

**JSC Liberty Consumer (formerly JSC Galt &
Taggart Capital) and Subsidiaries**
Consolidated Financial Statements

Year ended 31 December 2008

Together with Independent Auditors' Report

CONTENTS**INDEPENDENT AUDITORS' REPORT**

Consolidated balance sheet.....	1
Consolidated statement of operations.....	2
Consolidated statement of changes in equity.....	3
Consolidated cash flow statement.....	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities.....	5
2. Basis of Preparation.....	5
3. Summary of Significant Accounting Policies.....	6
4. Significant Accounting Estimates.....	17
5. Cash and Cash Equivalents.....	18
6. Accounts Receivables.....	18
7. Prepayments and Other Current Assets.....	19
8. Assets held for sale.....	19
9. Investment Properties.....	19
10. Investment Securities - Available-for-Sale.....	20
11. Investments in Associates.....	20
12. Property and Equipment.....	22
13. Intangible Assets.....	23
14. Taxation.....	23
15. Other Assets and Liabilities.....	25
16. Accounts Payable.....	25
17. Loans and Borrowings.....	26
18. Equity.....	27
19. Gains from disposal of subsidiaries.....	28
20. Fees and Commission Income.....	29
21. Salaries and Other Employee Benefits, and General and Administrative Expenses.....	29
22. Management Consulting Fee Expense.....	29
23. Business Combination.....	30
24. Segment Reporting.....	30
25. Risk Management.....	32
26. Fair Values of Financial Instruments.....	35
27. Commitments and Contingencies.....	36
28. Related Party Transactions.....	37
29. Events After the Balance Sheet Date.....	37

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Liberty Consumer -

We have audited the accompanying consolidated financial statements of JSC Liberty Consumer and Subsidiaries which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated statement of operations, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Liberty Consumer and Subsidiaries as at 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 2009

ERNST & YOUNG LLC

CONSOLIDATED BALANCE SHEET**As at 31 December 2008***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2008</i>	<i>2007</i>
ASSETS			
Current assets			
Cash and cash equivalents	5	601	5,777
Accounts receivables	6	1,636	580
Prepayments and other current assets	7	2,435	1,883
Asset held for sale	8	–	4,145
Total current assets		4,672	12,385
Non-current assets			
Investment properties	9	47,181	39,474
Investment securities - available-for-sale	10	16,669	5,617
Investments in associates	11	12,648	4,348
Property and equipment	12	16,426	10,581
Intangible assets	13	668	1,066
Deferred tax assets	14	94	263
Other assets	15	792	369
Total non-current assets		94,478	61,718
TOTAL ASSETS		99,150	74,103
LIABILITIES			
Current liabilities			
Accounts payable	16	1,031	3,451
Short-term and current portion of long-term loans and borrowings	17	3,462	5,490
Current income tax liability	14	2	–
Other liabilities	15	1,889	2,591
Advances received from shareholders for increase in share capital	18	–	7,655
Total current liabilities		6,384	19,187
Non-current liabilities			
Long-term portion of loans and borrowings	17	18,684	7,427
Deferred tax liabilities	14	3,072	3,265
Advances received		–	1,686
Total non-current liabilities		21,756	12,378
TOTAL LIABILITIES		28,140	31,565
Equity			
Share capital	18	603	524
Additional paid-in capital	18	36,413	26,615
Retained earnings		5,917	11,422
Other reserves	18	9,793	3,977
Total equity attributable to shareholders of the Company		52,726	42,538
Minority interest		18,284	–
Total liabilities and equity		99,150	74,103

Signed and authorised for release on behalf of the Management Board of the Company

Eli Enoch

Chief Executive Officer

Irakli Gogia

Chief Financial Officer

1 June 2009

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS**For the year ended 31 December 2008***(Thousands of Georgian Lari)*

	<i>Notes</i>	2008	2007
Revenues			
Gains from disposal of subsidiaries	19	4,366	–
Fees and commission income	20	2,282	2,454
Revenue from lease of properties		1,478	1,215
Net gains from investment securities available-for-sale	17	447	121
Other revenues		986	1,463
Net (loss) gains from revaluation of investment property	9	(498)	19,052
Share of associate (loss) profit	11	(170)	134
Net gains from sale of investments in associates	11	–	751
		8,891	25,190
Operating expenses			
Salaries and other employee benefits	21	2,808	2,813
Management consulting fee expense	22	1,751	2,004
General and administrative expenses	21	2,150	1,989
Net changes in inventory		511	1,024
Depreciation and amortization	12,13	495	479
Impairment expense	7,11,13	724	–
Other expenses		161	312
Performance fee		–	431
		8,600	9,052
Operating profit		291	16,138
Net gains from foreign currency translations		764	792
Interest expenses		(2,969)	(2,212)
(Loss) profit before income tax expense		(1,914)	14,718
Income tax expense	14	(300)	(2,449)
Net (loss) profit for the year		(2,214)	12,269
Attributable to:			
- Shareholders of the Company		1,991	12,269
- Minority interest		(4,205)	–
		(2,214)	12,269
Earnings per share (attributable to shareholders of the Company):			
- basic earnings per share		0.03	0.26
- diluted earnings per share		0.03	0.26

Signed and authorised for release on behalf of the Management Board of the Company:

Eli Enoch



Chief Executive Officer

Irakli Gogia



Chief Financial Officer

1 June 2009

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the year ended 31 December 2008***(Thousands of Georgian Lari)*

	Share capital	Additional paid-in capital	Retained earnings (Accumula ted loss)	Other reserves	Total	Minority Interest	Total equity
31 December 2006	453	15,425	(847)	–	15,031	–	15,031
Revaluation of property and equipment, net of tax (Note 18)	–	–	–	1,647	1,647	–	1,647
Revaluation of investment property, net of tax (Note 18)	–	–	–	1,574	1,574	–	1,574
Net change in investment securities available-for-sale, net of tax (Note 18)	–	–	–	756	756	–	756
Total income and expenses recognised directly in equity	–	–	–	3,977	3,977	–	3,977
2007 net profit	–	–	12,269	–	12,269	–	12,269
Total income for the year	–	–	12,269	3,977	16,246	–	16,246
Issuance of share capital (Note 18)	71	11,190	–	–	11,261	–	11,261
31 December 2007	524	26,615	11,422	3,977	42,538	–	42,538
Revaluation of property and equipment, net of tax (Note 18)	–	–	–	2,723	2,723	–	2,723
Net change in investment securities available-for-sale, net of tax (Note 18)	–	–	–	3,093	3,093	–	3,093
Transaction Costs recognized directly in equity	–	–	(179)	–	(179)	–	(179)
Total income and expenses recognised directly in equity	–	–	(179)	5,816	5,637	–	5,637
2008 net profit (loss)	–	–	1,991	–	1,991	(4,205)	(2,214)
Total income for the year	–	–	1,812	5,816	7,628	(4,205)	3,423
Acquisition of additional interest in existing	–	–	(7,317)	–	(7,317)	22,489	15,172
Issuance of share capital (Note 18)	79	9,798	–	–	9,877	–	9,877
31 December 2008	603	36,413	5,917	9,793	52,726	18,284	71,010

