Financial Statements and Independent Auditor's Report

Nikora LLC

31 December 2017

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Independent auditor's report

To the shareholders of Nikora LLC

Qualified Opinion

We have audited the accompanying financial statements of Nikora LLC (the "Company"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other 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 matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Machinery and equipment are stated at Georgian lari 4,359 thousand on the statement of financial position as at 31 December 2017 (31 December 2016: Georgian lari 3,758 thousand) (refer to note 4 to the financial statements). Because of the nature of the Company's accounting records we were unable to obtain sufficient appropriate audit evidence about the amount of the opening accumulated depreciation of the Company's machinery and equipment. Consequently, we were unable to determine whether any adjustment might have been necessary to the carrying amount of the Company's machinery and equipment included in the statement of financial position as at 31 December 2017 and to the depreciation expense of Georgian lari 429 thousand related to the noted part of the machinery and equipment included in the statement of profit and loss and other comprehensive income and to the cash flows from operating activities for the year then ended.

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") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with those charged with governance, but are not intended to represent all matters that were discussed with them. In addition to the matters described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Inventory valuation

As at 31 December 2017, the Company held inventories of Georgian lari 5,704 thousand (2016: Georgian lari 3,814 thousand). Given the size of the inventory balance relative to the total assets of the Company and the estimates and judgments described below, the valuation of inventory required significant audit attention.

As disclosed in note 3.6 inventories are held at the lower of cost determined using the FIFO cost method and net realizable value. At the year end, the valuation of inventory is reviewed by management and the cost of inventory is reduced where inventory is forecast to be sold below cost.

The determination of whether inventory will be realized for a value less than cost requires management to exercise judgments and apply assumptions. Management undertake the following procedures for determining the level of write down required:

- Use inventory ageing reports together with historical trends to estimate the likely future saleability of slow moving and older inventory lines;
- Perform a line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realisable value and a specific write down is recognized if required.

We have performed the following procedures over the valuation of inventory:

- For all inventory items of the Company, re-performed the FIFO cost calculation and compared inventory balance as at 31 December 2017 with the Company's figures;
- On a sample basis we tested the net realisable value of inventory lines to recent selling prices;
- For a sample of inventory categories we reviewed the dynamics of last purchase invoices and subsequent period gross profit margins;
- We tested that the aging report used by management correctly aged inventory items agreeing a sample of aged inventory items to the last recorded invoice.

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 IFRSs, 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ketevan Ghambashidze.

Vakhtang Tsabadze
Managing Partner

16 August 2018

Ketevan Ghambashidze
Registered Auditor

"GRANT THORNTON" LLC * 200136600 * Grant Thornton

Statement of financial position

In thousands of Georgian lari	Note	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	4	5,443	4,551	3,788
Intangible assets	5	284	87	85
		5,727	4,638	3,873
Current assets				
Inventories	6	5,704	3,814	4,558
Trade and other receivables	7	4,468	6,106	2,882
Other current assets		1	8	108
Cash and bank balances	8	8	5	16
		10,181	9,933	7,564
Total assets		15,908	14,571	11,437

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Statement of financial position (continued)

In thousands of Georgian lari	Note	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Equity and liabilities				
Capital and reserves	9			
Charter capital		1,000	-	-
Accumulated profit		2,005	6,139	4,196
		3,005	6,139	4,196
Non-current liabilities				
Loans and borrowings	10	6,567	1,990	-
Deferred income tax liabilities		-	-	557
		6,567	1,990	557
Current liabilities				
Trade and other payables	11	4,903	5,079	3,995
Loans and borrowings	10	1,410	931	2,092
Current income tax liabilities		23	432	597
		6,336	6,442	6,684
Total equity and liabilities		15,908	14,571	11,437

The financial statements were approved on 16 August 2018 by:

Merab Mamulashvili

General Director

Tamar Chkhatarashvili

Financial Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Statement of profit or loss and other comprehensive income

