

To the Annual General Meeting (“AGM”) of the shareholders of JSC Liberty Consumer (“Group”)

Management report on performance in 2010

Presented by Giorgi Vakhtangishvili – CEO

Throughout the year 2010, the Group has been actively implementing its strategy announced at and approved by the extraordinary general meeting of the shareholders held on 17 December 2009.

The Group is recovering from the impact of the global economic crisis and the conflict with Russia as reflected by decreasing losses (the Group incurred net loss of GEL 1,362 thousand for the year 2010 as compared with the net loss of GEL 27,077 thousand incurred for the year 2009). Improving macro-economic situation in Georgia will help the management to carry out the sale of the Group’s assets at best available market terms.

The Group owns following direct or indirect subsidiaries as of 31 December 31, 2010 and 2009, supported with respective highlights:

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

LIBERTY CONSUMER

- 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 25.14% equity interest in JSC Teliani Valley. As a result of this transaction the Group disposed off its equity stake in JSC Nikora and received controlling equity interest, 52.33%, in JSC Teliani Valley.
- In May 2010 JSC the Group capitalized the inter-company loan and accumulated interest of JSC Prime Fitness of GEL 5,330 thousand.
- In May 2010 JSC the Group transferred loan issued and respective accrued interest to JSC SBOI into equity of the latter. Additionally paid in capital amounted to GEL 2,272 thousand.
- In July 2010, the Group sold 100% of its shares in Metronet LLC for GEL 125 thousand to JSC Galt and Taggart Holdings.
- In August 2010 the Group increased 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.
- In August Prime Fitness sold Krtsanisi property – distressed asset with investment liability from privatization terms. Even though the loss from transaction was GEL 521 thousand, the group managed to recover GEL 1,089 thousand from the sale of the land which could have been seized by the government as a result of inability of JSC Prime Fitness to meet investment liability and terms of the privatization. JSC Prime Fitness acquired the land plot in Krtsanisi in year 2007 as a result of privatization planning to extend its chain in Tbilisi and undertook a liability to make investment of GEL 2,696 thousand which JSC Prime Fitness could not meet due to global financial crisis and conflict with Russia which seriously affected inflow of FDIs into Georgia.
- In December 2010 the assets of JSC SB Outdoor and Indoor were sold for GEL 181 thousand, as a result company accounted for loss of GEL 19 thousand. The Company was merged with JSC Prime Fitness and business of SBOI was effectively closed down due to its inefficiencies.

Investment securities available for sale are comprised of the unquoted shares of the following companies as of 31 December 31, 2010 and 2009, supported with the respective highlights:

	2010	2009
JSC Populi	3,146	2,650
JSC Georgian Card	8	8
JSC Nikora	–	5,395
JSC GC Holding	–	643
Total	3,154	8,696

- In October 2010 the Group bought additional 250,679 shares of Populi for GEL 596 thousand; during the year the 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.
- In August 2010 AFS (8%) of JSC GC Holding was sold for GEL 450 thousand to JSC GC Holding. Loss from disposal of the AFS comprised GEL 194 thousand.

The following associates are accounted for under the equity method as of 31 December 31, 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

Other material events

- In the course of preparation of the consolidated financial statements for 2010 the Company identified the following error that relates to 2009 year. The error was corrected by restating the comparative information for the year ended 31 December 2009. As at 31 December 2009 the Company owned 10.04% of shares of supermarket chain JSC Populi (the “investee”) which were classified as available-for-sale in accordance with IAS 39 “Financial instruments: Recognition and Measurement”. The Company owned those shares since 2006. In 2009 the fair value of shares of JSC Populi decreased significantly, and the Company determined that there is objective evidence that these shares are impaired. The impairment of these shares has been incorrectly recorded in the consolidated financial statements. Impairment charges for 2009 were overstated by GEL 1,435 thousand, other reserves as at 31 December 2009 were overstated by GEL 1,220 thousand and income tax benefit was overstated by GEL 215 thousand and other comprehensive income was overstated by GEL 753 thousand. The Company has corrected and accordingly restated its consolidated financial statements for the year 2009.
- Specialized wine tanks and land and buildings are shown at a revalued amount, based on periodic, but at least triennial, valuations by external independent values, less subsequent depreciation and subsequent accumulated impairment losses. Last revaluation was made on 31 October 2010. Other property 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.