



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

**Haypost Closed Joint Stock Company**

**December 31, 2010**

# Content

|                                   | <b>Page</b> |
|-----------------------------------|-------------|
| Independent auditor's report      | 1           |
| Statement of financial position   | 3           |
| Statement of comprehensive income | 4           |
| Statement of changes in equity    | 5           |
| Statement of cash flows           | 6           |
| Notes to the financial statements | 7           |

# 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, 2010, 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, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

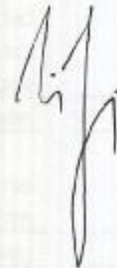
May 20, 2011

Gagik Gyulbudaghyan

Managing Partner

Emil Vassilyan, FCCA

Engagement Partner



## Statement of financial position

| In thousand drams                   | Note | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|-------------------------------------|------|-------------------------------|-------------------------------|
| <b>Assets</b>                       |      |                               |                               |
| <b>Non-current assets</b>           |      |                               |                               |
| Property and equipment              | 4    | 11,449,787                    | 11,671,284                    |
| <b>Intangible assets</b>            |      | <u>53,674</u>                 | <u>70,220</u>                 |
|                                     |      | <u>11,503,461</u>             | <u>11,741,504</u>             |
| <b>Current assets</b>               |      |                               |                               |
| Inventories                         | 5    | 131,006                       | 121,909                       |
| Trade and other receivables         | 6    | 869,507                       | 982,951                       |
| Cash and cash equivalents           | 7    | 1,414,643                     | 589,931                       |
|                                     |      | <u>2,415,156</u>              | <u>1,694,791</u>              |
| <b>Total assets</b>                 |      | <u>13,918,617</u>             | <u>13,436,295</u>             |
| <b>Equity and liabilities</b>       |      |                               |                               |
| <b>Capital and reserves</b>         |      |                               |                               |
| Share capital                       |      | 520,993                       | 520,993                       |
| General reserve                     |      | 78,149                        | 78,149                        |
| Revaluation reserve                 |      | 6,200,147                     | 6,325,628                     |
| Other reserves                      |      | 171,842                       | 171,842                       |
| Accumulated profit                  |      | <u>2,015,892</u>              | <u>1,271,306</u>              |
|                                     |      | <u>8,987,023</u>              | <u>8,367,918</u>              |
| <b>Non-current liabilities</b>      |      |                               |                               |
| Grants related to assets            | 9    | 2,106,778                     | 2,214,132                     |
| Deferred income tax liabilities     | 10   | <u>1,400,702</u>              | <u>1,467,467</u>              |
|                                     |      | <u>3,507,480</u>              | <u>3,681,599</u>              |
| <b>Current liabilities</b>          |      |                               |                               |
| Trade and other payables            | 11   | 1,267,718                     | 1,221,857                     |
| Loans                               |      | 95                            | 44,726                        |
| Current income tax liability        |      | <u>156,301</u>                | <u>120,185</u>                |
|                                     |      | <u>1,424,114</u>              | <u>1,386,778</u>              |
| <b>Total equity and liabilities</b> |      | <u>13,918,617</u>             | <u>13,436,295</u>             |

The financial statements were approved on April 14, 2010 by:

Arman Khachatryan  
 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 29.

