1,182 thousand and GEL 1,710 thousand, as at 31 December 2019 and 2018, respectively. Due to the absence of a complete register and unique identification numbers for coolers included withing machinery and equipment, we were unable to satisfy ourselves as to the existence of the coolers by observation or alternative means. Consequently, we were unable to determine whether any adjustments to carrying amount of the machinery and equipment and the retained earnings as at 31 December 2019 and 2018, and the effects on the depreciation expense and net loss recognized in the statement of profit or loss and other comprehensive income and the related effect on the statement of cash flows for the years then ended as well as to the information disclosed in respective notes were necessary. Our opinion for the year ended 31 December 2018 was also modified in respect of this issue.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "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 qualified opinion.

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has negative net assets and recurring losses from operations. These events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern. Management's plans concerning these matters are also discussed in Note 3 to the financial statements. The

financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management Report prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of coolers included within machinery and equipment as at 31 December 2019 and 2018. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Other Matter

The information accompanying the financial statements which has been disclosed as Supplementary Appendix A - Unaudited Non-GAAP Measures on page 43 is presented for purposes of additional analysis on the performance of the Company and is not within the scope of IFRS. Such information has not been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, accordingly, we do not express an opinion on it.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Management is responsible for the preparation of the management report in accordance with the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the management report that is free from material misstatement, whether due to fraud or error.

We performed procedures with respect to whether the management report is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing and includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

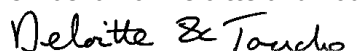
We have selected and performed procedures based on our judgment, including but not limited to inquiries, analysis and review of documentation, comparison of the Company's policies, procedures, methodologies and reported information with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, as well as recalculations, comparisons and reconciliations of numeric values and other information.

In our opinion:

- The management report for the year ended 31 December 2019 is prepared in accordance with the requirements of Law of Georgia on Accounting, Reporting and Auditing;
- The management report for the year ended 31 December 2019 includes the information required by the Law of Georgia on Accounting, Reporting and Auditing;
- The information provided in the management report for the year ended 31 December, 2019 is consistent, in all material respects, with the financial statements for the year ended 31 December 2019.


Stuart Leighton

On behalf of Deloitte and Touche LLC



21 September 2020

Tbilisi, Georgia

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
AT 31 DECEMBER 2019
(figures in thousands of Georgian Lari)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	5	43,069	37,730
Cost of sales	6	<u>(29,051)</u>	<u>(24,238)</u>
Gross profit		14,018	13,492
Selling, distribution and marketing expenses	7	(13,445)	(7,799)
Administration expenses	8	(7,176)	(4,698)
Net finance costs	9	(2,980)	(2,408)
Foreign exchange loss		(2,881)	(1,492)
Other income, net		<u>21</u>	<u>317</u>
Loss before income tax		<u>(12,443)</u>	<u>(2,588)</u>
Income tax expense		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(12,443)</u>	<u>(2,588)</u>

On behalf of the Management:


 Raikhan Aubakirova
 Managing Director

21 September 2020


 Nikoloz Kurashvili
 Finance Controller

21 September 2020

The notes on pages 9-36 form an integral part of these financial statements

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Georgian Lari)**

	Notes	As at 31 December, 2019	As at 31 December, 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	12,071	13,411
Right of use assets	12	1,059	-
Intangible assets		149	170
Total non-current assets		13,279	13,581
CURRENT ASSETS:			
Inventories	13	3,565	6,431
Trade and other receivables	14	7,964	7,760
Cash and cash equivalents	15	276	216
Total current assets		11,805	14,407
TOTAL ASSETS		25,084	27,988
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	16	16,277	16,277
Accumulated losses		(46,343)	(33,900)
TOTAL EQUITY		(30,066)	(17,623)
NON-CURRENT LIABILITIES:			
Loans and Borrowings	17	18,654	31,823
Finance lease liability		-	574
Lease Liability		361	-
Total non-current liabilities		19,015	32,397
CURRENT LIABILITIES:			
Loans and Borrowings	17	25,217	2,364
Finance lease liability		-	503
Lease liability		560	-
Trade and other payables	18	10,358	10,347
Total current liabilities		36,135	13,214
TOTAL LIABILITIES		55,150	45,611
TOTAL EQUITY AND LIABILITIES		25,084	27,988

On behalf of the Management:


Raikhan Aubakirova
Managing Director

21 September 2020


Nikoloz Kurashvili
Finance Controller

21 September 2020

The notes on pages 9-36 form an integral part of these financial statement

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Georgian Lari)**

	<u>Share capital</u>	<u>Accumulated loss</u>	<u>Total</u>
Balance at 1 January 2018	<u>16,277</u>	<u>(31,312)</u>	<u>(15,035)</u>
Total comprehensive loss for the year	-	(2,588)	(2,588)
Balance at 31 December 2018	<u>16,277</u>	<u>(33,900)</u>	<u>(17,623)</u>
Total comprehensive loss for the year	-	(12,443)	(12,443)
Balance at 31 December 2019	<u>16,277</u>	<u>(46,343)</u>	<u>(30,066)</u>

On behalf of the Management:



Raikhan Aubakirova
Managing Director

21 September 2020



Nikoloz Kurashvili
Finance Controller

21 September 2020

The notes on pages 9-36 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Georgian Lari)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Loss before income tax		(12,443)	(2,588)
Adjustments for:			
Depreciation and amortisation		2,420	1,819
Expected credit losses movement	8	1,339	688
Inventory obsolescence	7	2,990	270
Finance costs, net	9	2,980	2,408
Net foreign exchange loss		2,881	1,492
Cash inflow from operating activities before changes in operating assets and liabilities		167	4,089
Movements in working capital:			
Decrease /Increase in trade and other receivables		19	(3,248)
Increase in inventories		(514)	(1,162)
Increase in trade and other payables		391	1,444
Cash generated from operations		(104)	1,123
Interest paid		(2,300)	(1,855)
Net cash used in operating activities		(2,404)	(732)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,810)	(2,432)
Proceeds from sale of property, plant and equipment		-	9
Net cash used in investing activities		(1,810)	(2,423)
Cash flows from financing activities			
Proceeds from borrowings		10,855	9,905
Repayment of borrowings		(6,009)	(6,862)
Repayment for lease		(574)	(283)
Net cash generated by financing activities		4,272	2,760
Net increase/(decrease) in cash and cash equivalents		58	(395)
Cash and cash equivalents at the beginning of the year		216	489
Effects of exchange rate changes on the balance of cash held in foreign currencies		2	122
Cash and cash equivalents at the end of the year	15	276	216

On behalf of the Management:


Raikhan Aubakirova
Managing Director

21 September 2020


Nikoloz Kurashvili
Finance Controller

21 September 2020

The notes on pages 9-36 form an integral part of these financial statements.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

1. GENERAL INFORMATION

JSC Iberia Refreshments (the "Company") is a joint stock company, as defined under the Civil Code of Georgia. The Company was established in September 2001 and has a registered office at 0109 Tetri Khevi Hesi, Orkhevi district, Tbilisi, Georgia.

