



**Financial Statements and Independent Auditor's
Report**

Haypost Closed Joint Stock Company

December 31, 2009

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Independent auditor's report

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To the shareholder of Haypost CJSC

We have audited the accompanying financial statements of Haypost CJSC (the “Company”), which comprise the statement of financial position as of December 31, 2009, and The statements of comprehensive income, changes in equity and 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 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of 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 auditor's 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 financial statements give a true and fair view of the financial position of the Company as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 2, 2010

Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan, FCCA

Engagement Partner



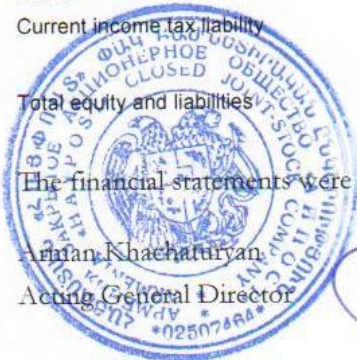
Statement of financial position

| In thousand drams | Note | As of December 31, 2009 | As of December 31, 2008 |
|-------------------------------------|------|-------------------------------|-------------------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Property and equipment | 4 | 11,671,284 | 12,016,232 |
| Intangible assets | | 70,220 | 34,388 |
| | | <u>11,741,504</u> | <u>12,050,620</u> |
| <i>Current assets</i> | | | |
| Inventories | 5 | 121,909 | 66,973 |
| Trade and other receivables | 6 | 982,951 | 905,081 |
| Current income tax assets | | - | 27,005 |
| Cash and cash equivalents | 7 | 589,931 | - |
| | | <u>1,694,791</u> | <u>999,059</u> |
| Total assets | | <u><u>13,436,295</u></u> | <u><u>13,049,679</u></u> |
| Equity and liabilities | | | |
| <i>Capital and reserves</i> | | | |
| Share capital | 8 | 520,993 | 520,993 |
| General reserve | | 78,149 | 78,149 |
| Revaluation reserve | | 6,325,628 | 6,460,323 |
| Accumulated profit | | 1,271,306 | 299,228 |
| Other reserves | | 171,842 | 171,842 |
| | | <u>8,367,918</u> | <u>7,530,535</u> |
| <i>Non-current liabilities</i> | | | |
| Loans | 9 | - | 44,444 |
| Grants related to assets | 10 | 2,214,132 | 2,389,943 |
| Deferred income tax liabilities | 11 | 1,467,467 | 1,529,387 |
| | | <u>3,681,599</u> | <u>3,963,774</u> |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 12 | 1,221,857 | 1,119,086 |
| Loans | 9 | 44,726 | 436,284 |
| Current income tax liability | | 120,195 | - |
| | | <u>1,386,778</u> | <u>1,555,370</u> |
| Total equity and liabilities | | <u><u>13,436,295</u></u> | <u><u>13,049,679</u></u> |

The financial statements were approved on April 1, 2010 by:

Anjan Khachatryan
Acting General Director

Karapet Sargsyan
Chief Accountant



The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 35.

Statement of comprehensive income

| In thousand drams | | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|------|------------------------------------|------------------------------------|
| | Note | <u>2009</u> | <u>2008</u> |
| Revenue | 14 | 4,995,353 | 4,906,642 |
| Cost of sales | 15 | <u>(3,475,036)</u> | <u>(3,480,451)</u> |
| Gross profit | | <u>1,520,317</u> | <u>1,426,191</u> |
| Other income | | 409,705 | 459,129 |
| Distribution and marketing expenses | | (8,225) | (15,708) |
| Administration expenses | 16 | (984,709) | (1,605,922) |
| Other expenses | | <u>(122,837)</u> | <u>(146,547)</u> |
| Results from operating activities | | <u>814,251</u> | <u>117,143</u> |
| Finance income | | 1,619 | - |
| Finance costs | | (34,097) | (73,056) |
| Other financial items | 17 | <u>194,456</u> | <u>(28,739)</u> |
| Profit before income tax | | <u>976,229</u> | <u>15,348</u> |
| Income tax expense | 18 | <u>(138,846)</u> | <u>(12,927)</u> |
| Profit for the year | | <u>837,383</u> | <u>2,421</u> |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u><u>837,383</u></u> | <u><u>2,421</u></u> |

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 35.

Statement of changes in equity

In thousand drams

| | Share capital | Reserve capital | Revaluation reserve | Other reserves | Accumu- lated profit | Total |
|--|------------------|--------------------|------------------------|-------------------|----------------------------|-----------|
| As of January 1, 2008 | 520,993 | 78,149 | 6,608,140 | 171,842 | 148,990 | 7,528,114 |
| Profit for the year | - | - | - | - | 2,421 | 2,421 |
| Total comprehensive income for the year | - | - | - | - | 2,421 | 2,421 |
| Transfer to accumulated profit | - | - | (147,817) | - | 147,817 | - |
| as of December 31, 2008 | 520,993 | 78,149 | 6,460,323 | 171,842 | 299,228 | 7,530,535 |
| Profit for the year | - | - | - | - | 837,383 | 837,383 |
| Total comprehensive income for the year | - | - | - | - | 837,383 | 837,383 |
| Transfer to accumulated profit | - | - | (134,695) | - | 134,695 | - |
| As of December 31, 2009 | 520,993 | 78,149 | 6,325,628 | 171,842 | 1,271,306 | 8,367,918 |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 35.

