

JSC Liberty Consumer and Subsidiaries

Consolidated financial statements

Year ended 31 December 2010

Together with independent auditors' report

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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 its subsidiaries, which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, and the consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 about 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 referred to above present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 31 December 2010, 2009 and 2008 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

[DATE]

Consolidated statement of financial position**As at 31 December 2010***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>2010</i>	<i>2009 (restated)</i>	<i>2008</i>
Assets				
Current assets				
Cash and cash equivalents	5	1,028	65	601
Amounts due from credit institutions	6	2,832	–	–
Accounts receivables	7, 22	5,342	1,185	1,636
Inventory	17	5,892	373	9
Prepayments and other current assets	8, 22	816	271	2,426
VAT assets	16	1,297	171	792
Investment securities - available-for-sale	10, 22, 30	3,154	8,696	16,669
Total current assets		20,361	10,761	22,133
Non-current assets				
Investments in associates	11, 22	5,236	9,658	12,648
Investment properties	9	–	–	47,181
Property and equipment	12	14,003	8,440	16,426
Biological assets	13	704	–	–
Deferred tax assets	15	1,693	1,104	1,420
Intangible assets	14	4,371	1,027	668
Total non-current assets		26,007	20,229	78,343
Total assets		46,368	30,990	100,476
Liabilities				
Current liabilities				
Accounts payable	19	2,725	1,090	1,031
Short-term and current portion of long-term loans payables	20	3,961	446	3,462
Current income tax liabilities	15	1,330	107	2
Other liabilities	18	1,331	1,109	1,889
Total current liabilities		9,347	2,752	6,384
Non-current liabilities				
Long-term portion of loans payable	20	4,819	–	18,684
Deferred tax liabilities	15	910	80	4,398
Total non-current liabilities		5,729	80	23,082
Total liabilities		15,076	2,832	29,466
Equity				
Share capital	21	603	603	603
Additional paid-in capital	21	36,409	36,413	36,413
(Accumulated losses) retained earnings		(11,530)	(10,169)	5,917
Other reserves	21	1,601	1,289	9,793
Total equity attributable to shareholders of the Company		27,083	28,136	52,726
Non-controlling interests		4,209	22	18,284
Total equity		31,292	28,158	71,010
Total liabilities and equity		46,368	30,990	100,476

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

Giorgi Vakhtangishvili

Chief Executive Officer

Tamar Kajaia

Chief Financial Officer

[DATE]

The accompanying notes on pages 6 to 43 are an integral part of these consolidated financial statements.

Consolidated income statement**For the year ended 31 December 2010***(Thousands of Georgian Lari)*

	Notes	2010	2009 (restated)
Revenues			
Revenue from sale of alcohol and soft drinks		16,444	–
Revenue from newspaper retail		2,139	2,108
Net gains from disposal of investment securities available-for-sale		1,463	–
Fees and commission income	24	1,170	1,457
Share of profit in associates	11	317	–
Revenue from lease of properties		127	1,489
Other revenues		432	534
Net gains from disposal of subsidiaries	23	–	266
		22,092	5,854
Operating expenses			
Cost of inventory sold		11,426	1,905
General and administrative expenses	25	5,856	1,548
Impairment charges	22	1,586	7,078
Salaries and other employee benefits	25	1,842	1,534
Loss from sale of property		540	644
Depreciation and amortization	12,14	496	430
Loss from disposal of subsidiaries	23	304	–
Other operating expenses		218	291
Net losses from revaluation of investment properties	9	–	15,501
Impairment of property and equipment		–	1,602
Management consulting fee expense	26	–	573
Share of loss in associates	11	–	449
		22,268	31,555
Operating loss		(176)	(25,701)
Interest expense		(1,066)	(4,413)
Net losses from foreign currency translations		(157)	(14)
Other non-operating expenses		(23)	(136)
Loss before income tax benefit		(1,422)	(30,264)
Income tax benefit	15	60	3,187
Net loss for the year		(1,362)	(27,077)
Attributable to:			
- Shareholders of the Company		(1,361)	(19,574)
- Non-controlling interests		(1)	(7,503)
		(1,362)	(27,077)
(Loss) earnings per share (attributable to shareholders of the Company):			
- basic loss per share	21	(0.02)	(0.32)
- diluted loss per share	21	(0.02)	(0.32)

The accompanying notes on pages 6 to 43 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income**For the year ended 31 December 2009***(Thousands of Georgian Lari)*

	<i>Note</i>	<i>2010</i>	<i>2009 (restated)</i>
Net loss for the year		(1,362)	(27,077)
Other comprehensive income			
Revaluation of property and equipment, net of tax	21	487	(1,502)
Net change in investment securities available for sale, net of tax	21	(165)	(3,849)
Realized gains on available-for-sale securities reclassified to the consolidated income statement	21	165	-
Other comprehensive income (loss) for the year, net of tax		487	(5,351)
Total comprehensive (loss) income for the year		(875)	(32,428)
Attributable to:			
- Shareholders of the Company		(1,049)	(24,925)
- Non-controlling interests		174	(7,503)
		(875)	(32,428)

The accompanying notes on pages 6 to 43 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2010***(Thousands of Georgian Lari)*

	<i>Attributable to shareholders of the Company</i>					<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>(Accumulated losses) Retained earnings</i>	<i>Other reserves</i>	<i>Total</i>		
31 December 2007	524	26,615	11,422	3,977	42,538	–	42,538
Total comprehensive income (loss) for the year	–	–	1,991	5,816	7,807	(4,205)	3,602
Issuances of share capital (Note 21)	79	9,798	–	–	9,877	–	9,877
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	(7,317)	–	(7,317)	22,489	15,172
Transaction cost recognized directly in equity	–	–	(179)	–	(179)	–	(179)
31 December 2008	603	36,413	5,917	9,793	52,726	18,284	71,010
Total comprehensive loss for the year	–	–	(19,574)	(5,351)	(24,925)	(7,503)	(32,428)
Sale of subsidiary (Note 21)	–	–	–	(1,808)	(1,808)	(5,775)	(7,583)
Transfer of revaluation reserve of disposed property and equipment to retained earnings (accumulated losses)	–	–	1,345	(1,345)	–	–	–
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	2,143	–	2,143	(4,984)	(2,841)
31 December 2009 restated	603	36,413	(10,169)	1,289	28,136	22	28,158
Total comprehensive loss for the year	–	–	(1,361)	312	(1,049)	174	(875)
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	–	–	–	6	6
Non-controlling interests arising on acquisition of subsidiary (Note 27)	–	–	–	–	–	4,007	4,007
Purchase of treasury shares (Note 21)	–	(4)	–	–	(4)	–	(4)
31 December 2010	603	36,409	(11,530)	1,601	27,083	4,209	31,292

The accompanying notes on pages 6 to 43 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2010***(Thousands of Georgian Lari)*

	Notes	2010	2009 (restated)
Cash flows from operating activities			
Revenue from sale of alcohol & soft drinks received		15,005	–
Revenue from trading newspapers books and magazines		2,169	2,108
Fees and commission income received		1,121	1,715
Revenue from lease of properties received		145	1,036
Other revenues received		411	15
Net changes in inventory		(10,805)	(2,269)
Salaries and other employee benefits paid		(1,842)	(1,502)
General and administrative expenses paid		(5,715)	(1,732)
Other expenses paid		(104)	(2,074)
Management consulting fee expense paid		–	(402)
Impairment reversal of other assets and provision expense		14	–
Interest expense paid		(1,163)	(1,409)
Cash flows used in operating activities before changes in operating assets and liabilities		(764)	(4,514)
<i>Net (increase) decrease in operating assets</i>			
Amounts due from credit institutions		(2,832)	–
Accounts receivables		831	822
Prepayments and other current assets		–	1,654
VAT assets		(1,126)	791
Deferred tax assets		(321)	–
Other assets		212	–
<i>Net increase (decrease) in operating liabilities</i>			
Accounts payable		725	184
Advances received		–	(613)
Current income tax liabilities		1,385	–
Deferred tax liabilities		129	–
Other liabilities		(1,753)	(411)
Net cash flows used in operating activities before income tax		(3,514)	(2,087)
Corporate income tax paid		(100)	–
Net cash used in operating activities		(3,614)	(2,087)
Cash flows from investing activities			
Purchase of investment securities		(595)	–
Proceeds from sale of investment securities		4,343	–
Proceeds from sale of investments in associates	11	–	231
Purchase of biological assets		(14)	–
Purchases of investment properties	9	–	(280)
Subsidiaries acquired net of cash	27	297	4
Sale of equity shares in subsidiaries	23	97	11,484
Proceeds from sale of property and equipment		1,268	4,372
Purchases of property and equipment	12	(472)	(131)
Acquisition of non-controlling interest		–	(2,841)
Net cash from investing activities		4,924	12,839
Cash flows from financing activities			
Proceeds from borrowings		8,469	1,029
Repayment of borrowings		(8,621)	(12,317)
Purchase of treasury shares		(3)	–
Currency translation difference		(35)	–
Net cash used in financing activities		(190)	(11,288)
Effect of exchange rates changes on cash and cash equivalents		(157)	–
Net increase (decrease) in cash and cash equivalents		963	(536)
Cash and cash equivalents, beginning	5	65	601
Cash and cash equivalents, ending	5	1,028	65

The accompanying notes on pages 6 to 43 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 Company became listed on the Georgian Stock Exchange on 7 November 2006. Until the end of 2009 the Company was listed in category B of Georgian Stock Exchange. Starting from 31 December 2009 the Company is only admitted for trading.

