Grant Thornton

Financial Statements and Independent Auditor's Report

Haypost Closed Joint Stock Company

December 31, 2013

Contents

Independent auditor's report

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To the shareholder of Haypost closed joint stock company

We have audited the accompanying financial statements of Haypost closed joint stock company (the "Company"),, which comprise the statement of financial position as of December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Haypost CJSC as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

June 26, 2014

Gagik Gyulbudaghyan

Managing Partner

Emil Vasilyan, FCCA

Engagement Partner

Statement of financial position

In thousand drams	Note	As of December 31, 2013	As of December 31, 2012
Assets			
Non-current assets			
Property and equipment	4	11,520,389	11,427,747
Intangible assets		278,587	289,914
Term deposits	7	-	86,949
		11,798,976	11,804,610
Current assets			
Inventories	5	316,922	230,932
Trade and other receivables	6	1,361,095	1,259,274
Term deposits	7	1,739,334	1,631,356
Cash and bank balances	8	439,377	398,396
		3,856,728	3,519,958
Total assets		15,655,704	15,324,568
Equity and liabilities			
Capital and reserves	9		
Share capital		520,993	520,993
General reserve		78,149	78,149
Revaluation reserve		5,683,438	5,813,603
Other reserves		171,842	171,842
Accumulated profit		4,259,286	3,644,185
		10,713,708	10,228,772
Non-current liabilities			
Grants related to assets	10	1,796,728	1,905,522
Deferred income tax liabilities	11	1,206,454	1,262,627
		3,003,182	3,168,149
Current liabilities			
Trade and other payables	12	1,915,917	1,924,283
Loans		1,620	679
Current income tax liability		21,277	2,685
		1,938,814	1,927,647
Total equity and liabilities		15,655,704	15,324,568

The financial statements were approved on June 26, 2014 by:

Hayk Avagyan
Acting General Director

Gayane Kananyan
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 8 to 36.

Statement of profit or loss and other comprehensive income

In thousand drams	Note	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	13	6,173,490	5,950,801
Cost of sales	14	(5,026,233)	(4,899,481)
Gross profit		1,147,257	1,051,320
Other income	15	271,156	362,768
Distribution and marketing expenses		(25,337)	(40,877)
Administrative expenses	16	(987,138)	(709,774)
Other expenses		(76,325)	(163,240)
Results from operating activities		329,613	500,197
Finance income	17	229,509	42,280
Finance costs	17	(2,173)	(110)
Other financial items	18	34,749	79,834
Profit before income tax		591,698	622,201
Income tax expense	19	(106,762)	(124,737)
Profit for the year		484,936	497,464
Other comprehensive income		-	-
Total comprehensive income for the year		484,936	497,464

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 36.

Statement of changes in equity

In thousand drams	Share capital	General reserve	Revaluation reserve	Other reserves	Accumulated profit	Total
as of January 1, 2012	520,993	78,149	6,020,083	171,842	2,940,241	9,731,308
Profit for the year	-	-	-	-	497,464	497,464
Total comprehensive income for the year	-	-	-	-	497,464	497,464
Transfer to accumulated profit	-	-	(206,480)		206,480	-
as of December 31, 2012	520,993	78,149	5,813,603	171,842	3,644,185	10,228,772
Profit for the year	-	-	-	-	484,936	484,936
Total comprehensive income for the year	-	-	-	-	484,936	484,936
Transfer to accumulated profit	-	-	(130,165)	-	130,165	-
as of December 31, 2013	520,993	78,149	5,683,438	171,842	4,259,286	10,713,708

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 8 to 36.