Statement of cash flows

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Cash flows from operating activities | | |
| Profit for the year | 837,383 | 2,421 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortization | 452,939 | 472,122 |
| Loss on disposal and write-off of non-current assets | 6,151 | 3,454 |
| Income from grants related to assets | (181,019) | (182,947) |
| Finance income | (1,619) | - |
| Interest expense | 34,097 | 73,056 |
| Income tax expense | 138,846 | 12,927 |
| Foreign exchange loss/(gain) | (194,456) | 28,739 |
| <i>Operating profit before working capital changes</i> | <u>1,092,322</u> | <u>409,772</u> |
| Change in trade and other receivables | 116,894 | (310,552) |
| Change in inventories | (54,936) | 25,512 |
| Change in trade and other payables | (12,513) | 261,938 |
| <i>Cash generated from operations</i> | <u>1,141,767</u> | <u>386,670</u> |
| Interest paid | (36,757) | (73,699) |
| Income tax paid | (53,566) | (18,735) |
| <i>Net cash from operating activities</i> | <u>1,051,444</u> | <u>294,236</u> |
| Cash flows from investing activities | | |
| Acquisition of non-current assets | (144,766) | (133,953) |
| <i>Net cash used in investing activities</i> | <u>(144,766)</u> | <u>(133,953)</u> |
| Cash flows from financing activities | | |
| Loans and borrowings, net | (431,750) | 27,796 |
| <i>Net cash from/(used in) financing activities</i> | <u>(431,750)</u> | <u>27,796</u> |
| Net increase in cash and cash equivalents | 474,928 | 188,079 |
| Foreign exchange effect on cash | 102,151 | (9,834) |
| Cash and cash equivalents at the beginning of the year | <u>1,049,108</u> | <u>870,863</u> |
| Cash and cash equivalents at the end of the year (refer to note 7) | <u><u>1,626,187</u></u> | <u><u>1,049,108</u></u> |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 35.

Notes to the financial statements

1 Nature of operations and general information

Haypost closed joint stock company (the “Company”) is established under the laws of the Republic of Armenia on April 2, 1998. The Company is mainly involved in the following activities:

- Postal services-delivery of envelopes and parcels, postal telecommunication and telegraphy services;
- Agency services, including money transfers, utility and other payments collections on behalf of entities providing utility services, selling of lottery tickets, as well as distribution of pensions and benefits, etc.

The Company’s registered office is located at 22 Saryan Street, Yerevan, Armenia. The Company currently operates through 900 of its postal offices across Armenia, from urban areas to the most remote rural regions.

The Company’s ultimate shareholder is the Government of the Republic of Armenia represented by the State Property Management Department.

The Company and its 41 branches operate in Armenia and had 3,330 employees as of December 31, 2009 (as of December 31, 2008: 3,730 employees).

For its operations the Company has obtained licenses issued by the Ministry of Transport and Communication of the Republic of Armenia.

In order to make the Company increasingly commercial, transparent, efficient and accountable in 2006 the management functions of the Company have been transferred to Haypost Trust Management CJSC (the “Trust manager”), in accordance with the agreement signed between the Government of Armenia and the Trust manager.

According to this agreement, the Trust manager is committed to implement Trust Management Program, which covers all the significant and strategic aspects of the Company development. Refer to note 19 for more details.

The Company has a plan to expand its services within the Armenian financial market through the partnership of a post bank, which will allow the implementation of a variety of new financial services such as account-based payments and savings, mortgages and loans, as well as debt and statement collections.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared based on the accounting records maintained under the requirements of the Armenian legislation and presented in accordance with International Financial Reporting Standards (“IFRS”). The only additional disclosures relate to financial instruments and financial risk management disclosed in the notes 21 and 22, in accordance with IFRS 7 “*Financial Instruments: Disclosures*”.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of buildings, which are stated at revalued amount.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram (“dram”), which is the Company’s functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Armenian drams has been rounded to the nearest thousand.

2.4 Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 20 to the financial statements.

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009.

Standards affecting presentation and disclosure

IAS 1 (revised 2007) *Presentation of Financial Statements*

IAS 1 (revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. The Company elected to prepare a single statement of comprehensive income with subtotal, instead of two separate statements (a separate income statement followed by a statement of other comprehensive income).

Amendments to IAS 7 *Statement of Cash Flows* (adopted in advance of the effective date of January 1, 2010)

The amendments state explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities in the statement of cash flows.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company elected not to provide comparative information for these expanded disclosures in the current year, in accordance with transitional reliefs offered in these amendments.

Standards and Interpretations in issue but not yet adopted

Amendments to IAS 17 *Leases*

As part of Improvements to IFRSs 2009 issued in April 2009, the IASB amended the requirements of IAS 17 regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. These amendments are effective for annual periods beginning on or after January 1, 2010, and they are to be applied retrospectively to unexpired leases at January 1, 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised Standard will be applied based on the facts and circumstances existing on January 1, 2010 (i.e. the date of adoption of the amendments) and the Company will recognize assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognized in retained earnings.

IFRIC 17 *Distributions of Non-cash Assets to Owners*

This Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to shareholders. This Interpretation will be effective for annual periods beginning on or after July 1, 2009.

IFRIC 18 *Transfers of Assets from Customers*

The Interpretation addresses the accounting by recipients for transfer of property and equipment from customers and concluded that when the item of property and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognize the asset at its fair value on the date of the transfer, with the credit recognized as revenue in accordance with IAS 18 *Revenue*. This Interpretation will be effective for annual periods beginning on or after July 1, 2009.