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 and associates disclosed in Note 11.

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

As of 31 December 2010, 2009 and 2008, 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.

Shareholders	31 December 2010, %	31 December 2009, %	31 December 2008, %
JSC Galt & Taggart Holdings	51.64%	51.64%	51.64%
Sakaropel	14.49%	14.49%	14.49%
JSC Bank of Georgia	13.60%	13.60%	13.60%
Firebird Avrora Fund Ltd.	3.84%	3.84%	3.84%
Firebird Republics Fund Ltd.	3.64%	3.64%	3.64%
East Investor Ltd.	2.88%	2.88%	2.88%
Parex Banka Clients Account (Bank of New York)	2.50%	1.88%	1.88%
Ewald Poellner	1.81%	1.81%	1.81%
Diamond Age Russian Investments Limited	1.59%	1.59%	1.59%
Vytenis Rasutis	1.02%	1.02%	1.02%
Other	2.99%	3.61%	3.61%
Total	100.00%	100.00%	100.00%

As of 31 December 2010, members of the Supervisory Board and Board of Directors of the Company have no shares of the Company (2009: no shares; 2008: 22,264 shares or 0.04% 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 properties, land and buildings and wine tanks and biological assets.

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 2010 and 2009 include the following direct and indirect subsidiaries:

Subsidiary	31 December	31 December	31 December	Country	Date of incorporation	Industry	Date of acquisition
	2010	2009	2008				
	Ownership/ voting, %	Ownership/ voting, %	Ownership/ voting, %				
JSC Prime Fitness	100.0%	100.0%	100.0%	Georgia	03/07/2006	Fitness centre	17/08/2006
Intertour LLC	97.0%	83.6%	83.6%	Georgia	29/03/1996	Travel agency	06/06/2006
Planeta Forte, LLC	51.0%	51.0%	–	Georgia	31/10/1995	Newspaper retail	01/01/2009
JSC Teliani Valley	52.3%	–	–	Georgia	30/06/2000	Wine production and distribution	28/02/2010
Holiday Travel LLC	97.0%	83.6%	83.6%	Georgia	11/02/2005	Travel agency	04/09/2006
JSC SB Outdoor and Indoor ("SBOI")	–	100.0%	100.0%	Georgia	09/06/2006	Advertising	09/06/2006
Metronet LLC	–	100.0%	100.0%	Georgia	23/04/2007	Communication services	23/04/2007
JSC SB Real Estate ("SBRE")	–	–	52.0%	Georgia	27/09/2006	Real estate	27/09/2006

In February 2010 the Group exchanged investment securities available for sale of JSC Nikora (550,000 shares) for USD 1,700 thousand (GEL 2,903 thousand), and 25% equity interest in JSC Teliani Valley. As a result of this transaction the Group received controlling equity interest, 52.33% in JSC Teliani Valley.

In May 2010 JSC Liberty Consumer decided to capitalize the inter-company loan and accumulated interest of JSC Prime Fitness of GEL 5,330 thousand.

In May 2010 JSC Liberty Consumer decided to transfer loan issued and respective accrued interest to JSC SBOI into equity of JSC SBOI. Additional paid in capital amounted to GEL 2,272 thousand.

On 21 July 2010 the Company sold 100% of its shares in Metronet LLC for GEL 125 thousand to JSC Galt and Taggart Holdings.

On 10 August 2010, the Company decided to increase the capital of JSC Intertour for GEL 389 thousand through capitalization of the inter-company loan and accumulated interest, thus obtained 97.0% equity interest.

On 29 December 2010 JSC SB Outdoor and Indoor was merged to JSC Prime Fitness.

Restatements

In the course of preparation of the consolidated financial statements for 2010 the Company identified an error in the consolidated financial statements for the year 2009. The error was corrected by restating the comparative information for the year ended 31 December 2009.

The error identified was the following:

The Company owns available for sale securities of Supermarket Chain JSC Populi (the "investee") since 2006. As at 31 December 2010 the Company owns 10.04% of shares of the investee. Available for sale securities are revalued at fair value each year in accordance with changes in its market value. In 2009 the shares of JSC Populi decreased significantly, (decrease in fair value amounted to GEL 6,525 thousand), and the Company determined the devaluation as impairment based on sufficient evidence.

Revaluation reserve (surplus) as at year end 2009 before impairment was GEL 3,852 thousand. The Company eliminated previously recognized revaluation surplus as a result of impairment of available for sale securities and remaining was recorded as impairment expense in the consolidated income statement.

However, the Company eliminated GEL 3,096 thousand (Revaluation reserve, GEL 2,632 thousand and effect on deferred tax, GEL 464 thousand) instead of eliminating GEL 4,531 thousand (Revaluation reserve, GEL 3,851 thousand and deferred tax effect, GEL 679).

(Thousands of Georgian Lari)

2. Basis of preparation (continued)

Restatements (continued)

As a result the Company has corrected and accordingly restated its consolidated financial statements for the year 2009 as follows:

Consolidated Statement of Financial Position	2009	Restatement	2009 Restated
(Accumulated losses) retained earnings	(11,389)	1,220	(10,169)
Other reserves	2,509	(1,220)	1,289

Consolidated Income statement	2009	Restatement	2009 Restated
Impairment charges	8,513	(1,435)	7,078
Income tax benefit (expense)	3,402	(215)	3,187

Going concern

Notwithstanding that the Group incurred net loss for the year of GEL 1,362 thousand (2009 restated: net loss of GEL 27,077 thousand), had accumulated losses as at 31 December 2010 of GEL 11,530 thousand (2009 restated: accumulated losses GEL 10,169 thousand) and generated negative cash flows from operations of GEL 3,614 thousand (2009: negative of GEL 2,087 thousand), Management believes it will continue as a going concern.

The Group is recovering after the global economic crisis as reflected by decreasing losses. With the improving macro-economic situation in Georgia and the disposal of the largest loss generating subsidiary in December 2009, these investments and properties are not expected to significantly deteriorate or impair further. Also, the Group plans to dispose other loss generating subsidiaries or associates at market in order to maintain a portfolio of revenue generating and marketable assets that can be liquidated in the event of unforeseen interruption of cash flows. The group acquired controlling interest in wine producing, alcohol and soft drink distributing entity JSC Teliani Valley.

For the year 2010 only two entities in the Group had negative financial performance: loss of JSC Prime Fitness and JSC Intertour amounted to GEL 1,709 thousand and GEL 202 thousand, respectively. The group took actions to make JSC Prime Fitness a profit generating entity by re-planning its business, in particular, the entity will no longer lease space in the Vake property but use it to expand business operations. Two floors of the building will host a rehabilitation and weight loss clinic. Also, additional loans were granted to JSC Intertour for reorganization and expansion of business operations.

The Group's ability to continue as a going concern is significantly dependent on its ability to maintain marketable and revenue generating investments portfolio. Management believes that it will be able to continue as a going concern.

Based on the above, Management believes that the going concern basis used in the preparation of these consolidated financial statements is appropriate.

(Thousands of Georgian Lari)

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:

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became 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. The amendment did not affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

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 became 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 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 has no impact on goodwill, nor it gives rise 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 are applied prospectively.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Group's consolidated financial statements, as it has no share-based share.

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. This interpretation had no impact on the Group's consolidated financial statements as they have not distributed non-cash assets to owners.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- *IFRS 8 Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- *IAS 7 Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations (continued)

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

Basis of consolidation

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, 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-group 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. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Business combinations (continued)

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

Where goodwill forms part of a cash-generating unit 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.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

(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 income statement, and its share of movements in reserves is recognised in other comprehensive income. 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.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized 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 recognized 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 recognized 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 recognized in the consolidated income statement.