Statement of cash flows

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities		
Profit for the year	484,936	497,464
Adjustments for:		
Depreciation and amortization	609,007	624,900
Loss on disposal of property and equipment	1,010	5,120
Income from grants related to assets	(108,794)	(107,015)
Interest income on bank deposits	(151,060)	(34,360)
Interest expense	2,173	110
Income tax expense	106,762	124,737
Finance income	8,590	11,616
Movement of the allowance for doubtful receivables	8,590	11,616
Income from reversal of the allowance for doubtful receivables	(1,625)	(3,953)
Foreign exchange gain	(34,749)	(79,834)
Operating profit before working capital changes	916,250	1,038,785
Change in trade and other receivables	(149,099)	(366,818)
Change in inventories	(85,990)	16,304
Change in trade and other payables	210,015	1,062,567
Cash generated from operations	891,176	1,750,838
Interest paid	(2,173)	(74)
Income tax paid	(144,343)	(239,428)
Net cash from operating activities	744,660	1,511,336
Cash flows from investing activities		
Acquisition of property and equipment and intangible assets	(691,332)	(865,197)
Term deposits, net	160,465	(1,705,612)
Net cash used in investing activities	(530,867)	(2,570,809)

Statement of cash flows (continued)

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from financing activities		
Loans and borrowings	937	128
Net cash from financing activities	937	128
Net increase/(decrease) in cash and bank balances	214,730	(1,059,345)
Foreign exchange effect on cash	11,784	83,769
Cash and bank balances at the beginning of the year	2,095,635	3,071,211
Cash and bank balances at the end of the year	2,322,149	2,095,635

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 envelops 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 20 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 3,930 employees as of December 31, 2013 (as of December 31, 2012: 3,955 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 21 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, 2013.

New and revised standards and interpretations that are effective for annual periods beginning on or after January 1, 2013

Amendments to IAS 1 *Presentation of Financial Statements*

These amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income. Under the amendments to IAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the Amendments to IAS 1 require an entity to group items presented in other comprehensive income into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IFRS 13 *Fair Value Measurement*

IFRS 13 clarifies the definition of fair value and provides relevant guidelines and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies to both financial and non-financial items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after January 1, 2013. Its disclosure requirements need not be applied for comparative information in the first year of application.

The Company has applied IFRS 13 for the first time in the current year. Refer to note 24.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities, as well as chapters dealing with hedge accounting have been issued. Previously these chapters were supposed to be effective for annual periods beginning on or after January 1, 2015. However, in November 2013 the January 1, 2015 mandatory effective date of IFRS 9 has been removed to provide sufficient time for entities to make the transition to the new requirements. Chapters dealing with impairment methodology are still being developed. The amendments made to IFRS 9 in November 2013 allow the changes to address the so-called "own credit" issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments.

The Company's management have yet to assess the impact of this new standard on the Company's financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

Annual Improvements 2010-2012

The Annual Improvements 2010-2012 made several minor amendments to a number of IFRSs. The amendments relevant to the Company are summarized below:

IFRS 13 *Fair Value Measurement*

Short-term receivables and payables

- amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.

IAS 16 *Property and Equipment*

Revaluation method-proportionate restatement of accumulated depreciation

- addresses the diversity in practice in calculating the accumulated depreciation for an item of property and equipment that is measured using the revaluation method

- clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount

- clarifies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

IAS 24 *Related Party Disclosures*

Key management personnel

- amends the definition of a "related party" in order to include "management entities" that provide key management personnel services to the reporting entity

- requires the disclosure of the amounts recognized by the reporting entity as a service fee to a separate management entity for the provision of the key management personnel services

- provides a relief so that the reporting entity is not required to disclose components of the compensation to key management personnel where the compensation is paid via a management entity.

IAS 38 *Intangible Assets*

Revaluation method-proportionate restatement of accumulated amortization

- makes equivalent changes to the accounting of intangible assets, as described above for IAS 16 *Property and Equipment*.

The Annual Improvements 2010-2012 noted above are effective for annual periods beginning on or after July 1, 2014. Management does not anticipate a material impact on the Company's financial statements from 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 405.64 drams for 1 US dollar as of December 31, 2013 (December 31, 2012: 403.58 drams for 1 US dollar). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

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

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 and equipment 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 property and equipment 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.

Other items of 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.

Expenditure to replace a component of an item of property and equipment that is accounted for separately is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in profit or loss as incurred.

Depreciation is charged to profit or loss 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
Vehicles	-	5 years
Fittings	-	5 years
Other	-	5 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*, 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 agreed period of time. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Company's lease is treated as operating leases and included in cost of sales, distribution and administrative expenses. 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

Recognition, initial measurement and derecognition

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.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement financial assets other than hedging instruments are divided into the following categories upon initial recognition:

- 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 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 in other comprehensive income. Refer to note 22.2 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 expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and bank balances.