In thousands of Georgian lari	Note	Year ended December 31 2017 (Audited)	Year ended December 31 2016 (Unaudited)
Revenue	12	65,055	48,392
Cost of sales	13	(51,641)	(34,532)
Gross profit		13,414	13,860
Other income		138	43
Distribution and marketing expenses	14	(4,699)	(1,706)
Administrative expenses	15	(1,581)	(1,338)
Other expenses		(3,239)	(2,997)
Results from operating activities		4,033	7,862
Finance costs	16	(590)	(273)
Other financial items	17	(443)	(276)
Other non-operating expenses		(1,410)	(657)
Profit before income tax		1,590	6,656
Income tax expense	18	(470)	(513)
Profit for the year		1,120	6,143
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		1,120	6,143

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Statement of changes in equity

In thousands of Georgian lari

	Charter capital	Accumulated profit	Total
as of 1 January 2016 (Unaudited)	-	4,196	4,196
Profit for the year	-	6,143	6,143
Total comprehensive income for the year	-	6,143	6,143
Dividends declared	-	(4,200)	(4,200)
Transactions with owners	-	(4,200)	(4,200)
as of 31 December 2016 (Unaudited)	-	6,139	6,139
Profit for the year	-	1,120	1,120
Total comprehensive income for the year	-	1,120	1,120
Increase of charter capital	1,000	-	1,000
Dividends declared	-	(5,254)	(5,254)
Transactions with owners	1,000	(5,254)	(4,254)
as of 31 December 2017 (Audited)	1,000	2,005	3,005

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Statement of cash flows

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Cash flows from operating activities		
Profit for the year	1,120	6,143
Adjustments for:		
Depreciation and amortization	615	437
(Gain)/loss on disposal of property and equipment	(7)	(11)
Inventory losses	-	58
Interest expense	590	273
Income tax expense	470	513
Foreign exchange loss	443	276
Operating profit before working capital changes	3,231	7,689
Change in trade and other receivables	1,533	(3,224)
Change in inventories	(1,890)	686
Change in trade and other payables	(862)	456
Change in other current assets	7	100
Cash generated from operations	2,019	5,707
Interest paid	(553)	(272)
Income tax paid	(819)	(1,230)
Net cash from operating activities	647	4,205
Cash flows from investing activities		
Acquisition of property and equipment	(1,114)	(638)
Acquisition of intangible assets	(121)	-
Proceeds from disposal of property and equipment	112	11
Net cash used in investing activities	(1,123)	(627)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Statement of cash flows (continued)

In thousands of Georgian lari

	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Cash flows from financing activities		
Proceeds from loans and borrowings	26,048	3,804
Repayment of loans and borrowings	(21,001)	(3,088)
Contributions to charter capital	1,000	-
Dividends paid	(5,254)	(4,200)
Net cash from/(used in) financing activities	793	(3,484)
Net increase in cash and bank balances	317	94
Foreign exchange effect on cash	(54)	(42)
Cash and bank balances at the beginning of the year (refer to note 26)	(255)	(307)
Cash and bank balances at the end of the year (refer to note 26)	8	(255)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 37.

Notes to the financial statements

1 Nature of operations and general information

Nikora LLC (the „Company“) is a registered limited liability company incorporated in Georgia having its business address at # 11 M. Kavtaradze Street, Tbilisi.

Joint Stock Company Nikora, a company incorporated and registered in Georgia, is the 100% owner of Nikora LLC.

The Company produces meat products and provides them to sister companies for further distribution as well as external retail stores.

The average number of employees of the Company during 2017 was 365 (2016: 326 (Unaudited)).

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis. The details of measurement for each category of assets and liabilities are disclosed further in these notes.

2.3 Functional and presentation currency

The national currency of Georgia is the Georgian lari (“lari”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in thousands of Georgian lari. All financial information presented in Georgian lari has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 20 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments are applied for the first time in 2017, they did not have a material impact on the annual financial statements of the Company.

New and revised standards and interpretations that are effective for annual periods beginning on or after 1 January 2017

Disclosure Initiative (Amendments to IAS 7 *Statements of Cash Flows*)

The amendments to IAS 7, effective 1 January 2017, require the Company to provide disclosures about the changes in liabilities from financing activities. The Company categorizes those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7 (refer to note 27).

Amendments to IAS 12 *Income Taxes*

The IASB has issued *Recognition of Deferred Tax Assets for Unrealized Losses*, which makes narrow-scope amendments to IAS 12 *Income Taxes*. The focus of these amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

These amendments clarify the following aspects:

- unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences;
- an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

The Amendments are required to be applied retrospectively. There has not been a material impact on the Company's financial statements from these Amendments.