## Statement of comprehensive income

| In thousand drams                       |      | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|---|------|------------------------------------|------------------------------------|
|   | Note | <u>2010</u>                        | <u>2009</u>                        |
| Revenue                                 | 12   | 5,184,289                          | 4,995,353                          |
| Cost of sales                           | 13   | <u>(3,634,614)</u>                 | <u>(3,475,036)</u>                 |
| Gross profit                            |      | <u>1,549,675</u>                   | <u>1,520,317</u>                   |
| Other income                            |      | 348,682                            | 409,705                            |
| Distribution and marketing expenses     |      | (8,927)                            | (8,225)                            |
| Administration expenses                 | 14   | (900,844)                          | (984,709)                          |
| Other expenses                          |      | <u>(104,007)</u>                   | <u>(122,837)</u>                   |
| Results from operating activities       |      | <u>884,579</u>                     | <u>814,251</u>                     |
| Finance income                          |      | 10,304                             | 1,619                              |
| Finance costs                           |      | (947)                              | (34,097)                           |
| Other financial items                   | 15   | <u>(93,353)</u>                    | <u>194,456</u>                     |
| Profit before income tax                |      | <u>800,583</u>                     | <u>976,229</u>                     |
| Income tax expense                      | 16   | <u>(181,478)</u>                   | <u>(138,846)</u>                   |
| Profit for the year                     |      | <u>619,105</u>                     | <u>837,383</u>                     |
| Other comprehensive income              |      | <u>-</u>                           | <u>-</u>                           |
| Total comprehensive income for the year |      | <u><u>619,105</u></u>              | <u><u>837,383</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 29.

## Statement of changes in equity

In thousand drams

|  | Share<br>capital      | General<br>reserve   | Revaluation<br>reserve  | Other<br>reserves     | Accumu-<br>lated<br>profit | Total                   |
|--|-----------------------|----------------------|-------------------------|-----------------------|----------------------------|-------------------------|
| As of January 1, 2009                      | 520,993               | 78,149               | 6,460,323               | 171,842               | 299,228                    | 7,530,535               |
| Profit for the year                        | -                     | -                    | -                       | -                     | 837,383                    | 837,383                 |
| Total comprehensive<br>income for the year | -                     | -                    | -                       | -                     | 837,383                    | 837,383                 |
| Transfer to accumulated<br>profit          | -                     | -                    | (134,695)               | -                     | 134,695                    | -                       |
| as of December 31, 2009                    | <u>520,993</u>        | <u>78,149</u>        | <u>6,325,628</u>        | <u>171,842</u>        | <u>1,271,306</u>           | <u>8,367,918</u>        |
| Profit for the year                        | -                     | -                    | -                       | -                     | 619,105                    | 619,105                 |
| Total comprehensive<br>income for the year | -                     | -                    | -                       | -                     | 619,105                    | 619,105                 |
| Transfer to accumulated<br>profit          | -                     | -                    | (125,481)               | -                     | 125,481                    | -                       |
| As of December 31, 2010                    | <u><u>520,993</u></u> | <u><u>78,149</u></u> | <u><u>6,200,147</u></u> | <u><u>171,842</u></u> | <u><u>2,015,892</u></u>    | <u><u>8,987,023</u></u> |

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 29.