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 profit or loss 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.

Receivables from international settlements include postal services that mainly arise from delivery of envelops and parcels.

Cash and bank balances

The Company's cash and cash equivalents comprise cash in hand, bank accounts and cash in transit. Cash also includes lottery won tickets, as the Company may convert 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 pensions and benefit payments funds received from the State budget to be subsequently delivered to the population.

ii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity and include deposits at commercial banks. Investments are classified as held-to-maturity if it is the intention of the Company's management to hold them until maturity.

Deposits are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the deposit has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the deposit are recognized in profit or loss.

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include loans and borrowings and trade and other payables (including finance lease liabilities). A summary of the Company's financial liabilities by category is given in note 22.2.

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 profit or loss 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.

In respect of available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

3.8 Equity

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

Share capital represents the nominal value of shares that have been issued.

Revaluation reserve comprises gains and losses from the revaluation.

Retained earnings include all current and prior period retained profits.

Dividends are recognized as a liability in the period in which they are declared.

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 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.

3.11 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

3.12 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 reporting 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 8). The overuse of amounts intended for the performance of agency services is reflected as liability in trade and other payables (refer to note 12).

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 constructions	Machinery, vehicles, and equipment	Fixture and other	Total
Cost or valuation					
as of January 1, 2012	2,170,749	10,604,568	1,614,481	392,356	14,782,154
Additions	22	99,464	358,037	159,143	616,666
Disposals	-	-	(133,933)	(170)	(134,103)
as of December 31, 2012	2,170,771	10,704,032	1,838,585	551,329	15,264,717
Additions	183	54,809	503,506	131,835	690,333
Disposals	-	(52)	(72,791)	(20,033)	(92,876)
as of December 31, 2013	2,170,954	10,758,789	2,269,300	663,131	15,862,174
Accumulated depreciation					
as of January 1, 2012	-	1,842,167	1,265,272	245,768	3,353,207
Charge for the year	-	332,460	221,943	58,343	612,746
Eliminated on disposal	-		(128,901)	(82)	(128,983)
as of December 31, 2012	-	2,174,627	1,358,314	304,029	3,836,970
Charge for the year	-	305,414	201,001	90,266	596,681
Eliminated on disposals	-	(52)	(72,339)	(19,475)	(91,866)
as of December 31, 2013	-	2,479,989	1,486,976	374,820	4,341,785
Carrying amount					
as of December 31, 2012	2,170,771	8,529,405	480,271	247,300	11,427,747
as of December 31, 2013	2,170,954	8,278,800	782,324	288,311	11,520,389

None of the property and equipment of the Company has been pledged as a security for loans and borrowings as of December 31, 2013 and December 31, 2012.

As of December 31, 2013 property and equipment with a cost of drams 1,660,672 thousand (as of December 31, 2012: drams 1,382,559 thousand) are accounted for at zero carrying amounts.

Property and equipment with a cost of drams 447,060 thousand have not yet been put into use as of December 31, 2013 (December 31, 2012: drams 161,899 thousand).

Property and equipment with a cost of drams 1,123,188 thousand temporarily have been taken from use as of December 31, 2013 (December 31, 2012: drams 1,496,021 thousand).

As of December 31, 2013 and December 31, 2012 the Company's buildings and constructions (which include mainly buildings of post offices and postal branches) are 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, 2013 their carrying amount would amount to drams 1,300,112 thousand (as of December 31, 2012: drams 1,356,377 thousand).

During the reporting period the depreciation expense amounting to drams 596,681 thousand (2012: drams 612,746 thousand) has been allocated to the administration expenses by drams 110,501 thousand (2012: drams 110,782 thousand) and to the cost of sales by dram 486,180 thousand (2012: drams 501,964 thousand).

5 Inventories

In thousand drams	As of December 31, 2013	As of December 31, 2012
Materials	194,818	107,565
Small value items	4,038	7,005
Envelopes, post cards, stamps and other	118,066	116,362
	316,922	230,932

The cost of inventories recognized as an expense during the year is drams 354,145 thousand (2012: drams 1,296,929 thousand.