The directors anticipate that these amendments will be adopted in the Company's financial statements for the period beginning January 1, 2010. The directors have not yet considered the potential impact of the adoption of these amendments.

3 Significant accounting policies

3.1 Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which is 377.89 drams for 1 US dollar as of December 31, 2009 (December 31, 2008: 306.73 drams for 1 US dollar). Non-monetary items that are measured in terms of historic cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

3.2 Property and equipment

Property and equipment stated at a revaluated amount

Buildings held for use in the supply of services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and credited to revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

The revaluation surplus is transferred to the accumulated profit as the asset is used by the Company. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profit.

Property and equipment stated at cost

Other property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment

comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the statement of comprehensive income as incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

- Buildings and constructions 5-40 years
- Machinery, equipment, transportation equipment 5 years
- Fixtures and fittings 5 years
- Computers 1 year.

In 2008 Company management has revised the useful lives for all the buildings in use and used them as a basis for calculation of depreciation expense from January 1, 2008. The useful lives of buildings of 0-20 years were revised to 5-40 years.

3.3 Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 1-5 years.

3.4 Leased assets

In accordance with IAS 17 *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as an obligation under finance lease, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, ie depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Company. The corresponding obligation under finance lease is reduced by lease payments less finance charges, which are expensed to finance costs. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred.

3.5 Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.6 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

Financial assets other than hedging instruments are divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognized in profit or loss or directly in equity. See note 21.2 for a summary of the Company's financial assets by category.

Generally, the Company recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognized in the statement of comprehensive income line item "finance costs" or "finance income", respectively.

i Trade and other receivables

Current accounts receivable are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The balance of the allowance is adjusted by recording a charge or income to the statement of comprehensive income of the reporting period. Any amount written-off with respect to customer account balances is charged against the existing allowance for doubtful accounts. All accounts receivable for which collection is not considered probable are written-off.

ii Cash and cash equivalents

The Company's cash and bank balances comprise cash in hand, bank accounts, cash in transit and lottery won tickets, which fall into "loans and receivables" category of financial instruments.

Financial liabilities

The Company's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortized cost using the effective interest rate method. A summary of Company's financial liabilities by category is given in note 21.2

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the statement of comprehensive income over the period of the borrowings on an effective interest basis. Interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance expenses, except for the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which are capitalized as part of that asset.

ii Trade and other payables

Trade and other payables are stated at fair value and subsequently stated at amortized cost.

3.7 Impairment

Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

With the exception of available-for-sale equity instruments, 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.8 Non-current assets classified as held for sale

If the Company intends to sell non-current assets or groups of assets, and if the sale is highly probable to be carried out within 12 months, the asset or group of assets is classified as held for sale and presented as such in the statement of financial position.

Assets classified as held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale and their fair value less costs to sell. They are not subject to depreciation or amortization. Held for sale assets, however, such as financial assets or deferred tax assets, are measured as usual.

Any profit or loss arising from the sale or revaluation of held for sale assets is included in "other income" or "other expense", respectively, in the statement of comprehensive income. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the accumulated profit.

3.9 Equity

Equity instruments issued by the Company are recorded at the proceeds received. Dividends are recognized as a liability in the period in which they are declared.

3.10 Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the cost for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

3.11 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.12 Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.13 Revenue recognition

Revenue from a contract to provide services is recognized when

- the amount of revenue may be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the balance sheet date may be reliably measured; and
- the costs incurred for the transaction and the costs to complete the transaction may be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and rebates allowed by the Company. Revenue is earned from postal services, agency services and rents.

Provision of postal services

Revenue from postal services is recognized in the statement of comprehensive income as sales incur.

Revenue from agency services

The Company performs money transfers, utility and other payments collections (agency services) on behalf of entities providing utility services, sells lottery tickets, as well as distributes pensions and benefits for certain compensation. Revenue is recognized when occurred at the amount of the commission fee. Amounts held in the performance of these agency services are included in amount held in trust in cash and cash equivalents (refer to note 7). The overuse of amounts intended for the performance of agency services is reflected as liability in trade and other payables (refer to note 13).

Rental income

Revenue from operating lease is calculated by straight-line method by equal portions independently from cash received.

