

# **JSC Liberty Consumer and Subsidiaries**

## **Consolidated Financial Statements**

*Year ended 31 December 2009*

*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 statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Liberty Consumer and its subsidiaries as at 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2009***(Thousands of Georgian Lari)*

	<b>Notes</b>	<b>2009</b>	<b>2008 (reclassified)</b>	<b>2007 (reclassified)</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	65	601	5,777
Accounts receivables	6, 20	1,185	1,636	580
Inventory	15	373	9	716
Prepayments and other current assets	7, 20	271	2,426	1,167
VAT assets	14	171	792	369
Investment securities - available-for-sale	9, 20, 28	8,696	16,669	5,617
Asset held for sale		–	–	4,145
<b>Total current assets</b>		<b>10,761</b>	<b>22,133</b>	<b>18,371</b>
<b>Non-current assets</b>				
Investments in associates	10, 20	9,658	12,648	4,348
Investment properties	8	–	47,181	39,474
Property and equipment	11	8,440	16,426	10,581
Deferred tax assets	13	1,104	1,420	824
Intangible assets	12	1,027	668	1,066
<b>Total non-current assets</b>		<b>20,229</b>	<b>78,343</b>	<b>56,293</b>
<b>TOTAL ASSETS</b>		<b>30,990</b>	<b>100,476</b>	<b>74,664</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable	17	1,090	1,031	3,451
Short-term and current portion of long-term loans payables	18	446	3,462	5,490
Current income tax liabilities	13	107	2	–
Other liabilities	16	1,109	1,889	2,591
Advances received from shareholders for increase in share capital		–	–	7,655
<b>Total current liabilities</b>		<b>2,752</b>	<b>6,384</b>	<b>19,187</b>
<b>Non-current liabilities</b>				
Long-term portion of loans payable	18	–	18,684	7,427
Deferred tax liabilities	13	80	4,398	3,826
Advances received		–	–	1,686
<b>Total non-current liabilities</b>		<b>80</b>	<b>23,082</b>	<b>12,939</b>
<b>TOTAL LIABILITIES</b>		<b>2,832</b>	<b>29,466</b>	<b>32,126</b>
<b>Equity</b>				
Share capital	19	603	603	524
Additional paid-in capital	19	36,413	36,413	26,615
(Accumulated losses) retained earnings		(11,389)	5,917	11,422
Other reserves	19	2,509	9,793	3,977
<b>Total equity attributable to shareholders of the Company</b>		<b>28,136</b>	<b>52,726</b>	<b>42,538</b>
Minority interests		22	18,284	–
<b>TOTAL EQUITY</b>		<b>28,158</b>	<b>71,010</b>	<b>42,538</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,990</b>	<b>100,476</b>	<b>74,664</b>

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

Eli Enoch



Chief Executive Officer

Tamar Kajaia



Chief Financial Officer

18 August 2010

*The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.*

**CONSOLIDATED INCOME STATEMENT****For the year ended 31 December 2009***(Thousands of Georgian Lari)*

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>			
Revenue from newspaper retail		2,108	–
Revenue from lease of properties		1,489	1,478
Fees and commission income	22	1,457	2,282
Net gains from disposal of subsidiaries	21	266	4,366
Net gains from investment securities available-for-sale		–	447
Other revenues		534	986
		<b>5,854</b>	<b>9,559</b>
<b>Operating expenses</b>			
Net losses from revaluation of investment properties	8	15,501	498
Impairment charges	20	8,513	724
Cost of inventory sold		1,905	511
Impairment of property and equipment		1,602	–
General and administrative expenses	23	1,548	2,150
Salaries and other employee benefits	23	1,534	2,808
Loss from sale of property		644	–
Management consulting fee expense	24	573	1,751
Share of associate loss	10	449	170
Depreciation and amortization	11,12	430	495
Other expenses		291	161
		<b>32,990</b>	<b>9,268</b>
<b>Operating (loss) profit</b>		<b>(27,136)</b>	<b>291</b>
Interest expenses		(4,413)	(2,969)
Net (losses) gains from foreign currency translations		(14)	764
Other non-operating expenses		(136)	–
<b>Loss before income tax benefit (expense)</b>		<b>(31,699)</b>	<b>(1,914)</b>
Income tax benefit (expense)	13	3,402	(300)
<b>Net loss for the year</b>		<b>(28,297)</b>	<b>(2,214)</b>
Attributable to:			
- Shareholders of the Company		(20,794)	1,991
- Minority interests		(7,503)	(4,205)
		<b>(28,297)</b>	<b>(2,214)</b>
<b>(Loss) earnings per share (attributable to shareholders of the Company):</b>			
- basic (loss) earnings per share	19	(0.34)	0.03
- diluted (loss) earnings per share	19	(0.34)	0.03

The accompanying notes on pages 6 to 40 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)*

	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Net loss for the year</b>		<b>(28,297)</b>	<b>(2,214)</b>
<b>Other comprehensive income</b>			
Revaluation of property and equipment, net of tax	19	(1,498)	2,723
Net change in investment securities available for sale, net of tax	19	(3,096)	3,093
<b>Other comprehensive (loss) income for the year, net of tax</b>		<b>(4,594)</b>	<b>5,816</b>
<b>Total comprehensive (loss) income for the year</b>		<b>(32,891)</b>	<b>3,602</b>
Attributable to:			
- shareholders of the Group		(25,388)	7,807
- minority interests		(7,503)	(4,205)
		<b>(32,891)</b>	<b>3,602</b>

*The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2009***(Thousands of Georgian Lari)*