6 Trade and other receivables

In thousand drams	As of December 31, 2013	As of December 31, 2012
International settlements	912,425	772,239
Other trade receivables	395,325	315,173
Allowances for doubtful trade receivables	(119,658)	(114,640)
Net trade receivables	1,188,092	972,772
Advances and prepayments	140,007	205,480
Receivables from the State budget	33,964	98,728
Other receivables	26,654	7,969
Allowance for doubtful advances	(27,622)	(25,675)
	1,361,095	1,259,274

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The average credit period on rendering of services is 70 days (2012: 60 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 mainly arise from delivery of envelops and parcels. Other trade receivables are receivables from domestic customers.

Management believes that the receivables from the State budget are fully recoverable.

Movement of the allowance for doubtful receivables is presented below:

In thousand drams

	2013	2012
Balance at the beginning of year	140,315	132,563
Increase in the allowance during the period (recognized in other expenses)	8,590	11,616
Reversal of previously written off trade receivables	-	89
Reversal of provision (refer to note 15)	(1,625)	(3,953)
Balance at the end of year	147,280	140,315

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 23 for the currencies in which the trade and other receivables are denominated.

7 Term deposits

The balances of term deposits principal and accrued interests, as well as, the interest income are summarized in the table below:

Company name	Principal amount in original currency	Original currency	Starting date	Closing date	Interest rate (%)	Balance as of December 31 (in thousand drams) 2013 Principal	Interest	Interest income (in thousand drams) 2013
Conversebank CJSC	186,000,000	AMD	30.04.2013	30.04.2014	12.00%	186,000	14,980	14,980
Conversebank CJSC	162,000	Euro	02.11.2012	03.11.2014	5.00%	90,646	5,113	4,396
Conversebank CJSC	500,000	Euro	18.11.2013	18.11.2014	4.50%	279,770	1,467	14,283
Conversebank CJSC	2,800,000	USD	19.09.2013	19.09.2014	8.00%	1,135,792	25,566	25,638
Conversebank CJSC	2,800,000	USD	12.09.2012	12.09.2013	9.00%	-	-	71,908
Conversebank CJSC	500,000	USD	13.12.2012	13.12.2013	9.00%	-	-	19,855
						1,692,208	47,126	151,060

Company name	Principal amount in original currency	Original currency	Starting date	Closing date	Interest rate (%)	Balance as of December 31 (in thousand drams) 2012 Principal	Interest	Interest income (in thousand drams) 2012
Conversebank CJSC	2,800,000	USD	12.09.2012	12.09.2013	9.00%	1,130,024	30,569	30,792
Conversebank CJSC	162,000	Euro	02.11.2012	03.11.2014	5.00%	86,223	726	718
Conversebank CJSC	500,000	Euro	16.11.2012	18.11.2013	6.00%	266,120	1,963	1,950
Conversebank CJSC	500,000	USD	13.12.2012	13.12.2013	9.00%	201,790	890	900
						1,684,157	34,148	34,360

8 Cash and bank balances

In thousand drams	As of December 31, 2013	As of December 31, 2012
Bank accounts	1,420,237	1,766,574
Cash on hand	775,850	213,300
Cash in transit	125,153	114,838
Lottery won tickets	909	923
Cash and cash equivalents for the purpose of the statement of cash flows	2,322,149	2,095,635
Less: Amounts held in trust	(1,882,772)	(1,697,239)
	439,377	398,396

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.

Amounts held in trust include the amounts collected on behalf of public utilities and the pensions and benefits payments funds received from the State budget to be subsequently delivered to the population.

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Term deposits are not included in the statement of cash flows, since they have a maturity period exceeding 225 days starting from the reporting date.

9 Capital and reserves

9.1 Share capital

	Ordinary shares 2013	Ordinary shares 2012
Authorized shares		
9,542 ordinary shares of drams 54,600 each	520,993	520,993

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

9.2 Dividends

On July 10, 2012 “Haypost Trust Management” CJSC has signed an agreement with the Government of the Republic of Armenia to prolong 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 until December 1, 2016. According to point 3.7 of the agreement, the profit from the Company’s financial operations is not subject to distribution until December 1, 2016.