Accounts receivables

Accounts 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 amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when receivables are derecognized or impaired, as well as through the amortization 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 recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

(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 organized 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 at the reporting 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 distressed 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 statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize 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.

Amounts due from credit institutions

Amounts due from credit institutions consist of time deposits within banks that mature in over ninety days from the date of origination and accrued interest receivable.

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.

Loans payable

Loans payable are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans are derecognized as well as through the amortization process.

Leases

Finance – Group as lessee

The Group recognises finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Finance – Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Allowances for impairment of financial assets

The Group assesses at each reporting 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 reorganization 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 amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized 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 recognized in the consolidated income statement.

The calculation of the present value of the estimated future cash flows of a collateralized 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 recognized 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 recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized 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 income statement.

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 amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in profit or loss.

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 derecognized 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

De-recognition of financial assets and liabilities (continued)

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 recognized 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 derecognized 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 recognized in the consolidated income statement.

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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.

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 properties are included in the consolidated income statement as "Net gains (losses) from revaluation of investment properties".

Property and equipment

Property and equipment, except for land and buildings and wine tanks, 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 wine tanks 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.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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. 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 recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement. A revaluation deficit is recognized in the consolidated income statement, 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. 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	20, 50
Wine production related machinery and equipment	3, 5, 7, 10, 12
Furniture and fixtures	10
Computers and office equipment	3, 5
Motor vehicles	5, 6, 7

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.

Biological assets

All expenses incurred in land preparation, planting and development of crops up to maturity is capitalized as biological assets; all expenses subsequent to maturity are recognised directly in consolidated income statement.

Biological assets are stated at revaluated amount, which is the fair value at date of revaluation less any accumulated impairment losses. Fair value is determined by market-based evidence by appraisal that is carried out by professionally qualified valuers. Revaluation of biological assets are carried out at sufficient regularity and any material differences are adjusted accordingly to ensure that the carrying value of the assets does not differ materially from the fair values determined as at the reporting date. Gains or losses arising from valuation are reflected in consolidated income statement.

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 the operating segment as defined in IFRS 8 "Operating Segments".

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Goodwill (continued)

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 recognized. 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 amortization 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 amortized 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. Amortization 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 amortized, 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 recognized 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.

Share capital

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 recognized as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Segment reporting

The Group's segmental reporting is based on the following operating segments: sale of alcohol and soft drinks, travel service, newspaper retail, fitness service, corporate center and other.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

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 recognized 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 recognized:

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 tourism services.

Sales revenue

Revenue from retail of newspapers, magazines, books and telephone scratch cards is recognized when the significant risks and rewards of ownership of the inventory have passed to the buyer.

Revenue from sale of alcohol and soft drinks

Revenue from sale of produced and imported alcohol and soft drinks is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from lease of properties

Rental income arising from operating leases on investment properties is recognized in the consolidated income statement on a straight-line basis over the lease term as revenue from lease of properties. 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 recognized when the Group's right to receive the payment is established.

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 reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement 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 (losses) from foreign currency transactions. The official NBG exchange rates at 31 December 2010 and 31 December 2009 were 1.7728 and 1.6858 GEL to USD 1 and 2.3500 and 2.3648 GEL to EUR 1, respectively.

(Thousands of Georgian Lari)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

Amendments to IAS 24 Related Party Disclosures

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 *Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 *Business Combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on consolidated financial statements of the Group.
- IFRS 7 *Financial Instruments: Disclosures*; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 *Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets.

Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian Lari)

4. Significant accounting judgments and estimates

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

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, and 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

	2010	2009 (restated)	2008
Cash on hand	97	10	66
Cash in bank denominated in Georgian Lari	532	54	389
Cash in bank denominated in foreign currency	399	1	146
Total cash and cash equivalents	1,028	65	601

Cash in banks earns 2% interest per annum (2009: 6%-8%; 2008: 7%).

6. Amounts due from credit institutions

Amounts due from credit institutions in the amount of GEL 2,832 thousand comprise of time deposits and accrued interest receivable placed with JSC Bank of Georgia. The original currency of the deposit is USD and the deposited amounts are of JSC Liberty Consumer and JSC Prime Fitness, USD 1,261 thousand and USD 234 thousand, respectively. (JSC Prime Fitness pre-terminated the deposit contract thus would not receive the interest income). Time deposits earn 9.5% interest per annum.

(Thousands of Georgian Lari)

7. Accounts receivable

	2010	2009 (restated)	2008
Accounts receivable	5,501	342	457
Receivables from related parties (note 32)	101	997	1,179
Total accounts receivables, gross	5,602	1,339	1,636
Less: Allowance for impairment (note 22)	(260)	(154)	–
Total accounts receivables receivable, net	5,342	1,185	1,636

As at 31 December 2010, 2009 and 2008 the analysis of accounts receivable that were past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2010	5,342	156	4	2,226	2,809	–	147
31 December 2009	1,185	307	7	1	850	2	18
31 December 2008	1,636	1,340	154	24	31	32	55

8. Prepayments and other current assets

	2010	2009	2008
Prepayments for product suppliers	346	–	–
Prepayments for software installation	225	169	94
Prepayments to travel agencies and airline companies	99	193	256
Deposits	38		
Loans granted	30	–	–
Prepayments for construction and repair works	8	–	381
Other prepayments	347	79	90
Prepaid income tax	–	25	17
Prepayments for acquisitions of entities	–	–	1,244
Loan receivable from an associate	–	159	242
Restricted accounts with banks	–	–	308
Total Prepayments and other current assets, gross	1,093	625	2,632
Less: Allowance for impairment (note 22)	(277)	(354)	(206)
Total Prepayments and other current assets, net	816	271	2,426

Prepayments to travel agencies and airline companies are attributed to JSC Intertour.

Prepayments for software installation represent prepayments to the service provider company IP-Seeds LTD for the accounting software "Priority".

Deposits GEL 38 thousand is attributed to JSC Intertour. Deposits placed with airline companies for ticket stock.

(Thousands of Georgian Lari)

9. Investment properties

	2010	2009	2008
At 1 January	–	47,181	39,474
Purchases	–	280	8,205
Net change in fair value	–	(15,501)	(498)
Disposal of real estate held by SBRE	–	(31,960)	–
At 31 December	–	–	47,181

Investment properties are primarily real estate properties and 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 2009 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.

The investment properties were held by JSC SBRE, a subsidiary. On 22 December 2009 the Group exchanged its shares in JSC SBRE as partial settlement of the Company's loan from JSC Bank of Georgia of GEL 12,317 thousand (Note 21).

10. Investment securities – available-for-sale

Investment securities available for sale are comprised from unquoted shares of following companies:

	2010	2009	2008
JSC Populi	3,146	2,650	9,175
JSC Nikora	–	5,395	6,843
JSC GC Holding	–	643	643
JSC Georgian Card	8	8	8
Total	3,154	8,696	16,669

During the year 2010 available for sale securities of JSC Populi were impaired by GEL 99 thousand, totally comprising devaluation of Populi shares GEL 2,093 thousand (Note 22).

As of 31 December 2009 investment securities available for sale of GEL 4,305 thousand (as restated) was impaired and provided for (2008: nil) (note 22).

Available-for-sale securities in the amount of GEL 114 thousand (2009: GEL 6,454 thousand 2008: GEL 12,211 thousand) are pledged as collateral against the Group's loans payable (Note 20).

In 2010 Group has revalued its Investment securities available for sale of JSC Populi with comparative multiples method which resulted to a decrease by GEL 99 thousand.

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.

(Thousands of Georgian Lari)

11. Investments in associates

The following associates are accounted for under the equity method:

2010

Associates	Ownership / voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
Stili +	32.45%	Georgia	08/01/2005	Advertising	08/07/2008
Mgroup	25.00%	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

2009

Associates	Ownership / voting, %	Country	Date of incorporation	Industry	Date of acquisition
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
Stili +	32.45%	Georgia	08/01/2005	Advertising	08/07/2008
Mgroup	25.00%	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

2008

Associates	Ownership / voting, %	Country	Date of incorporation	Industry	Date of acquisition
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 +	20.00%	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

(Thousands of Georgian Lari)

11. Investments in associates (continued)

Movements in investments in associates were as follows:

	2010	2009 (restated)	2008
Investments in associates, beginning of year, gross	12,242	12,922	4,348
Purchases	–	–	8,744
Disposals	–	(231)	–
Write-offs	(3,872)	–	–
Transfer to subsidiary	(3,451)	–	–
Share of profit (loss)	317	(449)	(170)
Investments in associates, end of year, gross	5,236	12,242	12,922
Allowance for impairment (note 22)	–	(2,584)	(274)
Investments in associates, end of the year, net	5,236	9,658	12,648

The Group purchased additional equity interest of 25.1% of JSC Teliani Valley and obtained controlling rights with total equity interest of 52.3% and transferred the entity as a subsidiary (GEL 3,451 thousand).