The Company's principal activity is production and sale of carbonated soft drinks under the franchise agreement with PepsiCo, Inc. In addition the Company acts as an importer for several products of PepsiCo Inc. The Company sells the products within Georgia through their own distribution channels.

The production process is undertaken in the factory owned by the Company.

As at 31 December 2019 and 2018 the following shareholders owned issued shares of the Company:

	Year ended 31 December 2019	Year ended 31 December 2018
ELSU Inc. LLC	84.90%	84.90%
Alshafar Ahmad Abdula Ali	15.10%	15.10%
Total	100.00%	100.00%

The 84.90% shareholder of the Company is ELSU Inc. LLC, the Parent Company, which in its turn is controlled by a consortium of investors lead by the Sarkissian Family as ultimate controlling party. The majority of funding comes from majority shareholder in the form of borrowings. Related party transactions are disclosed in note 20.

These financial statements were authorized for issue on 21 September 2020 by the management.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted:

- IFRS 16 Leases

General impact of application of IFRS 16 Leases: In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

In accordance with the transition provisions in IFRS 16, the Company has elected the simplified transition method for the purpose of adopting IFRS 16, without restatement of comparatives. The Company recognises the right-of-use assets at the date of initial adoption for leases previously classified as operating leases under IAS 17 "Leases" for the year ended December 31, 2018.

Impact of the new definition of a lease: The Company made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company applies IFRS 16 initially on January 1, 2019, using a modified retrospective approach allowing to recognise right-of-use assets and lease liabilities equal to each other at application date of January 1, 2019 i.e. with no effect on reported retained earnings as of January 1, 2019.

Impact on Lessee Accounting: IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other general and administrative expenses' in profit or loss.

There are no other short-term leases (lease term of 12 months or less) and leases of low-value assets for which company would use expedient permitted by IFRS 16.

Financial impact of the initial application of IFRS 16: The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 9.5%.

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current and prior years.

Total operating lease commitments disclosed as of January 1, 2019	409
Effect of discounting the above amounts	(52)
Lease liabilities recognised at January 1, 2019	357
Impact on profit or loss	2019
<u>Impact on profit/(loss) for the year</u>	
Decrease in lease payments otherwise to be recognised in statement of profit or loss	137
Increase in depreciation of right-of-use asset	(119)
Increase in finance costs	(28)
Decrease in profit for the year	(10)
IFRS 16	
Impact on assets, liabilities and net assets as at January 1, 2019	adjustments
Recognition of right-of-use assets	357
Net impact on total assets	357
Lease liabilities	357
Net impact on total liabilities	357

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) *(in thousands of Georgian Lari, unless otherwise indicated)*

- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- There is no significant effect of these amendments on the financial statements. Amendments to IAS 1 and IAS 8 - Definition of material
- Annual Improvements to IFRSs (2010–2012 Cycle Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Annual Improvements to IFRSs (2010–2012) Cycle Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

The amendments are intended to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

The amendment affects only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition, or the information that entities disclose about those items.

The amendments clarify that the classification should be based on rights that are in existence at the end of the reporting period to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

Uncertainty related to going concern and Covid-19 impact

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future.

The Company finished the year with a net loss of GEL 12,443 thousand (2018: net loss of GEL 2,588 thousand), its accumulated losses as of 31 December 2019 were GEL 46,343 thousand (2018: GEL 33,900 thousand). In addition, as at 31 December 2019 its current liabilities exceeded its current assets by GEL 24,330 thousand (2018: current assets exceeded current liabilities by GEL 1,193 thousand).

Loans and borrowings in amount of GEL 18,654 thousand (2018: GEL 12,120 thousand) were received from related parties, which represents 43% of total loans (2018: 35%).

Further as of the end of the reporting period the Company has negative net assets in the amount of GEL 30,066 thousand (2018: GEL 17,623 thousand negative).

During 2019, the Company has breached the covenants of VTB bank loan, respectively, as at 31 December 2019 the loan from VTB Bank was transferred to current bucket and classified as short-term.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern.

The Company demonstrated a significant growth of core business during 2016-2019 in terms of both sales volumes and revenue while the latter has grown from GEL 24,300 thousand in 2016 to GEL 43,000 thousand in 2019, showing a compound annual growth rate of 17%. The Company

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) *(in thousands of Georgian Lari, unless otherwise indicated)*

strategy includes growth of distribution and market share which implies substantial investments into marketing, sales, distribution and cooling infrastructure. Due to high level of investment in trade channel expansion, expertise and capability, while also being affected by 12% devaluation of the local currency, the Company was unable to increase its EBITDA at the same pace as the revenue and gross margin. The management estimates that the growth trend will continue in 2020 and beyond, however, in 2020 and 2021 the growth rate may be affected by Covid-19 related restrictions imposed by the government. For 2020 the Company estimates full year net revenues to reach GEL 46 million representing an approximately 7% growth on 2019.

Covid-19 immediately affected SME segment of the country. The most impacted channels/industries for the Company's business were HORECA, whose activities were suspended by the government, and small non-organized grocery stores. The government quarantine measures negatively affected the efficiency of business operations: additional expenses on sanitizing, employee transportation, remote working infrastructure, tel-sales instead of direct visits. Closing borders, tourism suspending, sharp reduction of remittances from labor emigrants and limitations of economic activities within the country impacted local currency foreign exchange rate, increasing it from 2.80 GEL per USD in February to 3.30 in April-May.