4 Property and equipment

In thousand drams

| | Land | Buildings, constructions | Machinery equipment and vehicles | Fixture and other | Total |
|--|------------------|-----------------------------|--|----------------------|-------------------|
| <i>Cost or valuation</i> | | | | | |
| As of January 1, 2008 | 1,435,341 | 10,121,449 | 1,327,893 | 343,271 | 13,227,954 |
| Acquisitions and additions | - | 14,598 | 108,409 | (13,935) | 109,072 |
| Disposals and write-offs | - | - | (32,219) | (56,327) | (88,546) |
| Reclassified from held for sale | <u>735,386</u> | <u>345,850</u> | <u>-</u> | <u>-</u> | <u>1,081,236</u> |
| as of December 31, 2008 | <u>2,170,727</u> | <u>10,481,897</u> | <u>1,404,083</u> | <u>273,009</u> | <u>14,329,716</u> |
| Acquisitions and additions | - | 17,477 | 43,240 | 37,987 | 98,704 |
| Write-offs | - | - | (1,938) | (17,837) | (19,775) |
| As of December 31, 2009 | <u>2,170,727</u> | <u>10,499,374</u> | <u>1,445,385</u> | <u>293,159</u> | <u>14,408,645</u> |
| <i>Accumulated depreciation and impairment</i> | | | | | |
| as of January 1, 2008 | - | 704,197 | 1,058,263 | 161,865 | 1,924,325 |
| Charge for the year | - | 285,772 | 140,829 | 31,751 | 458,352 |
| Eliminated on disposal and write-offs | - | - | (31,909) | (52,120) | (84,029) |
| Reclassified from held for sale | <u>-</u> | <u>14,836</u> | <u>-</u> | <u>-</u> | <u>14,836</u> |
| as of December 31, 2008 | <u>-</u> | <u>1,004,805</u> | <u>1,167,183</u> | <u>141,496</u> | <u>2,313,484</u> |
| Charge for the year | - | 270,456 | 125,030 | 33,381 | 428,867 |
| Eliminated on write-offs | - | - | (1,674) | (3,316) | (4,990) |
| as of December 31, 2009 | <u>-</u> | <u>1,275,261</u> | <u>1,290,539</u> | <u>171,561</u> | <u>2,737,361</u> |
| <i>Carrying amount</i> | | | | | |
| as of December 31, 2008 | <u>2,170,727</u> | <u>9,477,092</u> | <u>236,900</u> | <u>131,513</u> | <u>12,016,232</u> |
| as of December 31, 2009 | <u>2,170,727</u> | <u>9,224,113</u> | <u>154,846</u> | <u>121,598</u> | <u>11,671,284</u> |

Property and equipment with a cost of drams 961,357 thousand are accounted for at zero carrying amount as of December 31, 2009 (as of December 31, 2008: drams 795,628 thousand).

None of the property and equipment of the Company has been pledged as a security for loans and borrowings as of December 31, 2009 and December 31, 2008.

As of December 31, 2009 and December 31, 2008 the Company's buildings are presented at their revalued amount. The revaluation was performed by 5 independent valuating companies, based on the use of the cost analysis, comparative and profitability methods.

Had the Company's buildings been presented at cost less accumulated depreciation, as of December 31, 2009 their carrying amount would amount to drams 1,360,275 thousand (as of December 31, 2008: drams 1,379,953 thousand).

During the reporting period the depreciation expense amounting to drams 428,867 thousand (2008: drams 458,352 thousand) has been allocated to the administration expenses by drams 133,780 thousand (2008: drams 154,594 thousand) and to the cost of sales by dram 295,087 thousand (2008: drams 303,758 thousand).

5 Inventories

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Materials | 50,820 | 42,958 |
| Small value items | 7,569 | 9,404 |
| Envelopes, post cards, stamps and other | 62,081 | 13,168 |
| Goods | 1,439 | 1,443 |
| | <u>121,909</u> | <u>66,973</u> |

The cost of inventories recognized as an expense during the year is drams 307,582 thousand (2008: drams 377,962 thousand).

6 Trade and other receivables

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| International settlements | 558,634 | 417,087 |
| Other trade receivables | 418,200 | 433,100 |
| Allowances for doubtful trade receivables | (100,566) | (56,503) |
| Net trade receivables | <u>876,268</u> | <u>793,684</u> |
| Advances and prepayments | 71,623 | 53,789 |
| Receivables from the State budget | 1,895 | 1,983 |
| Other receivables | 38,262 | 59,205 |
| Allowance for doubtful advances | (5,097) | (3,580) |
| | <u>982,951</u> | <u>905,081</u> |

The average credit period on rendering of services is 71 days (2008: 63 days). No interest is charged on the trade receivables. The Company has provided fully for all receivables over 365 days because historical experience is that receivables that are past due beyond 365 days are generally not recoverable.

International settlements are receivables from international postal services, which are mainly from delivery of envelopes and parcels. Other trade receivables are receivables from domestic customers.

Movement of the allowance for doubtful receivables is presented below:

| In thousand drams | 2009 | 2008 |
|--|----------------|---------------|
| Balance at beginning of year | 60,083 | 43,717 |
| Increase in the allowance during the period (recognized in other expenses) | 54,011 | 22,267 |
| Write-offs of trade receivables | (36) | (5,901) |
| Reversal of provision (recognized in other income) | (8,395) | - |
| Balance at end of year | <u>105,663</u> | <u>60,083</u> |

In determining the recoverability of a trade receivable the Company considers any change in the repayment pattern from the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer range being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Refer to note 22.1 for the currencies in which the trade and other receivables are denominated.

7 Cash and cash equivalents

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Bank accounts | 1,358,000 | 800,231 |
| Cash on hand | 117,442 | 119,869 |
| Cash in transit | 149,832 | 129,008 |
| Lottery won tickets | 913 | - |
| Cash and cash equivalents for the purposes of the cash flow statement | <u>1,626,187</u> | <u>1,049,108</u> |
| Less: Amounts held in trust | (1,036,256) | (1,049,108) |
| | <u>589,931</u> | <u>-</u> |

Lottery won tickets represent amounts paid to customers for won lotteries on behalf of lottery companies. The Company may convert the lottery tickets into cash within a few days upon demand.

8 Equity

8.1 Share capital

| Number of shares unless otherwise stated | Ordinary shares | Ordinary shares |
|--|-----------------|-----------------|
| | 2009 | 2008 |
| Authorized shares | | |
| Number of ordinary shares of drams 54,600 each | 9,542 | 9,542 |

The Company has one class of ordinary shares, which carry no right to fixed income.