The following table summarizes certain financial information of the associates:

Aggregated assets and liabilities of associates	2010	2009 (restated)	2008
Assets	16,774	34,150	36,750
Liabilities	(8,823)	(19,128)	(19,164)
Net assets	7,951	15,022	17,586
Aggregated revenue and profit of associates	2010	2009	2008
Revenue	20,579	37,741	34,663
Loss	676	(1,537)	(500)

Investments in associates at 31 December 2010 include goodwill in the amount of GEL 2,860 thousand (2009: GEL 5,534; 2008: GEL 7,276 thousand).

12. Property and equipment

The movements in property and equipment during 2010 were as follows:

	<i>Land & buildings</i>	<i>Furniture & fixtures</i>	<i>Computers & office equipment</i>	<i>Specialized wine tanks</i>	<i>Wine producing related machinery & equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improve- ments</i>	<i>Assets under construction</i>	<i>Total</i>
Cost									
31 December 2009	8,941	1,140	1,201	–	–	351	30	722	12,385
Acquisition through business combination	3,801	37	54	1,950	1,367	149	–	366	7,724
Additions	40	90	21	110	88	123	–	–	472
Disposals	(903)	(149)	(315)	–	–	(82)	–	(715)	(2,164)
Transfers	–	272	(143)	–	–	(138)	16	(7)	–
Revaluation	221	–	–	61	–	–	–	–	282
Disposal of Metronet LLC	–	–	(505)	–	–	–	–	–	(505)
31 December 2010	12,100	1,390	313	2,121	1,455	403	46	366	18,194
Accumulated depreciation and impairment									
31 December 2009	3,158	316	323	–	–	123	25	–	3,945
Depreciation charge ⁽¹⁾	155	155	122	141	281	83	5	–	942
Impairment charge	–	–	–	–	–	–	–	–	–
Transfer	–	81	(52)	–	–	(32)	3	–	–
Disposals	(18)	(63)	(139)	–	–	(65)	–	–	(285)
Revaluation	(159)	–	–	(141)	–	–	–	–	(300)
Disposal of Metronet LLC	–	–	(111)	–	–	–	–	–	(111)
31 December 2010	3,136	489	143	–	281	109	33	–	4,191
Net book value:									
31 December 2010	8,964	901	170	2,121	1,174	294	13	366	14,003

(Thousands of Georgian Lari)

12. Property and equipment (continued)

The movements in property and equipment during 2009 were as follows:

	<i>Land & buildings</i>	<i>Furniture & fixtures</i>	<i>Computers & office equipment</i>	<i>Specialized wine tanks</i>	<i>Wine producing related machinery & equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
31 December 2008	13,363	1,049	1,261	–	–	533	30	722	16,958
Acquisition through business combination	38	–	5	–	–	42	–	–	85
Additions	8	101	16	–	–	6	–	–	131
Disposals	(4,468)	(7)	(58)	–	–	–	–	–	(4,533)
Disposal of SBRE	–	(3)	(23)	–	–	(230)	–	–	(256)
31 December 2009	8,941	1,140	1,201	–	–	351	30	722	12,385
Accumulated depreciation and impairment									
31 December 2008	11	183	185	–	–	143	10	–	532
Acquisition through business combination	21	–	1	–	–	9	–	–	31
Depreciation charge	40	134	157	–	–	81	15	–	427
Impairment charge	3,086	–	–	–	–	–	–	–	3,086
Disposals	–	–	(12)	–	–	–	–	–	(12)
Disposal of SBRE	–	(1)	(8)	–	–	(110)	–	–	(119)
31 December 2009	3,158	316	323	–	–	123	25	–	3,945
Net book value:									
31 December 2009	5,783	824	878	–	–	228	5	722	8,440

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 2007	6,817	2,721	71	933	512	–	11,054
Acquisition through business combination	–	–	500	–	–	–	500
Additions	3,379	415	398	44	30	722	4,988
Disposals	–	(1,598)	(52)	(567)	(512)	–	(2,729)
Transfers	22	(489)	344	123	–	–	–
Revaluation	3,145	–	–	–	–	–	3,145
31 December 2008	13,363	1,049	1,261	533	30	722	16,958
Accumulated depreciation and impairment							
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 2008	13,352	866	1,076	390	20	722	16,426

(1) Total depreciation expense for the year 2010 is equal to the GEL 942 thousand. Part of the depreciation expense is apportioned to the goods produced. (Depreciation of machinery and equipment directly or indirectly included in the process of production. In particular GEL 456 thousand is reclassified from depreciation expense to cost of goods produced. The amount, GEL 486 thousand is left on Depreciation and amortization expense).

Specialized wine tanks and land and buildings are shown at a revalued amount, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and subsequent accumulated impairment losses. Other Property, plant and equipment other than specialized wine tanks and land and buildings are recorded at historical cost less accumulated depreciation and impairment, if any properties in the course of construction for production are carried at cost.

If the specialized wine tanks, land and buildings were measured using the cost model, the carrying amounts as of 31 December 2010, 2009 and 2008 would be as follows:

	2010	2009	2008
Cost	7,399	3,738	8,311
Accumulated depreciation and impairment	(540)	(279)	(52)
Net carrying amount	6,860	3,459	8,259

(Thousands of Georgian Lari)

12. Property and equipment (continued)

The following long-term assets have been pledged as collateral under non-group loans (Note 20):

- ▶ Wine factory of the Group located at 3 Tbilisi highway, Telavi, Georgia (which comprises land, building, machinery and heavy equipment and specialized wine tanks with net book value of 7,320)
- ▶ All other land and buildings of the Group (net book value GEL 304 thousand as at 31 December 2010).

13. Biological assets

Biological assets in the amount of GEL 704 thousand, represent vineyards of Rqatsiteli (4, 15 years of age and 4, 6.2 cultivated areas respectively), Sauvignon Blanc (40 years of age and 1.2 hectares cultivated areas), Saperavi (7, 7, 10 and 15 years of age and 11, 14, 10 and 7.4 hectares cultivated areas), and Mtsvane (3 years of age and 12 hectares cultivated areas) vineyards located in the east of Georgia in Kakheti region. The Group uses market-determined prices based on most recent market transactions price for determination of fair value of biological asset.

	<u>2010</u>	<u>2009</u>
Acquired on business combination	668	–
Additions	14	–
Change in fair value	22	–
Carring amount as of 31 December 2010	<u>704</u>	<u>–</u>

14. Intangible assets

Movements in intangible assets were as follows:

	<u>Goodwill</u>	<u>Computer software</u>	<u>Acquired licences</u>	<u>Total</u>
Cost				
31 December 2007	896	183	–	1,079
Disposals	–	(168)	–	(168)
Additions	–	6	–	6
31 December 2008	896	21	–	917
Additions (Note 27)	359	3	–	362
31 December 2009	1,255	24	–	1,279
Additions	3,202	–	–	3,202
Acquired on business combination (Note 27)	143	5	4	152
31 December 2010	4,600	29	4	4,633
Accumulated amortization and impairment				
31 December 2007	–	13	–	13
Disposals	–	(10)	–	(10)
Impairment charge (note 22)	244	–	–	244
Amortization charge	–	2	–	2
31 December 2008	244	5	–	249
Charge for amortization	–	3	–	3
31 December 2009	244	8	–	252
Charge for amortization	–	7	3	10
31 December 2010	244	15	3	262
Net book value:				
31 December 2008	652	16	–	668
31 December 2009	1,011	16	–	1,027
31 December 2010	4,356	14	1	4,371

(Thousands of Georgian Lari)

14. Intangible assets (continued)

As of 31 December 2010 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- ▶ JSC Intertour
- ▶ Holiday Travel LLC
- ▶ Planeta Forte LLC
- ▶ JSC Teliani Valley
- ▶ JSC Teliani Trading

(2009: JSC Intertour, LLC Holiday Travel, JSC Prime Fitness and Planeta Forte LLC 2008: JSC Intertour, LLC Holiday Travel and JSC Prime Fitness)

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:

	WACC applied for impairment	Carrying amount of goodwill		
		31 December 2010	31 December 2009	31 December 2008
JSC Intertour	14.96%	612	612	612
Holiday Travel LLC	14.96%	40	40	40
Planeta Forte LLC	2.78%	359	359	–
JSC Prime Fitness		–	–	–
JSC Teliani Valley		3,202	–	–
JSC Teliani Trading UA		143	–	–
Total intangible assets		4,356	1,011	652

JSC Teliani Valley was acquired on 28 February, 2010. In accordance with the Group's policy, goodwill impairment test is not performed during the first year, accordingly, the Company has not performed impairment test of goodwill arising on the business combination with JSC Teliani Valley.