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT**For the year ended 31 December 2008***(Thousands of Georgian Lari)*

	Notes	2008	2007
Cash flows from operating activities			
Fees and commission income received		2,286	2,016
Revenue from lease of properties received		1,465	1,215
Net gains from investment securities available-for-sale		–	121
Other revenues received		1,039	942
Salaries and other employee benefits paid		(2,808)	(2,315)
Management consulting fee expense paid		(1,751)	(1,500)
General and administrative expenses paid		(2,150)	(1,897)
Net changes in inventory		(511)	(1,002)
Interest expense paid		(2,779)	(2,029)
Other expenses paid		(235)	(269)
Cash flows used in operating activities before changes in operating assets and liabilities		(5,444)	(4,718)
<i>Net (increase)/ decrease in operating assets</i>			
Accounts receivables		–	441
Prepayments		40	519
Income tax assets		–	–
Inventory		707	(718)
Asset held for sale		4,145	(3,567)
Other assets		(1,760)	–
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts payable		(2,420)	(709)
Advances received		(1,686)	1,686
Other liabilities		(667)	536
Net cash flows used in operating activities before income tax		(7,085)	(6,530)
Corporate income tax paid		(1410)	–
Net cash used in operating activities		(8,495)	(6,530)
Cash flows from investing activities			
Purchase of investment securities		(8,887)	(3,666)
Purchase of investments in associates	11	(7,844)	(4,418)
Proceeds from sale of investments in associates	11	–	1,451
Loans granted and repaid to associates		(168)	74
Purchases of investment property	9	(8,205)	(11,091)
Subsidiaries acquired net of cash		(500)	–
Sale of equity shares in subsidiaries		14,373	–
Proceeds from sale of property and equipment		–	2,157
Purchases of property and equipment	12	(4,988)	(2,682)
Purchases and sales of intangible assets	13	–	(131)
Net cash used in investing activities		(16,219)	(18,306)
Cash flows from financing activities			
Net changes in loans and borrowings		9,655	6,958
Issuance of new shares		9,877	10,833
Advances received from shareholders for increase in share capital		–	7,804
Net cash from financing activities		19,532	25,295
Effect of exchange rates changes on cash and cash equivalents		6	529
Net (decrease) increase in cash and cash equivalents		(5,176)	988
Cash and cash equivalents, beginning	5	5,777	4,789
Cash and cash equivalents, ending	5	601	5,777

The accompanying notes on pages 5 to 37 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Liberty Consumer (the “Company”), formerly known as JSC Galt & Taggart Capital, is a joint stock company founded on 24 May 2006, under the laws of Georgia by the “Bank of Georgia” Group (the “BOG Group”). The BOG Group is comprised of entities incorporated in Georgia, Ukraine, Cyprus, Belarus, Moldova and Azerbaijan, its business activities include providing banking, leasing, insurance, brokerage, asset and wealth management services, to corporate and individual customers.

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates. The Company’s principal activities include investing in Georgian companies which are engaged in providing consumer services, real estate development and operations, and rendering of business services to companies involved in the Georgian consumer market (with the exception of financial services). Its subsidiaries are disclosed in Note 2.

The registered office of the Company is Chavchavadze avenue 74a., Tbilisi, Georgia.

As of 31 December 2008 and 2007 the following shareholders owned more than 1% of the outstanding shares of the Company. Other shareholders individually owned less than 1% of the outstanding shares.

Shareholder	<u>31 December 2008, %</u>	<u>31 December 2007, %</u>
JSC Galt & Taggart Holdings	51.64%	–
Sakaropel	14.49%	5.50%
JSC Bank of Georgia	13.60%	15.60%
Firebird Avrova Fund Ltd.	3.84%	4.19%
Firebird Republics Fund Ltd.	3.64%	4.19%
East Investor Ltd.	2.88%	3.31%
Parex Banka Clients Account	1.88%	–
Ewald Poellner	1.81%	2.11%
Diamond Age Russian Investments Limited	1.59%	1.44%
Vytenis Rasutis	1.02%	1.14%
JSC Galt & Taggart Securities	–	59.30%
Other	3.61%	3.22%
Total	<u>100.00%</u>	<u>100.00%</u>

As of 31 December 2008, members of the Supervisory Board and Board of Directors of the Company controlled 22,264 shares (0.04%),(2007: 2,640 shares or 0.01%) of the Company.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group is required to maintain its records and prepare financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investment securities available-for-sale, investment property, and land and buildings.

These consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), except per share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries

The consolidated financial statements as of 31 December 2008 and 2007 include the following direct and indirect subsidiaries:

Subsidiary	31 December 2008 Ownership/ voting, %	31 December 2007 Ownership/ voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC SB Outdoor and Indoor	100.0%	100.0%	Georgia	09/06/2006	Advertising	–
JSC Prime Fitness	100.0%	100.0%	Georgia	03/07/2006	Fitness centre	17/08/2006
Metronet LLC	100.0%	80.0%	Georgia	23/04/2007	Communication services	–
Vere + LLC	100.0%	100.0%	Georgia	21/05/1996	Real estate	06/02/2007
Holiday Travel LLC	83.6%	83.6%	Georgia	11/02/2005	Travel agency	04/09/2006
Intertour LLC	83.6%	83.6%	Georgia	29/03/1996	Travel agency	06/06/2006
JSC SB Real Estate	52.0%	100.0%	Georgia	27/09/2006	Real estate	–
Metro Service+ LLC	–	80.0%	Georgia	10/05/2006	Business services	–
Direct Debit Georgia LLC	–	100.0%	Georgia	22/02/2006	Electronic payment services	–
SB Trade LLC	–	100.0%	Georgia	26/02/2007	Import and distribution	–
SB Transport LLC	–	100.0%	Georgia	20/02/2007	Transportation	–

Reclassifications

The following reclassifications were made to 2007 balances to conform to 2008 presentation requirements

Caption	As previously reported	As reclassified	Description
Consolidated balance sheet:			
Prepayments and other current assets	1,093	1,167	
Other assets	443	369	Reclassified to Prepayments and other current assets
Accounts Payable	4,163	3,451	Reclassified to Other Liabilities
Other Liabilities	1,879	2,591	

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Group.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

Reclassification of Financial Assets – Amendments to IAS 39 “Financial instruments: Recognition and measurement” and IFRS 7 “Financial instruments: Disclosures”

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made.

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

The Group did not reclassify any financial assets from held for trading or available-for-sale categories and hence these amendments did not have any impact on the financial position or performance of the Group.