	<i>Attributable to shareholders of the Company</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>	<i>Minority interests</i>	
<b>31 December 2007</b>	<b>524</b>	<b>26,615</b>	<b>11,422</b>	<b>3,977</b>	<b>42,538</b>	–	<b>42,538</b>
Total comprehensive income (loss) for the year	–	–	1,991	5,816	<b>7,807</b>	(4,205)	<b>3,602</b>
Issuances of share capital (Note 19)	79	9,798	–	–	<b>9,877</b>	–	<b>9,877</b>
Acquisition of additional interest in existing subsidiaries by minority shareholders	–	–	(7,317)	–	<b>(7,317)</b>	22,489	<b>15,172</b>
Transaction cost	–	–	(179)	–	<b>(179)</b>	–	<b>(179)</b>
<b>31 December 2008</b>	<b>603</b>	<b>36,413</b>	<b>5,917</b>	<b>9,793</b>	<b>52,726</b>	<b>18,284</b>	<b>71,010</b>
Total comprehensive loss for the year	–	–	(20,794)	(4,594)	<b>(25,388)</b>	(7,503)	<b>(32,891)</b>
Sale of subsidiary (Note 19)	–	–	–	(1,808)	<b>(1,808)</b>	(5,775)	<b>(7,583)</b>
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	–	<b>2,143</b>	(4,984)	<b>(2,841)</b>
Tax effect of revaluation of investment securities available for sale	–	–	–	463	<b>463</b>	–	<b>463</b>
<b>31 December 2009</b>	<b>603</b>	<b>36,413</b>	<b>(11,389)</b>	<b>2,509</b>	<b>28,136</b>	<b>22</b>	<b>28,158</b>

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS****For the year ended 31 December 2009***(Thousands of Georgian Lari)*

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>			
Fees and commission income received		1,715	2,286
Revenue from lease of properties received		1,036	1,465
Revenue from trading with newspapers books and magazines		2,108	–
Other revenues received		15	1,039
Salaries and other employee benefits paid		(1,502)	(2,808)
Management consulting fee expense paid		(402)	(1,751)
General and administrative expenses paid		(1,732)	(2,150)
Net changes in inventory		(1,420)	(511)
Interest expense paid		(1,409)	(2,779)
Other expenses paid		(2,074)	(235)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(3,665)</b>	<b>(5,444)</b>
<i>Net (increase) decrease in operating assets</i>			
Accounts receivables		822	–
Prepayments and other current assets		1,654	422
Inventory		(849)	707
Asset held for sale		–	4,145
VAT assets		791	(1,760)
<i>Net increase (decrease) in operating liabilities</i>			
Accounts payable		184	(2,420)
Advances received		(613)	(1,686)
Other liabilities		(411)	(667)
<b>Net cash flows used in operating activities before income tax</b>		<b>(2,087)</b>	<b>(6,703)</b>
Corporate income tax paid		–	(1,410)
<b>Net cash used in operating activities</b>		<b>(2,087)</b>	<b>(8,113)</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		–	(7,987)
Purchase of investments in associates	10	–	(8,744)
Proceeds from sale of investments in associates	10	231	–
Loans granted and repaid to associates		–	(168)
Purchases of investment properties	8	(280)	(8,205)
Prepayment for purchase of subsidiary	25	–	(382)
Subsidiaries acquired net of cash	25	4	(500)
Sale of equity shares in subsidiaries	21	11,484	14,373
Proceeds from sale of property and equipment		4,372	–
Purchases of property and equipment	11	(131)	(4,988)
Acquisition of minority shares		(2,841)	–
<b>Net cash from (used in) investing activities</b>		<b>12,839</b>	<b>(16,601)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,029	9,655
Repayment from borrowings		(12,317)	–
Issuance of new shares		–	9,877
<b>Net cash (used in) from financing activities</b>		<b>(11,288)</b>	<b>19,532</b>
Effect of exchange rates changes on cash and cash equivalents		–	6
<b>Net decrease in cash and cash equivalents</b>		<b>(536)</b>	<b>(5,176)</b>
<b>Cash and cash equivalents, beginning</b>	5	<b>601</b>	<b>5,777</b>
<b>Cash and cash equivalents, ending</b>	5	<b>65</b>	<b>601</b>

The accompanying notes on pages 6 to 40 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.

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 10.

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

As of 31 December 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.

Shareholder	<u>31 December 2009, %</u>	<u>31 December 2008, %</u>
JSC Galt & Taggart Holdings	51.64%	51.64%
Sakaropel	14.49%	14.49%
JSC Bank of Georgia	13.60%	13.60%
Firebird Avrora Fund Ltd.	3.84%	3.84%
Firebird Republics Fund Ltd.	3.64%	3.64%
East Investor Ltd.	2.88%	2.88%
Parex Banka Clients Account	1.88%	1.88%
Ewald Poellner	1.81%	1.81%
Diamond Age Russian Investments Limited	1.59%	1.59%
Vytenis Rasutis	1.02%	1.02%
Other	3.61%	3.61%
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

As of 31 December 2009, members of the Supervisory Board and Board of Directors of the Company had no shares of the Company (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, and land and buildings.

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

(Thousands of Georgian Lari)

**2. Basis of Preparation (continued)****Subsidiaries**

The consolidated financial statements as of 31 December 2009 and 2008 include the following direct and indirect subsidiaries:

<b>Subsidiary</b>	<b>31 December 2009 Ownership / voting, %</b>	<b>31 December 2008 Ownership / voting, %</b>	<b>Country</b>	<b>Date of incorporation</b>	<b>Industry</b>	<b>Date of acquisition</b>
JSC SB Outdoor and Indoor ("SBOI")	100.0%	100.0%	Georgia	09/06/2006	Advertising	09/06/2006
JSC Prime Fitness	100.0%	100.0%	Georgia	03/07/2006	Fitness centre	17/08/2006
Metronet LLC	100.0%	100.0%	Georgia	23/04/2007	Communication services	23/04/2007
Holiday Travel LLC	83.6%	83.6%	Georgia	11/02/2005	Travel agency	04/09/2006
Intertour LLC	83.6%	83.6%	Georgia	29/03/1996	Travel agency	06/06/2006
Planeta Forte, LLC	51%	–	Georgia	31/10/1995	Newspaper retail	01/01/2009
JSC SB Real Estate ("SBRE")	–	52.0%	Georgia	27/09/2006	Real estate	27/09/2006

On 22 December 2009 the Company sold its shares in SBRE for GEL 12,317 thousand to JSC Bank of Georgia applied as partial settlement of the Company's loan obtained from BOG.

On 1 January 2009 the Company completed the acquisition of 51% share ownership of "Planeta Forte LLC". Planeta Forte LLC is engaged in retail business of newspapers, magazines and books via several small shops.

**Reclassifications of comparative information**

The following reclassifications have been made in the consolidated financial statements as of 31 December 2008 and 31 December 2007 to conform to the presentation of the consolidated financial statements as of 31 December 2009.

