



RG Brands JSC & Subsidiaries

NOTES

to the Interim Consolidated Financial Statements

as at 30 June 2020

(in KZT thousands unless stated otherwise)

1. GENERAL

The principal activity of RG Brands JSC and its subsidiaries (“the Group”) is production, sale and distribution of juices, carbonated soft drinks, milk, chips, as well as the packing, sale and distribution of tea and other commercial products. The Group’s operations are primarily in the Republic of Kazakhstan (“Kazakhstan”).

Ownership structure of the Company – RG Brands JSC was initially registered on 22 June 1998 as a limited liability partnership and transformed into an open joint stock company on 27 March 2001. The Company was re-registered as a joint stock company on 17 February 2004.

As at 30 June 2020 and 31 December 2019 the registered share capital of RG Brands JSC was KZT 2 787 696 thousand. As at 30 June 2020 and 31 December 2019 the share capital comprised of 3 452 730 common shares amounting to KZT 1 840 296 thousand and 789 500 preferred shares amounting to KZT 947 400 thousand. The share capital was paid in full.

As at 30 June 2020 and 31 December 2019 shareholders of the Company were as follows:

Shareholders	Ownership interest		Number of shares		Amount	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Mr. T.S. Kaltayev	1,49%	0,957%	30 000	30 000	33 400	33 400
Mr. K.K. Mazhibayev	96,65%	62,042%	1 944 771	1 944 771	944 726	944 726
Mr. A. Agybayev	0,94%	0,606%	19 000	19 000	21 125	21 125
Mr. R. Bayazerov	0,91%	0,586%	18 355	18 355	20 481	20 481
Mr. A.V. Khalyapin	0,01%	0,004%	138	138	501	501
Mr. Y.Zh. Koshkimbayev	-	35,805%	-	1 122 352	-	656 699
Total	100,0%	100,0%	2 012 264	3 134 616	1 020 234	1 676 932

As at 30 June 2020 repurchased common shares of the Group made KZT 820 063 thousand or 1 440 466 common shares, and as at 31 December 2019 – KZT 163 364 thousand or 318 114 common shares.

Group structure and transactions – The Group consists of RG Brands JSC and subsidiaries as follows:

	Ownership interest		Voting power	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
«RG Brands Kazakhstan» LLP	100%	100%	100%	100%
«Uni Commerce Ltd.» LLP	100%	100%	100%	100%
«RG Brands Kyrgyzstan» LLC	100%	100%	100%	100%
«RG Brands Tashkent» LLP	100%	100%	100%	100%
«PRG Bottlers Kazakhstan» LLP	100%	100%	100%	100%
«ЭрДжи Брэндс Север» LLC	100%	100%	100%	100%

RG Brands began production and packing of juice and juice-containing drinks in November 1999. Today the Group has the following trade marks in its portfolio: Gracio, Da-Da and Nectar Solnechnyi, Da-Da Day and ASU.

The Group started up the first line for production of carbonated soft drinks under the trademarks of Pepsi, Seven Up, Mirinda and Aquafina in November 1999.

As at 30 June 2020 RG Brands owned 100% authorised capital of RG Brands Kyrgyzstan LLC registered on 11 March 2004. The interest of the minority shareholder was purchased on 7 October 2008.

RG Brands Kazakhstan LLP (hereinafter “RG Brands Kazakhstan”) was established on 4 April 2006 and comprised production facilities engaged in manufacture of juice, beverages, packaged milk under Moye trade mark, tea under Piala trade mark, bottled water under Asu trade mark, and Grizzly chips. This Company is also engaged in distribution of the Group products in the Republic of Kazakhstan.

In accordance with the decision of RG Brands JSC, a 100% subsidiary – RG Brands Tashkent LLC was registered on 29 August 2009 in the Republic of Uzbekistan.

RG Brands Tashkent LLC and RG Brands Kyrgyzstan LLC are engaged in sale and distribution of the Group products in the Republic of Uzbekistan and Kyrgyz Republic accordingly.

In accordance with the decision of RG Brands JSC, a 100% subsidiary – RG Brands Sever LLC was registered on 6 May 2016 in the Russian Federation.

The Head Office of the Company is located in Almaty; its production capacities are located in Almaty, Almaty Oblast, and Kostanai, Republic of Kazakhstan. As specified above, the Company is also present in Kyrgyz Republic, Republic of Uzbekistan and Russia to implement its sale and distribution strategies.