9.3 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.

9.4 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.

10 Grants related to assets

In thousand drams	2013	2012
Balance at beginning of year	1,905,522	1,999,630
Additions	-	12,907
Grants recognized as income (refer to note 15)	(108,794)	(107,015)
Balance at end of year	1,796,728	1,905,522

The grant relates to the land, buildings and constructions received from 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 the Republic of Armenia” 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 recognized as income over the useful lives of buildings and constructions located on this land.

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

11 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2013	2012
Balance at beginning of year	1,262,627	1,326,044
Credited to income statement (refer to note 19)	(56,173)	(63,417)
Balance at end of year	1,206,454	1,262,627

Deferred income taxes for the year ended December 31, 2013 can be summarized as follows:

In thousand drams

	January 1, 2013	Recognized in profit or loss	December 31, 2013
Deferred income tax assets			
Trade receivables	28,064	1,392	29,456
Inventories	6,649	-	6,649
Trade payables	143,657	14,571	158,228
Property and equipment	12,481	7,592	20,073
	190,851	23,555	214,406
Deferred income tax liabilities			
Property and equipment	1,453,478	(32,618)	1,420,860
	1,453,478	(32,618)	1,420,860
Net position - deferred income tax liabilities	(1,262,627)	56,173	(1,206,454)

Deferred income taxes for the year ended December 31, 2012 can be summarized as follows:

In thousand drams

	January 1, 2012	Recognized in profit or loss	December 31, 2012
Deferred income tax assets			
Trade receivables	26,513	1,551	28,064
Inventories	3,567	3,082	6,649
Trade payables	141,916	1,741	143,657
Property and equipment	-	12,481	12,481
	171,996	18,855	190,851
Deferred income tax liabilities			
Property and equipment	1,498,040	(44,562)	1,453,478
	1,498,040	(44,562)	1,453,478
Net position - deferred income tax liabilities	(1,326,044)	63,417	(1,262,627)

Analyzed as:	2013	2012
To be redeemed after more than 12 months	(1,420,860)	(1,453,478)
To be recovered within 12 months	214,406	190,851

12 Trade and other payables

In thousand drams	As of December 31, 2013	As of December 31, 2012
International settlements	569,171	460,880
Other trade payables	359,569	565,467
Advances from customers	23,049	39,241
Taxes and duties payable	123,585	238,194
Employee benefits payable	791,239	589,164
Other	49,304	31,337
	1,915,917	1,924,283

The average credit period on purchase of certain goods is 67 days (2012: 92 days). 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 Revenue

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Postal services	2,453,054	2,233,200
Agency fee for distribution of pensions and benefits	1,966,233	2,033,731
Agency fee for making utility payments (electricity, gas, telephone, etc.)	1,484,549	1,442,897
Other	269,654	240,973
	6,173,490	5,950,801

14 Cost of sales

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Employee benefits	2,947,413	2,652,979
Services received	351,874	362,028
Office expenses	760,985	731,244
Depreciation and amortization	498,477	514,118
Cost of materials and spare parts used	353,232	452,468
Other	114,252	186,644
	5,026,233	4,899,481

15 Other income

	Year ended December 31, 2013	Year ended December 31, 2012
Income from operating lease	122,295	132,575
Income from grants related to assets	108,794	107,015
Income from currency conversion	20,977	22,185
Reversal of the allowance for doubtful receivables	1,625	3,953
Other	17,465	97,040
	271,156	362,768

16 Administration expenses

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Employee benefits	411,143	293,651
Business travel	8,417	9,950
Depreciation and amortization	110,530	110,782
Audit and consulting expenses	128,363	31,369
Other	328,685	264,022
	987,138	709,774

17 Finance income and costs

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Interest expenses on bank overdraft and bank guarantee	(268)	(110)
Finance expense on guarantee received	(1,905)	-
Total finance costs	(2,173)	(110)
Interest income on bank deposits (refer to note 7)	151,060	34,360
Interest income on bank balances	78,449	7,920
Total finance income	229,509	42,280
Net finance income	227,336	42,170