<b>As at 31 December 2008</b>	<b>As previously reported</b>	<b>Reclassification</b>	<b>As adjusted</b>	<b>Description</b>
Current assets:				
Investment securities - available-for-sale	-	16,669	16,669	Reclassification of Investment securities – available-for-sale from non-current assets to current assets
Inventory	-	9	9	Reclassification of Prepayments and other current assets to Inventory
Prepayments and other current assets	2,435	(9)	2,426	Reclassification of Prepayments and other current assets to Inventory
VAT assets	-	792	792	Reclassification of Other assets to VAT assets
Non-current assets:				
Investment securities - available-for-sale	16,669	(16,669)	-	Reclassification of Investment securities – available-for-sale from non-current assets to current assets
Deferred tax assets	94	1,326	1,420	Reclassification of Deferred tax liabilities to Deferred tax assets
Other assets	792	(792)	-	Reclassification of Other assets to VAT assets
Non-current liabilities:				
Deferred tax liabilities	3,072	1,326	4,398	Reclassification of Deferred tax liabilities to Deferred tax assets

(Thousands of Georgian Lari)

**2. Basis of Preparation (continued)****Reclassifications of comparative information (continued)**

<i>As at 31 December 2007</i>	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>	<i>Description</i>
Current assets:				
Investment securities - available-for-sale	-	5,617	5,617	Reclassification of Investment securities – available-for-sale from non-current assets to current assets
Inventory	-	716	716	Reclassification of Prepayments and other current assets to Inventory
Prepayments and other current assets	1,883	(716)	1,167	Reclassification of Prepayments and other current assets to Inventory
VAT assets	-	369	369	Reclassification of Other assets to VAT assets
Non-current assets:				
Investment securities - available-for-sale	5,617	(5,617)	-	Reclassification of Investment securities – available-for-sale from non-current assets to current assets
Deferred tax assets	263	561	824	Reclassification of Deferred tax liabilities to Deferred tax assets
Other assets	369	(369)	-	Reclassification of Other assets to VAT assets
Non-current liabilities:				
Deferred tax liabilities	3,265	561	3,826	Reclassification of Deferred tax liabilities to Deferred tax assets

**Going Concern**

Notwithstanding that the Group incurred net loss for the year of GEL 28,297 thousand (2008: net loss of GEL 2,214 thousand), had accumulated losses of GEL 11,389 thousand (2008: retained earnings of GEL 5,917 thousand) and generated negative cash flows from operations of GEL 2,087 thousand (2008: negative of GEL 8,113 thousand), Management believes it will continue as a going concern.

The Group has been affected by the global economic crisis as reflected by the incurrence of losses primarily arising from the impairment of investments in associates and securities available for sale, and decrease in revaluation of real estate investment properties. 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'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.

**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 2009. The principal effects of these changes are as follows:

*Improvements to IFRS*

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Adoption of new or revised standards and interpretations (continued)

##### *IAS 1 Presentation of Financial Statements (Revised)*

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: consolidated income statement and consolidated statement of comprehensive income. The Group has provided a restated comparative consolidated statement of financial position for the earliest comparative period, as it has retrospectively reclassified items in the consolidated financial statements.

##### *IFRS 7 "Financial Instruments: Disclosures"*

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has been provided in the disclosure.

##### *IAS 23 "Borrowing Costs" (Revised)*

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

##### *IAS 24 "Related party disclosures" (Revised)*

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group has decided to early adopt the revised IAS 24 from 1 January 2009.

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

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Group.

##### *Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations*

Amendment to IFRS 2 was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Group.

##### *IFRS 8 "Operating Segments"*

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

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Adoption of new or revised standards and interpretations (continued)

##### *IFRIC 13 "Customer Loyalty Programmes"*

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's consolidated financial statements as no such schemes currently exist.

##### *IFRIC 15 "Agreements for the Construction of Real Estate"*

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's consolidated financial statements.

##### *IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Group's consolidated financial statements.

##### *Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"*

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's consolidated financial statements as no reclassifications were made for instruments that contained embedded derivatives.

##### *IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

#### Subsidiaries

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

##### *Acquisition of subsidiaries*

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

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Subsidiaries (continued)

##### *Acquisition of subsidiaries (continued)*

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

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

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

##### *Increases in ownership interests in subsidiaries*

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

#### 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.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Financial assets (continued)

##### *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.

#### 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.

#### 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.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Leases (continued)

##### *Finance – Group as lessee (continued)*

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.

#### 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.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Allowances for impairment of financial assets (continued)

##### *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.

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.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Taxation (continued)

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

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

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

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	50
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

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

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

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

#### 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.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Goodwill (continued)

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".

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

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.

#### Segment reporting

The Group's segmental reporting is based on the following operating segments: real estate development, 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 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 2009 and 31 December 2008 were 1.6858 and 1.6670 GEL to USD 1 and 2.3648 and 2.3315 GEL to EUR 1, respectively.

#### 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:

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items*

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group's 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 become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give 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 must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

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

The amendment to IFRS 2 was issued in June 2009 and become 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. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

##### *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 recognized when the dividend is appropriately authorized 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 recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Group expects that this interpretation will have no impact on the Group's consolidated financial statements.

##### *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" will have 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. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- 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 will continue 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.
- 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 will have no impact on the Group as the annual impairment test is performed before aggregation.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *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 amortized 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.

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

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

### 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, 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.

(Thousands of Georgian Lari)

**4. Significant Accounting Judgments and Estimates (continued)***Impairment of investments*

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

**5. Cash and Cash Equivalents**

	<u>2009</u>	<u>2008</u>
Cash on hand	10	66
Cash in bank denominated in Georgian Lari	54	389
Cash in bank denominated in foreign currency	1	146
<b>Total Cash and cash equivalents</b>	<b><u>65</u></b>	<b><u>601</u></b>

Cash in banks earns from 6% to 8% interest per annum (2008: 7%).