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value the difference is recognised directly in the consolidated statement of operations.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases at the date of increase in ownership interests are charged or credited to retained earnings.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of operations, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated, and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of operations.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for sale financial assets are measured at fair value with unrealized gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of operations. However, interest calculated using the effective interest method is recognised in the consolidated statement of operations.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the balance sheet date, without any deduction for transaction costs. For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts with banks and short-term deposits with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost of sold inventories is determined based on the weighted-average price of acquired goods.

Asset held for sale

Asset held for sale is measured at the lower of its carrying amount and fair value less estimated cost to sell.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of operations as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated statement of operations.

Loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of operations when the loans and borrowings are derecognised as well as through the amortisation process.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of operations.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of operations.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of operations, is transferred from equity to the consolidated statement of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of operations. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of operations if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Investment property

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment property is measured initially at cost, including subsequent costs. Subsequent to initial recognition, investment property is stated to fair value. Gains or losses arising from changes in fair values of investment property are included in the consolidated statement of operations as “Net gains from revaluation of investment property”.

Property and equipment

Property and equipment, except for land and buildings, are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Land and buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of operations, in which case the increase is recognised in the consolidated statement of operations. A revaluation deficit is recognised in the consolidated statement of operations, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the devalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

The Group's other intangible assets include computer software. Computer software is recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group provides management and employees, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) or in providing products or services within particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group determines that the primary segment is business.

Contingencies

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income includes:

- Income from sale of airline tickets;
- Income from recreation services provided;
- Income from sale of metropolitan coins;
- Income from tourism services;
- Income from electronic payment services;

Revenue from lease of properties

Rental income arising from operating leases on investment properties is recognized in the consolidated statement of operations on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the company's and subsidiaries' functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official National Bank of Georgia ("NBG") exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of operations as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in net gains from foreign currencies (dealing). The official NBG exchange rates at 1 June 2009, 31 December 2008 and 31 December 2007 were 1.6450, 1.6670 and 1.5916 Lari to USD 1 and 2.3196, 2.3648 and 2.3315 Lari to EUR 1, respectively.

Standards and interpretations issued but not yet effective

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 23 "Borrowing Costs"(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendment to IAS 39 “Financial Instruments: recognition and measurement ” - Eligible Hedged Items.

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group’s financial statements as the Group has not entered into any such hedges.

Amendments to IFRS 1 “First-time Adoption of IFRSs” and IAS 27 “Consolidated and Separate Financial Statements” - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the parent’s separate financial statements and do not have an impact on the consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment”- Vesting Conditions and Cancellations

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of Group.

IFRS 3 “Business Combinations” (revised in January 2008) and IAS 27 “Consolidated and Separate Financial Statements” (revised in January 2008).

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 8 “Operating Segments”

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group’s operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard will not have any impact on the financial position or performance of the Group. The Group determined that the operating segments would be the same as the business segments previously identified under IAS 14 ‘Segment Reporting’.

IFRIC 15 “Agreements for the Construction of Real Estate”

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue” and supersedes the current guidance for real estate in the Appendix to IAS 18. The Group expects that this interpretation will have no impact on the Group’s financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that his interpretation will have no impact on the Group's financial statements.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. The Group expects that his interpretation will have no impact on the Group's financial statements.

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after 1 January 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The Group expects that his interpretation will have no impact on the Group's financial statements.

4. Significant Accounting Estimates

Estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(Thousands of Georgian Lari)

4. Significant Accounting Estimates (continued)

Estimation uncertainty (continued)

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

5. Cash and Cash Equivalents

	<u>2008</u>	<u>2007</u>
Cash on hand	66	20
Cash in bank denominated in Georgian Lari	389	1,615
Cash in bank denominated in foreign currency	146	642
Short-term deposits	–	3,500
Cash and cash equivalents	<u>601</u>	<u>5,777</u>

Cash in banks earns 7% interest per annum (2007: 5.8%). Short-term deposits are placed for varying periods between 1 day and 3 months, depending on the immediate cash requirements of the Group, and earn interest ranging from 6% to 8% per annum (2007: 5% to 8%).

6. Accounts Receivables

	<u>2008</u>	<u>2007</u>
Accounts receivables	457	538
Receivables from related parties	1,179	42
Total accounts receivables, gross	<u>1,636</u>	<u>580</u>
Less: Allowance for impairment	–	–
Total accounts receivables, net	<u>1,636</u>	<u>580</u>

As at 31 December 2008 and 2007 the analysis of accounts receivables that were past due but not impaired is as follows:

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				
			<i><30 days</i>	<i>30-60 days</i>	<i>60-90 days</i>	<i>90-120 days</i>	<i>>120 days</i>
31 December 2008	1,636	1,340	154	24	31	32	55
31 December 2007	580	512	10	10	–	19	29

*(Thousands of Georgian Lari)***7. Prepayments and Other Current Assets**

As of 31 December 2008 and 2007 prepayments and other current assets comprise:

	<u>2008</u>	<u>2007</u>
Prepayments for acquisitions of entities	1,244	238
Prepayments for construction and repair works	381	406
Restricted accounts with banks	308	–
Loan receivable from associate	242	74
Prepayments to travel agencies and airline companies	256	124
Prepayments for software installation	94	–
Inventory	9	716
Prepayments for lease of properties	–	163
Other prepayments	107	162
Total Prepayments and other current assets, gross	<u>2,641</u>	<u>1,883</u>
Less: Allowance for impairment	(206)	–
Prepayments and other current assets	<u><u>2,435</u></u>	<u><u>1,883</u></u>

Prepayment for acquisitions include GEL 382 prepaid for acquisition of 51% equity interest in JSC Planeta Forte (2007: 238) and GEL 862 prepaid for acquisition of 1.11% equity interest in JSC Nikora (2007: nil).

Prepayments for construction and repair works represent advances paid to contractor companies for the development, construction and repair works of investment properties.

Restricted accounts with banks represent deposits with contractual maturity of 1 year. JSC Liberty Consumer and Intertour LLC hold GEL 261 and GEL 47 deposits with Bank of Georgia.

8. Asset held for sale

Asset held for sale represents a land plot located in one of the prestigious areas of Tbilisi, Georgia. The Group has signed a Memorandum of Understanding with JSC Bank of Georgia in order to sell the asset. Gain from sale of the land in 2008 comprised GEL 282.

9. Investment Properties

	<u>2008</u>	<u>2007</u>
At 1 January	39,474	1,224
Purchases	8,205	11,091
Transfers from property and equipment (Note 12)	–	6,255
Net change in fair value through profit and loss	(498)	19,052
Fair value adjustment through equity (Note 18)	–	1,852
At 31 December	<u><u>47,181</u></u>	<u><u>39,474</u></u>

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 December 2007 and 2008. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Investment properties in the amount of GEL 46,982 (2007: GEL 24,403) is pledged as a collateral against the Group's short-term and long-term loans and borrowings (Note 17).