To mitigate the risks of Covid-19, management of the Company has implemented an immediate contingency plan which consisted of several cost cutting measures, reducing salary with a rate that retention of employees was under no risk, optimizing operations in production, sales and logistics departments, focus on cash collection and precise credit control measures, reviewing marketing calendar and cutting some activities, freezing new hires and traveling, reforecasting and building new plans; during 2 months of state of emergency business process management was conducted on weekly monitoring basis. Procurement team successfully realized opportunities of raw material price reduction to cover negative effect from foreign exchange rate increase. Apart from that, before being aware of Covid-19, the Company planned to build stocks for high season (April-September). For this the Company started building raw material stocks early in 2020 at low foreign exchange rate, which allowed to continue production while borders were closed and foreign suppliers were blocked. These measures allowed the Company to avoid the risk of stock shortages during the period of toughest restrictions.

Whilst being affected, the Company operates in food and beverage sector which is least affected by the Covid-19 crisis and according to Euromonitor is the only sector expected to show growth in 2020. Starting from May 2020 the Company is demonstrating strong signs of recovery: HORECA channel opened to work for "take away" or for "home delivery", small businesses renewed activities supported by government packs, in the second half of May the government stopped the state of emergency and developed a plan of restrictions easing and "economy opening" by July. Based on these evidences the Company developed its own plan of recovery according to which starting from July-August it forecasts almost totally to return to initial operation as budgeted for second half of 2020. In addition, the Company is starting an internal program of value leadership approach to mitigate gap from COVID-19.

The management has consistently implemented a turnaround strategy to improve performance of the Company – making it more profitable, sustainable and achieve efficiency within the business. The strategy implied identification of growth areas and opportunities in the developing market of Georgia and CIS countries. Introduction of new products, like new Pepsi/Mirinda/7Up flavours, MAXX Power energy drink, expansion in main growing distribution channels (Organized trade and HORECA) allow to grow the business.

Core strategies are focused on continuing of winning market share from the competitors via increasing its cold infrastructure, winning new customers in various sales channels, improving team capability and performance, optimization of Go-to-Market scheme in all regional segments, implementation of the best industrial practices through attraction of new players in management team and change of experience among all companies of Elsu Group. Product innovation from PepsiCo such as Pepsi lime flavor, new Mirinda flavours, MAXX Power energy drink are expected to spur the growth in the years to come. Apart from this, the Company is in negotiations with global brand supplier, to expand its portfolio of distribution business. New business launch is expected in 2021.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The shareholders of the Company as well as PepsiCo, the main franchise partner, are aligned in their growth strategy and will continue to support the business. In 2019 the Company was granted another 3 year license to continue production of PepsiCo beverages.

The management also believes that the shareholder will continue to support the Company for a period of at least 12 months from the date of signing these financial statements and have no intentions or plans to significantly curtail or suspend the operations of the Company, or to claim back any loan granted.

In addition, subsequent to the year end the Company has received formal commitment from the major shareholders to support operating activities and settlement of liabilities if necessary through the provision of additional funding as required. Management believes, that the letter shows Parent Company's plans to support Georgian operations for further growth in future.

These financial statements are presented in thousands of Georgian Lari ("GEL"), unless otherwise indicated.

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional currency. Items included in the financial statements of each of the Company's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Company is the Georgian Lari ("GEL"). The presentational currency of the financial statements of the Company is the GEL. All values are rounded to the nearest thousands GEL, except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The principal accounting policies are set out below.

Revenue recognition. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has a discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been loaded as the Company's warehouse, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions.

The Company recognizes performance obligation for all of the following offerings at a point in time, because there is only one performance obligation for each offering.

Revenue is recognised net of value added tax. Revenues are measured at the fair value of the consideration received or receivable. Based on the sales terms revenue figure is further decreased with sales returns, value or volume discounts and rebates offered to dealers or selling points.

Foreign currencies. In preparing the financial statements of Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Below are exchange rates as at year end which were used by the Company for the purpose of these financial statements:

	Year ended 31 December 2019	Year ended 31 December 2018
GEL/USD	2.8677	2.6766
GEL/EUR	3.2095	3.0701

Taxation. Income taxes have been provided for in accordance with Georgian legislation enacted or substantively enacted by the reporting date. In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on 1 January 2017 for all entities apart from certain financial institutions. The changed model implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status.

The new profit tax rules are effective as of 1 January 2017, which applies to the company and the tax base comprise both actual and deemed profit distributions, including the following:

- Distributed profits;
- Expenses incurred or other payments not related to economic activities;
- Gratuitous supplies of goods/services and/or transfers of funds; and
- Representation expenses that exceed the maximum amount defined in the tax code.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

Income tax on distributed profits is recognised as an expense at the moment dividends are declared and recorded under "income tax" in the statement of profit or loss. Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities.

Tax imposed on the areas other than distributed profits as described above is recorded under "tax expenses" in the statement of profit and loss.

Due to the changed concept of taxation the term taxable base of assets and liabilities loses its economic meaning and deferred tax liabilities and assets as defined in IAS 12-Income Tax, are not applicable under new corporate taxation model.

Value Added Tax. Output value added tax related to sales is payable to tax authorities upon delivery of the goods to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Starting from 31 December 2015 the Management presents the Company's tax balances on net basis, based on the order 407 issued by the Minister of Finance of Georgia dated to 7 December 2015.

Property, plant and equipment. Land and Buildings and constructions are stated in the statement of financial position at cost, being their fair values determined by the independent appraiser as at 1 January 2013, less any subsequent accumulated depreciation and/or subsequent accumulated impairment losses.

Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. Costs of minor repairs and maintenance are expensed when incurred.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the statement of profit or loss and other comprehensive income within other operating income and expenses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Buildings	30 years
Machinery and equipment	2-20 years
Office equipment	2-10 years
Furniture and fixture	2-10 years
Vehicles	3-10 years

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) *(in thousands of Georgian Lari, unless otherwise indicated)*

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of property, plant and equipment. At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of property, plant and equipment is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If there has been a change in estimates that results in an increase of the recoverable amount, the impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had previously been recognised.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Inventories. Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in-first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions. Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities and assets. Contingent liabilities are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements, unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the statement of financial position but are disclosed in the financial statements when an inflow of economic benefits is probable.