Legal address:	212b, Raimbek ave., Almaty, Republic of Kazakhstan
Form of ownership:	Private

Bottling Agreements with PepsiCo and Seven-Up International

The Group operates its carbonated soft drinks production and distribution under an exclusive bottling appointment agreement, concluded between RG Brands Kazakhstan and Seven-Up International. Under these agreements, RG Brands Kazakhstan received the rights for bottling, sale and distribution of PepsiCo and Seven-Up products in Kazakhstan until 21 July 2010 with automatic prolongation for 5 years and subsequently for another 5-year period at the end of each 5-year period.

The rights for distribution of Pepsico Inc., Pepsi Lipton International Limited and Seven-Up products in the Kyrgyz Republic are provided under agreements concluded with these companies till 31 December 2020, inclusive.

2. BASIS OF PREPARATION

These consolidated interim financial statements of RG Brands JSC and its subsidiaries have been prepared in accordance with International Financial Reporting Standard (“IFRS”) 34 *Interim Financial Reporting*.

The reporting period is from 01 January to 30 June 2020.

The Group keeps accounts in Kazakhstan monetary units (KZT) in accordance with the effective laws of the Republic of Kazakhstan. These consolidated interim financial statements are presented in KZT thousands.

These consolidated interim financial statements have been prepared on the historical cost basis except for certain assets and liabilities measured at fair value.

These consolidated interim financial statements have been prepared based on two fundamental assumptions – accrual and going concern.

To calculate the book value of shares, the Group uses the following method: the carrying amount per common share equals the difference between the Company equity and the value of preferred shares divided by the number of common shares placed.

The carrying amount per preferred share equals the value of preferred shares placed divided by the number thereof.

3. KEY ACCOUNTING POLICIES

The Group applied IFRS 15 revenue from Contracts with Customers starting January 1, 2018. The main impact of adoption of IFRS 15 relates to consideration payable to a customer. Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer. The Group accounts for consideration payable to a customer as reduction of

the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group.

In 2018 the Group applied IFRS 9 Financial Instruments. The Group changed incurred credit loss model for expected credit loss model, although the effect was not material.

In 2019 the Group applied IFRS 16 Leases which introduces new or amended requirements with respect of lease accounting. Adoption of IFRS 16 did not have material impact on the consolidated Statement of Financial position and consolidated Statement of Cash Flow.

As for other recognition and measurement policies, when preparing these interim financial statements, the Group used accounting policies applied in the latest annual financial statements.

4. REVENUE

Revenue was as follows:

	6 months of 2020	6 months of 2019
		(thousands of Tenge)
Sales of carbonated soft drinks and juice containing drinks	23 583 235	19 995 331
Sale of packed tea, packed milk and food products	10 305 047	8 828 384
Sale of wholesale products	35 300	52 673
	33 923 582	28 876 388

5. COST OF SALES

Cost of sales were as follows:

	6 months of 2020	6 months of 2019
		(thousands of Tenge)
Materials	16 419 778	15 279 025
Depreciation and amortisation	616 242	726 838
Payroll and related taxes	478 842	490 038
Utilities	225 289	265 400
Repairs	561 895	448 133
Cost of sale of wholesale products	54 785	145 493
Other costs	77 072	125 180
	18 433 903	17 480 107

6. SELLING EXPENSES

Selling expenses were as follows:

	6 months of 2020	(thousands of Tenge) 6 months of 2019
Transportation	2 260 408	1 954 112
Payroll and related taxes	560 722	446 704
Advertising campaigns and market research	955 612	747 722
Sales agents expenses	1 838 699	1 528 350
Other selling costs	305 900	306 944
Amortisation	408 465	364 771
Lease of vehicles, warehouses and office premises	312 771	216 863
Business trip expenses	10 184	16 009
Write-off of materials	1 931	-
Reimbursement of selling expenses	(599 415)	(278 816)
	6 055 277	5 302 659

7. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were as follows:

	6 months of 2020	(thousands of Tenge) 6 months of 2019
Payroll and related payments	1 504 230	1 223 245
Waste goods write-off	101 297	85 449
Consulting services	179 179	228 439
Penalties and fines	1 185	758
Depreciation and amortisation	99 418	68 932
Taxes other than income tax	135 636	84 693
Bank services	52 593	69 777
Transportation expenses	50 937	51 660
Utilities	39 955	40 454
Business trip expenses	147 117	62 775
Communication services	59 859	36 609
Insurance	197 181	60 673
Provision for doubtful debts	(1 414)	29 211
Others	345 150	497 675
	2 912 323	2 540 350

8. FINANCE COSTS

Finance costs were as follows:

	(thousands of Tenge)	
	6 months of 2020	6 months of 2019
Interest on borrowings	1 612 220	1 080 926
Interest on letter of credit	43 643	35 053
Other	17	744
	1 655 880	1 116 723

9. OTHER EXPENSES / INCOME

Other income/ (expenses) were as follows:

	(thousands of Tenge)	
	6 months of 2020	6 months of 2019
Income from disposal of property, plant and equipment	(290)	394 775
Other operating expenses/income, net	160 436	204 465
Other	4 075	10 078
	164 221	609 318

10. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Earnings/(loss) per share is calculated by dividing net profit/(loss) for the year attributable to equity holders by the weighted average number of common shares outstanding during the year as shown below.

	(thousands of Tenge)	
	6 months of 2020	6 months of 2019
Net profit /loss for the year attributable to equity holders	6 236 560	2 262 561
Weighted average number of common shares	2 941 238	3 134 616
Basic loss/earnings per share, in Tenge	2 120	722

The Company uses the following calculation method to determine the book value of shares.

Book value per common share is a quotient of the net assets for common shares by the number of common shares.

$$13\,432 = 27\,027\,907 / 2\,012\,264$$

Net assets for common shares are calculated using the following formula:

$$NAV = (TA - IA) - TL - PS, \text{ где}$$

- TA – issuer's assets recognised in the issuer's statement of financial position as at the calculation date;
- IA – intangible assets in the issuer's statement of financial position as at the calculation date;
- TL – liabilities in the issuer's statement of financial position as at the calculation date;
- PS – balance of Authorised Capital, Preferred Shares item in the issuer's statement of financial position as at the calculation date.

$$27\,027\,907 = (84\,361\,152 - 76\,574) - 57\,256\,671$$

	at 30.06.2020	(thousands of Tenge) at 31.12.2019
Calculation of book value per common share		
Net assets of the Group excluding intangible assets	27 027 907	22 509 869
Number of outstanding common shares	2 012 264	3 134 616
Book value per common share, Tenge	13 432	7 181

Book value per preferred share is calculated using the following formula:

$$BVPS2 = LPS / NOPS2, \text{ where}$$

- BVPS2 – book value per preferred share of the second group as at the calculation date;
 NOPS2 – number of outstanding preferred shares of the second group as at the calculation date;
 LPS – balance of preferred shares recorded as liabilities in the issuer's statement of financial position as at the calculation date

$$1\,200 = 947\,400 / 789\,500$$

	at 30.06.2020	(thousands of Tenge) at 31.12.2019
Calculation of book value per preferred share		
Balance of preferred shares held within the Group	947 400	947 400
Number of outstanding preferred shares	789 500	789 500
Book value per preferred share, Tenge	1 200	1 200

11. PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2020 property, plant and equipment less accumulated depreciation were as follows:

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other	Construction in progress	Total
(thousands of Tenge)							
Historical cost							
At 1 January 2020	1 552 835	6 759 723	20 727 373	151 159	1 255 755	237 278	30 684 123
Additions	-	-	1 801 582	-	30 810	169 898	2 002 290
Internal transfers	-	-	153 559	16 592	(2 626)	(167 525)	-
Disposals	-	-	(16 781)	(28 735)	(2 036)	(1 065)	(48 617)
At 30 June 2020	1 552 835	6 759 723	22 665 733	139 016	1 281 903	238 586	32 637 796
Accumulated depreciation							
At 1 January 2020	-	(990 520)	(5 731 711)	(127 314)	(975 093)	-	(7 824 638)
Accrued for the period	-	(298 867)	(755 215)	(4 970)	(51 810)	-	(1 110 862)
Internal transfers	-	-	2	-	(2)	-	-
Disposals	-	-	12 634	11 514	2 028	-	26 176
At 30 June 2020	-	(1 289 387)	(6 474 290)	(120 770)	(1 024 877)	-	(8 909 324)
Net book value at 30 June 2020	1 552 835	5 470 336	16 191 443	18 246	257 026	238 586	23 728 472