## Statement of cash flows

| In thousand drams  | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|------------------------------------|------------------------------------|
| Cash flows from operating activities                               |                                    |                                    |
| Profit for the year  | 619,105                            | 837,383                            |
| <i>Adjustments for:</i>  |                                    |                                    |
| Depreciation and amortization                                      | 445,362                            | 452,939                            |
| Loss on disposal of property and equipment                         | 5,789                              | 6,151                              |
| Income from grants related to assets                               | (107,354)                          | (181,019)                          |
| Finance income   | (10,304)                           | (1,619)                            |
| Interest expense   | 947                                | 34,097                             |
| Income tax expense   | 181,478                            | 138,846                            |
| Movement of the allowance for doubtful receivables                 | 41,209                             | 54,011                             |
| Income from reversal of the allowance for doubtful receivables     | (7,852)                            | (8,395)                            |
| Foreign exchange loss/(gain)                                       | 93,353                             | (194,456)                          |
| <i>Operating profit before working capital changes</i>             | <u>1,261,733</u>                   | <u>1,137,938</u>                   |
| Change in trade and other receivables                              | (7,236)                            | 71,278                             |
| Change in inventories  | (93,118)                           | (54,936)                           |
| Change in trade and other payables                                 | 477,326                            | (12,513)                           |
| <i>Cash generated from operations</i>                              | <u>1,638,705</u>                   | <u>1,141,767</u>                   |
| Interest paid  | (947)                              | (36,757)                           |
| Income tax paid  | (212,137)                          | (53,566)                           |
| <i>Net cash from operating activities</i>                          | <u>1,425,621</u>                   | <u>1,051,444</u>                   |
| Cash flows from investing activities                               |                                    |                                    |
| Acquisition of non-current assets                                  | (213,108)                          | (144,766)                          |
| <i>Net cash used in investing activities</i>                       | <u>(213,108)</u>                   | <u>(144,766)</u>                   |
| Cash flows from financing activities                               |                                    |                                    |
| Loans and borrowings, net  | (34,434)                           | (431,750)                          |
| <i>Net cash used in financing activities</i>                       | <u>(34,434)</u>                    | <u>(431,750)</u>                   |
| Net increase in cash and cash equivalents                          | 1,178,079                          | 474,928                            |
| Foreign exchange effect on cash                                    | (74,171)                           | 102,151                            |
| Cash and cash equivalents at the beginning of the year             | 1,626,187                          | 1,049,108                          |
| Cash and cash equivalents at the end of the year (refer to note 7) | <u>2,730,095</u>                   | <u>1,626,187</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 29.

# 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 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.

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 17 for more details.

On April 15, 2010 the Company signed an association agreement with Converse Bank CJSC, according to which the bank will arrange and provide postbanking services through operating locations of the Company, as well as may utilize the movables and provide services through the personnel of these locations.

The Company and its 41 branches operate in Armenia and had 3,579 employees as of December 31, 2010 (as of December 31, 2009: 3,330 employees).

The Company’s registered office is located at 22 Saryan Street, Yerevan, Armenia.

## 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”).

In presenting the financial statements in accordance with IFRS only additional disclosures have been made in accordance with IFRS 7 *Financial Instruments: Disclosures*, which relates to financial instruments and financial risk management disclosed in the notes 19 and 20.

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of buildings and constructions, 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 18 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, 2010.

### **Standards and Interpretations in issue but not yet adopted**

#### ***IFRS 9 Financial Instruments***

This Standard issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### ***IAS 24 Related Party Disclosures*** (as revised in 2009)

As a result the definition of a related party is modified and disclosures for government-related entities are simplified. The changes will be effective for annual periods beginning on or after January 1, 2011.

### 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 363.44 drams for 1 US dollar as of December 31, 2010 (December 31, 2009: 377.89 drams for 1 US dollar).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

#### 3.2 Property and equipment

*Property and equipment stated at a revaluated amount*

Buildings 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. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. 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 buildings is recognized in other comprehensive income (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) and shows as revaluation reserve in shareholder's equity. A decrease in the carrying amount arising on the revaluation of such 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. The revaluation increase arising on the revaluation of land and buildings is recognized in accumulated profits as the asset is used by an entity. In this case, 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.

### 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*, a lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease is operating when it does not transfer substantially all the risks and rewards incidental to ownership of an asset. The lease of the Company is considered to be operating and the related expenses are transferred to the cost of provided services. Payments on operating lease agreements are recognized in the statement of comprehensive income 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 19.2 for a summary of the Company's financial assets by category.

The financial assets of the Company comprise trade and other receivables, as well as cash and cash equivalents that were included in the "loans and receivables" category.

*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.

*Cash and cash equivalents*

The Company's cash and cash equivalents comprise cash in hand, bank accounts, cash in transit and cash in transit. Cash also include lottery won tickets, as the Company may transfer lottery won tickets into cash within few days upon demand.

The cash and cash equivalents in the statement of financial position do not include the amounts collected on behalf of public utilities and the funds received from the State budget for the pensions and benefits payments.

### *Financial liabilities*

The Company's financial liabilities include loans received, as well as trade and other payables, 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 19.2

### *Loans*

Loans are recognized initially at fair value, net of issuance costs. 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.