Financial instruments. Financial assets and financial liabilities are recognised when a Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments. Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company measures financial assets at amortised cost if both of the following conditions are met:

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) *(in thousands of Georgian Lari, unless otherwise indicated)*

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Based on the past experience all financial assets are held in order to collect contractual cash flows and are classified into first business model – Held to collect (H2C).

Effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Cash and cash equivalents. Cash and cash equivalents include petty cash, cash with banks, cash in transit, deposits and marketable securities with original maturity of less than three months.

Trade and other receivables. Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets. The Company recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Trade and other receivables.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as a deduction from the gross carrying amount of the assets;

Derecognition of financial assets. The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments.

Financial liabilities. Financial liabilities are measured subsequently 'at FVTPL' or 'at amortised cost using the effective interest method'.

Other financial liabilities. Other financial liabilities (including borrowings and trade and other payables) are initially recognised at fair value less transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Loans and borrowings. Loans and borrowings are recognised initially at their fair values less transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument. Subsequent to initial recognition, loans and borrowings are stated at amortised cost using the effective yield method, with any difference between the amount at initial recognition and redemption amount being recognised in profit or loss as an interest expense over the period of the borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (see below), that the Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

As of December 31, 2019, the Company performed an analysis to determine whether there were any indicators of impairment of its cash generating units ("CGU") as well as performed mandatory annual impairment testing for the property, plant and equipment.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the period of 6 years. In preparing budgets, management considers past performance as well as its projections on the respective CGU's future development and performance, including synergy effects. The discount rate used is weighted average cost of capital of the Company.

As a result of this analysis and testing, the Company concluded that no impairment charge was required as of December 31, 2019 and for the year then ended.

Useful lives of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Expected credit loss. The Company creates expected credit loss to account for estimated losses resulting from the inability of customers to make the required payments or suppliers to deliver agreed products or service. When evaluating the adequacy of an expected credit loss, management bases its estimate on current overall economic conditions, ageing of the receivables and prepayments balances, historical write-off experience, customer and supplier creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer and supplier conditions may require adjustments to the expected credit loss recorded in the consolidated financial statements.

Tax legislation and accounting for provisions. As discussed further in Note 22, compliance with tax legislation in Georgia is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. The Company's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the statement of financial position date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Actual charges could differ from these estimates.

5. REVENUE

The following is an analysis of the Company's revenue for the year from continuing operations:

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from the local sales	40,435	33,931
Revenue from the export sales	2,634	3,799
	43,069	37,730

6. COST OF SALES

	Year ended 31 December 2019	Year ended 31 December 2018
Materials	27,769	22,366
Labour and wages	396	1,074
Depreciation	886	798

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

	29,051	24,238
7. SELLING, DISTRIBUTION AND MARKETING EXPENSES		
	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	4,127	3,789
Inventory Obsolescence	2,990	270
Marketing and advertising expenses	2,023	399
Transportation expenses	1,961	1,498
Depreciation expense	1,425	926
Storage expenses	916	856
Other	3	61
	13,445	7,799
8. ADMINISTRATIVE EXPENSES		
	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	2,859	1,898
Expected credit loss	1,339	688
Professional services	878	332
Maintenance	728	676
Taxes, other than on income	502	327
Representative and business trip expenses	302	329
Depreciation expense	115	95
Stationary and other office expenses	49	85
Other	404	268
	7,176	4,698
9. NET FINANCE COSTS		
	Year ended 31 December 2019	Year ended 31 December 2018
Interest expense on financial liabilities measured at amortized cost	2,980	2,408
	2,980	2,408
10. INCOME TAXES RELATING TO CONTINUING OPERATIONS		

In May 2016 the Georgian parliament adopted and the president signed into law changes to the corporate tax code, with changes applicable on 1 January 2017. The code is applicable for Georgian companies and permanent establishments ("PEs") of non-resident companies, apart from certain financial institutions.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The previous profit tax regime, under which companies were subject to tax on their annual taxable profits, is now changed to a system where tax will have to be paid only if corporate profits are distributed.

The change has had an immediate impact on deferred tax of the Companies as it abolishes temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax asset attributable to previously recognized temporary differences arising from prior periods was fully written off in the statement of profit and loss for the period ended 31 December 2016.

From 2016 year, tax assets and liabilities are accumulated on a single tax account with the Revenue Service of Georgia. The settlement is made on a net basis. As at 31 December 2019 and 2018 value-added tax liability, excise payable and other tax prepaid are accumulated on tax liabilities, net account in the financial statements.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Machinery and equipment	Office equipment	Furniture and fixture	Vehicles	Construction in progress and uninstalled equipment	Total
Cost								
Balance at 1 January 2018	1,573	4,567	10,452	300	15	2,078	212	19,197
Additions	-	-	-	-	-	-	3,363	3,363
Disposals	-	-	(557)	(90)	-	(81)	-	(728)
Transfers	-	37	2,212	65	2	1,069	(3,385)	-
Balance at 31 December 2018	1,573	4,604	12,107	275	17	3,066	190	21,832
Additions	-	-	-	-	-	-	1,800	1,800
Disposals	-	-	(104)	(6)	-	-	-	(110)
Transfers	70	-	1,373	73	18	(802)	(1,953)	(1221)
Balance at 31 December 2019	1,643	4,604	13,376	342	35	2,264	37	22,301
Accumulated depreciation								
Balance at 1 January 2018	-	574	5,696	173	5	930	-	7,378
Elimination on disposal	-	-	(555)	(89)	-	(74)	-	(718)
Depreciation expense	-	164	1,408	48	4	137	-	1,761
Balance at 31 December 2018	-	738	6,549	132	9	993	-	8,421
Elimination on disposal	-	-	(104)	(6)	-	-	-	(110)
Depreciation expense	-	174	1,613	63	6	212	-	2,068
Elimination on transfer to ROUA	-	-	-	-	-	(149)	-	(149)
Balance at 31 December 2019	-	912	8,058	189	15	1,056	-	10,230
Carrying value								
As at 31 December 2018	1,573	3,866	5,558	143	8	2,073	190	13,411
As at 31 December 2019	1,643	3,692	5,318	153	20	1,208	37	12,071