**6. Accounts Receivables**

	<u>2009</u>	<u>2008</u>
Accounts receivables	342	457
Receivables from related parties (note 30)	997	1,179
<b>Total accounts receivables, gross</b>	<b>1,339</b>	<b>1,636</b>
Less: Allowance for doubtful accounts (note 20)	(154)	–
<b>Total accounts receivables, net</b>	<b><u>1,185</u></b>	<b><u>1,636</u></b>

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

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				
			<i>&lt;30 days</i>	<i>30-60 days</i>	<i>60-90 days</i>	<i>90-120 days</i>	<i>&gt;120 days</i>
<b>31 December 2009</b>	<b>1,185</b>	307	7	1	850	2	18
<b>31 December 2008</b>	<b>1,636</b>	1,340	154	24	31	32	55

**7. Prepayments and Other Current Assets**

	<u>2009</u>	<u>2008</u>
Prepayments to travel agencies and airline companies	193	256
Prepayments for software installation	169	94
Loan receivable from an associate	159	242
Other prepayments	79	90
Prepaid income tax	25	17
Prepayments for acquisitions of entities	–	1,244
Prepayments for construction and repair works	–	381
Restricted accounts with banks	–	308
<b>Total Prepayments and other current assets, gross</b>	<b>625</b>	<b>2,632</b>
Less: Allowance for impairment (note 20)	(354)	(206)
<b>Total Prepayments and other current assets, net</b>	<b><u>271</u></b>	<b><u>2,426</u></b>

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

(Thousands of Georgian Lari)

## 7. Prepayments and Other Current Assets (continued)

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

Loan receivable from an associate represents loan issued to JSC I Call of GEL 159 thousand (2008: GEL 242 thousand).

## 8. Investment Properties

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

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).

## 9. Investment Securities - Available-for-Sale

Investment securities available for sale of GEL 8,696 thousand (2008: GEL 16,669 thousand) are comprised of unquoted shares of JSC Populi, JSC Nikora, JSC GC Holding and JSC Georgian Card in the amount of GEL 2,650 thousand, GEL 5,395 thousand, GEL 643 thousand and GEL 8 thousand, respectively (2008: JSC Populi- GEL 9,175 thousand, JSC Nikora - GEL 6,843 thousand, JSC GC Holding - GEL 643 thousand and JSC Georgian Card - GEL 8 thousand).

As of 31 December 2009 investment securities available for sale of GEL 5,740 thousand was impaired and provided for (2008: nil) (note 20).

Available-for-sale securities in the amount of GEL 6,454 thousand (2008: GEL 12,211 thousand) are pledged as collateral against the Group's loans payable (Note 18).

### 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.

## 10. Investments in Associates

The following associates are accounted for under the equity method:

### 2009

<u>Associates</u>	<u>Ownership / voting, %</u>	<u>Country</u>	<u>Date of incorporation</u>	<u>Industry</u>	<u>Date of acquisition</u>
JSC Teliani Valley	27.23%	Georgia	30/06/2000	Wine production	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
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

(Thousands of Georgian Lari)

**10. Investments in Associates (continued)****2008**

<b>Associates</b>	<b>Ownership / voting, %</b>	<b>Country</b>	<b>Date of incorporation</b>	<b>Industry</b>	<b>Date of acquisition</b>
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

Movements in investments in associates were as follows:

	<b>2009</b>	<b>2008</b>
<b>Investments in associates, beginning of year, gross</b>	<b>12,922</b>	<b>4,348</b>
Purchases	–	8,744
Disposals	(231)	–
Share of loss	(449)	(170)
<b>Investments in associates, end of year, gross</b>	<b>12,242</b>	<b>12,922</b>
Allowance for impairment (note 20)	(2,584)	(274)
<b>Investments in associates, end of the year, net</b>	<b>9,658</b>	<b>12,648</b>

In May 2009 the Group disposed of JSC One Team (25%- GEL 24 thousand) for GEL 36 thousand and “Matsne +” LLC (20%- GEL 204) for GEL 67 thousand. Gain from the first transaction was GEL 12 thousand and loss from second transaction was GEL 138 thousand. In 2008 investment in JSC Icall was impaired in the amount of GEL 217 thousand and investment in JSC One Team in the amount of GEL 57 thousand.

Associate company - JSC Teliani Valley is listed on the Georgian Stock Exchange. As of 31 December 2009 the fair value of the investment in JSC Teliani Valley was GEL 5,644 thousand (2008: GEL 7,263 thousand).

The following table summarizes certain financial information of the associates:

	<b>2009</b>	<b>2008</b>
<b>Aggregated assets and liabilities of associates</b>		
Assets	34,150	36,750
Liabilities	(19,128)	(19,164)
<b>Net assets</b>	<b>15,022</b>	<b>17,586</b>
<b>Aggregated revenue and profit of associates</b>		
Revenue	37,741	34,663
Loss	(1,537)	(500)

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

(Thousands of Georgian Lari)

**11. Property and Equipment**

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

	<i>Land &amp; Buildings</i>	<i>Furniture &amp; fixtures</i>	<i>Computers &amp; office equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
<b>Cost</b>							
<b>31 December 2007</b>	<b>6,817</b>	<b>2,721</b>	<b>71</b>	<b>933</b>	<b>512</b>	<b>-</b>	<b>11,054</b>
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
<b>31 December 2008</b>	<b>13,363</b>	<b>1,049</b>	<b>1,261</b>	<b>533</b>	<b>30</b>	<b>722</b>	<b>16,958</b>
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)
<b>31 December 2009</b>	<b>8,941</b>	<b>1,140</b>	<b>1,201</b>	<b>351</b>	<b>30</b>	<b>722</b>	<b>12,385</b>
<b>Accumulated depreciation and impairment</b>							
<b>31 December 2007</b>	<b>8</b>	<b>322</b>	<b>9</b>	<b>78</b>	<b>56</b>	<b>-</b>	<b>473</b>
Depreciation charge	44	103	119	217	10	-	493
Disposals	-	(160)	(7)	(170)	(56)	-	(393)
Transfer	-	(82)	64	18	-	-	-
Revaluation	(41)	-	-	-	-	-	(41)
<b>31 December 2008</b>	<b>11</b>	<b>183</b>	<b>185</b>	<b>143</b>	<b>10</b>	<b>-</b>	<b>532</b>
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)
<b>31 December 2009</b>	<b>3,158</b>	<b>316</b>	<b>323</b>	<b>123</b>	<b>25</b>	<b>-</b>	<b>3,945</b>
<b>Net book value:</b>							
<b>31 December 2008</b>	<b>13,352</b>	<b>866</b>	<b>1,076</b>	<b>390</b>	<b>20</b>	<b>722</b>	<b>16,426</b>
<b>31 December 2009</b>	<b>5,783</b>	<b>824</b>	<b>878</b>	<b>228</b>	<b>5</b>	<b>722</b>	<b>8,440</b>