15. Taxation

The corporate income tax (benefit) expense comprises:

	2010	2009 (restated)	2008
Current income tax expense	(132)	(305)	(1,412)
Deferred tax benefit – origination and reversal of temporary differences	192	3,492	1,112
Income tax benefit (expense)	60	3,187	(300)
Deferred tax recognized directly in Other Comprehensive Income	(86)	679	(1,088)

Georgian legal entities must file individual tax declarations. The income tax rate applicable to the Group's income is 15%.

The effective income tax rate differs from the statutory income tax rates. As of 31 December 2010, 2009 and 2008 a reconciliation of the income tax (benefit) expense based on statutory rates with actual is as follows:

	2010	2009 (Restated)	2008
Loss before income tax expense	(1,422)	(30,264)	(1,914)
Statutory tax rate	15%	15%	15%
Theoretical income tax benefit at the statutory rate	213	4,540	287
Change in unrecognized deferred tax assets	102	(270)	(121)
Unrecognized deferred tax assets (tax loss carry forward impairment, in jurisdictions with tax rate different from 15% tax)	(51)	–	–
Taxable income from sale of asset	–	(788)	(366)
Non-tax deductible expenses	-204	(295)	(100)
Income tax benefit (expense)	60	3,187	(300)

(Thousands of Georgian Lari)

15. Taxation (continued)

Relevant Georgian taxes applied to the Group 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:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences Restated</i>				
	<i>2007</i>	<i>In the income statement</i>	<i>Directly in other comprehensive income</i>	<i>2008</i>	<i>In the income statement</i>	<i>Directly in other comprehensive income</i>	<i>Discontinued operations</i>	<i>2009 restated</i>
Tax effect of deductible temporary differences:								
Tax losses carried forward	942	293	–	1,235	(146)	–	(819)	270
Accounts receivables	1	112	–	113	(102)	–	–	11
Investments in associates	–	68	–	68	329	–	–	397
Property and equipment	–	2	–	2	(2)	–	–	–
Available for sale securities	–	–	–	–	646	–	–	646
Accounts payable	–	6	–	6	(6)	–	–	–
Inventory	3	(3)	–	–	–	–	–	–
Prepayments	–	–	–	–	31	–	(31)	–
Other assets	–	–	–	–	37	–	–	37
Other liability	(1)	(3)	–	(4)	5	–	12	13
Gross deferred tax assets	945	475	–	1,420	792	–	(838)	1,374
Unrecognized deferred tax assets	(121)	121	–	–	(270)	–	–	(270)
Deferred tax assets	824	596	–	1,420	522	–	(838)	1,104
Tax effect of taxable temporary differences:								
Property and equipment	(463)	335	(463)	(591)	506	–	5	(80)
Investment property	(3,203)	126	–	(3,077)	2,558	–	519	–
Intangible assets	(2)	2	–	–	(146)	–	146	–
Accounts receivables	(26)	(25)	–	(51)	52	–	(1)	–
Investment securities	(132)	78	(625)	(679)	–	679	–	–
Deferred tax liabilities	(3,826)	516	(1,088)	(4,398)	2,970	679	669	(80)
Net deferred tax assets (liabilities)	(3,002)	1,112	(1,088)	(2,978)	3,492	679	(169)	1,024

(Thousands of Georgian Lari)

15. Taxation (continued)

	2009 restated	Origination and reversal of temporary differences			2010
		In the income statement	Directly in other comprehensive income	Acquisition through business combination	
Tax effect of deductible temporary differences:					
Tax losses carried forward	270	717	–	51	1,038
Accounts receivables	11	13	–	–	24
Investments in associates	397	(18)	–	–	379
Property and equipment	–	(6)	(21)	27	–
Available for sale securities	646	(332)	–	–	314
Prepayments	–	–	–	–	–
Other assets	37	(9)	–	–	28
Other liability	13	65	–	–	78
Gross deferred tax assets	1,374	430	(21)	78	1861
Unrecognized deferred tax assets	(270)	102	–	–	(168)
Deferred tax assets	1,104	532	(21)	78	1,693
Tax effect of taxable temporary differences:					
Property and equipment	(80)	(336)	(65)	(425)	(906)
Investment property	–	–	–	–	–
Intangible assets	–	–	–	–	–
Investment in subsidiaries	–	(4)	–	–	(4)
Accounts receivables	–	–	–	–	–
Investment securities	–	–	–	–	–
Deferred tax liabilities	(80)	(340)	(65)	(425)	(910)
Net deferred tax assets (liabilities)	1,024	192	(86)	(347)	783

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

	2010	2009 (restated)	2008
Current tax assets (Note 8)	–	25	17
Deferred tax assets	1,693	1,104	1,420
Tax assets	1,693	1,129	1,437
Current tax liabilities	1,330	107	2
Deferred tax liabilities	910	80	4,398
Tax liabilities	2,240	187	4,400

16. VAT assets

	2010	2009 (restated)	2008
VAT receivable	1,297	171	776
Other	–	–	16
Total Other assets	1,297	171	792

17. Inventory

	2010	2009 (restated)	2008
Produced goods	4,881	–	–
Imported goods	683	–	–
Newspapers and magazines	283	345	–
Books	25	10	–
Calendars	5	7	–
Other	15	11	9
Total inventory	5,892	373	9

(Thousands of Georgian Lari)

17. Inventory (continued)

Inventory of GEL 5,892 thousand is owned by: JSC Teliani Valley for GEL 5,564 thousand; Planeta Forte LLC for GEL 315 thousand and JSC Prime Fitness for GEL13 thousand. (2009: Planeta Forte LLC for GEL 362 thousand; JSC Prime Fitness for GEL 11 thousand; 2008: JSC Prime Fitness for GEL 9 thousand).

18. Other liabilities

Other liabilities (current) comprise:

	2010	2009 (restated)	2008
Payables for shares purchased	759	766	826
Accruals for employee compensation	–	32	538
Property tax payable	5	77	44
Other taxes payable	265	118	20
Accrued asset management fee expense	–	–	305
Penalty payable	135	–	–
Other	167	116	156
Total other liabilities	1,331	1,109	1,889

19. Accounts payable

	2010	2009 (restated)	2008
Payable for inventory purchases	1,757	374	15
Payables to airline companies	184	427	898
Payables to related parties	46	244	11
Payables for purchases of property and equipment	–	–	40
Other	738	45	67
Total accounts payable	2,725	1,090	1,031

20. Loans payable

Current/short-term loans payable comprised of:

As of 31 December 2010						GEL equivalent at 31 December 2010
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	
JSC Bank of Georgia	19-Mar-10	21-Mar-11	GEL	15%	40	11
TBC Bank	30-Apr-10	1-Jan-11	GEL	15%	2,340	2,369
TBC Bank	30-Apr-10	1-Jan-11	GEL	15%	167	169
TBC Bank	30-Apr-10	1-Jan-11	GEL	15%	900	911
Current portion of long-term loans and borrowings						501
Total						3,961

As of 31 December 2009						GEL equivalent at 31 December 2009
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	
JSC Bank of Georgia	5-Sep-08	5-Sep-09	GEL	19%	200	200
JSC Bank of Georgia	25-Sep-09	31-Mar-10	GEL	19%	100	100
JSC Bank of Georgia	29-Dec-08	31-Jan-10	GEL	25%	146	146
Total						446

(Thousands of Georgian Lari)

20. Loans payable (continued)

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	17-Jul-08	31-Dec-08	GEL	24%	3,235	3,235
Current portion of long-term loans payable						27
Total						3,462

Long-term portion of loans payable as of 31 December 2010 comprised of:

As of 31 December 2010						GEL
Lender	Date of loan grant	Contractual maturity	Currency	Interest rate per annum	Amount in original currency	equivalent at 31 December 2010
JSC Bank of Georgia	25-Sep-09	30-Sep-13	GEL	19%	200	200
TBC Bank	30-Apr-10	19-May-17	USD	15%	2,720	4,872
TBC Bank	30-Apr-10	4-May-17	USD	15%	140	248
Less: Current portion of long-term loans payable						(501)
Total						4,819

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 payable						(27)
Total						18,684

The loans are secured by the Group's Property and equipment, investment securities - available-for-sale, and investment in associates with aggregate fair value of GEL 8,866 thousand. (2009: investment securities - available-for-sale with aggregate fair value of GEL 6,454 thousand; 2008: investment securities - available-for-sale, investments in associates, property and equipment and investment property with aggregate fair values of GEL 12,211 thousand, GEL 5,950 thousand, GEL 4,829 thousand and GEL 46,982 thousand, respectively).