JSC IBERIA REFRESHMENTS

MANAGEMENT REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

(in thousands of Georgian Lari, unless otherwise indicated)

12. RIGHT OF USE ASSETS AND LEASE LIABILITIES

	Buildings	Vehicles	Total
Cost			
At January 1, 2019	357	1,222	1,579
New contracts	-	-	-
At December 31, 2019	357	1,222	1,579
Accumulated depreciation			
At January 1, 2019	-	-	-
Charge for the year	119	212	331
At December 31, 2019	119	401	520
Carrying amount at December 31, 2019	238	821	1,059

Amounts recognized in profit and loss

	2019
Depreciation expense on right-of-use assets, Note 7, 8	330
Interest expense on lease liabilities	110
Total	440

Lease Liability

	December 31, 2019
Maturity analysis	Amounts payable under finance leases
Year 1	560
Year 2	357
Year 3	42
Year 4	-
Year 5	-
Year 6	-
Total lease Liability	959
Less: unearned interest	(38)
Carrying amount of lease liability at December 31, 2019	921

December 31, 2019 and January 1, 2019, lease liabilities were as follows:

	December 31, 2019	January 1, 2019
Current lease liabilities	560	513
Non-current lease liabilities	361	574
Total lease liabilities	921	1,077

The Company has leased real estate for an average of 3 years to locate its warehouses in order to conduct their business and also leased from a bank vehicles with an average 3 years term. 9.5% weighted average incremental borrowing rate was applied for the financial lease liabilities of buildings and 7.5% weighted average incremental borrowing rate for finance lease liabilities of vehicles.

Depreciation expense of GEL 886 thousand has been charged to cost of goods sold (2018: GEL 798 thousand) (Note 7).

As at 31 December, 2019 and 2018 included in property and equipment were fully depreciated assets totaling GEL 729 thousand and 3,201 thousand, respectively.

All properties of the Company are pledged as security for the borrowed funds provided by VTB Bank (note 17).

As of December 31, 2019, the Company identified impairment indicators and performed impairment test. The Company considered all Property, plant and equipment as one cash generating unit and determined recoverable amount as value in use, amounted GEL 18,455 thousand. As value in use exceeded the net book value of Property, no impairment was recorded. Main assumptions used in recoverable amount calculation are:

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

- Decrease of revenue by 4% in 2020 due to COVID19 and increase by 9% from 2021 to 2024. Long-term growth of 3%;
- Decrease of COGS by 4% in 2020 due to COVID19 and increase by 8% from 2021 to 2024. Long-term growth of 3%;
- Increase of operating expenses in every year;
- Weighted average cost of capital was used as discount rate, 16.73%.

Sensitivity analysis:

Increase of discount rate by 2% resulted in recoverable amount of GEL 18,117 thousand, which still exceeded net book of value of Property, plant and equipment.

Increase in sales by 7% instead of 10% resulted in recoverable amount of GEL 16,265 thousand, which still exceeded net book value of Property, plant and equipment.

13. INVENTORIES

	Year ended 31 December 2019	Year ended 31 December 2018
Raw materials	1,243	2,605
Finished goods	1,914	2,122
Goods in Transit	-	390
Other Inventory	408	1,314
	3,565	6,431

The cost of inventories recognised as an expense during the year in respect of continuing operations was GEL 27,769 thousand (31 December 2018: GEL 22,366 thousand) (Note 6).

Provision for slow moving inventory represents GEL 2,990 thousand and 270 thousand as of 31 December 2019 and 2018, respectively.

Other inventory represents spare parts and materials used for production process.

14. TRADE AND OTHER RECEIVABLES

	Year ended 31 December 2019	Year ended 31 December 2018
Trade receivables	9,767	8,988
Allowance for doubtful receivables	(2,762)	(1,423)
Prepayments	959	195
	7,964	7,760

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

Movement in the allowance for doubtful receivables:

	Year ended 31 December 2019	Year ended 31 December 2018
Balance at beginning of the year	1,423	735
Impairment losses recognised on receivables	1,339	763
Amounts recovered during the year	-	(75)
	2,762	1,423

Age analysis of trade receivables is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Not overdue	7,363	6,953
Less than 30 days	746	803
1-90 days	279	298
1-180 days	143	934
81-270 days	460	-
71-365 days	776	-
	9,767	8,988

15. CASH AND BANK BALANCES

	Year ended 31 December 2019	Year ended 31 December 2018
Petty cash	67	82
Bank balances	209	134
	276	216

16. SHARE CAPITAL

	Ordinary shares	
	Year ended 31 December 2019	Year ended 31 December 2018
In issue at 31 December, fully paid	16,277	16,277
Authorised shares - par value	1 GEL	1 GEL

All ordinary shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

17. BORROWINGS

	Year ended 31 December 2019	Year ended 31 December 2018
Unsecured loans from:		
- Related Parties (i)	18,654	12,120
Secured loans:		
- Bank Loans (ii)	25,217	22,067
	43,871	34,187
Current	25,217	2,364
Non-current	18,654	31,823
	43,871	34,187

- (i) Amounts repayable to related parties of the Company, Elsu Group. Interest of 6% per annum is charged on the outstanding loan balances. Maturity for two loans is in March 2020, while third one matures in August 2021.
- (ii) Outstanding balance secured by a mortgage over the Company's property, plant and equipment with the carrying value of GEL 12,067 thousand (see note 12). The interest rate on the bank loans is from 7 to 7.5% per annum with maturity periods not exceeding 5 years.