(Thousands of Georgian Lari)

10. Investment Securities - Available-for-Sale

	<u>2008</u>	<u>2007</u>
Ordinary shares – unquoted	16,669	5,561
Ordinary shares – quoted	-	56
Investment securities available-for-sale	<u>16,669</u>	<u>5,617</u>

As of 31 December 2008 unquoted shares include investments in JSC Populi, JSC Nikora, JSC GC Holding and JSC Georgian Card in the amount of GEL 9,175, GEL 6,843, GEL 643 and GEL 8, respectively (2007: JSC Populi - GEL 3,998, JSC Telavi Wine cellar - GEL 1,555).

Available-for-sale securities in the amount of GEL 12,211 (2007: 220) are pledged as collateral against the Group's short-term and long-term loans and borrowings. (Note 17)

Unquoted shares

The fair value of the unquoted ordinary shares has been estimated using valuation techniques based on assumptions that are supported by recent arms-length trades and observable market prices.

Quoted shares

The fair value of the quoted ordinary shares is determined by reference to published price quotations in an active market.

11. Investments in Associates

The following associates are accounted for under the equity method:

2008

<u>Associates</u>	<u>Ownership / voting, %</u>	<u>Country</u>	<u>Date of incorporation</u>	<u>Industry</u>	<u>Date of acquisition</u>
JSC Teliani Valley	27.23%	Georgia	30/06/2000	Wine production	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	N/A
Matsne +	28.00%	Georgia	29/06/2005	Advertising	15/12/2006
Stili +	32.45%	Georgia	08/01/2005	Advertising	08/07/2008
Mgroup	33.33%	Georgia	30/05/2005	Restaurants and casual dining	29/05/2008
CAR	30.00%	Georgia	18/04/2008	Car Retail	05/02/2008
N-Tour	30.00%	Georgia	11/01/2001	Travel Services	29/05/2008
InfoGeorgiaXXI	50.00%	Georgia	26/04/2001	Business Services	20/05/2008

2007

<u>Associates</u>	<u>Ownership / voting, %</u>	<u>Country</u>	<u>Date of incorporation</u>	<u>Industry</u>	<u>Date of acquisition</u>
JSC Teliani Valley	25.17%	Georgia	30/06/2000	Wine production	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	N/A
Matsne +	28.00%	Georgia	29/06/2005	Advertising	15/12/2006

*(Thousands of Georgian Lari)***11. Investments in Associates (continued)**

Movements in investments in associates were as follows:

	<u>2008</u>	<u>2007</u>
Investments in associates, beginning of year, gross	4,348	496
Purchases	8,744	4,418
Disposal	–	(700)
Share of (loss) profit	(170)	134
Investments in associates, end of year, gross	12,922	4,348
Allowance for impairment	(274)	–
Investments in associates, end of the year, net	<u>12,648</u>	<u>4,348</u>

In 2008 investment in JSC Icall was impaired in the amount of KGEL 217 and investment in JSC One Team in the amount of KGEL 57. In 2007 the Group sold 7% equity interest in JSC Teliani Valley for GEL 1,451. Gain from the transaction amounted to GEL 751.

Associate company - JSC Teliani Valley is listed on the Georgian Stock Exchange. As of 31 December 2008 the fair value of the investment in JSC Teliani Valley was 7,263 (2007: GEL 12,996).

The following table summarizes certain financial information of the associates:

	<u>2008</u>	<u>2007</u>
Aggregated assets and liabilities of associates		
Assets	36,750	14,337
Liabilities	(19,164)	(5,722)
Net assets	<u>17,586</u>	<u>8,615</u>
Aggregated revenue and profit of associates		
Revenue	34,663	9,530
Profit (loss)	(500)	641

Investments in associates at 31 December 2008 include goodwill in the amount of GEL 7,276 (2007: GEL 2,177).

(Thousands of Georgian Lari)

12. Property and Equipment

The movements in property and equipment during 2008 were as follows:

	<i>Land & Buildings</i>	<i>Furniture & fixtures</i>	<i>Computers & office equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
31 December 2006	11,379	1,594	6	5	210	–	13,194
Additions	1,624	1,153	65	932	302	–	4,076
Disposals	(1,816)	(26)	–	(4)	–	–	(1,846)
Transfer to investment properties	(6,255)	–	–	–	–	–	(6,255)
Revaluation	1,885	–	–	–	–	–	1,885
31 December 2007	6,817	2,721	71	933	512	–	11,054
Acquisition through business combination	–	–	500	–	–	–	500
Additions	3,379	415	398	44	30	722	4,982
Disposals	–	(1,598)	(52)	(567)	(512)	–	(2,729)
Transfers	22	(489)	344	123	–	–	–
Transfer to investment property	–	–	–	–	–	–	–
Revaluation	3,145	–	–	–	–	–	3,145
31 December 2008	13,363	1,049	1,261	533	30	722	16,958
Accumulated depreciation							
31 December 2006	47	48	–	1	–	–	96
Depreciation charge	52	274	9	77	56	–	468
Disposals	(38)	–	–	–	–	–	(38)
Revaluation	(53)	–	–	–	–	–	(53)
31 December 2007	8	322	9	78	56	–	473
Depreciation charge	44	103	119	217	10	–	493
Disposals	–	(160)	(7)	(170)	(56)	–	(393)
Transfer	–	(82)	64	18	–	–	–
Revaluation	(41)	–	–	–	–	–	(41)
31 December 2008	11	183	185	143	10	–	532
Net book value:							
31 December 2007	6,809	2,399	62	855	456	–	10,581
31 December 2008	13,352	868	1,076	390	20	722	16,426

The Group engaged Georgian Valuation Company, an accredited independent appraiser, to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was 31 December 2008.