Annual Improvements 2014-2016

The Annual Improvements 2014-2016 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 12 *Disclosure of Interests in Other Entities*

Clarification of the scope of the Standard.

IFRS 12 is required to be applied retrospectively in accordance with IAS 8.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

The IASB released IFRS 9 *Financial Instruments*, representing the completion of its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018. The Company's management have not yet assessed the impact of IFRS 15 on these financial statements.

IFRS 16 *Leases*

IFRS 16 presents new requirements and amendments to the accounting of leases. IFRS 16 will require lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

IFRS 16 also:

changes the definition of a lease;

- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- provides exemptions for short-term leases and leases of low value assets;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 *Revenue from Contracts with Customers* is also applied. The Company's management have not yet assessed the impact of IFRS 16 on these financial statements.

3 Significant accounting policies

3.1 General conditions and first time adoption of IFRSs

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which were valid as of 31 December 2017.

The concepts of accounting policy were applied to each period presented in the financial statements.

Though the Company was preparing certain financial information for the consolidation purposes of the parent company, which did produce IFRS-compliant general purpose financial statements in the preceding years, the Company itself did not produce general purpose financial statements for external users in the preceding periods, therefore these financial statements are the first set of the Company's financial statements prepared in accordance with IFRS. The Company has used IFRS 1 *First Time Adoption of International Financial Reporting Standards* in preparing these financial statements. Date of transition to IFRS is 1 January 2016.

Refer to note 2.5 for standards and interpretations that were issued, but were not yet effective and were not early adopted by the Company.

The significant accounting policies applied for the preparation of the financial statements are presented below.

3.2 Foreign currencies

Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Georgia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Georgia prevailing on the reporting date, which is 2.5922 lari for 1 US dollar and 3.1044 lari for 1 euro as of 31 December 2017 (31 December 2016: 2.6468 lari for 1 US dollar, 2.7940 lari for 1 euro). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

3.3 Property and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are performed with sufficient regularity by independent valuators such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognized in other comprehensive income (except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged) and is shown as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus remaining in the revaluation reserve attributable to an item of property, plant and equipment is transferred directly to the accumulated profit when the asset is sold or otherwise derecognized.

Other items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes directly attributable expenditures, site preparation, installation and assembly costs, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Buildings that are leasehold property are also included in property and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful or over the term of the lease, if shorter.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss or is added to the cost of other asset on a reducing balance basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Machinery and equipment	-	10-15 years
Office equipment, furniture and fixtures	-	15 years
Vehicles	-	15 years
Leasehold improvements	-	lesser of the lease term and the useful life of improvements.

3.4 Intangible assets

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

Amortization of intangible assets with finite useful lives is charged to profit or loss on a reducing balance basis over the estimated useful lives of the intangible assets, which is estimated at 5-7 years for software, rights and others.

Intangible asset with an indefinite useful life are not amortized, instead they are tested for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.

3.5 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Company. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.6 Inventories

Inventories are assets held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Items such as spare parts, stand-by equipment and servicing equipment are also recognized as inventories unless they meet the definition of property and equipment.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.7 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets are divided into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or in other comprehensive income. Refer to note 21.2 for a summary of the Company’s financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other non-operating expenses.

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to profit or loss of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

Cash and bank balances

The Company's cash and bank balances comprise cash in hand, bank accounts and cash in transit

ii Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings and trade and other payables. A summary of the Company's financial liabilities by category is given in note 21.2.

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. The difference between fair value and nominal value is recognized in profit or loss, except when the borrowing was received from the owners. In this instance the difference between fair value and nominal value is recognized in equity as additional capital. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in profit or loss over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.8 Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. 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. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or 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 recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.9 Equity

The amount of Company's charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's shareholders. The authorized capital is recognized as charter capital in the equity of the Company to the extent that it was actually contributed by shareholders to the Company.

Accumulated profit/(loss) includes all current and prior periods' profits and losses.

Dividends are recognized as a liability in the period in which they are declared.

3.10 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.11 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Changes in corporate income tax effective from 1 January 2017

Effective 1 January 2017, there are significant amendments to the Tax Code of Georgia. Most significant changes relate to introduction of new model for corporate income taxation.