### *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 Equity

Equity instruments issued by the Company are recorded at the proceeds received.

### 3.9 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.

### 3.10 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.

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.

### 3.11 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 and services are delivered.

#### *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 11).

#### *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 and<br>constructions | Machinery<br>equipment<br>and vehicles | Fixture and<br>other | Total             |
|--|------------------|--------------------------------|--|----------------------|-------------------|
| <i>Cost or valuation</i>                       |                  |                                |  |                      |                   |
| As of January 1, 2009                          | 2,170,727        | 10,481,897                     | 1,404,083                              | 273,009              | 14,329,716        |
| Additions                                      | -                | 17,477                         | 43,240                                 | 37,987               | 98,704            |
| Disposals                                      | -                | -                              | (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> |
| Additions                                      | 22               | 36,116                         | 118,982                                | 57,988               | 213,108           |
| Disposals                                      | -                | -                              | (180,433)                              | (3,898)              | (184,331)         |
| As of December 31, 2010                        | <u>2,170,749</u> | <u>10,535,490</u>              | <u>1,383,934</u>                       | <u>347,249</u>       | <u>14,437,422</u> |
| <i>Accumulated depreciation and impairment</i> |                  |                                |  |                      |                   |
| as of January 1, 2009                          | -                | 1,004,805                      | 1,167,183                              | 141,496              | 2,313,484         |
| Charge for the year                            | -                | 270,456                        | 125,030                                | 33,381               | 428,867           |
| Eliminated on disposal                         | -                | -                              | (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>  |
| Charge for the year                            | -                | 261,699                        | 129,768                                | 37,349               | 428,816           |
| Eliminated on disposal                         | -                | -                              | (177,546)                              | (996)                | (178,542)         |
| as of December 31, 2010                        | <u>-</u>         | <u>1,536,960</u>               | <u>1,242,761</u>                       | <u>207,914</u>       | <u>2,987,635</u>  |
| <i>Carrying amount</i>                         |                  |                                |  |                      |                   |
| 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> |
| as of December 31, 2010                        | <u>2,170,749</u> | <u>8,998,530</u>               | <u>141,173</u>                         | <u>139,335</u>       | <u>11,449,787</u> |

None of the property and equipment of the Company has been pledged as a security for loans and borrowings as of December 31, 2010 and December 31, 2009.

Property and equipment with a cost of drams 1,041,906 thousand are accounted for at zero carrying amount as of December 31, 2010 (as of December 31, 2009: drams 961,357 thousand).

Property and equipment with a cost of drams 694,275 thousand have not yet been put into use as of December 31, 2010 (December 31, 2009: drams 746,794 thousand).

As of December 31, 2010 and December 31, 2009 the Company's "Buildings and constructions" class is presented at their revalued amount. The revaluation was performed in 2006 by 5 independent valuating companies, based on the use of the cost analysis, comparative and profitability methods.

Had the Company's buildings and constructions been presented at cost less accumulated depreciation, as of December 31, 2010 their carrying amount would amount to drams 1,291,662 thousand (as of December 31, 2009: drams 1,360,275 thousand).

During the reporting period the depreciation expense amounting to drams 428,816 thousand (2008: drams 428,867 thousand) has been allocated to the administration expenses by drams 91,305 thousand (2009: drams 133,780 thousand) and to the cost of sales by dram 337,511 thousand (2008: drams 295,087 thousand).

## 5 Inventories

| In thousand drams                       | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|-------------------------------|-------------------------------|
| Materials                               | 56,237                        | 52,259                        |
| Small value items                       | 5,761                         | 7,569                         |
| Envelopes, post cards, stamps and other | 69,008                        | 62,081                        |
|   | <u>131,006</u>                | <u>121,909</u>                |

The cost of inventories recognized as an expense during the year is drams 321,840 thousand (2009: drams 307,582 thousand).