18 Other financial items

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Gain/(loss) from exchange differences on:		
Loans and borrowings	39,891	120,094
Financial liabilities measured at amortized cost	(5,142)	(40,260)
	34,749	79,834

19 Income tax expense

In thousand drams	Year ended December 31, 2013	Year ended December 31, 2012
Current tax	162,935	188,154
Deferred tax (refer to note 11)	(56,173)	(63,417)
	106,762	124,737

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2013	Effective tax rate (%)	Year ended December 31, 2012	Effective tax rate (%)
Profit before taxation (under IFRS)	591,698		622,201	
Tax calculated at a tax rate of 20% (2012: 20%)	118,340	20.00	124,440	20.00
(Non-taxable)/non-deductible items, net	(11,578)	(1.96)	297	0.05
Income tax expense	106,762	18.04	124,737	20.05

20 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. On July 10, 2012 the Company has signed an agreement, according to which the period of the contract has been prolonged until December 1, 2016. The rights and obligations of the parties have been stipulated in the contract, as well as the compensation form of the expenses done by the Trust manager, according to the following articles:

Liabilities to the Trust manager

According to the agreement described above:

- the monthly remuneration of the Trust manager for Trust Management office and against operational costs of the Company will amount to Euro 3,500.

  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.

21 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.

21.1 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.

Useful lives of property and equipment

Management has estimated useful lives of the property and equipment. Management believes that estimated useful lives of the property and equipment are not materially different from economical lives of those assets. If actual useful lives of property and equipment are different from estimations, financial statements may be materially different.

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

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, 2013 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 34,325 thousand (2012: drams 31,136 thousand), and the decrease by 10% will cause increase in the loss for the period by drams 34,325 thousand (2012: drams 31,136 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 8).

22 Financial instruments

22.1 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 note 3.6.

22.2 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, 2013	As of December 31, 2012
Held-to-maturity investments:		
Term deposits	1,739,334	1,718,305
Loans and receivables:		
Trade and other receivables	1,214,746	980,741
Cash and bank balances	439,377	398,396
	3,393,457	3,097,442

Financial liabilities

In thousand drams	As of December 31, 2013	As of December 31, 2012
Financial liabilities measured at amortized costs:		
Loans and borrowings	1,620	679
Trade and other payables	984,807	1,060,476
	986,427	1,061,155

23 Financial risk management

The Company is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Financial risk factors

a) Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk.

Foreign currency risk

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

Most of the Company's transactions are carried out in Armenian drams. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US dollars, Euro and SDR.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Armenian drams at the closing rate:

Item As of December 31, 2013	US dollar	Euro	Other
Financial assets			
Term deposits	1,135,792	370,415	-
Trade and other receivables	414	6,379	911,051
Cash and cash equivalents	228,341	210,087	40
	1,364,547	586,881	911,091
Financial liabilities			
Loans	-	311	-
Trade and other payables	3,169	9,581	604,356
	3,169	9,892	604,356
Net position	1,361,378	576,989	306,735

Item			
As of December 31, 2012	US dollar	Euro	Other
Financial assets			
Term deposits	1,331,814	352,343	-
Trade and other receivables	2,637	7,029	770,961
Cash and cash equivalents	7,647	186,233	-
	1,342,098	545,605	770,961
Financial liabilities			
Loans	-	679	-
Trade and other payables	220,253	22,765	494,174
	220,253	23,444	494,174
Net position	1,121,845	522,161	276,787

The following table details the Company's sensitivity to a 7% (2012: 7%) increase and decrease in dram against US dollar. 7% (2012: 7%) 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 7% (2012: 7%) change in foreign currency rates.