(Thousands of Georgian Lari)

**11. Property and Equipment (continued)**

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

	<u>2009</u>	<u>2008</u>
Cost	3,738	8,311
Accumulated depreciation and impairment	(279)	(52)
<b>Net carrying amount</b>	<b><u>3,459</u></b>	<b><u>8,259</u></b>

Property and equipment in the amount of GEL 12,046 thousand (2008: GEL 8,269 thousand) is pledged as collateral against the Group's loans payables. (Note 18)

**12. Intangible Assets**

Movements in intangible assets during 2008 and 2009 were as follows:

	<u>Goodwill</u>	<u>Computer software</u>	<u>Total</u>
<b>Cost</b>			
<b>31 December 2007</b>	<b>896</b>	<b>183</b>	<b>1,079</b>
Disposals	–	(168)	(168)
Additions	–	6	6
<b>31 December 2008</b>	<b>896</b>	<b>21</b>	<b>917</b>
Additions	359	3	362
<b>31 December 2009</b>	<b><u>1,255</u></b>	<b><u>24</u></b>	<b><u>1,279</u></b>
<b>Accumulated amortization and impairment</b>			
<b>31 December 2007</b>	<b>–</b>	<b>13</b>	<b>13</b>
Disposals	–	(10)	(10)
Impairment charge (note 20)	244	–	244
Amortization charge	–	2	2
<b>31 December 2008</b>	<b>244</b>	<b>5</b>	<b>249</b>
Charge for amortization	–	3	3
<b>31 December 2009</b>	<b><u>244</u></b>	<b><u>8</u></b>	<b><u>252</u></b>
<b>Net book value:</b>			
<b>31 December 2008</b>	<b><u>652</u></b>	<b><u>16</u></b>	<b><u>668</u></b>
<b>31 December 2009</b>	<b><u>1,011</u></b>	<b><u>16</u></b>	<b><u>1,027</u></b>

As of 31 December 2009 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Intertour
- Holiday Travel LLC
- JSC Prime Fitness
- JSC Planeta Forte

(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.

(Thousands of Georgian Lari)

**12. Intangible Assets (continued)**

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

	<i>WACC applied for impairment</i>	<i>Carrying amount of goodwill 31 December 2009</i>	<i>31 December 2008</i>
JSC Intertour	18%	612	612
LLC Holiday Travel	18%	40	40
JSC Planeta Forte		359	–
JSC Prime Fitness	16%	–	–
<b>Total Intangible Assets</b>		<b>1,011</b>	<b>652</b>

JSC Planeta Forte was acquired on 1 January 2009. 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 Planeta Forte.

**13. Taxation**

The corporate income tax (benefit) expense comprises:

	<b>2009</b>	<b>2008</b>
Current income tax expense	305	1,412
Deferred tax benefit – origination and reversal of temporary differences	(4,171)	(24)
Less: Deferred tax recognised directly in equity	464	(1,088)
<b>Income tax (benefit) expense</b>	<b>(3,402)</b>	<b>300</b>

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 2009 and 2008 a reconciliation of the income tax (benefit) expense based on statutory rates with actual is as follows:

	<b>2009</b>	<b>2008</b>
<b>Loss before income tax expense</b>	<b>(31,699)</b>	<b>(1,914)</b>
Statutory tax rate	15%	15%
<b>Theoretical income tax benefit at the statutory rate</b>	<b>(4,755)</b>	<b>(287)</b>
Change in unrecognized deferred tax assets	270	121
Taxable income from sale of asset	788	366
<b>Non-tax deductible expenses</b>	<b>295</b>	<b>100</b>
<b>Income tax (benefit) expense</b>	<b>(3,402)</b>	<b>300</b>

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.

(Thousands of Georgian Lari)

**13. Taxation (continued)**

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</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</i>
<b>Tax effect of deductible temporary differences:</b>								
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
<b>Gross deferred tax assets</b>	<b>945</b>	<b>475</b>	<b>–</b>	<b>1,420</b>	<b>792</b>	<b>–</b>	<b>(838)</b>	<b>1,374</b>
Unrecognized deferred tax assets	(121)	121	–	–	(270)	–	–	(270)
<b>Deferred tax assets</b>	<b>824</b>	<b>596</b>	<b>–</b>	<b>1,420</b>	<b>522</b>	<b>–</b>	<b>(838)</b>	<b>1,104</b>
<b>Tax effect of taxable temporary differences:</b>								
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)	215	464	–	–
<b>Deferred tax liabilities</b>	<b>(3,826)</b>	<b>516</b>	<b>(1,088)</b>	<b>(4,398)</b>	<b>3,185</b>	<b>464</b>	<b>669</b>	<b>(80)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>(3,002)</b>	<b>1,112</b>	<b>(1,088)</b>	<b>(2,978)</b>	<b>3,707</b>	<b>464</b>	<b>(169)</b>	<b>1,024</b>

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

	<b>2009</b>	<b>2008</b>
Current tax assets (Note 7)	25	17
Deferred tax assets	1,104	1,420
<b>Tax assets</b>	<b>1,129</b>	<b>1,437</b>
Current tax liabilities	107	2
Deferred tax liabilities	80	4,398
<b>Tax liabilities</b>	<b>187</b>	<b>4,400</b>

**14. VAT Assets**

	<b>2009</b>	<b>2008</b>
VAT receivable	171	776
Other	–	16
<b>Total Other assets</b>	<b>171</b>	<b>792</b>

**15. Inventory**

	<b>2009</b>	<b>2008</b>
Newspapers and magazines	345	–
Books	10	–
Calendars	7	–
Other	11	9
<b>Total Inventory</b>	<b>373</b>	<b>9</b>

(Thousands of Georgian Lari)

**15. Inventory (continued)**

Inventory of GEL 362 thousand is owned by JSC Planeta Forte, and GEL 11 thousand is owned by JSC Prime Fitness (2008: GEL 9 thousand).