8.2 Dividends

According to the point 3.7 of the agreement signed between the Government of the Republic of Armenia and Haypost Trust Management CJSC (the "Trust manager") on November 30, 2006, related to granting the right to manage the shares of the Company to the Trust manager, the profit from the Company's financial operations is not subject to distribution during five years since the date this agreement was signed.

8.3 General reserve

The general reserve is used to transfer profits from accumulated profit. These transfers are regulated by the Company's charter, which states that the reserve should be at least 15% of share capital

8.4 Other reserves

Other reserves include the fair value of postal system granted to the Company in 2004, which should have been directed to replenishment of the Company's share capital. However, the process of formal registration of the share increase was delayed. Accordingly, the fair value of the postal system was included in other reserves and will be transferred to the share capital once the formal process is over.

8.5 Revaluation reserve

The revaluation reserve arises on the revaluation of buildings. The revaluation surplus is transferred to accumulated profit periodically at the amount of depreciation on revalued buildings. Where revalued buildings are sold, the portion of the revaluation reserve that relates to those assets, and is effectively realized, is transferred directly to accumulated profit or loss.

9 Loans

| In thousand drams | Current | | Non-current | |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | As of December 31, 2009 | As of December 31, 2008 | As of December 31, 2009 | As of December 31, 2008 |
| Related party bank loans | 44,726 | 436,284 | - | 44,444 |

Related party bank loans mature in 2010 and bear a weighted average interest rate of 13% annually (2008: 13% annually).

Loans are secured by the turnover of one of the bank accounts of the Company with the right of use.

The fair values of non-current and current loans equal their carrying amount, as the impact of discounting is not significant.

The Company does not have any undrawn borrowing facilities.

Refer to note 22.1 for more information about the Company's exposure to interest rate and foreign currency risks.

10 Grants related to assets

| In thousand drams | 2009 | 2008 |
|--|------------------|------------------|
| Balance at beginning of year | 2,389,943 | 2,572,890 |
| Additions | 5,208 | - |
| Grants recognized as income (recognized in other income) | (181,019) | (182,947) |
| Balance at end of year | <u>2,214,132</u> | <u>2,389,943</u> |

11 Deferred income taxes

The movement of deferred income taxes is disclosed below:

| In thousand drams | 2009 | 2008 |
|---|------------------|------------------|
| Balance at beginning of year | 1,529,387 | 1,557,317 |
| Credited to income statement (refer to note 18) | (61,920) | (27,930) |
| Balance at end of year | <u>1,467,467</u> | <u>1,529,387</u> |

Deferred income taxes for the year ended December 31, 2009 can be summarized as follows:

| In thousand drams | January 1, 2009 | Recognized in the statement of comprehensive income | December 31, 2009 |
|--|--------------------|--|----------------------|
| <i>Deferred income tax assets</i> | | | |
| Trade receivables | 12,016 | 9,117 | 21,133 |
| Inventories | 3,567 | - | 3,567 |
| Trade payables | 70,111 | 19,130 | 89,241 |
| | <u>85,697</u> | <u>28,247</u> | <u>113,941</u> |
| <i>Deferred income tax liabilities</i> | | | |
| Property and equipment | (1,615,081) | 33,673 | (1,581,408) |
| | <u>(1,615,081)</u> | <u>33,673</u> | <u>(1,581,408)</u> |
| Net position - deferred income tax liabilities | <u>(1,529,387)</u> | <u>61,920</u> | <u>(1,467,467)</u> |

Deferred income taxes for the year ended December 31, 2008 can be summarized as follows:

| In thousand drams | January 1, 2008 | Recognized in the statement of comprehensive income | December 31, 2008 |
|--|--------------------|--|----------------------|
| <i>Deferred income tax assets</i> | | | |
| Trade receivables | 8,743 | 3,273 | 12,016 |
| Inventories | 3,567 | - | 3,567 |
| Trade payables | 82,408 | (12,297) | 70,111 |
| | <u>94,718</u> | <u>(9,024)</u> | <u>85,694</u> |
| <i>Deferred income tax liabilities</i> | | | |
| Property and equipment | (1,652,035) | 36,954 | (1,615,081) |
| | <u>(1,652,035)</u> | <u>36,954</u> | <u>(1,615,081)</u> |
| Net position - deferred income tax liabilities | <u>(1,557,317)</u> | <u>27,930</u> | <u>(1,529,387)</u> |
| Analyzed as: | | <u>2009</u> | <u>2008</u> |
| To be redeemed after more than 12 months | | (1,581,408) | (1,615,081) |
| To be recovered within 12 months | | 113,941 | 85,694 |

12 Trade and other payables

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| International settlements | 259,746 | 196,253 |
| Other trade payables | 216,403 | 280,647 |
| Advances from customers | 143,179 | 34,005 |
| Taxes and duties payable | 76,336 | 75,810 |
| Employee benefits payable | 506,159 | 358,338 |
| Liabilities from agency activities (refer to note 13) | - | 168,809 |
| Other | 20,034 | 5,224 |
| | <u>1,221,857</u> | <u>1,119,086</u> |

The average credit period on the receipt of certain service is 50 days (2008: 53). No interest is charged on the trade payables. The Company has financial risk management policies to ensure that all payables are paid within the credit timeframe.