If the land and buildings were measured using the cost model, the carrying amounts as of 31 December 2008 and 31 December 2007 would be as follows:

	<u>2008</u>	<u>2007</u>
Cost	8,311	4,932
Accumulated depreciation and impairment	(52)	(61)
Net carrying amount	8,288	4,871

Property and equipment in the amount of GEL 12,046 (2007: GEL 8,269) is pledged as collateral against the Group's short-term and long-term loans and borrowings. (Note 17)

(Thousands of Georgian Lari)

13. Intangible Assets

Movements in intangible assets during 2007 and 2008 were as follows:

	<i>Goodwill</i>	<i>Computer software</i>	<i>Total</i>
Cost			
31 December 2006	896	52	948
Additions	–	131	131
31 December 2007	896	183	1,079
Disposals	–	(168)	(168)
Additions	–	6	6
31 December 2008	896	21	917
Accumulated amortization and impairment			
31 December 2006	–	2	2
Charge for amortization	–	11	11
31 December 2007	–	13	13
Disposals	–	(10)	(10)
Charge for impairment	244	–	–
Charge for amortization	–	2	2
31 December 2008	244	5	249
Net book value:			
31 December 2007	896	170	1,066
31 December 2008	652	16	668

As of 31 December 2008 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Intertour
- LLC Holiday Travel
- JSC Prime Fitness

(2007: JSC Intertour and LLC Holiday Travel)

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will have annual 10 percent growth for five years and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital (“WACC”) of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units were as follows:

	<i>WACC applied for impairment</i>	<i>Carrying amount of goodwill</i>	
		<i>31 December 2008</i>	<i>31 December 2007</i>
JSC Intertour	18%	612	612
LLC Holiday Travel	18%	40	40
JSC Prime Fitness	16%	–	244
Total		652	896

14. Taxation

The corporate income tax expense comprises:

	<i>2008</i>	<i>2007</i>
Current income tax expense	1,412	–
Deferred tax benefit – origination and reversal of temporary differences	(24)	3,151
Less: Deferred tax recognised directly in equity	(1,088)	(702)
Income tax expense	300	2,449

(Thousands of Georgian Lari)

14. Taxation (continued)

Georgian legal entities must file individual tax declarations. The income tax rate applicable to the Group's income is 15% (2007: 20%). Corporate income tax rate in Georgia was reduced from 20% to 15% effective from 1 January 2008.

The effective income tax rate differs from the statutory income tax rates. As of 31 December 2008 and 2007 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2008</u>	<u>2007</u>
(Loss) profit before income tax expense	(1,914)	14,718
Statutory tax rate	15%	20%
Theoretical income tax expense (benefit) at the statutory rate	(287)	2,944
Change in unrecognized deferred tax assets	–	215
Effect of reduction in tax rate	–	(796)
Non-taxable income:		
- Associates income/(loss)	–	21
Additional taxable income from sale of asset	366	–
Non-tax deductible expenditures	221	65
Income tax expense	300	2,449

Georgia currently has an updated tax code which has been adopted and put in force in 2005. Applicable taxes include corporate income tax (profits tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

Deferred tax assets and liabilities as at 31 December and their movements for the respective years follows:

	<u>Origination and reversal of temporary differences</u>			<u>Origination and reversal of temporary differences</u>			<u>2008</u>
	<u>2006</u>	<u>In the statement of operations</u>		<u>2007</u>	<u>In the statement of operations</u>		
		<u>Directly in equity</u>			<u>Directly in equity</u>		
Tax effect of deductible temporary differences:							
Tax losses carried forward	295	647	–	942	293	–	1,235
Accounts receivables	49	(48)	–	1	112	–	113
Investments in associates	–	–	–	–	68	–	68
Property and equipment	–	–	–	–	2	–	2
Accounts payable	72	(72)	–	–	6	–	6
Inventory	–	3	–	3	(3)	–	–
Gross deferred tax assets	416	530	–	946	–	–	–
Unrecognized deferred tax assets	(173)	52	–	(121)	121	–	–
Deferred tax assets	243	582	–	825	599	–	1,424
Tax effect of taxable temporary differences:							
Property and equipment	(89)	(83)	(291)	(463)	335	(463)	(591)
Investment property	–	(2,925)	(278)	(3,203)	126	–	(3,077)
Intangible assets	(3)	1	–	(2)	2	–	–
Accounts receivables	–	(26)	–	(26)	(25)	–	(51)
Available for sale securities	–	1	(133)	(132)	78	(625)	(679)
Other liabilities	–	(1)	–	(1)	(3)	–	(4)
Prepayments	(2)	2	–	–	–	–	–
Deferred tax liabilities	(94)	(3,031)	(702)	(3,827)	513	(1,088)	(4,402)
Net deferred tax assets (liabilities)	149	(2,449)	(702)	(3,002)	86	(1,088)	(2,978)

*(Thousands of Georgian Lari)***14. Taxation (continued)**

As of 31 December tax assets and liabilities consist of the following:

	<u>2008</u>	<u>2007</u>
Current tax assets	–	–
Deferred tax assets	94	263
Tax assets	<u>94</u>	<u>263</u>
Current tax liabilities	2	–
Deferred tax liabilities	3,072	3,265
Tax liabilities	<u>3,074</u>	<u>3,265</u>

15. Other Assets and Liabilities

Other assets (non-current) comprise:

	<u>2008</u>	<u>2007</u>
Operating taxes receivable	776	361
Other	16	8
Other assets	<u>792</u>	<u>369</u>

Other liabilities (current) comprise:

	<u>2008</u>	<u>2007</u>
Payables for acquisition	826	712
Accruals for employee compensation	538	498
Accrued asset management fee expense	305	504
Property tax payable	44	115
Other taxes payable	20	46
Payables for settlement operations with Tbilisi Metropolitan	–	389
Derivative liabilities	–	209
Other	156	118
Other liabilities	<u>1,889</u>	<u>2,591</u>

16. Accounts Payable

	<u>2008</u>	<u>2007</u>
Payables to airline companies	898	866
Payables for purchases of property and equipment	40	1,394
Payable for inventory purchases	15	397
Payables to related parties	11	10
Payable for purchase of asset held for sale	–	578
Payables for leased properties	–	92
Other	67	114
Accounts payable	<u>1,031</u>	<u>3,451</u>

(Thousands of Georgian Lari)

17. Loans and Borrowings

Current/short-term loans and borrowings comprised of:

As of 31 December 2008						GEL
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	equivalent at 31 December 2008
JSC Bank of Georgia	5-Sep-08	5-Sep-09	GEL	19%	200	200
Caucasus Energy & Infrastructure (CEI)	17-Jul-08	31-Dec-08	GEL	24%	3,235	3,235
Current portion of long-term loans and borrowings						27
Total						3,462

As of 31 December 2007						GEL
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	equivalent at 31 December 2007
JSC Bank of Georgia	7-Jun-07	6-Jun-08	USD	14%	1,843	2,933
JSC Bank of Georgia	2-Feb-07	2-Feb-08	GEL	12%	1,644	1,644
JSC Bank of Georgia	16-Jul-07	16-Jan-08	GEL	14.5%	443	443
JSC Bank of Georgia	5-Sep-07	5-Sep-08	GEL	14.5%	225	225
JSC Bank of Georgia	18-Dec-07	2-Oct-08	GEL	14.5%	60	60
JSC Bank of Georgia	15-Nov-07	15-Feb-08	GEL	10%	2	2
Current portion of long-term loans and borrowings						183
Total						5,490

Non-current and long-term loans and borrowings were comprised of:

As of 31 December 2008						GEL
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	equivalent at 31 December 2008
JSC Bank of Georgia	29-Dec-08	01Mar-10	GEL	25%	9,713	9,713
JSC Bank of Georgia	30-Dec-08	01-Feb-10	GEL	20%	8,642	8,642
JSC Bank of Georgia	19-Oct-07	19-Oct-17	USD	18%	213	356
Less: Current portion of long-term loans and borrowings						(27)
Total						18,684