During the current year, the Company was in breach of financial and negative covenants contained in a loan agreement between the Company and VTB Bank. Before the year end the Company has not obtained a waiver letter from the Bank, as a result long term balances has been reclassified into short terms.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

	1 January 2019	Financing cash Inflows (i)	Financing cash Outflows (ii)	Other changes (iii)	Non-cash change foreign exchange loss	31 December 2019
Borrowings	34,187	10,855	(6,009)	571	4,267	43,871
Lease Liability	1,077	-	(136)	(56)	36	921
	35,264	10,855	(6,145)	515	4,303	44,792

- (i) The cash inflows from loans from financing make up the amount of proceeds from borrowings and leases;
- (ii) The cash outflows make up of repayments of borrowings and leases in the statement of cash flows.
- (iii) Other changes include net of interest accruals and payments.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

18. TRADE AND OTHER PAYABLES

	Year ended 31 December 2019	Year ended 31 December 2018
Trade payables	9,238	9,493
Payables for taxes, other than income	508	507
Salary payable	612	347
	10,358	10,347

The average credit period on domestic purchases of certain goods is from 1 to 3 months.

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

19. FINANCIAL INSTRUMENTS

19.1 Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2014.

The capital structure of the Company consists of net debt (borrowings as detailed in note 17 offset by cash and bank balances) and equity of the Company (comprising issued capital as detailed in note 16 and accumulated losses). The Company is not subject to any externally imposed capital requirements.

The gearing ratio at end of the reporting period was as follows.

	Year ended 31 December 2019	Year ended 31 December 2018
Loans and borrowings	43,871	34,187
Cash and bank balances	(276)	(216)
Net debt	43,595	33,971
Equity	(30,066)	(17,623)
Net debt to equity ratio	(145)%	(193)%

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

19.2 Categories of financial instruments

	Year ended 31 December 2019	Year ended 31 December 2018
Financial assets		
Cash and bank balances	276	216
Trade and other receivables	7,005	7,565
Financial liabilities		
Loans and borrowings	43,871	34,187
Trade and other payables	10,358	10,347
Finance lease liability	-	1,077
Lease Liability	921	-

19.3 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see note 19.4 below) and interest rates (see note 19.5 below). The Company does not enter into any derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

19.4 Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
USD	33,335	26,431	836	3,369
EUR	12,076	14,192	22	-

The Company is mainly exposed to USD and EUR.

The table below details the Company's sensitivity to strengthening/weakening of functional currency against foreign currencies by 15% as at 31 December 2019 and 2018. The analysis was applied to monetary items at the reporting date denominated in respective currencies.

	USD impact		EUR impact	
	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
Profit or loss	4,875	3,459	1,808	2,129

19.5 Interest rate risk management

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Company. The Company has limited exposure to the interest rate risk as entities in the Company borrow funds at only fixed interest rates.

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

19.6 Credit risk management

Credit risk is the risk that a customer may default or not meet its obligations to the Company on a timely basis, leading to financial losses to the Company. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including accounts with banks and related parties, foreign exchange transactions and other financial instruments.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with positive credit ratings.

The Company measures the loss allowance for trade and other receivables at an amount equal to lifetime ECL. The expected credit losses on other receivables are estimated by reference to past default experience of the debtor, an analysis of the debtor's maturity days and bank guarantees against the outstanding balance. The expected credit loss on commercial receivables are estimated by multiplying probability of default by loss given default and by exposure at default. For approach of PD estimations for non-overdue balances the Company uses the research produced by the rating agencies. The Company has estimated the expected credit loss, which has no significant impact. For overdue balances the Entity has used its past repayment experience with debtors.

The Company's 10 largest customers represent 49% and 62% of the outstanding balance of trade accounts receivable as of 31 December 2019 and 2018, respectively.

The following table presents the maximum exposure to credit risk of financial assets. For financial assets the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral.

	Maximum exposure	
	31 December, 2019	31 December, 2018
Cash and cash equivalents	276	216
Trade and other receivable	7,005	7,565

19.7 Liquidity risk management

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they are due.

The following table details the Company's expected maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Less than 1 month	1- 3 months	3 months to 1 year	1-5 years	5+ years	Total
31 December 2019						
Non-interest bearing	9,844	514	-	-	-	10,358
Fixed interest rate instruments	3,144	17,124	5,480	19,044	-	44,792
	12,988	17,638	5,480	19,044	-	55,150
31 December 2018						
Non-interest bearing	10,347	-	-	-	-	10,347
Fixed interest rate instruments	190	1,130	1,831	31,398	6,309	40,858
	10,537	1,130	1,831	31,398	6,309	51,205

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The following table details the Company's expected maturity for its non-derivative financial assets.

The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets and including any allowance for doubtful accounts. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis

	Less than 1 month	1- 3 months	3 months to 1 year	1-5 years	5+ years	Total
31 December 2019						
Non-interest bearing	5,658	1,623	-	-	-	7,281
Fixed interest rate instruments	-	-	-	-	-	-
	5,658	1,623	-	-	-	7,281
31 December 2018						
Non-interest bearing	6,246	1,730	-	-	-	7,976
Fixed interest rate instruments	-	-	-	-	-	-
	6,246	1,730	-	-	-	7,976

19.8 Fair value measurements

This note provides information about how the Company determines fair values of various financial assets and financial liabilities.

Assets and liabilities not measured at fair value but for which fair value is disclosed.

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	Fair value hierarchy as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trade and other receivables	-	-	7,005	7,005
Cash and cash equivalents	276	-	-	276
Total	276	-	7,005	7,281
Financial liabilities				
Borrowings	-	43,871	-	43,871
Trade and other payables	-	-	10,358	10,358
Lease liability	-	921	-	921
Total	-	44,792	10,358	55,150

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

	Fair value hierarchy as at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trade and other receivables	-	-	7,565	7,565
Cash and cash equivalents	216	-	-	216
Total	216	-	7,565	7,781
Financial liabilities				
Borrowings	-	34,187	-	34,187
Trade and other payables	-	-	10,347	10,347
Finance lease liability	-	1,077	-	1,077
Total	-	35,264	10,347	45,611

The fair values of the financial assets and liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

20. RELATED PARTY TRANSACTIONS

Related parties include owners, affiliates and entities under common ownership and control with the Company and members of key management personnel.