13 Liabilities from agency activities

The Company performs money transfers, utility and other payments collections on behalf of entities providing utility services, as well as distributes pensions and benefits for certain compensation. As of December 31, 2009 the Company did not use any amount of collected amounts for its own needs. As of December 31, 2008 drams 168,809 thousand from the collected amount were spent for the Company's own needs, which has resulted in a liability to those companies, as described below:

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Payables for collections | 1,036,256 | 1,217,917 |
| Current cash available (refer to note 7) | (1,036,256) | (1,049,108) |
| Liabilities from agency activities | - | 168,809 |

14 Revenue

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Postal services | 1,471,076 | 1,626,475 |
| Agency fee for distribution of pensions and benefits | 1,910,586 | 1,639,234 |
| Agency fee for making utility payments (electricity, gas, telephone, etc.) | 1,447,896 | 1,440,409 |
| Other | 165,795 | 200,524 |
| | 4,995,353 | 4,906,642 |

15 Cost of sales

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Employee benefits | 2,144,130 | 2,060,361 |
| Services received | 198,430 | 185,503 |
| Parcels delivery and cost of international services received | 470,607 | 462,917 |
| Depreciation and amortization | 319,143 | 316,924 |
| Materials and spare parts used | 293,637 | 377,962 |
| Other | 49,089 | 76,784 |
| | 3,475,036 | 3,480,451 |

16 Administration expenses

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|-------------------------------|------------------------------------|------------------------------------|
| Employee benefits | 304,146 | 324,069 |
| Business travel | 7,058 | 42,568 |
| Depreciation and amortization | 133,795 | 154,603 |
| Management fees | 306,724 | 704,731 |
| Other | 232,986 | 379,951 |
| | <u>984,709</u> | <u>1,605,922</u> |

17 Other financial items

Other financial items consist of the following:

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|------------------------------------|------------------------------------|
| Gain/(loss) from exchange differences on: | | |
| Loans and receivables | 296,915 | (40,166) |
| Financial liabilities measured at amortized costs | (102,459) | 11,427 |
| | <u>194,456</u> | <u>(28,739)</u> |

18 Income tax expense

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---------------------------------|------------------------------------|------------------------------------|
| Current tax | 200,766 | 40,857 |
| Deferred tax (refer to note 11) | (61,920) | (27,930) |
| | <u>138,846</u> | <u>12,927</u> |

Reconciliation of effective tax rate is as follows:

| In thousand drams | Year ended December 31, 2009 | Effective tax rate (%) | Year ended December 31, 2008 | Effective tax rate (%) |
|---|------------------------------------|---------------------------|------------------------------------|---------------------------|
| Profit/(loss) before taxation (under IFRS) | <u>976,229</u> | | <u>15,348</u> | |
| Tax calculated at a tax rate of 20% (2008: 20%) | 195,246 | 20.00 | 3,070 | 20.00 |
| (Non-taxable)/non-deductible items, net | (58,400) | (5.78) | 9,857 | 64.23 |
| Income tax expense | <u>138,846</u> | <u>14.22</u> | <u>12,927</u> | <u>84.23</u> |

19 Remuneration of the Trust manager

To enforce the decree #1379-A of the Government of the Republic of Armenia “On transfer of the right for shares of the Haypost CJSC to trust management” dated October 9, 2006, an agreement has been signed between the Government of the Republic of Armenia and Haypost Trust Management CJSC (the “Trust manager”) on November 30, 2006, according to which the right to manage the shares of the Company was transferred to the Trust manager for the period of five years. On September 8, 2008 the Company signed agreement on making amendments and additions to the agreement on trust management of rights endorsed by shares. The Contract defines the rights and obligations of the parties, as well as the order and rates for reimbursement of the expenses and remuneration of the Trust manager.

Liabilities to the Trust manager

According to the agreement described above:

- the remuneration of the Trust manager for Trust Management office and against operational costs of the Company will amount to drams 1,650 thousand.

On January 19, 2007 a framework agreement was signed between the Company and Trust Manager on providing professional services necessary for the implementation of the activity plan of the Trust manager. The payments for providing professional services were made based on the actual expenses incurred.

According to the addendum to the mentioned agreement signed on February 6, 2009 the monthly management fee is defined Euros 50,000 plus VAT per month during the following three months. On or before three months from the date of the addendum monthly fee shall be revised, and if new expenses are envisioned, the payments for providing professional services were made based on the actual expenses incurred.

- according to the respective agreement between the Government of the Republic of Armenia and the Trust manager, in a case of early suspension of the agreement, the parties shall prepare an act or a protocol on rights and obligations being in force at the moment of suspending or raised as a result of that.

20 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

20.1 Critical accounting estimates

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

20.2 Critical judgments in applying accounting policies

Accounting of international settlements

The Republic of Armenia, represented by the Company, its national operator, is a member of International Postal Convention, which regulates inter-settlements between the member-countries, which are finalized by the end of the following year. As a result, there is a significant time lag between the time when international postal services are rendered and the receipt of confirmations from international postal operators. Accordingly, revenue from international postal services is recognized based on the actual provision of services and is being adjusted in future. As of December 31, 2009 the increase in the estimation of receivables and payables from international postal operations by 10% will cause decrease in the loss for the period by drams 29,889 thousand, and the decrease by 10% will cause increase in the loss for the period by drams 29,889 thousand.

Transactions where the Company acts as an agent

The Company performs money transfers, utility and other payments collections (agency services) on behalf of entities providing utility services, selling lottery tickets, as well as distributes pensions and benefits for certain agency fee. As a result of these operations, at the end of the reporting period, there are payables and receivables, which are presented offset (refer to note 13).