## 6 Trade and other receivables

| In thousand drams                         | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|-------------------------------|-------------------------------|
| International settlements                 | 634,637                       | 558,634                       |
| Other trade receivables                   | 268,018                       | 418,200                       |
| Allowances for doubtful trade receivables | <u>(96,350)</u>               | <u>(100,566)</u>              |
| Net trade receivables                     | <u>806,305</u>                | <u>876,268</u>                |
| Advances and prepayments                  | 51,871                        | 71,623                        |
| Receivables from the State budget         | 30,893                        | 1,895                         |
| Other                                     | 6,465                         | 38,262                        |
| Allowance for doubtful advances           | <u>(26,027)</u>               | <u>(5,097)</u>                |
|   | <u>869,507</u>                | <u>982,951</u>                |

The average credit period on rendering of services is 57 days (2009: 64 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.

Receivables from international postal services are mainly arise 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  | 2010           | 2009           |
|--|----------------|----------------|
| Balance at beginning of year   | 105,663        | 60,083         |
| Increase in the allowance during the year (recognized in other expenses) | 41,209         | 54,011         |
| Write-offs of trade receivables  | (16,643)       | (36)           |
| Reversal of provision (recognized in other income)                       | <u>(7,852)</u> | <u>(8,395)</u> |
| Balance at end of year   | <u>122,377</u> | <u>105,663</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 20.1 for the currencies in which the trade and other receivables are denominated.

## 7 Cash and cash equivalents

| In thousand drams   | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|-------------------------------|-------------------------------|
| Bank accounts   | 2,494,332                     | 1,358,000                     |
| Cash on hand  | 67,480                        | 117,442                       |
| Cash in transit   | 167,210                       | 149,832                       |
| Lottery won tickets   | 1,073                         | 913                           |
| Cash and cash equivalents for the purposes of the cash flow statement | 2,730,095                     | 1,626,187                     |
| Less: Amounts held in trust   | (1,315,452)                   | (1,036,256)                   |
|   | <u>1,414,643</u>              | <u>589,931</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<br>2010 | Ordinary shares<br>2009 |
|--|-------------------------|-------------------------|
| 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 Revaluation reserve

The revaluation reserve arises on the revaluation of buildings and constructions. The revaluation increase arising on the revaluation of land and buildings is recognized in accumulated profits as the asset is used by an entity. 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 Grants related to assets

| In thousand drams  | 2010             | 2009             |
|--|------------------|------------------|
| Balance at beginning of year                             | 2,214,132        | 2,389,943        |
| Additions  | -                | 5,208            |
| Grants recognized as income (recognized in other income) | (107,354)        | (181,019)        |
| Balance at end of year                                   | <u>2,106,778</u> | <u>2,214,132</u> |

The grant relates to the land, buildings and constructions received for the Government of Republic of Armenia.

The Company obtained the ownership rights over the plot of land under its buildings and constructions, in accordance with the procedure established in 2006 after the law “On additions and changes in the Land code of RA” came into force. The Company received the ownership rights over the plot of land it previously leased. In 2006-2007 the land was recognized as a separate asset at the difference of measured market value and cadastral amount.

Deferred income from the grant related to the land received from the Government of Republic of Armenia is recognised as income over the useful lives at buildings and constructions located on this land.

In 2006-2007 the Company also received buildings and constructions as a grant.