12. INVENTORIES

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Finished goods	4 960 089	3 182 477
Raw material	4 662 607	2 713 511
Packing materials	1 462 836	1 004 214
Other	717 357	433 102
Spare parts	420 099	563 799
Less provision for slow moving inventories	(73 233)	(68 676)
	12 149 755	7 828 427

13. ACCOUNTS RECEIVABLE

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Trade accounts receivable	1 936 538	2 223 805
Less provision for doubtful debt	(62 128)	(136 942)
	1 874 410	2 086 863

As at 30 June 2020 trade accounts receivable were denominated in the following currencies:

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
In Tenge	1 681 261	1 662 024
In Russian Roubles	91 444	318 566
In Kyrgyz Soms	101 705	106 273
	<u>1 874 410</u>	<u>2 086 863</u>

14. ADVANCES PAID

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Non-current		
Advances paid for property, plant and equipment	1 020 890	48 139
Other	12 598	9 565
	<u>1 033 488</u>	<u>57 704</u>
Current:		
Advances paid for services and inventory	2 045 083	1 760 692
Less provision for doubtful debt	(132 988)	(134 612)
	<u>1 912 095</u>	<u>1 626 080</u>

15. OTHER CURRENT ASSETS

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Short-term accounts receivable from related parties	14 613	256 022
Receivables from employees	278 057	290 812
Other taxes receivable	435 364	329 702
Other receivables	332 246	403 021
Prepaid expenses	387 310	518 989
Less provision for doubtful debts	(15 625)	(15 625)
	<u>1 431 965</u>	<u>1 782 921</u>

16. BORROWINGS

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Borrowings:		
Long-term loans	17 310 463	13 855 075
Short-term bank loans and current portion of long-term loans	21 097 819	17 644 228
	38 408 282	31 499 303
Interest payable	470 193	499 071
	38 878 475	31 998 374

As at 30 June 2020 and 31 December 2019 the borrowings are subject to repayment as follows:

	at 30.06.2020	at 31.12.2019
On demand or within one year	21 568 012	18 143 299
In the second to fifth year inclusive	17 310 463	13 855 075
	38 878 475	31 998 374

As at 30 June 2020 borrowings were denominated in the following currencies:

	at 30.06.2020	at 31.12.2019
In Tenge	30 024 459	22 329 295
In Russian Roubles	8 854 016	9 669 079
	38 878 475	31 998 374

17. ACCOUNTS PAYABLE

As at 30 June 2020 accounts payable were as follows:

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Raw materials	6 090 472	4 647 423
Packing materials	4 785 391	3 651 562
Services	666 492	508 576
Property, plant and equipment	103 041	78 627
Goods	164 230	125 318
	11 809 626	9 011 506
Less long-term accounts payable	(927 617)	(876 772)
	10 882 009	8 134 734

As at 30 June 2020 trade accounts payable were denominated in the following currencies:

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
In Tenge	6 767 393	5 287 753
In US Dollars	3 056 077	2 021 625
In Chinese yuans	592 452	730 603
In Euro	382 110	349 052
In Kyrgyz Sums	89 997	123 317
In Russian Roubles	921 597	499 156
	11 809 626	9 011 506

18. TAXES PAYABLE

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Value added tax	1 362 619	713 007
Personal income tax	39 264	30 501
Other taxes	33 559	44 941
Social tax	20 119	16 936
	1 455 561	805 385

19. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	(thousands of Tenge)	
	at 30.06.2020	at 31.12.2019
Payable to employees	236 981	220 704
Accrued vacation and bonuses	284 117	227 924
Advances received	1 098 879	149 951
Other accrued liabilities	53 949	43 351
	1 673 926	641 930

20. BUSINESS AND GEOGRAPHICAL SEGMENTS

In view of the management's assessment of the business on a single geographic base, i.e. Kazakhstan where 84.0% of the business is done, the management determined that the Group segmentation base is best reflected by the following business lines:

- a. Production, distribution and sale of products under the home brands of the Group including juices (Gracio, Da-Da, Nectar Solnechnyi), juice-containing drinks (DaDa Day), Asu bottled water, and Yeti energy drink;
- b. Production, distribution and sale of other products under the home brands of the Group including Piala Tea and Moye milk;
- c. Production, distribution and sale of franchised products including carbonated alcohol-free beverages (Pepsi, Pepsi Light, Mirinda, Seven-Up and Lipton Ice Tea);
- d. Trade transactions including sale and distribution of imported goods of other manufacturers.