Revision of useful lives for buildings

In 2008 Company management has reviewed useful lives for all the buildings in use and used them as a basis for calculation of depreciation expense from January 1, 2008. The useful lives of buildings from 0-20 years were revised to 5-40 years. As a result the depreciation charge for buildings for 2008 was decreased by drams 432,414 thousand compared with 2007.

21 Financial instruments

21.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note [number].

21.2 Categories of financial instruments

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

Financial assets

In thousand drams

| | As of December 31, 2009 | As of December 31, 2008 |
|-----------------------------|-------------------------------|-------------------------------|
| Loans and receivables: | | |
| Trade and other receivables | 879,347 | 851,292 |
| Cash and cash equivalents | 589,931 | - |
| | <u>1,469,278</u> | <u>851,292</u> |

Financial liabilities

In thousand drams

| | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Financial liabilities measured at amortized costs: | | |
| Loans and borrowings | 44,726 | 480,728 |
| Trade and other payables | <u>546,763</u> | <u>873,646</u> |
| | <u>591,489</u> | <u>1,354,374</u> |

See note 3.6 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Company's risk management objectives and policies for financial instruments is given in note.

22 Financial risk management

Exposure to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk arises in the normal course of the Company's business.

22.1 Financial risk factors

a) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below).

a. Foreign currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The exposure of the Company's financial assets and financial liabilities to the foreign currency risk is as follows:

| Item | Armenian drams | Freely convertible currencies | Non-freely convertible currencies |
|------------------------------|-------------------|-------------------------------------|---|
| As of December 31, 2009 | | | |
| <i>Financial assets</i> | | | |
| Cash and cash equivalents | - | 589,931 | - |
| Trade and other receivables | 198,873 | 122,718 | 556,756 |
| | 199,873 | 712,649 | 556,756 |
| <i>Financial liabilities</i> | | | |
| Loans and borrowings | 44,717 | 9 | - |
| Trade and other payables | 243,756 | 28,129 | 274,878 |
| | 288,473 | 28,138 | 274,878 |
| Net position | (88,600) | 684,511 | 281,878 |
| As of December 31, 2008 | | | |
| <i>Financial assets</i> | | | |
| Cash and cash equivalents | - | - | - |
| Trade and other receivables | 828,744 | 22,548 | - |
| | 828,744 | 22,548 | - |
| <i>Financial liabilities</i> | | | |
| Loans and borrowings | 480,709 | 19 | - |
| Trade and other payables | 646,850 | 226,790 | 6 |
| | 1,127,559 | 226,809 | 6 |
| Net position | (298,815) | (204,261) | (6) |

The Company is mainly exposed to US dollar and Euro. The following table details the Company's sensitivity to a 10% (2008: 20%) increase and decrease in dram against US dollar and Euro. 10%

(2008: 20%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2008: 20%) change in foreign currency rates. The sensitivity analysis includes related party and non-related party loans. A positive number indicates an increase in profit or loss and other equity where dram strengthens against the relevant currency.

| | US dollar impact | | Other currency impact | |
|----------------|------------------|--------------|-----------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Profit or loss | 56,041 | 1,505 | 12,411 | 625 |
| | <u>56,041</u> | <u>1,505</u> | <u>12,411</u> | <u>625</u> |

b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating risk of financial loss from default.

Ongoing credit evaluation is performed on the financial condition of accounts receivable.

At the balance sheet date there was no significant concentration of credit risk. The Company has made provisions of drams 105,663 thousand as of December 31, 2009 (December 31, 2008: drams 60,083 thousand) for overdue receivables. Besides the risk on receivables, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

c) Liquidity risk

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and cash equivalents, as well as highly liquid assets for making all operational and debt service related payments when those become due.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principle cash flows.

| | | | |
|--|----------------|------------------|----------------|
| 2009 | | Fixed interest | |
| | Non-interest | rate | |
| | bearing | instruments | Total |
| Weighted average effective interest rate (%) | | 13% | |
| Less than 1 year | 546,763 | 44,726 | 591,489 |
| 1-5 years | - | - | - |
| | <u>546,763</u> | <u>44,726</u> | <u>591,489</u> |
| 2008 | Non-interest | Fixed interest | |
| | bearing | rate instruments | Total |

| | | | |
|--|----------------|----------------|------------------|
| Weighted average effective interest rate (%) | | 13.18% | |
| Less than 1 year | 873,646 | 436,284 | 1,309,930 |
| 1-5 years | - | 44,444 | 44,444 |
| | <u>873,646</u> | <u>480,728</u> | <u>1,354,374</u> |

The following table details the Company's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

| | | |
|--|-----------------------|----------------|
| 2009 | Non- interest bearing | Total |
| Weighted average effective interest rate (%) | | |
| Less than 1 year | <u>879,347</u> | <u>879,347</u> |
| | <u>879,347</u> | <u>879,347</u> |
| 2008 | Non- interest bearing | Total |
| Weighted average effective interest rate (%) | | |
| Less than 1 year | <u>851,292</u> | <u>851,292</u> |
| | <u>851,292</u> | <u>851,292</u> |

22.2 Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern.

The capital structure of the Company consists of equity comprising issued capital, reserves and accumulated profits and debt, which includes borrowings disclosed in the note 10.