#### 10 Deferred income taxes

The movement of deferred income taxes is disclosed below:

| In thousand drams                               | 2010             | 2009             |
|---|------------------|------------------|
| Balance at beginning of year                    | 1,467,467        | 1,529,387        |
| Credited to income statement (refer to note 16) | (66,765)         | (61,920)         |
| Balance at end of year                          | <u>1,400,702</u> | <u>1,467,467</u> |

Deferred income taxes for the year ended December 31, 2010 can be summarized as follows:

| In thousand drams                              | January 1,<br>2010 | Recognized<br>in the statement<br>of comprehensive<br>income | December 31,<br>2010 |
|--|--------------------|--|----------------------|
| <i>Deferred income tax assets</i>              |                    |  |                      |
| Trade receivables                              | 21,133             | 3,342  | 24,475               |
| Inventories                                    | 3,567              | -  | 3,567                |
| Trade payables                                 | 89,241             | 32,052   | 121,293              |
|  | <u>113,941</u>     | <u>35,394</u>  | <u>149,335</u>       |
| <i>Deferred income tax liabilities</i>         |                    |  |                      |
| Property and equipment                         | (1,581,408)        | 31,371   | (1,550,037)          |
|  | <u>(1,581,408)</u> | <u>31,371</u>  | <u>(1,550,037)</u>   |
| Net position - deferred income tax liabilities | <u>(1,467,467)</u> | <u>66,765</u>  | <u>(1,400,702)</u>   |

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

| In thousand drams                              | January 1,<br>2009 | Recognized<br>in the statement of<br>comprehensive<br>income | December 31,<br>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>   |

| Analyzed as:                             | 2009        | 2008        |
|--|-------------|-------------|
| To be redeemed after more than 12 months | (1,550,037) | (1,581,408) |
| To be recovered within 12 months         | 149,335     | 113,941     |

## 11 Trade and other payables

| In thousand drams         | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---------------------------|-------------------------------|-------------------------------|
| International settlements | 343,849                       | 259,746                       |
| Other trade payables      | 174,106                       | 216,403                       |
| Advances from customers   | 60,848                        | 143,179                       |
| Taxes and duties payable  | 72,568                        | 76,336                        |
| Employee benefits         | 601,506                       | 506,159                       |
| Other                     | 14,841                        | 20,034                        |
|                           | <u>1,267,718</u>              | <u>1,221,857</u>              |

The average credit period on the receipt of certain service is 52 days (2009: 50). 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.

## 12 Revenue

| In thousand drams  | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|------------------------------------|------------------------------------|
| Postal services  | 1,523,005                          | 1,471,076                          |
| Agency fee for distribution of pensions and benefits                       | 2,085,998                          | 1,910,586                          |
| Agency fee for making utility payments (electricity, gas, telephone, etc.) | 1,393,989                          | 1,447,896                          |
| Other  | 181,297                            | 165,795                            |
|  | <u>5,184,289</u>                   | <u>4,995,353</u>                   |

## 13 Cost of sales

| In thousand drams  | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|--|------------------------------------|------------------------------------|
| Employee benefits  | 2,227,127                          | 2,144,130                          |
| Services received  | 234,272                            | 198,430                            |
| Parcels delivery and cost of international services received | 428,504                            | 470,607                            |
| Depreciation and amortization                                | 350,968                            | 319,143                            |
| Cost of materials and spare parts used                       | 348,567                            | 293,637                            |
| Other  | 45,176                             | 49,089                             |
|  | <u>3,634,614</u>                   | <u>3,475,036</u>                   |

## 14 Administration expenses

| In thousand drams             | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|-------------------------------|------------------------------------|------------------------------------|
| Employee benefits             | 243,475                            | 304,146                            |
| Business travel               | 7,629                              | 7,058                              |
| Depreciation and amortization | 91,305                             | 133,795                            |
| Management fees               | 319,706                            | 306,724                            |
| Other                         | 238,729                            | 232,986                            |
|                               | <u>900,844</u>                     | <u>984,709</u>                     |

## 15 Other financial items

Other financial items consist of the following:

| In thousand drams                                 | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|---|------------------------------------|------------------------------------|
| Gain/(loss) from exchange differences on:         |                                    |                                    |
| Loans and receivables                             | (158,192)                          | 296,915                            |
| Financial liabilities measured at amortized costs | 64,839                             | (102,459)                          |
|   | <u>(93,353)</u>                    | <u>194,456</u>                     |