**16. Other Liabilities**

Other liabilities (current) comprise:

	<u>2009</u>	<u>2008</u>
Payables for shares purchased	766	826
Accruals for employee compensation	32	538
Property tax payable	77	44
Other taxes payable	118	20
Accrued asset management fee expense	–	305
Other	116	156
<b>Total Other liabilities</b>	<b><u>1,109</u></b>	<b><u>1,889</u></b>

**17. Accounts Payable**

	<u>2009</u>	<u>2008</u>
Payables to airline companies	427	898
Payable for inventory purchases	374	15
Payables to related parties	244	11
Payables for purchases of property and equipment	–	40
Other	45	67
<b>Total Accounts payable</b>	<b><u>1,090</u></b>	<b><u>1,031</u></b>

**18. Loans Payable**

Current/short-term loans payable comprised of:

<u>As of 31 December 2009</u>						<u>GEL</u>
<i>Lender</i>	<i>Date of loan grant</i>	<i>Contractual maturity</i>	<i>Currency</i>	<i>Interest rate per annum</i>	<i>Amount in original currency</i>	<i>equivalent at 31 December 2009</i>
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
<b>Total</b>						<b><u>446</u></b>

<u>As of 31 December 2008</u>						<u>GEL</u>
<i>Lender</i>	<i>Date of loan grant</i>	<i>Contractual maturity</i>	<i>Currency</i>	<i>Interest rate per annum</i>	<i>Amount in original currency</i>	<i>equivalent at 31 December 2008</i>
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						<u>27</u>
<b>Total</b>						<b><u>3,462</u></b>

(Thousands of Georgian Lari)

**18. Loans Payable (continued)**

Long-term portion of loans payable as of 31 December 2008 comprised of:

<b>As of 31 December 2008</b>						<b>GEL equivalent at 31 December 2008</b>
<b>Lender</b>	<b>Date of loan grant</b>	<b>Contractual maturity</b>	<b>Currency</b>	<b>Interest rate per annum</b>	<b>Amount in original currency</b>	
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)
<b>Total</b>						<b>18,684</b>

The loans are secured by the Group's 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).

**19. Equity**

As of 31 December 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 2009 are described below. In 2009 aggregate non-cash contribution to the Company's share capital and additional paid-in capital comprised GEL 0 (2008: GEL 738 thousand).

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

	<b>Number of shares</b>	<b>Amount of share capital</b>	<b>Amount of additional paid- in capital</b>
	<b>Ordinary</b>	<b>Ordinary</b>	<b>Ordinary</b>
<b>31 December 2007</b>	<b>52,432,221</b>	<b>524</b>	<b>26,615</b>
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
<b>31 December 2008</b>	<b>60,305,844</b>	<b>603</b>	<b>36,413</b>
<b>31 December 2009</b>	<b>60,305,844</b>	<b>603</b>	<b>36,413</b>

Share capital of the Company was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2009 net loss attributable to shareholders of the Company was GEL 20,794 thousand (2008: net income of GEL 1,991 thousand). The weighted average number of ordinary shares outstanding in 2009 was 60,305,844 (2008: 57,507,034). As at 31 December 2009 the diluted number of ordinary shares was 60,305,844 shares (2008: 57,507,034). Thus, basic loss per share and diluted loss per share amounted to -GEL 0.34 (2008: basic earnings per share of GEL 0.03) and -GEL 0.34 (2008: diluted earnings per share of GEL 0.03), respectively.

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

(Thousands of Georgian Lari)

**19. Equity (continued)****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>
<b>At 31 December 2007</b>	<b>1,647</b>	<b>1,574</b>	<b>756</b>	<b>3,977</b>
Revaluation of land and buildings	3,186	–	–	3,186
Tax effect of revaluation of land and buildings	(463)	–	–	(463)
Unrealised 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)
<b>At 31 December 2008</b>	<b>4,370</b>	<b>1,574</b>	<b>3,849</b>	<b>9,793</b>
Revaluation of investment securities	–	–	(3,096)	(3,096)
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	(1,498)	–	–	(1,498)
Tax effect of revaluation of investment securities available for sale	463	–	–	463
<b>At 31 December 2009</b>	<b>1,756</b>	<b>–</b>	<b>753</b>	<b>2,509</b>

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

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

**20. Allowances for Impairment**

	Accounts receivables	Prepayments and other current assets	Investments in associates	Goodwill	Investment securities	<b>Total</b>
<b>31 December 2007</b>	-	-	-	-	-	-
Charges	-	(206)	(274)	(244)	-	<b>(724)</b>
<b>31 December 2008</b>	-	<b>(206)</b>	<b>(274)</b>	<b>(244)</b>	-	<b>(724)</b>
Charges	(187)	(276)	(2,310)	-	(5,740)	<b>(8,513)</b>
Discontinued operations - sale of SBRE, a subsidiary	33	128	-	-	-	<b>161</b>
<b>31 December 2009</b>	<b>(154)</b>	<b>(354)</b>	<b>(2,584)</b>	<b>(244)</b>	<b>(5,740)</b>	<b>(9,076)</b>

(Thousands of Georgian Lari)

**21. Gains from Disposal of Subsidiaries**

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
	<b>12,317</b>	<b>12,051</b>	<b>266</b>

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
	<b>33,939</b>	<b>33,939</b>
Accounts payable	17	17
Other liabilities	851	851
Loans payable	13,416	13,416
	<b>14,284</b>	<b>14,284</b>
<b>Fair value of net assets</b>	<b>19,655</b>	<b>19,655</b>
<b>Minority interest</b>	<b>(7,604)</b>	
Gain from disposal	266	
<b>Consideration received</b>	<b>12,317</b>	

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

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

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
	<b>2,144</b>	<b>(2,222)</b>	<b>4,366</b>

*(Thousands of Georgian Lari)***22. Fees and Commission Income**

	<u>2009</u>	<u>2008</u>
Income from recreation services provided	711	255
Income from sale of airline tickets	528	1,010
Income from tourism services	218	709
Income from sale of metropolitan coins	–	126
Income from electronic payment services	–	182
<b>Total Fees and Commission Income</b>	<b><u>1,457</u></b>	<b><u>2,282</u></b>