The new model 2017, 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 profit retention or distribution. As a result of changes, starting 1 January 2017 companies pays corporate income tax on profit distribution (dividends) and on individual transactions that may be considered as indirect distribution of profits (benefits, gifts, payments and expenses not related to economic activities, etc). In the case of profit distribution, the tax rate is 15/85.

According to the amended concept of corporate income taxation, there is no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Therefore, deferred tax assets and liabilities, as defined in IAS 12 *Income Taxes*, cannot be formed subsequent to 1 January 2017.

3.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company.

Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.13 Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies investments as a cash equivalent if it is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value.

4 Property and equipment

In thousands of Georgian lari	Machinery and equipment	Office equipment, furniture and fixtures	Leasehold improve-ments	Vehicles	Total
Cost (revalued land &buildings)					
as of 1 January 2016	3,352	526	71	117	4,066
Additions	957	203	24	7	1,191
Disposals	(5)	(7)	-	-	(12)
as of 31 December 2016	4,304	722	95	124	5,245
Additions	1,104	381	16	102	1,603
Disposals	(77)	(39)	-	-	(116)
as of 31 December 2017	5,331	1,064	111	226	6,732
Accumulated depreciation and impairment					
as of 1 January 2016	235	36	1	6	278
Charge for the year	316	98	3	11	428
Eliminated on disposal	(5)	(7)	-	-	(12)
as of 31 December 2016	546	127	4	17	694
Charge for the year	429	155	5	17	606
Eliminated on disposal	(3)	(8)	-	-	(11)
as of 31 December 2017	972	274	9	34	1,289
Carrying amount					
as of 1 January 2016 (Unaudited)	3,117	490	70	111	3,788
as of 31 December 2016 (Unaudited)	3,758	595	91	107	4,551
as of 31 December 2017 (Audited)	4,359	790	102	192	5,443

All of the property and equipment of the Company have been pledged as a security for the Company's own borrowings and for the ultimate parent company's (Nikora JSC) loans and borrowings from banks as of 31 December 2017.

Leasehold improvement represents capital expenditure on the property rented as production facility. Construction in progress includes machinery and equipment, which has not yet been completed and is not in condition for operating.

Depreciation expense Georgian lari 587 thousand (31 December 2016: Georgian lari 428 thousand) has been charged to cost of goods sold (refer to note 13).

5 Intangible assets

In thousands of Georgian lari	Computer software	Rights	Other	Total
Cost				
as of 1 January 2016	92	-	-	92
Additions	-	-	11	11
as of 31 December 2016	92	-	11	103
Additions	-	206	-	206
as of 31 December 2017	92	206	11	309
Accumulated amortization				
as of 1 January 2016	7	-	-	7
Charge for the year	9	-	-	9
as of 31 December 2016	16	-	-	16
Charge for the year	8	-	1	9
as of 31 December 2017	24	-	1	25
Carrying amount				
as of 1 January 2016 (Unaudited)	85	-	-	85
as of 31 December 2016 (Unaudited)	76	-	11	87
as of 31 December 2017 (Audited)	68	206	10	284

6 Inventories

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Finished goods	398	311	293
Work in progress	463	348	269
Raw materials	3,290	2,467	3,366
Other	1,553	688	630
	5,704	3,814	4,558

All of the inventories have been pledged as a security for loans and borrowings from banks as of 31 December 2017 (2016: nil (Unaudited)).

7 Trade and other receivables

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Trade receivables	4,452	6,096	2,881
Other receivables	16	10	1
	4,468	6,106	2,882

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Trade receivables are generally settled on 30-90 days terms. No interest is charged on the trade receivables. There are no impaired trade and other receivables as of the reporting dates.

All of the trade and other receivables have been pledged as a security for loans and borrowings from banks as of 31 December 2017 (2016: nil (Unaudited)).

Refer to note 22 for the currencies in which the trade and other receivables are denominated.

8 Cash and bank balances

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Cash in hand	-	1	9
Bank accounts	8	4	7
	8	5	16

Refer to note 22 for the currencies in which the cash and bank balances are denominated.

9 Capital

9.1 Carter capital

As of 31 December 2016 Charter Capital of the Company was nil. In 2017 Company owner took decision to increase the Company's charter capital to Georgian lari 1,000,000, which was fully paid in cash.