## 16 Income tax expense

| In thousand drams               | Year ended<br>December 31,<br>2010 | Year ended<br>December 31,<br>2009 |
|---------------------------------|------------------------------------|------------------------------------|
| Current tax                     | 248,243                            | 200,766                            |
| Deferred tax (refer to note 10) | (66,765)                           | (61,920)                           |
|                                 | <u>181,478</u>                     | <u>138,846</u>                     |

### Reconciliation of effective tax rate is as follows:

| In thousand drams                                  | Year ended<br>December 31,<br>2010 | Effective tax<br>rate (%) | Year ended<br>December 31,<br>2009 | Effective tax<br>rate (%) |
|--|------------------------------------|---------------------------|------------------------------------|---------------------------|
| Profit before taxation (under IFRS)                | <u>800,583</u>                     |                           | <u>976,229</u>                     |                           |
| Tax calculated at a tax rate of 20%<br>(2009: 20%) | 160,117                            | 20.00                     | 195,246                            | 20.00                     |
| (Non-taxable)/non-deductible<br>items, net         | <u>21,361</u>                      | <u>2.67</u>               | <u>(58,400)</u>                    | <u>(5.78)</u>             |
| Income tax expense                                 | <u>181,478</u>                     | <u>22.67</u>              | <u>138,846</u>                     | <u>14.22</u>              |

## 17 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.

## 18 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.

### 18.1 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.

### 18.2 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, 2010 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 29,079 thousand, and the decrease by 10% will cause increase in the loss for the period by drams 29,079 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.

#### *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.

## 19 Financial instruments

### 19.1 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 3.6.

### 19.2 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<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|-----------------------------|-------------------------------|-------------------------------|
| Loans and receivables:      |                               |                               |
| Trade and other receivables | 812,770                       | 882,937                       |
| Cash and cash equivalents   | 1,414,643                     | 589,931                       |
|                             | <u>2,227,413</u>              | <u>1,472,868</u>              |

#### *Financial liabilities*

In thousand drams

|  | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|--|-------------------------------|-------------------------------|
| Financial liabilities measured at amortized costs: |                               |                               |
| Loans received                                     | 95                            | 44,726                        |
| Trade and other payables                           | 527,838                       | 634,890                       |
|  | <u>527,933</u>                | <u>679,616</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.

## 20 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.

### 20.1 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<br>drams | Freely<br>convertible<br>currencies | Non-freely<br>convertible<br>currencies |
|------------------------------|-------------------|-------------------------------------|---|
| As of December 31, 2010      |                   |                                     |   |
| <i>Financial assets</i>      |                   |                                     |   |
| Trade and other receivables  | 166,182           | 13,161                              | 633,427                                 |
| Cash and cash equivalents    | 1,190,877         | 223,766                             | -                                       |
|                              | <u>1,357,059</u>  | <u>236,927</u>                      | <u>633,427</u>                          |
| <i>Financial liabilities</i> |                   |                                     |   |
| Loans received               | 95                | -                                   | -                                       |
| Trade and other payables     | 179,823           | 6,326                               | 341,689                                 |
|                              | <u>179,918</u>    | <u>6,326</u>                        | <u>341,689</u>                          |
| Net position                 | <u>1,177,141</u>  | <u>230,601</u>                      | <u>291,738</u>                          |
| Item                         | Armenian<br>drams | Freely<br>convertible<br>currencies | Non-freely<br>convertible<br>currencies |
| As of December 31, 2009      |                   |                                     |   |
| <i>Financial assets</i>      |                   |                                     |   |
| Trade and other receivables  | 203,463           | 122,718                             | 556,756                                 |
| Cash and cash equivalents    | -                 | 589,931                             | -                                       |
|                              | <u>203,463</u>    | <u>712,649</u>                      | <u>556,756</u>                          |
| <i>Financial liabilities</i> |                   |                                     |   |
| Loans received               | 44,717            | 9                                   | -                                       |
| Trade and other payables     | 331,883           | 28,129                              | 274,878                                 |
|                              | <u>376,600</u>    | <u>28,138</u>                       | <u>274,878</u>                          |
| Net position                 | <u>(173,137)</u>  | <u>684,511</u>                      | <u>281,878</u>                          |