	Production of juice and juice-containing beverages	Food stuff	Trading	(thousands of Tenge) Consolidated
Period ended 30 June 2020				
Revenue	23 583 234	10 305 048	35 300	33 923 582
Operating profit (loss) before tax	4 505 402	1 968 703	6 744	6 480 848
Income tax expense	(169 827)	(74 208)	(254)	(244 289)
Net profit/(loss)	4 335 576	1 894 494	6 490	6 236 559
Depreciation	781 477	341 478	1 170	1 124 125
Acquisition of property, plant and equipment and intangible assets	1 461 672	540 618	-	2 002 290

	Production of juice and juice-containing beverages	Food stuff	Trading	Consolidated
Period ended 30 June 2020				
Segment assets	58 646 780	25 626 589	87 783	84 361 152
Deferred income tax assets	-	-	-	-
Total assets	58 646 780	25 626 589	87 783	84 361 152
Segment liabilities	37 433 382	16 357 077	56 031	53 846 490
Deferred income tax liabilities	2 370 714	1 035 919	3 548	3 410 181
Total liabilities	39 804 096	17 392 996	59 579	57 256 671

The Group's revenue from sales to external companies by countries was as follows:

	6 months of 2020	6 months of 2019	(thousands of Tenge)
Republic of Kazakhstan	28 495 465	23 833 300	
Kyrgyz Republic	4 237 931	3 810 675	
Russian Federation	1 163 565	1 213 016	
Tajikistan	14 347	11 822	
China	12 274	7 575	
	33 923 582	28 876 388	

21. RETIREMENT BENEFITS

In accordance with the requirements of the laws of the Republic of Kazakhstan, the Group makes 10% pension contributions from the employee salaries. However, subject to the Republic of Kazakhstan laws, this amount per employee shall not exceed KZT 212 500 a month since 1 January 2020, previously monthly contributions per employee amounted to KZT 212 500. These amounts are expensed as incurred. Contributions to the pension funds are deducted from the employee salary and recognised in the total salaries paid in the consolidated statement of comprehensive income.

As of 30 June 2020 the Group had no liabilities to its current or former employees on additional pension contributions, postretirement medical benefits, insurance payments or other retirement benefits.

22. RELATED PARTIES

Related parties of the Group are companies controlled and related to the Company shareholders – Mr. K.K. Mazhibayev and Ye.Zh. Koshkinbayev.

Transactions between the Company and its subsidiaries are eliminated at consolidation and not disclosed in this note. Transactions entered by the Group with the related are disclosed below.

Trading transactions – as at 30 June 2020 and 31 December 2019

Related party transactions include:

- sale of carbonated alcohol-free beverages, natural juice, tea;
- sale/purchase of other materials, property, plant and equipment, securities and rendering of various services;
- loans and borrowings.

	Sales		Purchases	
	6 months of 2020	6 months of 2019	6 months of 2020	6 months of 2019
RESMI Direct Investments				
LLP	4 341	5 268	92 145	130 771
Jointly controlled companies	-	-	5 160	49 551

	Related-party receivables		Related-party payables	
	30.06.2020	31.12.2019	30.06.2019	31.12.2019
Jointly controlled companies:	78 099	338 027	1 018 158	-
<i>Money on broker's account</i>	63 486	82 005	-	-
<i>Interest-free financial aid ь</i>	-	-	-	-
<i>Liability on trade and other transactions</i>	14 613	256 022	1 018 158	-

Key management benefits – Key management benefits are determined by the shareholders' meeting and senior management of the companies in accordance with the staff policy, staff list, personal employment contracts, decisions of the shareholders, orders on accrual of bonuses, etc.

23. EVENTS AFTER THE REPORTING DATE

During the period after the reporting date and prior to the date of the financial statements approval, no events have happened to the Group which would require adjustments or disclosures in the notes to the consolidated interim financial statements.

Chairman of the Management Board



Timur Kaltayev

Chief accountant


Natalya Ivanova