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Company had the following balances with related parties:

	31 December 2019			
	Parent	Entities under common control	Other	Total
Loans and borrowings	18,654	-	-	18,654
Trade and other payables	-	793	-	793
Revenue	-	2,619	-	2,619
Purchase of trade goods	-	1,091	-	1,091
Trade and other receivables	-	1,070	-	1,070
31 December 2018				
	31 December 2018			
	Parent	Entities under common control	Other	Total
Loans and borrowings	12,120	-	-	12,120
Trade and other payables	-	71	-	71
Revenue	-	1,178	-	1,178
Purchase of trade goods	443	443	-	443

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of Georgian Lari, unless otherwise indicated)

The compensation of the key management personnel, represented with short-term employee benefits, for the year ended 31 December 2019 and 2018 were GEL 1,380 thousand and GEL 920 thousand, respectively.

21. CONTINGENCIES

Commitments – The Company had no material commitments outstanding as at 31 December 2019 and 2018.

Legal proceedings – From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

Taxes – The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the four subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are substantially more significant than in many other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and if the authorities were successful in enforcing their own interpretations, the effect on these financial statements could be significant. On 21 February 2017 the Audit Department of the Revenue Service of the Ministry of Finance of Georgia issued order #4187 to the Company and tax audit of the Company's financial information has been performed covering the period 1 January 2014 to 1 January 2017. As of the date of issuing these financial statements these periods are closed for the future review.

Operating environment – The Company's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Georgia.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Georgian financial and corporate sectors.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the

JSC IBERIA REFRESHMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) *(in thousands of Georgian Lari, unless otherwise indicated)*

World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets Whilst being affected, the Company operates in food and beverage sector which is least affected by the Covid-19.

Starting from May 2020 country is demonstrating strong signs of recovery. Government stopped state of emergency and developed plan of restrictions canceling and "economy opening" till July, although as pandemic has not finished neither in Georgia or all over the world and there are expectations for second wave the significance of the effect of COVID-19 on the Company largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

Capital expenditure commitments. At 31 December 2019 and 2018, the Company has no contractual capital expenditure commitments.

22. EVENTS AFTER THE REPORTING PERIOD

All over the world operations are currently experiencing significant disruption associated with an outbreak of a novel strain of coronavirus ("COVID-19"). The World Health Organization has declared COVID 19 a pandemic. Within new reality, the Company's operations in the first quarter of 2020 started to have been decreased by the temporary decrease in the demand beverages market.

In 2020, as a precautionary measure to maximize liquidity and to increase available cash on hand, the Company initiated and received four long term loans from the Parent entity with the total amount of USD 2,250 thousand. All loans are denominated in USD and bear 6.0% annual interest rate.

JSC IBERIA REFRESHMENTS

MANAGEMENT REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

(in thousands of Georgian Lari, unless otherwise indicated)

General Information

JSC Iberia Refreshments (the "Company") is a joint stock company, as defined under the Civil Code of Georgia. The Company was established in September 2001 and has a registered office at 0109 Tetri Khevi Hesi, Orkhevi district, Tbilisi, Georgia.

The Company's principal activity is production and sale of carbonated soft drinks under the franchise agreement with PepsiCo, Inc. In addition the Company acts as an Importer and Distributor as Exporter for several products of PepsiCo Inc. The Company sells the products within Georgia through their own distribution force in all trade channels.

JSC Iberia Refreshments produces and distributes following PepsiCo & own products: Pepsi, Pepsi Black, Pepsi Black Lime, Mirinda Orange, Mirinda Apple, Mirinda Seasonal In & Outs, 7UP, Aquafina Lemon, Lipton Ice Tea, Fruktoviy Sad, Iberia Fizzy Ice Tea, Iberia Lemonade, Maxx Power energy drink. In total 110 SKUs (Stock Keeping Units).

The production process is undertaken in the factory owned by the Company. Production capacity satisfies current sales needs of the Company and opportunity for the next 2 years at least.

For the end 31 December 2019 and 2018 the Company had 317 and 298 employees, respectively.

As at 31 December 2019 the following shareholders owned issued shares of the Company:

	Year ended 31 December 2019	Year ended 31 December 2018
ELSU Inc. LLC	84.90%	84.90%
Alshafar Ahmad Abdula Ali	15.10%	15.10%
Total	100.00%	100.00%

The 84.90% shareholder of the Company is ELSU Inc. LLC, the Parent Company, which in its turn is controlled by a consortium of investors lead by the Sarkissian Family as ultimate controlling party.

Vision

The Company has vision to become fastest growing challenger on Georgian nonalcoholic beverage market by developing bigger and stronger business to be self-sufficient by end of 2022, refresh consumers by creating value, make difference, inspire moments of joy, happiness and optimism.

The Company strives to maintain:

- **Quality** – deliver high quality products and grow brand portfolio that satisfy needs of our Consumers;
- **Customer Value** – provide high class service to our customers make it critical part in the company's growth strategy;
- **Our People** – hire, grow, develop and retain top talent as future leaders of our company;
- **Collaboration** – continuously enhance team work and collaboration among our people;
- **Act like owners** – plan, act, take responsibility and be accountable for our actions as owners.

Distribution points

The Company has distribution points in 4 regions of Georgia, Adjara, Kakheti, Imereti and Samegrelo. Finished goods produced in Tbilisi are transported to regional warehouses and then distributed to stores.

Apart from local distribution the Company is exporting glass and can products to Armenia and Azerbaijan.

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Production Facilities

The Company maintains product quality according to PepsiCo, Inc. regulations together with Georgian legislation. Throughout almost 20 years of existence, there have never been claims of problems related to product quality neither from PepsiCo nor from Georgian regulatory parties.

Maintaining high quality of products is achieved by constant supervision from internal professional resources as well as significant investments in production lines and personnel trainings. The Company is regularly doing overhauls to production lines which ensures uninterrupted running of machines.

JSC Iberia Refreshments possesses the following certificates:

1. AIB 910/1000
2. AIB 920/1000
3. ISO 22000:2005
4. ISO 11001-1:2009
5. FSSC 22000
6. QAS PepsiCo audit 2018: 99.12%
7. Global 3D Quality Score: Plant Quality 2017 BLUE

Results

The Company also made huge effort to grow the core Pepsi business in 2019. The management believes that in 2019 the company successfully managed to replace the net sales and margin derived earlier from co-packing business. Based on the actual 2019 figures, the Company managed to increase sales of core Pepsi products by 15% to GEL 46 million.