21. Equity

As of 31 December 2010, 2009 and 2008, authorized share capital comprised 89,000,000 common shares, of which 60,305,844 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 2010 are described below. In 2010 aggregate non-cash contribution to the Company's share capital and additional paid-in capital comprised GEL 0 (2009: GEL 0; 2008: GEL 738 thousand).

Movements of outstanding, issued and fully paid shares during 2010, 2009 and 2008 were as follows:

	Number of shares	Amount of share capital	Amount of additional paid-in capital
	Ordinary	Ordinary	Ordinary
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 and 2009	60,305,844	603	36,413
Treasury shares	(21,100)	–	(4)
31 December 2010	60,284,744	603	36,409

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital of the Company was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2010 net loss attributable to shareholders of the Company was GEL 1,360 thousand (2009 restated: GEL 20,794; 2008: net income of GEL 1,991 thousand). The weighted average number of ordinary shares outstanding in 2010 was 60,305,844 (2009: 60,305,844; 2008: 57,507,034). As at 31 December 2010 the diluted number of ordinary shares was 60,284,744 shares (2009: 60,305,844; 2008: 57,507,034). Thus, basic loss per share and diluted loss per share amounted to – GEL0.02 (2009 restated: basic earnings per share of -GEL 0.32; 2008: basic earnings per share of GEL 0.03) and –GEL0.02 (2009: diluted earnings per share of - GEL 0.32; 2008: diluted earnings per share of GEL 0.03), respectively.

Movements in other reserves

	<i>Revaluation reserve for property and equipment</i>	<i>Revaluation reserve for investment properties</i>	<i>Unrealised gains (losses) on investment securities available-for- sale</i>	<i>Total</i>
At 31 December 2007	1,647	1,574	756	3,977
Revaluation of land and buildings	3,186	–	–	3,186
Tax effect of revaluation of land and buildings	(463)	–	–	(463)
Unrealized gains on investments securities	–	–	4,165	4,165
Tax effect of revaluation of investment securities available for sale	–	–	(625)	(625)
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	–	(447)	(447)
	<u>4,370</u>	<u>1,574</u>	<u>3,849</u>	<u>9,793</u>
At 31 December 2008				
Revaluation of investment securities		–	(4,528)	(4,528)
Transfer of revaluation reserve of disposed property and equipment to retained earnings (accumulated losses)	(1,345)	–	–	(1,345)
Reversal of sold subsidiary's revaluation reserve	(234)	(1,574)	–	(1,808)
Revaluation of property and equipment	(1,502)	–	–	(1,502)
Tax effect of revaluation of investment securities available for sale	–	–	679	679
	<u>1,289</u>	<u>–</u>	<u>–</u>	<u>1,289</u>
At 31 December 2009 (as restated)				
Revaluation of investment securities	–	–	–	–
Transfer of revaluation reserve of disposed property and equipment to retained earnings (accumulated losses)	–	–	–	–
Reversal of sold subsidiary's revaluation reserve	–	–	–	–
Unrealised gains on investments securities	–	–	194	194
Transfer of net realized gains on investment securities available-for-sale to the consolidated income statement	–	–	(194)	(194)
Revaluation of property and equipment	573	–	–	573
Tax effect of revaluation of investment securities available for sale	(86)	–	–	(86)
	<u>1,776</u>	<u>–</u>	<u>–</u>	<u>1,776</u>

The total revaluation reserve in the amount of GEL 1,776 thousand of which: attributable to shareholders GEL 1,601 thousand and to minority GEL 175 thousand.

Revaluation reserve for property and equipment and investment properties

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings 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 investment securities.

(Thousands of Georgian Lari)

22. Allowances for impairment

	<i>Accounts receivables (Note 7)</i>	<i>Prepayments and other current assets (Note 8)</i>	<i>Investments in associates (Note 11)</i>	<i>Goodwill</i>	<i>Investment securities (Note 10)</i>	<i>Total</i>
31 December 2007	–	–	–	–	–	–
Charges	–	(206)	(274)	(244)	–	(724)
31 December 2008	–	(206)	(274)	(244)	–	(724)
Charge (as restated)	(187)	(276)	(2,310)	–	(4,305)	(7,078)
Discontinued operations -sale of SBRE, a subsidiary	33	128	–	–	–	161
31 December 2009 (restated)	(154)	(354)	(2,584)	(244)	(4,305)	(7,641)
Charge	(106)	(93)	(1,288)	–	(99)	(1,586)
Write off	–	170	3,872	–	2,311	6,353
31 December 2010	(260)	(277)	–	(244)	(2,093)	(2,874)

23. Gains/(losses) from disposal of subsidiaries

The following table summarizes the disposal of a subsidiary during 2010:

	<i>Fair value of consideration received</i>	<i>Net assets at disposal date</i>	<i>Loss from disposal</i>
Metronet LLC	125	429	(304)
	125	429	(304)
		<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents		28	28
Accounts receivable		5	5
Property and equipment		394	394
Prepayments and other assets		15	15
		442	442
Accounts payable		6	6
Other liabilities		7	7
		13	13
Fair value of net assets		429	429
Non-controlling interest		–	
Gain/(Loss) from disposal		(304)	
Consideration received		125	

The following table summarizes the disposal of a subsidiary during 2009:

	<i>Fair value of consideration received</i>	<i>Net assets at disposal date</i>	<i>Gain from disposal</i>
JSC SB Real Estate	12,317	12,051	266
	12,317	12,051	266

(Thousands of Georgian Lari)

23. Gains/(losses) from disposal of subsidiaries (continued)

On the 22 December 2009 SBRE purchased back 15.8% shares from minority shareholder, JSC Kairos. After the purchase the Company's shares in SBRE became 61.36%. On the same date the Company sold 61.36 % of shares in SBRE to Bank of Georgia, shareholder, and lost the control over this company. The fair value of identifiable assets, liabilities and contingent liabilities at the date of disposal were estimated at:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	833	833
Property and equipment	141	141
Investment properties	31,960	31,960
Accounts receivable	193	193
Prepayments and other assets	812	812
	33,939	33,939
Accounts payable	17	17
Other liabilities	851	851
Loans payable	13,416	13,416
	14,284	14,284
Fair value of net assets	19,655	19,655
Non-controlling interest	(7,604)	
Gain from disposal	266	
Consideration received	12,317	

The total net cash inflow on disposal of subsidiary was as follows:

	2009
Cash received	12,317
Less: cash held by the subsidiary	(833)
Net cash inflow	11,484

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

24. Fees and commission income

	2010	2009
Income from recreation services provided	714	711
Income from sale of airline tickets	344	528
Income from tourism services	112	218
Total Fees and Commission Income	1,170	1,457

*(Thousands of Georgian Lari)***25. Salaries and other employee benefits and general and administrative expenses**

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

	<u>2010</u>	<u>2009</u>
Salaries	1,681	1,534
Bonus	161	–
Total Salaries and other employee benefits	<u>1,842</u>	<u>1,534</u>
Marketing and advertising	3,674	74
Legal and other professional services	388	291
Occupancy and rent	344	124
Communication	321	242
Office supplies	238	13
Penalties	192	–
Repairs and maintenance	142	42
Operating taxes other than income	133	264
Travel expenses	89	132
Banking services	75	32
Fuel expenses	47	–
Security	42	92
Insurance	25	56
Other	146	186
Total General and administrative expenses	<u>5,856</u>	<u>1,548</u>

26. Management consulting fee expense

In 2007 the Company signed an investment advisory agreement with JSC Galt & Taggart Asset Management. According to the agreement JSC Galt & Taggart Asset Management 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.

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 management consulting fee for 2009 and 2008, in 2010 no charge was incurred:

	<u>2010</u>	<u>2009</u>
Quarter I	–	178
Quarter II	–	130
Quarter III	–	121
Quarter IV	–	144
Total management consulting fees	<u>–</u>	<u>573</u>

The investment advisory agreement with JSC Galt & Taggart Asset Management was cancelled in August 2009, thus no expenses incurred since then.