9.2 Dividends

In 2017 dividends amounting to Georgian lari 5,254 thousand have been paid to the Company owner. In 2016 the dividend paid was Georgian lari 4,200 thousand (Unaudited).

10 Loans and borrowings

In thousands of Georgian lari

	Current			Non-current		
	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Secured bank borrowings	1,410	671	1,769	345	1,990	-
Unsecured borrowings from related parties	-	-	-	6,222	-	-
Overdrafts	-	260	323	-	-	-
	1,410	931	2,092	6,567	1,990	-

Bank borrowings maturity varies from 1 to 7 years and bears an average annual interest rate of 10% with floating rate linked to NBG refinancing, 6 months US dollar LIBOR rates and 6 months EURO LIBOR rates (2016: 13% annually with floating rate (Unaudited)).

Bank borrowings are issued under the general credit line agreements. Bank borrowings are secured by inventories, account receivables and movable property of the Company (refer to notes 4 and 6). Bank borrowings are also secured by immovable and movable properties of parent and sister companies.

The Company is guarantor of bank borrowings of parent and sister companies.

The fair values of non-current loans equal their carrying amount, as the impact of discounting is not significant.

Refer to note 22 for the currencies in which the loans and borrowings are denominated. Refer to note 22 for more information about the Company's exposure to interest rate and foreign currency risks.

11 Trade and other payables

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)	As of 31 December 2015 (Unaudited)
Trade payables	4,585	4,893	3,254
Tax payables	316	186	81
Payables to employees	2	-	-
Dividend payables	-	-	660
	4,903	5,079	3,995

12 Revenue

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Sales of finished goods	59,257	45,539
Sales of raw materials	5,798	2,853
	65,055	48,392

13 Cost of sales

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Direct materials	45,290	29,206
Employee compensations	3,377	2,871
Utilities	902	826
Rent	643	612
Depreciation	587	428
Supported materials	413	279
Repair and maintenance	379	277
Other	50	33
	51,641	34,532

14 Distribution and marketing expenses

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Advertisement expense	4,333	1,413
Fuel expense	112	66
Transportation service expense	33	33
Other	221	194
	4,699	1,706

15 Administrative expenses

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Employee compensation	1,205	1,017
Packing expenses	218	167
Taxes other than income tax	50	42
Consultation and professional service	29	9
Maintenance	28	12
Depreciation and amortization	28	9
Bank charges	23	24
Loss on write off of inventory	-	58
	1,581	1,338

16 Finance costs

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Interest expense on loans from financial institutions	323	273
Interest expense on loans from related parties	267	-
	590	273

17 Other financial items

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Gain/(loss) from exchange differences on:		
Cash and receivables	54	42
Financial liabilities measured at amortized cost	389	234
	443	276

18 Income tax expense

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Current tax	470	1,070
Deferred tax	-	(557)
	470	513

Reconciliation of effective tax rate for 2017 is as follows:

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Effective tax rate (%)
Dividends declared	5,254	
Tax calculated at a tax rate of 15/85	927	17.64
Tax credit for income tax paid on undistributed earnings prior to 1 January 2017	(710)	13.51
Income tax on non-deductible items	253	4.82
Income tax expense	470	8.95

Reconciliation of effective tax rate for 2016 is as follows:

In thousands of Georgian lari	Year ended 31 December 2016 (Unaudited)	Effective tax rate (%)
Profit before taxation (under IFRSs)	6,656	
Tax calculated at a tax rate of 15%	998	15.00
(Non-taxable)/non-deductible items, net	72	1.08
Deferred tax adjustments	(557)	8.37
Income tax expense	513	7.71

Changes in corporate income tax

Deferred tax adjustments are related to the changes to corporate income taxation model effective from 1 January 2017. As a result of changes, starting from 1 January 2017 companies pay corporate income tax on profit distribution (dividends) and on individual transactions that may be considered as indirect distribution of profits (benefits, gifts, payments and expenses not related to economic activities, etc.). According to the amended concept of taxation, there are no temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases.