As of 31 December 2007						GEL
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	equivalent at 31 December 2007
JSC Bank of Georgia	5-Feb-07	5-Feb-10	USD	14%	3,535	5,626
JSC Bank of Georgia	29-Dec-07	6-Dec-10	GEL	14%	982	982
JSC Bank of Georgia	16-Aug-07	20-Mar-12	USD	14%	337	537
JSC Bank of Georgia	19-Oct-07	19-Oct-17	USD	14%	175	279
JSC Bank of Georgia	11-Oct-06	13-Dec-12	GEL	11%	186	186
Less: Current portion of long-term loans and borrowings						(183)
Total						7,427

(Thousands of Georgian Lari)

17. Loans and Borrowings (continued)

The loans are secured by the Group's investment securities - available-for-sale, investments in associates, property and equipment and investment property with aggregate fair values of GEL 12,211, GEL 5,950, GEL 4,829 and GEL 46,982, respectively (2007: GEL 220, GEL 0, GEL 7,636 and GEL 17,877).

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

As of December 31, 2008 Group has started negotiations with JSC Caucasus Energy and Infrastructure to barter one of its investment properties for the borrowing from JSC Caucasus Energy and Infrastructure in amount of GEL 3,235. As of March 2009, Group successfully finalized negotiations with JSC Caucasus Energy and Infrastructure. For details please see Note 29.

18. Equity

As of 31 December 2008, authorized share capital comprised 89,000,000 common shares, of which 60,305,844 were issued and fully paid (2007: 69,000,000 common shares, of which 52,432,221 were issued and fully paid). Each share has a nominal value of one hundredth (0.01) Georgian Lari. Shares issued and outstanding as of 31 December 2008 are described below. In 2008 aggregate non-cash contribution to the Company's share capital and additional paid-in capital comprised GEL 738 (2007: GEL 428).

Movements of outstanding, issued and fully paid shares during 2008 and 2007 were as follows:

	<i>Number of shares</i>	<i>Amount of share capital</i>	<i>Amount of additional paid- in capital</i>
	<i>Ordinary</i>	<i>Ordinary</i>	<i>Ordinary</i>
31 December 2006	45,259,375	453	15,425
Issuance of shares on 20 March 2007	1,000,000	10	1,822
Issuance of shares on 31 May 2007	171,847	1	428
Issuance of shares on 23 October 2007	6,000,999	60	8,940
31 December 2007	52,432,221	524	26,615
Issuance of shares on 28 February 2008	139,113	1	207
Issuance of shares on 5 May 2008	6,058,000	61	7,512
Issuance of shares on 15 May 2008	423,880	4	526
Issuance of shares on 2 June 2008	116,000	1	144
Issuance of shares on 6 June 2008	1,136,630	12	1,409
31 December 2008	60,305,844	603	36,413

Share capital of the Company was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2008 net income attributable to ordinary shareholders was GEL 1,991 (2007: GEL 12,269). The weighted average number of ordinary shares outstanding in 2008 was 57,507,034 (2007: 47,278,126). As at 31 December 2008 the diluted number of ordinary shares was 57,507,034 shares (2007: 47,417,239). Thus, basic earnings per share and diluted earnings per share amounted 0.03 (2007: 0.26) and 0.03 (2007: 0.26) Georgian Lari, respectively. The 2007 diluted earning per share calculation takes into account the potential dilution of 139,113 shares arising from the call option issued to the JSC Galt & Taggart Asset Management.

In 2007 Company's subsidiary JSC SB Real Estate has received advances from shareholders for increase in share capital in the amount of GEL 7,655. JSC SB Real Estate together with the Company has signed a Memorandum of Understanding with Karit Investment Group Georgia to transfer its newly issued 26,550,447 ordinary shares in exchange for USD 4,809. In 2008 SB Real Estate registered respective increase in its share capital. In May 2008 JSC SB Real Estate has transferred its newly issued 39,826,224 ordinary shares in exchange for 15,123 GEL to Karit Investment Group.

*(Thousands of Georgian Lari)***18. Equity (continued)****Movements in other reserves**

	<i>Revaluation reserve for property and equipment</i>	<i>Revaluation reserve for investment property</i>	<i>Unrealised gains (losses) on investment securities available- for-sale</i>	<i>Total</i>
At 31 December 2006	–	–	–	–
Revaluation of land and buildings	1,938	–	–	1,938
Tax effect of revaluation of land and buildings	(291)	–	–	(291)
Revaluation of investment property (Note 9)	–	1,852	–	1,852
Tax effect of revaluation of investment property	–	(278)	–	(278)
Unrealised gains on available-for-sale investments	–	–	1,010	877
Tax effect of revaluation of available-for-sale securities	–	–	(133)	–
Transfer of net realized gains on investment securities available-for-sale to the consolidated statement of operations	–	–	(121)	(121)
At 31 December 2007	1,647	1,574	756	3,977
Revaluation of land and buildings	3,186	–	–	3,157
Tax effect of revaluation of land and buildings	(463)	–	–	(434)
Unrealised gains on available-for-sale investments	–	–	4,165	3,540
Tax effect of revaluation of available-for-sale securities	–	–	(625)	–
Transfer of net realized gains on investment securities available-for-sale to the consolidated statement of operations	–	–	(447)	(447)
At 31 December 2008	4,370	1,574	3,849	9,793

Nature and purpose of other reserves*Revaluation reserve for property and equipment and investment property*

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and investment property and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

19. Gains from disposal of subsidiaries

The following table summarizes the disposal of subsidiaries during 2008.

	<i>Fair value of consideration received</i>	<i>Net assets at disposal date</i>	<i>Gain from Disposal</i>
LLC Metroservice Plus	1,395	(2,098)	3,493
LLC Direct Debit Georgia	644	(9)	653
LLC SB Transport	90	39	51
JSC SB Trade	15	(154)	169
	2,144	(2,222)	4,366

*(Thousands of Georgian Lari)***20. Fees and Commission Income**

For the year ended 31 December fees and commission income comprises:

	<u>2008</u>	<u>2007</u>
Income from sale of airline tickets	1,010	980
Income from recreation services provided	709	439
Income from tourism services	255	385
Income from sale of metropolitan coins	126	408
Income from electronic payment services	182	242
Fees and Commission Income	<u>2,282</u>	<u>2,454</u>

21. Salaries and Other Employee Benefits, and General and Administrative Expenses

Salaries and other employee benefits, and general and administrative expenses comprise:

	<u>2008</u>	<u>2007</u>
Salaries expenses	2,232	1,833
Bonus expenses	576	519
Social security costs	–	461
Salaries and benefits	<u>2,808</u>	<u>2,813</u>
Legal and other professional services	485	430
Occupancy and rent	293	585
Communication	243	52
Travel expenses	206	101
Operating taxes	199	25
Security	109	53
Marketing and advertising	100	52
Office supplies	76	243
Insurance	71	70
Repairs and maintenance	44	31
Banking services	38	22
Other	286	325
Other operating expenses	<u>2,150</u>	<u>1,989</u>

22. Management Consulting Fee Expense

The Company has signed an investment advisory agreement with JSC Galt & Taggart Securities on 26 September 2006. According to the agreement JSC Galt & Taggart Securities acts as an advisory agent for the Company whose responsibilities include providing from time to time services related to the management of the investment funds of the Company, including acquisitions, sale or exchange of capital stock, assets and/or other securities (whether in leveraged acquisition or otherwise), recapitalization of debt or equity restructuring or other similar agreements or arrangements between the Company (or its affiliates) or any third party. In November 2007 JSC Galt & Taggart Securities transferred the right to provide the mentioned services, and receive respective remunerations from the Company, to JSC Galt & Taggart Asset Management based on an agreement entered into between the Company, JSC Galt & Taggart Securities and JSC Galt & Taggart Asset Management dated 1 October 2007.

The fee for the management services provided by the investment advisor is calculated at the annual rate of two percent (2%) of the Company's weighted average market capitalization on the Georgian Stock Exchange less the average net cash of the Company for the period. The management consulting fee is subject to quarterly calculations and payments. The following table reflects quarterly distinction of the management consulting fee for 2008 and 2007 years:

Management consulting fee	<u>2008</u>	<u>2007</u>
Quarter I	464	542
Quarter II	519	508
Quarter III	463	450
Quarter IV	305	504
Total management consulting fee	<u>1,751</u>	<u>2,004</u>

*(Thousands of Georgian Lari)***23. Business Combination****Acquisitions in 2008**

The fair value of identifiable assets, liabilities and contingent liabilities of major business combination occurred during 2008 (i.e. Metronet) as of the date of acquisition were estimated at:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	–	–
Accounts Receivable	–	–
Property and equipment	500	500
Intangible assets	–	–
Tax Assets	–	–
Prepayments	–	–
	500	500
Accounts payable	–	–
Other liabilities	–	–
	500	500
Fair value of net assets	500	500
Goodwill arising on acquisition	–	
Consideration paid	500	

The total net cash outflow on acquisitions was as follows:

	2008
Cash paid	500
Less: cash acquired with the subsidiary	–
Net cash outflow	500

No business combinations have occurred during 2007.

If the business combination had taken place at the beginning of the period, the net income of the Group would have been the same.

24. Segment Reporting

For management purposes, the group is organised into business units based on their products and services, and has six reportable operating segments as follows:

Real Estate Development	Principally investing in attractive and undervalued properties for further development and leasing purposes.
Travel Services	Principally engaged in travel services, arrangement of transportation, hotel reservations, and etc.
Business Services	Principally engaged in servicing individuals transporting via Tbilisi Metropolitan as well as in leasing surplus properties to external customers.
Fitness Services	Principally providing fitness services to individual and corporate customers.
Corporate Centre	Principally providing support to all business segments of the Group.
Other	The segment represents aggregate of insignificant segments that are insignificant on stand-alone basis. These segments provide to customers outdoor & indoor advertisements, transportation and electronic payment services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves different markets.

*(Thousands of Georgian Lari)***24. Segment Reporting (continued)**

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents income and profit and certain assets and liability information regarding the Group's business segments for the year ended 31 December 2008:

	<i>Real estate development</i>	<i>Travel services</i>	<i>Business services</i>	<i>Fitness services</i>	<i>Corporate center</i>	<i>Other</i>	<i>Total</i>
Revenue							
External operating income	–	–	–	–	–	–	–
Revaluation of investment property	(498)	–	–	–	–	–	(498)
Fees and commission income	–	1,266	126	709	–	181	2,282
Revenue from lease of properties	1,108	–	160	210	–	–	1,478
Net gains from investment securities available-for-sale	29	–	–	–	418	–	447
Gains from disposal of subsidiaries	–	–	–	–	4,366	–	4,366
Share of associate profit (loss)	–	–	–	–	(177)	7	(170)
Other revenues	308	4	14	8	524	482	1,340
Inter-segment revenues	–	–	–	–	(343)	(11)	(354)
Total operating income	947	1,270	300	927	4,788	659	8,891
Result							
(loss) profit before income tax	(1,944)	24	(454)	(862)	1,744	(422)	(1,914)
Income tax expense (benefit)	624	2	(68)	(128)	(66)	(64)	300
Net profit (loss) for the year	(2,568)	22	(386)	(734)	1,810	(358)	(2,214)
Assets and liabilities							
Segment assets	52,935	997	–	10,777	20,511	1,487	86,707
Investment in associate	–	–	–	–	11,436	1,007	12,443
Total assets	52,935	997	–	10,777	31,947	2,494	99,150
Segment liabilities	14,779	1,274	–	4,831	4,953	2,303	28,140
Total liabilities	14,779	1,274	–	4,831	4,953	2,303	28,140
Other segment information							
Capital expenditure:							
Property and equipment	7,096	3	–	1,908	11	411	9,428
Intangible assets	2	–	–	–	3	1	6
Depreciation	45	19	–	159	24	118	365
Amortization	–	–	–	–	–	2	2

(Thousands of Georgian Lari)

24. Segment Reporting (continued)

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2007:

	<i>Real estate development</i>	<i>Travel services</i>	<i>Business services</i>	<i>Fitness services</i>	<i>Corporate center</i>	<i>Other</i>	<i>Total</i>
Revenue							
External operating income							
Revaluation of investment property	18,742	–	–	–	310	–	19,052
Fees and commission income	–	1,365	408	439	–	242	2,454
Revenue from lease of properties	628	–	367	220	–	–	1,215
Net gains from sale of investments in associates	–	–	–	–	751	–	751
Net gains from investment securities available-for-sale	–	–	–	–	121	–	121
Share of associate profit (loss)	–	–	–	–	137	(3)	134
Other revenues	396	–	57	12	119	879	1,463
Inter-segment revenues	–	(12)	(30)	–	42	–	–
Total operating income	19,766	1,353	802	671	1,480	1,118	25,190
Result							
Profit (loss) before tax	17,960	(44)	(1,209)	(61)	(1,726)	(202)	14,718
Income tax expense (benefit)	2,699	46	–	(7)	(259)	(30)	2,449
Net profit (loss) for the year	15,261	(90)	(1,209)	(54)	(1,467)	(172)	12,269
Assets and liabilities							
Segment assets	44,331	988	3,187	7,711	12,286	1,252	69,755
Investment in associate	–	–	–	–	4,144	204	4,348
Total assets	44,331	988	3,187	7,711	16,430	1,456	74,103
Segment liabilities	21,157	1,203	4,335	2,070	1,478	1,322	31,565
Total liabilities	21,157	1,203	4,335	2,070	1,478	1,322	31,565
Other segment information							
Capital expenditure:							
Property and equipment	242	41	1,242	1,772	117	662	4,076
Intangible assets	–	–	131	–	–	–	131
Depreciation	37	12	215	120	10	74	468
Amortization	–	–	9	–	1	1	11

The Group predominantly operates under one geographical segment - Georgia; therefore no geographic segment disclosure is presented.