If Armenian dram had strengthened against US dollar and Euro by 7% (2012: 7%) then this would have had the following impact:

In thousand drams	US dollar impact		Euro impact	
	2013	2012	2013	2012
Profit or loss	95,296	112,185	40,389	52,216

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 effect of this risk for the Company arises from different financial instruments, such as accounts receivable, term deposits etc. The maximum exposure to credit risk is represented by the carrying amounts of the following financial instruments:

In thousand drams	As of December 31, 2013	As of December 31, 2012
Financial assets at carrying amounts		
Term deposits	1,739,334	1,718,305
Accounts receivable	1,214,746	980,741
Cash and bank balances	439,377	398,396
	3,393,457	3,097,442

At the reporting date there was no significant concentration of credit risk in respect of trade and other receivables. The Company has made provisions of drams 119,658 thousand as of December 31, 2013 (December 31, 2012: drams 114,640 thousand) for overdue receivables.

The credit risk for cash and cash equivalents including term deposits is considered negligible, since the counterparties are reputable banks.

c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations.

The Company's policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, 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 with agreed repayment periods. 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 principal cash flows.

2013	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		13%	
Less than 1 month	374,073	1,620	375,693
1-5 years	610,734	-	610,734
	984,807	1,620	986,427

2012	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		13%	
Less than 1 month	837,094	2,003	839,097
1-5 years	223,382	-	223,382
	1,060,476	2,003	1,062,479

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and trade receivables. The Company's cash resources and trade receivables significantly exceed the current cash outflow requirements.

24 Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level - 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level - 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24.1 Fair value measurement of non-financial assets

The land and buildings of the Company are stated at revalued amount. The estimated fair values of the land and buildings are categorized within Level 3 of the fair value hierarchy. The fair values of those assets are estimated based on appraisals performed by independent, professionally-qualified property valuers who hold necessary licenses. The significant inputs and assumptions are developed in close consultation with management. Further information is set out below.

Land and building (Level 2)

As of December 31, 2013 and December 31, 2012 the Company's buildings and constructions (which include mainly buildings of post offices and postal branches) are 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.

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2 inputs include:

a) quoted prices for similar assets or liabilities in active markets

b) quoted prices for identical or similar assets or liabilities in markets that are not active

c) inputs other than quoted prices that are observable for the asset or liability

d) market-corroborated inputs.

24.2 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, 2013	As of December 31, 2012
Within one year	62,823	53,618
1 to 5 years	78,384	75,033
After 5 years	481	-
	141,688	128,651

24.3 Legal commitments

As of December 31, 2013 there are different legal, civil and criminal cases initiated by or against the Company that are still under consideration and the final decision will be made in or after 2014. If cases against the Company are not settled in favor of the latter, there is a risk that the Company will have an outflow of funds amounting to drams 90,000 thousand. However, the Company's management believes that the Company will not incur any additional liabilities.

25 Contingencies

25.1 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 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. Also, there are still uncertainties about the economic situation of countries, collaborating with Armenia, due to the forecasted slowdown in the world economy, which may lead to the shortage of money transfers from abroad, as well as to the decline in the prices of mining products, upon which the economy of Armenia is significantly dependant. In times of more severe market stress the situation of Armenian economy and of the Company may be exposed to deterioration. 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 factors described above become observable and reliably measurable in Armenia.

25.2 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.

25.3 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.

26 Related parties

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

26.1 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 a period of five years.

26.2 Transactions with Haypost Trust Management CJSC

During 2013, the Company had no payments for services provided in 2011 (2012: drams 74,136 thousand). The outstanding balance of drams 74,136 thousand is included in trade payables (2012: drams 74,136 thousand).

According to the agreement signed on December 9, 2013, the payment date for outstanding balances has been prolonged until December 1, 2016.

26.3 Transaction with Converse Bank CJSC

During 2013 the total amount of borrowings and accrued interest expenses paid by the Company to Converse Bank CJSC amounts drams 1,213 thousand (2012: drams 1,957 thousand). The outstanding balance is drams 1,620 thousand as of December 31, 2013 (2012: drams 679 thousand).

During 2013, the Company provided services valued at drams 29,153 thousand (2012: drams 65,212 thousand). The outstanding balance of drams 527 thousand is included in trade receivables (2012: drams 36,917 thousand).

26.4 Transactions with management and close family members

Directors of the Company and their close family members as of December 31, 2013 and December 31, 2012 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, 2013	Year ended December 31, 2012
Salaries and bonuses, including contributions to Social State fund	308,124	244,502

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