(Thousands of Georgian Lari)

27. Business combination**Acquisition in 2010**

On 28 February 2010 the Company acquired 25.10% of equity interest of JSC Teliani Valley. With pre-existing shares of JSC Teliani Valley of 27.23%, the Company acquired controlling interest of 52.33%. The fair value of identifiable assets, liabilities and contingent liabilities as of the acquisition date were estimated at:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	297	297
Accounts Receivable	3,596	3,596
Securities available for sale	952	952
Property and equipment	7,724	7,724
Biological assets	668	668
Intangible assets	8	8
Goodwill	143	143
Deferred income tax Assets (Note 15)	78	78
Inventory	5,691	5,691
Prepayments and other assets	869	869
	20,026	20,026
Accounts payable	916	916
Loans (short-term and long-term)	8,582	8,582
Other liabilities	1,698	1,698
Diferred tax liabilities (Note 15)	425	425
	11,621	11,621
Fair value of net assets	8,405	8,405
Non-controlling Interest	4,007	
Fair value of the previously held equity interests (27.23%)	3,451	
Goodwill arising on acquisition (note 14)	3,202	
Consideration paid¹	4,149	

The total net cash outflow on acquisitions was as follows:

	<u>2010</u>
Cash paid	-
Less: cash acquired with the subsidiary	(297)
Net cash inflow	(297)

(1) Consideration comprised of the Group's investment in available-for-sale investment securities in the form of common shares of JSC Nikora.

At the acquisition date, non-controlling interests comprised GEL 4,007 and was measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, the Group recorded GEL 16,444, GEL -29 and GEL 366 of revenue, profit and other comprehensive income, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

(Thousands of Georgian Lari)

27. Business combination (continued)**Acquisition in 2009**

On 1 January 2009 the Company acquired 51% of share ownership in JSC Planet Forte and thus acquired control over this company. The fair value of identifiable assets, liabilities and contingent liabilities as of the acquisition date was as follows:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	4	4
Property and equipment	54	54
Prepayments and other assets	461	461
	519	519
Accounts payable	345	345
Other liabilities	129	129
	474	474
Fair value of net assets	45	45
Non-controlling Interest	(22)	
Goodwill arising on acquisition (note 14)	359	
Consideration paid	382	

The total net cash outflow on acquisitions was as follows:

	2009
Cash paid (prepayment was made in 2008)	382
Less: cash acquired with the subsidiary	4
Net cash outflow	378

Acquisition in 2008

During 2008 the Company acquired 100% ownership over MetroNet LLC. The fair value of identifiable assets and contingent of this business combination were estimated at:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Property and equipment	500	500
	500	500
Accounts payable	-	-
Liabilities	-	-
	-	-
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

(Thousands of Georgian Lari)

28. Segment information

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

Sale of Alcohol & Soft Drinks	Principally engaged in sale of produced and imported alcohol and soft drinks
Travel Services	Principally engaged in travel services, arrangement of transportation, hotel reservations, and etc.
Newspaper Retail	Principally engaged in retail sales of newspaper and telephone scratch-cards through small booths in Tbilisi as well as leasing surplus properties to external customers.
Fitness Services	Principally providing fitness services to individual and corporate customers.
Corporate Centre	Principally providing support to all operating segments of the Group.
Other	The segment represents aggregate of insignificant segments that are insignificant on stand-alone basis. These segments include 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. Up to the end of year 2009 Group had an operating segment of Real Estate Development, principally involved in investing in attractive and undervalued real estate properties for further development and leasing purposes. The Group has disposed the Real Estate Development segment in December 2009.

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 (loss) and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2010:

	<i>Sale of alcohol & soft drinks</i>	<i>Travel services</i>	<i>Newspaper retail</i>	<i>Fitness services</i>	<i>Corporate center</i>	<i>Other</i>	<i>Total</i>
Revenues							
Sale of Alcohol & soft Drinks	16,444	–	–	–	–	–	16,444
Newspaper retail	–	–	2,139	–	–	–	2,139
Net gains from investment securities available-for-sale	–	–	–	–	1,463	–	1,463
Fees and commission income	–	456	–	714	–	–	1,170
Revenue from lease of properties	–	–	34	93	–	–	127
Share of profit in associate	–	–	–	–	317	–	317
Other revenues	–	69	–	–	203	160	432
Total operating income (loss)	16,444	525	2,173	807	1,983	160	22,092
Results							
Interest expense	1,014	47	–	–	5	–	1,066
Depreciation and amortization	184	7	9	166	27	103	496
Loss from disposal of property	–	–	–	521	(1)	20	540
Loss from disposal of subsidiaries	–	–	–	–	304	–	304
Income tax expense (benefit)	62	(35)	8	(48)	6	(53)	(60)
Net profit (loss) for the year	(29)	(204)	27	(1,415)	555	(296)	(1,362)
Assets and liabilities							
Segment assets	21,706	588	459	6,661	10,780	938	41,132
Investments in associates	–	–	–	–	4,736	500	5,236
Total assets	21,706	588	459	6,661	15,516	1,438	46,368
Segment liabilities	12,398	690	296	679	471	542	15,076
Total liabilities	12,398	690	296	679	471	542	15,076
Other segment information							
Capital expenditure:							
Property and equipment	8,075	3	9	109	–	–	8,196
Intangible assets	3,354	–	–	–	–	–	3,354
Biological assets	704	–	–	–	–	–	704

(Thousands of Georgian Lari)

28. Segment information (continued)

The following table presents income (loss) and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2009:

	<i>Real estate development</i>	<i>Travel services</i>	<i>Newspaper retail</i>	<i>Fitness services</i>	<i>Corporate center</i>	<i>Other</i>	<i>Total (as restated)</i>
Revenues							
Newspaper retail	–	–	2,108	–	–	–	2,108
Revenue from lease of properties	1,260	–	36	193	–	–	1,489
Other revenues	147	5	–	23	141	218	534
Gains from disposal of subsidiaries	–	–	–	–	266	–	266
Total operating income	1,407	751	2,144	927	407	218	5,854
Results							
Net losses from revaluation of investment properties	15,501	–	–	–	–	–	15,501
Share of loss in associate	–	–	–	–	448	1	449
Interest expense	1,926	45	6	–	2,435	1	4,413
Depreciation and amortization	37	18	9	173	26	167	430
Income tax expense (benefit)	(2,419)	(9)	4	(282)	(476)	(5)	(3,187)
Net profit (loss) for the year	(15,661)	(209)	3	(2,375)	(7,587)	(1,248)	(27,077)
Assets and liabilities							
Segment assets	–	582	539	7,607	11,672	932	21,332
Investments in associates	–	–	–	–	9,158	500	9,658
Total assets	–	582	539	7,607	20,830	1,432	30,990
Segment liabilities	–	921	414	388	520	589	2,832
Total liabilities	–	921	414	388	520	589	2,832
Other segment information							
Capital expenditure:							
Property and equipment	–	66	8	39	3	5	121
Intangible assets	–	–	–	3	–	–	3

(Thousands of Georgian Lari)

28. Segment information (continued)

The following table presents operating income and profit and certain asset and liability information regarding the Group's operating 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>
Revenues							
Net gains from investment securities available-for-sale	29	–	–	–	418	–	447
Fees and commission income	–	1,266	126	709	–	181	2,282
Revenue from lease of properties	1,108	–	160	210	–	–	1,478
Other revenues	308	4	14	8	524	482	1,340
Inter-segment revenues	–	–	–	–	(343)	(11)	(354)
Gains from disposal of subsidiaries	–	–	–	–	4,366	–	4,366
Total operating income	1,445	1,270	300	927	4,965	652	9,559
Results							
Net losses from revaluation of investment properties	498	–	–	–	–	–	498
Share of profit (loss) in associate	–	–	–	–	177	(7)	170
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	2,608	87,828
Investments in associates	–	–	–	–	11,641	1,007	12,648
Total assets	52,935	997	–	10,777	32,152	3,615	100,476
Segment liabilities	14,779	1,274	–	4,831	6,279	2,303	29,466
Total liabilities	14,779	1,274	–	4,831	6,279	2,303	29,466
Other segment information							
Capital expenditure:							
Property and equipment	7,096	3	–	1,908	11	411	9,429
Intangible assets	2	–	–	–	3	1	6
Depreciation	45	19	–	159	24	118	365
Amortization	–	–	–	–	–	2	2

29. Risk management

The Company's principal financial liabilities comprise bank loans 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 cash in bank, 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 consolidated statement of financial position as at 31 December 2010, 2009 and 2008.