25. Risk Management

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts and trade payables. The main purpose of these financial liabilities is to raise funds for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, market risk and capital risk.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The table below shows the maximum exposure to credit risk for the components of the balance sheet as at 31 December 2008 and 31 December 2007.

	<i>Notes</i>	<i>Gross maximum exposure 2008</i>	<i>Gross maximum exposure 2007</i>
Cash and cash equivalents (excluding cash on hand)	5	535	5,757
Accounts receivables	6	1,636	580
Investment securities: - available-for-sale	10	16,669	5,617
Total credit risk exposure		18,840	11,954

(Thousands of Georgian Lari)

25. Risk Management (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The geographical concentration of Group's monetary assets and liabilities as at 31 December 2008 and 31 December 2007 was within Georgia.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts and monitoring forecast and actual cash flows and matching cash resources with the maturity profiles of financial statements.

The Group maintains a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted repayment obligations:

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2008					
Accounts payable	1,031	–	–	–	1,031
Loans and borrowings	3,235	219	20,960	–	24,414
Total undiscounted financial liabilities	2,139	219	23,087	–	25,445

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2007					
Accounts payable	3,451	–	–	–	3,451
Loans and borrowings	358	4,681	11,843	–	16,882
Total undiscounted financial liabilities	3,809	4,681	11,843	–	20,333

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations in foreign currency, the Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. However, changes in interest rates do not impact any component of the Group's financial assets or liabilities. All interest-bearing loans and borrowings and cash and cash equivalents have fixed interest rates and therefore management do not believe the Group is exposed to the interest rate risk from these financial assets and liabilities. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

(Thousands of Georgian Lari)

25. Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group enters into contracts in US Dollars and Euros. The Group does not use currency derivatives to hedge future transactions and cash flows.

The table below indicate the currencies to which the Group had significant exposure at 31 December 2008 on monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the statement of operations. A negative amount in the table reflects a potential net reduction in statement of operations or equity, while a positive amount reflects a net potential increase. During 2008 and 2007 sensitivity analysis did not reveal significant potential effect on Group's equity.

Currency	<i>Change in currency rate in % 2008</i>	<i>Effect on profit before tax 2008</i>	<i>Effect on equity 2008</i>	<i>Change in currency rate in % 2007</i>	<i>Effect on profit before tax 2007</i>	<i>Effect on equity 2007</i>
USD	9.2%	20	–	3.5%	(376)	–
EUR	14.9%	8	–	4.6%	–	–

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity mix. The capital structure of the Group consists of interest-bearing loans and borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

There are no externally imposed capital requirements to which the Group is subject to.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country, and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

(Thousands of Georgian Lari)

25. Risk Management (continued)

Operating environment (continued)

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. During the year there have been major events that have an effect on the Bank's operations – the military conflict in August 2008 involving Georgia, the Russian Federation and South Ossetia, and the financial crisis which significantly affected global economies from last quarter of 2008. Though no direct damage has been sustained by the Bank during the military conflict, it had caused significant damage to the Georgian economy and the Fitch and S&P country ratings were downgraded. The ongoing global financial crisis and the military conflict have resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Georgia. The Georgian Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Georgian banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

26. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2008	
	Carrying amount	Fair value
<i>Financial assets</i>		
Accounts receivables	1,636	1,636
Prepayments and other assets	1,183	1,183
<i>Financial liabilities</i>		
Accounts payable	1,031	1,031
Loans and borrowings	22,146	22,146

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2007	
	Carrying amount	Fair value
<i>Financial assets</i>		
Accounts receivables	580	580
Prepayments and other assets	1,093	1,093
<i>Financial liabilities</i>		
Accounts payable	3,451	3,451
Loans and borrowings	12,917	12,917

(Thousands of Georgian Lari)

27. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Financial commitments and contingencies

Operating lease commitments – Group as lessee

Operating lease payments are recognized as an expense in profit or loss on a straight line basis over the lease term.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<u>2008</u>	<u>2007</u>
Within one year	440	646
After one year but not more than five years	1,213	2,217
More than five years	185	2,033
	<u>1,838</u>	<u>4,896</u>

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's commercial offices and warehouse buildings. These non-cancellable leases have remaining terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancelable operating leases as at 31 December are as follows:

	<u>2008</u>	<u>2007</u>
Within one year	576	545
After one year but not more than five years	685	789
	<u>1,261</u>	<u>1,334</u>

(Thousands of Georgian Lari)

28. Related Party Transactions

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year/period are as follows:

	2008			2007		
	<i>Entities under common control</i>			<i>Entities under common control</i>		
	<i>Parent</i>	<i>Associates</i>		<i>Parent</i>	<i>Associates</i>	
Trade and other receivables	–	7	1,179	42	1	74
Prepayments and other current assets	308	–	–	13	7	–
Cash and cash equivalents	522	–	–	5,707	–	–
Short-term and long-term loans and borrowings	18,912	–	–	12,917	–	–
Trade and other accounts payable	26	307	–	1,701	705	–
Services rendered	327	7	–	559	–	–
Services received	394	6,116	–	151	2,460	–
Finance income	108	–	50	112	–	2
Finance costs	2,736	–	–	2,212	–	–

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2007: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel comprised the following:

	2008	2007
Salaries and other benefits	483	578
Social security costs	–	116
Total key management compensation	483	694

29. Events After the Balance Sheet Date

On 23 February 2009 the Company announced the appointment of a new Supervisory Board member, Avtandil Namicheishvili, pursuant to the decision of the Extraordinary General Meeting (EGM) of shareholders on 17 February 2009. Mr. Namicheishvili replaced Ivane Barbakadze, who has been on the board since August 2008.

In February the Company sold LLC Allegro to JSC Caucasus Energy and Infrastructure for GEL 3,800

In February 2009 the Company legally approved the investment in JSC Planeta Forte. Starting from 2009 the Company has to consolidate JSC Planeta Forte in view of the Company’s 51% share ownership.

On 4 March 2009, the Company completed additional shares purchase transaction of JSC Nikora. The Company acquired additional 1% equity interest in JSC Nikora for a total consideration of KGEL 861. Accordingly subsequent to year end, the Company owns 11% in total outstanding shares of JSC NIKORA.

On March 2009, JSC SB Real Estate has disposed its investment property in JSC Alegro.