**23. Salaries and Other Employee Benefits, and General and Administrative Expenses**

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

	<u>2009</u>	<u>2008</u>
Salaries	1,534	2,232
Bonus	–	576
<b>Total Salaries and other employee benefits</b>	<b><u>1,534</u></b>	<b><u>2,808</u></b>
Legal and other professional services	291	485
Operating taxes	264	199
Communication	242	243
Travel expenses	132	206
Occupancy and rent	124	293
Security	92	109
Marketing and advertising	74	100
Office supplies	13	76
Insurance	56	71
Repairs and maintenance	42	44
Banking services	32	38
Other	186	286
<b>Total General and administrative expenses</b>	<b><u>1,548</u></b>	<b><u>2,150</u></b>

**24. Management Consulting Fee Expense**

The Company has signed in 2007 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:

	<u>2009</u>	<u>2008</u>
Quarter I	178	464
Quarter II	130	519
Quarter III	121	463
Quarter IV	144	305
<b>Total management consulting fees</b>	<b><u>573</u></b>	<b><u>1,751</u></b>

The investment advisory agreement with JSC Galt & Taggart Asset Management was cancelled in August 2009.

(Thousands of Georgian Lari)

**25. Business Combination****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 were estimated at:

	<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
	<u>519</u>	<u>519</u>
Accounts payable	345	345
Other liabilities	129	129
	<u>474</u>	<u>474</u>
<b>Fair value of net assets</b>	<b>45</b>	<b>45</b>
<b>Minority Interest</b>	<b>(22)</b>	
Goodwill arising on acquisition (note 12)	359	
<b>Consideration paid</b>	<b>382</b>	

The total net cash outflow on acquisitions was as follows:

	<i>2009</i>
Cash paid (prepayment made in 2008)	382
Less: cash acquired with the subsidiary	4
<b>Net cash outflow</b>	<b>378</b>

**Acquisition in 2008**

During 2008 the Company acquired 100% ownership over LLC MetroNet. 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
	<u>500</u>	<u>500</u>
Accounts payable	-	-
Liabilities	-	-
	<u>-</u>	<u>-</u>
<b>Fair value of net assets</b>	<b>500</b>	<b>500</b>
Goodwill arising on acquisition	-	
<b>Consideration paid</b>	<b>500</b>	

The total net cash outflow on acquisitions was as follows:

	<i>2008</i>
Cash paid	500
Less: cash acquired with the subsidiary	-
<b>Net cash outflow</b>	<b>500</b>

(Thousands of Georgian Lari)

## 26. Segment Information

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

Real Estate Development	Principally investing in attractive and undervalued real estate properties for further development and leasing purposes.
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.

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 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</i>
<b>Revenues</b>							
Fees and commission income	–	746	–	711	–	–	1,457
Newspaper retail	–	–	2,108	–	–	–	2,108
Revenue from lease of properties	1,260	–	36	193	–	–	1,489
Gains from disposal of subsidiaries	–	–	–	–	266	–	266
Other revenues	147	–	–	–	111	218	476
Interest income	–	5	–	23	30	–	58
<b>Total operating income (loss)</b>	<b>1,407</b>	<b>751</b>	<b>2,144</b>	<b>927</b>	<b>407</b>	<b>218</b>	<b>5,854</b>
<b>Results</b>							
Net losses from revaluation of investment properties	15,501	–	–	–	–	–	15,501
Share of associates loss	–	–	–	–	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)	(691)	(5)	(3,402)
<b>Net profit (loss) for the year</b>	<b>(15,661)</b>	<b>(209)</b>	<b>3</b>	<b>(2,375)</b>	<b>(8,807)</b>	<b>(1,248)</b>	<b>(28,297)</b>
<b>Assets and liabilities</b>							
Segment assets	–	582	539	7,607	11,673	932	21,333
Investments in associates	–	–	–	–	9,157	500	9,657
<b>Total assets</b>	<b>–</b>	<b>582</b>	<b>539</b>	<b>7,607</b>	<b>20,830</b>	<b>1,432</b>	<b>30,990</b>
Segment liabilities	–	921	414	388	520	589	2,832
<b>Total liabilities</b>	<b>–</b>	<b>921</b>	<b>414</b>	<b>388</b>	<b>520</b>	<b>589</b>	<b>2,832</b>
<b>Other segment information</b>							
Capital expenditure:							
Property and equipment	–	66	8	39	3	5	121
Intangible assets	–	–	–	3	–	–	3

(Thousands of Georgian Lari)

**26. 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>
<b>Revenues</b>							
Fees and commission income	–	1,266	126	709	–	181	2,282
Revenue from lease of properties	1,108	–	160	210	–	–	1,478
Net gains from investment securities available-for-sale	29	–	–	–	418	–	447
Gains from disposal of subsidiaries	–	–	–	–	4,366	–	4,366
Other revenues	308	4	14	8	524	482	1,340
Inter-segment revenues	–	–	–	–	(343)	(11)	(354)
<b>Total operating income</b>	<b>1,445</b>	<b>1,270</b>	<b>300</b>	<b>927</b>	<b>4,965</b>	<b>652</b>	<b>9,559</b>
<b>Results</b>							
Net losses from revaluation of investment properties	498	–	–	–	–	–	498
Share of associate profit loss	–	–	–	–	177	(7)	170
Income tax expense (benefit)	624	2	(68)	(128)	(66)	(64)	300
<b>Net profit (loss) for the year</b>	<b>(2,568)</b>	<b>22</b>	<b>(386)</b>	<b>(734)</b>	<b>1,810</b>	<b>(358)</b>	<b>(2,214)</b>
<b>Assets and liabilities</b>							
Segment assets	52,935	997	–	10,777	20,511	2,608	87,828
Investments in associates	–	–	–	–	11,641	1,007	12,648
<b>Total assets</b>	<b>52,935</b>	<b>997</b>	<b>–</b>	<b>10,777</b>	<b>32,152</b>	<b>3,615</b>	<b>100,476</b>
Segment liabilities	14,779	1,274	–	4,831	6,279	2,303	29,466
<b>Total liabilities</b>	<b>14,779</b>	<b>1,274</b>	<b>–</b>	<b>4,831</b>	<b>6,279</b>	<b>2,303</b>	<b>29,466</b>
<b>Other segment information</b>							
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