The Company management reviews the capital structure on a regular basis to maintain the most optimal debt to equity balance, which is analyzed by calculating gearing ratio (net debt divided by total capital), as follows:

| | | |
|---------------------------------|-------------------------------|-------------------------------|
| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
| Total borrowings | <u>44,726</u> | <u>480,728</u> |
| Less: cash and cash equivalents | <u>(589,931)</u> | <u>-</u> |
| Net debt | <u>(545,205)</u> | <u>480,728</u> |
| Total equity | <u>8,367,918</u> | <u>7,530,535</u> |
| Total capital | <u>7,822,713</u> | <u>7,981,013</u> |
| Gearing ratio | -7% | 6% |

22.3 Fair values

Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximates their fair values.

Due to the lack of liquidity and published “indicator interest rates” in the Armenian market, and the fact that part of the Company’s transactions are with related parties and are of specialized nature, it has not been practicable to determine the fair values of receivables from and payables to related parties.

In other cases fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise, management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

23 Commitments

23.1 Operating lease commitments

The Company as lessee

Operating lease relate to premises and cars. The Company does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancelable operating lease commitments are disclosed below:

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Not later than 1 year | 1,848 | 47,011 |
| Later than 1 year and no later than 5 years | 420 | 58,670 |
| | <u>2,268</u> | <u>105,681</u> |

The Company as lessor

Operating leases relate to premises owned by the Company. The lessee does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancellable operating lease receivables are disclosed below:

| In thousand drams | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Not later than 1 year | 71,625 | 49,355 |
| Later than 1 year and no later than 5 years | 31,744 | 7,042 |
| | <u>103,369</u> | <u>56,397</u> |

23.2 Legal commitments

As of December 31, 2009 there are legal cases against the Company raised by the former employees of the Company. The subject of the claims was the recovery of employees to their former positions

in the Company. If the mentioned cases would be settled in favour of the employees the Company will incur additional liabilities of drams 4,601 thousand as redundancy payment.

A legal case was raised against the Company by a former employee concerning the right to use the software by the Company designed by this employee. As of December 31, 2008 the case has been satisfied by the court of first instance. The amount to be refunded by the Company for the use of the software was determined drams 45,000 thousand. The Company applied to cessation court with claim to appeal the decision. The cessation court rejected the amount of drams 45,000 thousand and satisfied drams 35,000 thousand. As of December 31, 2009 the claimant applied to the court of appeal; however the court of appeal returned back the case to the court of first instance for additional investigation. The Company will be obliged to pay the mentioned amount, if the court of appeal does not satisfy the claim of the Company.

However, the financial statements of the Company do not include the effects of these commitments, since management believed that they are remote.

24 Contingencies

24.1 Business environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a developed business and regulatory infrastructure that generally exists in a more mature free market economy. In addition, economic conditions continue to limit the volume of activity in the financial markets, which may not be reflective of the values for financial instruments. The main obstacle to further economic development is a low level of economic and institutional development, along with a centralized economic base, regional instability and international economic crisis.

The possible effects of these factors on the Company may include the inability to pay creditors when they become due, impaired reputation, difficulties in selling the services, difficulties in obtaining funds, etc. All these problems may lead to the lessened liquidity of the Company and, accordingly, to going concern problems. However, as the number of variables and assumptions involved in these uncertainties is big, management cannot make a reliable estimate of the amounts by which the carrying amounts of assets and liabilities of the Company may be affected.

The financial statements of the Company do not include the effects of adjustments, if any, which might have been considered necessary, had the effects of the current global crisis become observable and reliably measurable in Armenia.

24.2 Insurance

The Armenian insurance industry is in its development stage and many forms of insurance protection common in other parts of the world are not yet generally available in Armenia. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company property or relating to the Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse affect on the Company's operations and financial position.

24.3 Taxes

The taxation system in Armenia is relatively new and is characterized by frequently changing legislation, which is often subject to interpretation. Often differing interpretations exist among various taxation authorities and jurisdictions. Taxes are subject to review and investigations by tax authorities, which are enabled by law to impose severe fines and penalties.

These facts may create tax risks in Armenia substantially more than in other developed countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

25 Related party transactions

The Company's related parties include its parent, managing company, companies under the same control, key management and others as described below.

25.1 Control relationships

The Company is controlled by the Government of the Republic of Armenia, which is the ultimate shareholder of the Company. To enforce the respective decree of the Government of the Republic of Armenia, the shareholder rights were transferred to Haypost Trust Management CJSC for the period of five years.

25.2 Transactions with Haypost Trust Management CJSC

During 2009, the Company received management services valued at drams 306,724 thousand (2008: drams 742,819 thousand). The outstanding balance of drams 106,812 thousand is included in trade payables (2008: drams 187,621 thousand).

25.3 Transaction with Converse Bank CJSC

During the year the total amount of borrowings and accrued interest expenses paid by the Company to Converse Bank CJSC amounts drams 470,090 thousand (2008: drams 245,920 thousand). The outstanding balance is drams 44,726 thousand as of December 31, 2009 (2008: drams 480,728 thousand).

During 2009, the Company provided services valued at drams 9,720 thousand (2008: drams 509 thousand). The outstanding balance of drams 1,335 thousand is included in trade receivables (2008: drams 297 thousand).

The ultimate controlling party of the Company is also controlling party for Converse Bank CJSC.

25.4 Transactions with management and close family members

Directors of the Company and their close family members as of December 31, 2009 and December 31, 2008 had no significant shares in the Company.

Key management received the following remuneration during the year, which is included in payroll and employee benefits.

| In thousand drams | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Salaries and bonuses, including contributions to Social State fund | 58,605 | 115,269 |



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