The Company is mainly exposed to US dollar and Euro. The following table details the Company's sensitivity to a 10% (2009: 10%) increase and decrease in dram against US dollar and Euro. 10% (2009: 10%) 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% (2009: 10%) 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 |               |
|----------------|------------------|---------------|-----------------------|---------------|
|                | 2010             | 2009          | 2010                  | 2009          |
| Profit or loss | <u>23,060</u>    | <u>68,451</u> | <u>29,174</u>         | <u>28,188</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 122,337 thousand as of December 31, 2010 (December 31, 2009: drams 105,663 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.

**ç) 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.

| 2010   | Non-interest bearing | Fixed interest rate instruments | Total          |
|--|----------------------|---------------------------------|----------------|
| Weighted average effective interest rate (%) |                      | 13%                             |                |
| Less than 1 year                             | 189,356              | 95                              | 189,451        |
| 1-5 years                                    | 338,482              | -                               | 338,482        |
|  | <u>527,838</u>       | <u>95</u>                       | <u>527,933</u> |
| 2009   | Non-interest bearing | Fixed interest rate 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> |

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.

## 20.2 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.

## 20.3 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.

## 21 Commitments

### 21.1 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<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|-------------------------------|-------------------------------|
| Not later than 1 year                       | 39,528                        | 1,848                         |
| Later than 1 year and no later than 5 years | 23,067                        | 420                           |
|   | <u>62,595</u>                 | <u>2,268</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<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|---|-------------------------------|-------------------------------|
| Not later than 1 year                       | 41,492                        | 71,625                        |
| Later than 1 year and no later than 5 years | 77,909                        | 31,744                        |
|   | <u>119,401</u>                | <u>103,369</u>                |

## 21.2 Legal commitments

As of December 31, 2010 there are different legal cases initiated against the Company that are still under consideration and the final decision will be made in 2011. If the mentioned cases are not settled in favour of the Company, the outflow of funds incurred by the Company will amount to drams 109,880 thousand.

As of December 31, 2010 there are also legal cases initiated by the Company that are under consideration. If these cases are settled in favour of the Company, the inflow of funds received by the Company will amount to drams 11,482 thousand.

## 22 Contingencies

### 22.1 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 crises.

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 goods and 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.

### 22.2 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.

### 22.3 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.

### 23 Related party transactions

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

#### 23.1 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.

#### 23.2 Transactions with Haypost Trust Management CJSC

During 2010, the Company received management services valued at drams 294,686 thousand (2009: drams 306,724 thousand). The outstanding balance of drams 103,005 thousand is included in trade payables (2009: drams 106,812 thousand).

#### 23.3 Transaction with Converse Bank CJSC

During 2010 the total amount of borrowings and accrued interest expenses paid by the Company to Converse Bank CJSC amounts drams 45,664 thousand (2009: drams 470,090 thousand). The outstanding balance is drams 95 thousand as of December 31, 2010 (2009: drams 44,726 thousand).

During 2010, the Company provided services valued at drams 18,588 thousand (2009: drams 9,720 thousand). The outstanding balance of drams 1,053 thousand is included in trade receivables (2009: drams 1,335 thousand).

#### 23.4 Transactions with management and close family members

Directors of the Company and their close family members as of December 31, 2010 and December 31, 2009 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  | As of<br>December 31,<br>2010 | As of<br>December 31,<br>2009 |
|--|-------------------------------|-------------------------------|
| Salaries and bonuses, including contributions to Social State fund | 256,763                       | 58,605                        |



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