Since the change of management team in mid-2016, the Company has grown dramatically in terms of both liters and amounts sold during the past 4 years respectively.

Sales Revenue of the Company has also been growing steadily:

	2019	2018	2017	2019 vs 2018	2018 vs 2017
Core Business	43,551	37,730	28,038	15%	35%
Co-pack	-	-	12,661	n/a	n/a
Total	43,551	37,730	40,699	15%	(4%)

Net profit of the company is heavily hit by FOREX volatility, due to the fact that almost all bank and shareholder loans are in foreign currency. Apart from that most of the raw material purchases are imported. The Company had negative working capital of GEL 2,692 thousand, accumulated losses of GEL 46,388 thousand and negative net assets of GEL 30,11 thousand as of December 31, 2019 and incurred recurring losses from operations in 2018 and 2017 of GEL 12,488 thousand and GEL 2,587 thousand, respectively.

Since consolidation of 84.9% stake in Iberia Refreshments by ELSU Inc. LLC in 2016 the management has consistently implemented a turnaround strategy to improve performance of the Company to improve its profitability and sustainability.

The management introduced new products and SKU-s to the market: 0.25 PET bottle, Mirinda Watermelon, Pepsi Black (non-sugar), Mirinda Pineapple, Pepsi Lime (non-sugar), Iberia Lemonade new flavours, Pepsi Mango (non-sugar), Mirinda Strawberry Leachy, energy drink Maxx Power and expanded the Company's operations since 2016. During these period the Company made substantial capital investments in the cooling trade infrastructure, tools of trade, production and logistics infrastructure.

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The Company was in need of cash injections from shareholders to support its rapid sales growth and channel mix change, where organized trade is becoming more powerful compared to previous years. Introduction of lots of new OT (Organized Trade – clients with multiple stores under same legal entity) clients, is demanding more and more investment in trade e.g. discounts and retro bonuses. Apart from expenses, OT demands more credit terms while clients of Traditional Trade (TT) channel are mostly working on cash. Therefore, all of the above brings the company higher days sales outstanding and collecting money from customer takes longer than in previous years.

OT channel also demands more stocks on hand due to the size of stores, which in its turn needs large stock of raw materials and finished goods in Company's premises. This also has negative impact in terms of working capital.

To minimize effect of new increased credit terms with OT customers, company has implemented strict credit policy, allowing it to control cash collections.

Risks and Uncertainties

Main Risks for the Company are:

Liquidity risk – Fast growth requires more investments in trade marketing and trade infrastructure.

Management continuously initiates, implements and updates processes and procedures of productivity and efficiency in all business activities of business cycle: production, sales, distribution, general management, credit control, and money management.

Capacity Constraint – with growing demand of FMCG (Fast Moving Consumer Goods) products, it is essential to keep production lines up to date, to avoid product shortages or out of stocks.

Every year company is investing in production CAPEX to perform overhauls of production lines, that subsequently results in higher capacities. Company estimates that in next 2 years it will need to invest in new production lines to keep capacity at the level of market position and shareholders fully support this approach. During high season temporary capacity constraint may occur, which will be covered by co-packing from its related party in Armenia which has higher reserve in capacity.

Since 2016 shareholders have invested significant amount of money through borrowings that were primarily used to finance working capital and capital expenditure needs e.g. production line maintenance, trade infrastructure and vehicles. In order to stay competitive in Georgian market and continue the expansion the Company has purchased a significant amount of coolers since 2016 that were placed in different stores all over Georgia. In 2020 company plans to continue significant investments in coolers and production capacity to support the expansion for market.

Currency risk – As most of the raw materials for ready products are imported, as a result of which foreign exchange rate plays huge role in shaping cost of goods sold, therefore creating a burden on Company's profitability. On top of that, the Company has foreign currency borrowings that are denominated in USD and EUR, which adds further pressure on company's profitability.

JSC Iberia Refreshments plans address this risk with new pricing strategies but with lags, as a result of being price followers to its stronger competitor. Company will also regularly keep searching for efficiencies in supply chain and procurement..

Increase of OT channel share in FMCG market – OT customers demand more investments in trade compared to traditional trade customers. OT customers have power to ask for higher discounts, as they have multiple stores and selling your products there brings much higher volumes than selling in TT. Apart from this, as long as OT is becoming more and more convenient to consumers, the popularity of TT drops gradually, causing small stores to become more vulnerable to this changes. Subsequently selling Company's products in TT becomes more and more difficult.

As far as, the Company's growth plan is to increase OT sales, the Management has supported the strategy by increasing the financing of OT sales channels. Furthermore, the Company regularly follows the trends of the market by coming up with efficiencies in delivery and logistics for OT, as well as, TT channels.

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Future prospects

The management of the company believes that with full support of shareholders and a strong parent company, JSC Iberia Refreshments will continue its operations and growth in coming years, with continues introduction of new products, strategies and production facilities.

APPENDIX A - UNAUDITED NON-GAAP MEASURES

This Appendix A comprises information on EBITDA and adjusted EBITDA as presented below. This Appendix does not present part of the audited financial statements.

Our reported financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as detailed in the audited Financial statements. The information presented below was derived from our reported financial results, but it is not required by IFRS and considered non-GAAP financial measures.

The Directors believe that EBITDA and adjusted EBITDA provide additional useful information to shareholders on the performance of the Company. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-GAAP measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The presented non-GAAP financial measures are reconciled to the closest reported financial statements' line, which is profit before income tax. Calculation of EBITDA and adjusted EBITDA is presented below:

	<u>2019, unaudited</u>	<u>2018, unaudited</u>
Loss before tax	(7,482)	(2,588)
Interest expense	2,952	2,408
Depreciation and amortization expense	2,282	1,819
EBITDA	<u>2,248</u>	<u>1,639</u>
Foreign exchange translation loss from borrowings received	4,303	617
Foreign exchange translation gain excluding borrowings	(1,924)	875
Provision for receivables	1,339	688
Adjustment for tax expenses	-	-
Adjusted EBITDA	<u>5,966</u>	<u>3,819</u>