The change has had an immediate impact on deferred tax asset and deferred tax liability balances ("deferred taxes") attributable to previously recognized temporary differences arising from prior periods. The Company has re-measured its deferred tax assets and liabilities as of 1 January 2017 and has fully released the unutilisable portion of the deferred tax assets and liabilities ("deferred tax adjustments").

19 Subsequent events

There have been no events after balance sheet date, which would require adjustments to the numbers presented in this financial statements or any disclosures.

20 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

20.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates may be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economic lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

Bad debts

The Company estimates collectability of trade receivables based on its experience and future expectations. Actual collectability rates of receivables may differ from management's current assessment.

Market interest rate

Management has estimated market interest rates which are used to evaluate fair value of Company's financial instruments. Changes in market interest rates may affect reported amounts of financial liabilities and finance costs.

20.2 Key assumptions concerning the future

Management strongly believes that gross profit margin will increase. This assumption is based on the strong market position of the Company.

21 Financial instruments

21.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

21.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Loans and receivables:		
Trade and other receivables	4,452	6,096
Cash and bank balances	8	5
	4,460	6,101

Financial liabilities

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Financial liabilities measured at amortized cost:		
Loans and borrowings	7,977	2,921
Trade and other payables	4,587	4,893
	12,564	7,814

22 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk and interest rate risk which result from both its operating and investing activities.

Foreign currency risk

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

Most of the Company's transactions are carried out in Georgian lari. Exposures to currency exchange rates risk mainly arise from the Company's loans which are denominated in foreign currencies. Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Georgian lari at the closing rate:

In thousands of Georgian lari

As of 31 December 2017 (Audited)	US dollar	Euro
Financial assets		
Trade and other receivables	53	198
Cash and cash equivalents	1	-
Total financial assets	54	198
Financial liabilities		
Loans and borrowings	6,228	-
Trade and other payables	731	1,240
Total financial liabilities	6,959	1,240
Net position	(6,905)	(1,042)

In thousands of Georgian lari

As of 31 December 2016 (Unaudited)	US dollar	Euro
Financial assets		
Trade and other receivables	-	-
Cash and cash equivalents	-	2
Total financial assets	-	2
Financial liabilities		
Loans and borrowings	-	-
Trade and other payables	2,222	688
Total financial liabilities	2,222	688
Net position	(2,222)	(686)

The following table details the Company's sensitivity to a 10% (2016: 10% (Unaudited)) increase and decrease in Georgian lari against US dollar and Euro. 10% (2016: 10% (Unaudited)) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2016: 10% (Unaudited)) change in foreign currency rates.

If Georgian lari had strengthened against US dollar and Euro by 10% (2016: 10% (Unaudited)) then this would have had the following impact:

In thousands of Georgian lari	US dollar impact		Euro impact	
	2017 (Audited)	2016 (Unaudited)	2017 (Audited)	2016 (Unaudited)
Profit or loss	701	222	144	69
	701	222	144	69

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency transactions and balances. Nonetheless, the analysis above is considered to be representative of the Company's exposure to currency risk.

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating rates. This risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings.

The following table reconciles the average contract and effective interest rates:

2017 (Audited)	Average interest rate	
	Contract	Effective
Liabilities		
Loans and borrowings		
Georgian lari	12%	12%
US dollar	9%	9%
Euro	7%	7%

2016 (Unaudited)	Average interest rate	
	Contract	Effective
Liabilities		
Loans and borrowings		
Georgian lari	14%	14%
US dollar	12%	12%

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Company's:

- profit for the year ended December 31, 2017 would increase/decrease by Georgian lari 52 thousands (2016: increase/decrease by Georgian lari 88 thousand (Unaudited));

The Company's sensitivity to interest rates would increase/decrease mainly due to changes of floating interest rate which is LIBOR and NBG refinancing rates.

b) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The effect of this risk for the Company arises from different financial instruments. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Financial assets at carrying amounts		
Trade and other receivables	4,452	6,096
Bank balances	8	4
	4,460	6,100

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables.

The credit risk for bank balances is considered negligible, since the counterparties are reputable banks.

c) *Liquidity risk*

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

2017 (Audited)	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		10%	9%	
Less than 6 months	4,587	233	274	5,094
6 months to 1 year	-	1,353	280	1,633
1-5 years	-	389	6,500	6,889
More than 5 years	-	26	-	26
	4,587	2,001	7,054	13,642

2016 (Unaudited)	Non-interest bearing	Variable interest rate instruments	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		13%	-	
Less than 6 months	4,893	3,025	-	7,918
6 months to 1 year	-	-	-	-
1-5 years	-	-	-	-
More than 5 years	-	-	-	-
	4,893	3,025	-	7,918

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade and other receivables.