	<i>Notes</i>	<i>Gross maximum exposure 2010</i>	<i>Gross maximum exposure 2009</i>	<i>Gross maximum exposure 2008</i>
Cash and cash equivalents (excluding cash on hand)	5	931	55	535
Amounts due from credit institution	6	2,832	–	–
Accounts receivables	7	5,602	1,339	1,636
Prepayments and other current assets	8	1,093	625	2,632
Total credit risk exposure		10,458	2,019	4,803

(Thousands of Georgian Lari)

29. 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 2010 is as follows:

	2010				Total
	Georgia	Ukraine	Other CIS	Other countries	
Assets:					
Cash and cash equivalents	1,003	25	–	–	1,028
Amounts due from credit institutions	2,832	–	–	–	2,832
Accounts receivable	2,675	1,964	38	665	5,342
Inventory	4,940	952	–	–	5,892
Investment securities available-for-sale	3,154	–	–	–	3,154
All other assets	27,886	39	–	195	28,120
	42,490	2,980	38	860	46,368
Liabilities:					
Accounts Payable	1,737	602	143	243	2,725
Loans payable	8,780	–	–	–	8,780
All other liabilities	3,645	(74)	–	–	3,571
	14,162	528	143	243	15,076
Net balance sheet position	28,328	2,452	(105)	617	31,292

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 2010, 2009 and 2008 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 2010					
Accounts payable	1,258	1,467	–	–	2,725
Loans payable	1,463	3,493	7,339	517	12,812
Total undiscounted financial liabilities	2,721	4,960	7,339	517	15,537
As at 31 December 2009					
Accounts payable	1,090	–	–	–	1,090
Loans payable	446	–	–	–	446
Total undiscounted financial liabilities	1,536	–	–	–	1,536
As at 31 December 2008					
Accounts payable	1,031	–	–	–	1,031
Loans payable	3,235	219	20,960	–	24,414
Total undiscounted financial liabilities	4,266	219	20,960	–	25,445

(Thousands of Georgian Lari)

29. Risk management (continued)**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.

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 2010, 2009 and 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 income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During 2010 and 2009 sensitivity analysis did not reveal significant potential effect on the Group's equity.

Currency	Change in currency rate in % 2010	Effect on profit before tax 2010	Effect on equity 2010	Change in currency rate in % 2009	Effect on profit before tax 2009	Effect on equity 2009
USD	9.2%	(15)	–	1.30%	1	–
EUR	14.9%	(3)	–	12.70%	–	–
UAH	0.30%	5	–	0.30%	–	–

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 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.

(Thousands of Georgian Lari)

29. Risk management (continued)**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.

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.

30. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are either directly or indirectly observable,; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>At 31 December 2010</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment securities – available-for-sale	–	3,154	–	3,154
	–	3,154	–	3,154
<i>At 31 December 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment securities – available-for-sale	–	8,696	–	8,696
	–	8,696	–	8,696
<i>At 31 December 2008</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment securities – available-for-sale	–	16,669	–	16,669
	–	16,669	–	16,669

Financial instruments – available-for-sale

Available for sale financial assets are valued using a valuation technique or pricing models primarily consist of unquoted equity securities.

These assets are valued using model which sometimes only incorporate data observable in the market and at other times used both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and other economical assumptions regarding the industry and geographical jurisdiction in which the investment operates. (Note 10)

(Thousands of Georgian Lari)

30. Fair value of financial instruments (continued)

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at fair value:

	2010	
	Carrying amount	Fair value
<i>Financial assets</i>		
Cash and cash equivalents	1,028	1,028
Amounts due from credit institution	2,832	2,832
Accounts receivables	5,342	5,342
<i>Financial liabilities</i>		
Accounts payable	2,725	2,725
Loans payable	8,780	8,780
	2009	
	Carrying amount	Fair value
<i>Financial assets</i>		
Cash and cash equivalents	65	65
Accounts receivables	1,185	1,185
<i>Financial liabilities</i>		
Accounts payable	1,090	1,090
Loans payable	446	446

For financial assets and financial liabilities that are liquid or have short term maturity (less than three months) it is assumed that the carrying amount approximates their fair value.

31. 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:

	2010	2009	2008
Within one year	499	265	440
After one year but not more than five years	446	328	1,213
More than five years	–	–	185
	945	593	1,838

(Thousands of Georgian Lari)

31. Commitments and contingencies (continued)**Financial commitments and contingencies (continued)***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-cancellable operating leases as at 31 December are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Within one year	7	90	576
After one year but not more than five years	–	60	685
	<u>7</u>	<u>150</u>	<u>1,261</u>

32. Related party disclosure

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 are as follows:

	<u>2010</u>				<u>2009</u>			
	<i>Parent</i>	<i>Entities under common control</i>	<i>Associates</i>	<i>Key management personnel</i>	<i>Parent</i>	<i>Entities under common control</i>	<i>Associates</i>	<i>Key management personnel</i>
Accounts receivables	1	100	–	–	–	105	850	42
Allowance for impairment	–	(87)	–	–	–	–	–	–
Accounts receivable, net	1	13	–	–	–	–	–	–
Prepayments and other current assets, gross	10	1	–	31	–	–	159	–
Allowance for impairment	–	–	–	–	–	–	(157)	–
Prepayments and other current assets, net	10	1	–	31	–	–	2	–
Cash and cash equivalents	696	25	–	–	55	–	–	–
Amounts due from credit institutions	2,832	–	–	–	–	–	–	–
Loans payable	211	–	–	–	446	–	–	–
Other liabilities	16	16	–	6	–	–	–	–
Accounts payable	18	23	–	6	30	191	–	23
Services rendered	142	20	–	–	468	117	–	–
Services received	40	101	–	–	2	594	–	–
Finance income	204	–	–	–	35	–	10	–
Finance costs	48	–	–	–	2,533	–	–	–
Sale of SBRE, a subsidiary	–	–	–	–	12,317	–	–	–
Loss from trading securities	–	194	–	–	–	–	–	–
Loss from disposal of subsidiary	–	304	–	–	–	–	–	–
Loss from disposal of property	9	–	–	5	–	–	–	–

(Thousands of Georgian Lari)

32. Related party disclosure (continued)

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 2010, the Group has recorded impairment of receivables relating to amounts owed by related parties in the amount of GEL 87 thousand (2009: 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:

	<u>2010</u>	<u>2009</u>
Salaries and other benefits	803	576
Total key management compensation	<u>803</u>	<u>576</u>

33. Events after the reporting period

- ▶ Legal claim was filed by JSC Liberty Consumer for breach of the Memorandum Of Understanding dated 1 February 2010 for purchasing 50% of JSC Info Georgia XXI by Mr. Ivane Gogichaishvili. the Company claims USD 50 thousand as indicated in MOU for not fulfilling the agreement the court hearing is scheduled on 30 May 2011.
- ▶ Legal claim filed by JSC Prime Fitness against Tbilisi City Hall to cancel the penalty charged (GEL 152 thousand) for Krtsanisi Property. Court decision obtained on 30 March 2011 that partially refunds the penalty in the amount of GEL 16 thousand. JSC Prime Fitness appealed the decision and claimed the full refund. Court hearing not assigned yet.
- ▶ On 8 April 2011 Mr. Giorgi Vakhtangishvili replaced Mr. Eli Enoch as CEO of the JSC Liberty Consumer.
- ▶ On 5 May 2011 the Company signed an agreement for disposal of 50% equity interest of in its associate JSC Info Georgia XXI, for USD 200 thousand payable in GEL equivalent within 20 days after signing the agreement i.e. 26 May 2011.
- ▶ The Company's 30% equity interest of in JSC N Tour was agreed to be sold to JSC Caucasus Travel Holding for GEL 450 thousand. The deal remains valid but the terms have been postponed up to the completion of the on-going tax audit of JSC N Tour.
- ▶ In 2011 the following changes in the composition of the supervisory board took place:
 1. Mr. Giorgi Vakhtangishvili replaced Mr. Eli Enoch as a member and a chairman of the board of JSC Prime Fitness
 2. Mr. Giorgi Vakhtangishvili replaced Mr. Eli Enoch as a member of the board of JSC Intertour
 3. Mr. Irakli Burdildadze replaced Mr. Eli Enoch as a member of the board of JSC Teliani Valley
 4. Ms. Tea Shengelia replaced Ms. Salome Japaridze as a member of the board of JSC Prime Fitness
- ▶ JSC Populi received additional capital from its existing shareholders for newly issued 2,241,618 shares resulting to decrease in equity interest of the Company from 10.03% as of December 31, 2010 to 8.43% as of April 28, 2011 because the Company did not participate in the new share issue.
- ▶ On April 6, 2011 LLC Intertour UA was sold to Ms. Roati Olena for UAH 1,600