**27. 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 2009 and 2008.

	<i>Notes</i>	<i>Gross maximum exposure 2009</i>	<i>Gross maximum exposure 2008</i>
Cash and cash equivalents (excluding cash on hand)	5	55	535
Accounts receivables	6	1,339	1,636
Prepayment and other current assets	7	625	2,632
<b>Total credit risk exposure</b>		<b>2,019</b>	<b>4,803</b>

(Thousands of Georgian Lari)

## 27. Risk Management (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 2009 and 2008 was within Georgia.

### Liquidity risk and funding management

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

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

*Analysis of financial liabilities by remaining contractual maturities*

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted repayment obligations:

<b>Financial liabilities</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
As at 31 December 2009					
Accounts payable	1,090				1,090
Loans payable	446				446
<b>Total undiscounted financial liabilities</b>	<b>1,536</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,536</b>

<b>Financial liabilities</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
As at 31 December 2008					
Accounts payable	1,031	–	–	–	1,031
Loans payable	3,235	219	20,960	–	24,414
<b>Total undiscounted financial liabilities</b>	<b>4,266</b>	<b>219</b>	<b>20,960</b>	<b>–</b>	<b>25,445</b>

### 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.

(Thousands of Georgian Lari)

## 27. Risk Management (continued)

The table below indicate the currencies to which the Group had significant exposure at 31 December 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 2009 and 2008 sensitivity analysis did not reveal significant potential effect on the Group's equity.

<b>Currency</b>	<b>Change in currency rate in % 2009</b>	<b>Effect on profit before tax 2009</b>	<b>Effect on equity 2009</b>	<b>Change in currency rate in % 2008</b>	<b>Effect on profit before tax 2008</b>	<b>Effect on equity 2008</b>
USD	1.30%	1	–	9.2%	20	–
EUR	12.70%	-	–	14.9%	8	–

### 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.

### 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.

The management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

(Thousands of Georgian Lari)

## 28. 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:

At 31 December 2009	Level 1	Level 2	Level 3	Total
Investment securities – available-for-sale	-	8,696	-	8,696
	-	8,696	-	8,696
At 31 December 2008	Level 1	Level 2	Level 3	Total
Investment securities – available-for-sale	-	16,669	-	16,669
	-	16,669	-	16,669

### Financial instruments – available-for-sale

Available for sale financial assets 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.

As of 31 December 2009 Investment securities available for sale of GEL 8,696 consist of shares of the companies: JSC "Populi" GEL 2,650 thousand, JSC Nikora GEL 5,395 thousand, JSC Georgian Card GEL 8 thousand and LLC "GC HOLDINGS" GEL 643 thousand.

As of 31 December 2008 Investment securities available for sale of GEL 16,669 thousand consist of shares of the companies: JSC "Populi" GEL 9,175 thousand, JSC Nikora GEL 6,843 thousand, JSC Georgian Card GEL 8 thousand and LLC "GC Holdings" GEL 643 thousand.

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:

	2009	
	Carrying amount	Fair value
<i>Financial assets</i>		
Cash and cash equivalents	65	65
Accounts receivables	1,185	1,185
Investment securities available-for-sale	8,696	8,696
<i>Financial liabilities</i>		
Accounts payable	1,090	1,090
Loans payable	446	446

(Thousands of Georgian Lari)

**28. Fair Value of Financial Instruments (continued)**

	<b>2008</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
<i>Financial assets</i>		
Cash and cash equivalents	601	601
Accounts receivables	1,636	1,636
Investment securities available-for-sale	16,669	16,669
<i>Financial liabilities</i>		
Accounts payable	1,031	1,031
Loans payable	22,146	22,146

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

**29. 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:

	<b>2009</b>	<b>2008</b>
Within one year	265	440
After one year but not more than five years	328	1,213
More than five years	-	185
	<b>593</b>	<b>1,838</b>

*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:

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

(Thousands of Georgian Lari)

### 30. 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:

	2009				2008			
	Entities under common control			Key Management personnel	Entities under common control			Key Management personnel
	Parent	Associates		Parent	Associates			
Accounts receivables	–	105	850	42	–	–	1,179	–
Prepayments and other current assets, gross	–	–	159	–	–	–	242	–
Allowance for impairment	–	–	(157)	–	–	–	(78)	–
Prepayments and other current assets, net	–	–	2	–	–	–	164	–
Cash and cash equivalents	55	–	–	–	535	–	–	–
Loans payable	446	–	–	–	18,911	–	–	–
Other liabilities	–	–	–	–	–	305	–	–
Accounts payable	30	191	–	23	9	2	–	–
Services rendered	468	117	–	–	327	7	–	–
Services received	2	594	–	–	394	6,116	–	–
Finance income	35	–	10	–	108	–	50	–
Finance costs	2,533	–	–	–	2,736	–	–	–
Sale of SBRE, a subsidiary	12,317	–	–	–	–	–	–	–

#### 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 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: 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:

	2009	2008
Salaries and other benefits	576	483
<b>Total key management compensation</b>	<b>576</b>	<b>483</b>

### 31. Events After the Reporting Period

- In February 2010 the Group disposed of investment securities available for sale of Nikora (550,000 shares) for USD 3,200 thousand. Payment terms were settled in accordance with the agreement as follows: USD 1,700 equivalent in GEL by cash, and for the rest of USD 1,500 thousand the Group received 13,432,215 shares of JSC "Teliani Valley". As a result, the Group's equity interest in Teliani Valley became 52.33%.
- JSC Prime Fitness sold the land located in Krtsanisi district, Tbilisi for USD 700 thousand. First payment of USD 100 thousand was received on 8 June 2010, second payment of USD 70 thousand on 12 July 2010 and third payment of USD 530 thousand on 6 August 2010.
- 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 interest accrued to JSC SBOI into equity of JSC SBOI. Additional paid in capital amounted to GEL 2,272 thousand.

*(Thousands of Georgian Lari)*

### **31. Events After the Reporting Period (continued)**

- JSC Populi received additional capital from its existing shareholders in the amount of USD 5,000 thousand, resulting to decrease in equity interest of the Group to 12% because the Company did not participate in the new share issue.
- On 19 July 2010, 100% equity interest in LLC MetroNet was sold to a non related party for GEL 125 thousand.
- 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.
- On 11 August 2010, SBOI sold to BOG monitor displays with accessories for GEL 177 thousand.