23 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24.1 Fair value measurement of financial instruments

Fair values of financial instruments measured at amortized cost approximate their fair values.

24 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern and provide adequate return to stakeholders.

The capital structure of the Company consists of equity comprising charter capital and accumulated profits and debt, which includes borrowings disclosed in note 10.

Management assesses the Company’s capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company’s various classes of debt. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Company for the reporting periods are summarized as follows:

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Total equity	3,005	6,139
Less: cash and bank balances	(8)	(5)
Capital	2,997	6,134
Total equity	3,005	6,139
Borrowings	7,977	2,921
Overall financing	10,982	9,060
Capital to overall financing ratio	0.27	0.68

25 Contingencies

25.1 Business environment

Georgia continues to undergo political and economic changes. As an emerging market, Georgia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

Deterioration of economic situation of countries collaborating with Georgia led to the shortage of money transfers from abroad, upon which the economy of Georgia is significantly dependent. Further depreciation of the national currency leads to increase of prices on imported goods. There are uncertainties over attraction of significant volumes of direct capital investments. These and other circumstances may lead to deterioration of situation in the Georgian economy and of the Company. However, as there are a number of variables and assumptions involved in these uncertainties, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

Management of the Company believes that in the current conditions appropriate measures are implemented in order to ensure economic stability of the Company.

25.2 Insurance

The Georgian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Georgia. The Company does not have full coverage for its facilities, business interruption, or third party liability in respect of property or environmental damage relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a materially adverse effect on the Company's operations and financial position.

25.3 Taxes

The taxation system in Georgia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Georgia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

25.4 Environmental matters

Environmental legislation in Georgia is in process of development and there may be some changes in the legislation which may be relevant for the Company's operations. However, the management is of the opinion that the Company has met the Government's requirements concerning environmental matters and believes that the Company does not have any current material environmental liabilities and it is not expected that material environmental liabilities will arise in the future periods.

26 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in banks net of outstanding bank overdrafts. Cash and bank balances at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position, as follows:

In thousands of Georgian lari	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Cash and bank balances	8	5
Bank overdraft	-	(260)
	8	(255)

27 Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

In thousands of Georgian lari	Long-term borrowings	Short-term borrowings	Total
As of 1 January 2017 (Unaudited)	1,990	931	2,921
Cash-flows			
Proceeds	4,716	21,072	25,788
Repayments	-	(21,554)	(21,554)
Non-cash			
Interest accrued	-	590	590
Foreign exchange (gain)/loss	454	(222)	232
Reclassification	(593)	593	-
as of 31 December 2017 (Audited)	6,567	1,410	7,977

28 Related parties

The Company's related parties include its parent, sister companies and key management.

28.1 Control relationships

The Company is controlled by Nikora JSC, who owns 100% of the Company’s capital.

28.2 Transactions with related parties

During the reporting year the Company had the following transactions with the related parties and as of the reporting date had the following outstanding balances.

In thousands of Georgian lari

Transactions	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Parent and sister companies		
Sale of goods	64,045	47,911
Proceeds from borrowings	5,768	-
Acquisition of goods and raw materials	(23,782)	(16,012)
Acquisition of services	(4,338)	(3,589)
Repayment of borrowings	(260)	-
Accrual of interest expenses	(267)	-
	41,166	28,310

In thousands of Georgian lari

Outstanding balances	As of 31 December 2017 (Audited)	As of 31 December 2016 (Unaudited)
Parent and sister companies		
Trade and other receivables	4,125	4,714
Loans and borrowings	(6,222)	-
Trade and other payables	(2,112)	(2,417)
	(4,209)	2,297

28.3 Transactions with management and close family members

Key management received the following remuneration during the year, which is included in employee compensation.

In thousands of Georgian lari	Year ended 31 December 2017 (Audited)	Year ended 31 December 2016 (Unaudited)
Salaries and bonuses	355	335
	355	335