“GNC-ALFA” CJSC

Financial Statements
for the year ended 31 December 2010

Contents

’000 AMD	Note	2010	2009
Revenue	5	2,637,007	1,201,631
Connection charges and expenses for lease of telecommunication resources	6	(839,212)	(133,916)
Cost of dark fibers sold		(163,094)	(15,867)
Wages and other employee benefits		(154,986)	(59,199)
Depreciation and amortization		(159,608)	(22,824)
Repairs and maintenance		(88,054)	-
Costs of construction contracts		-	(602,891)
Other operating expenses	7	(154,944)	(82,505)
Other operating income		3,240	92
Total operating expenses, net		**(1,556,658)**	**(917,110)**
Results from operating activities		**1,080,349**	**284,521**
Finance income	8	6,243	779
Finance costs	8	(63,584)	(31,361)
Profit before income tax		**1,023,008**	**253,939**
Income tax expense	9	(207,378)	(52,780)
Profit for the year		**815,630**	**201,159**
Total comprehensive income for the year		**815,630**	**201,159**

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 30.

’000 AMD	Note	2010	2009
ASSETS			
Non-current assets			
Property plant and equipment	10	3,468,310	1,398,068
Intangible assets		1,119	1,005
Deferred tax assets	11	219,696	191,755
Prepayments for non-current assets		54,571	108,179
Total non-current assets		**3,743,696**	**1,699,007**
Current assets			
Inventories	12	97,504	179,160
Trade and other receivables	13	265,901	71,096
Current tax assets		-	15,540
Cash and cash equivalents	14	135,597	744,210
Total current assets		**499,002**	**1,010,006**
Total assets		**4,242,698**	**2,709,013**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		484,281	100
Retained earnings		53,064	205,616
Total equity		**537,345**	**205,716**
Non-current liabilities			
Deferred income and prepayment received, non-current portion	16	1,811,691	1,987,597
Total non-current liabilities		**1,811,691**	**1,987,597**
Current liabilities			
Trade and other payables	17	806,846	11,675
Loans and borrowings	18	702,312	275,893
Deferred income and prepayments received, current portion	16	333,102	21,981
Current tax liability		51,402	206,151
Total current liabilities		**1,893,662**	**515,700**
Total liabilities		**3,705,352**	**2,503,297**
Total equity and liabilities		**4,242,698**	**2,709,013**

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 30.

’000 AMD	**Share capital**	**Retained earnings**	**Total**
Balance at 1 January 2009	100	4,456	4,556
Profit for the year	-	201,159	201,159
Total comprehensive income for the year	**-**	**201,159**	**201,159**
Balance at 31 December 2009	**100**	**205,615**	**205,715**
Balance at 1 January 2010	100	205,615	205,715
Profit for the year	-	815,630	815,630
Total comprehensive income for the year	**-**	**815,630**	**815,630**
Transactions with owners, recorded directly in equity			
Shares issued from retained earnings	484,181	(484,181)	-
Dividends to equity holders	-	(484,000)	(484,000)
Total transactions with owners, recorded directly in equity	**484,181**	**(968,181)**	**(484,000)**
Balance at 31 December 2010	**484,281**	**53,064**	**537,345**

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 30.

‘000 AMD	**2010**	**2009**
Cash flow from operating activities		
Cash receipts from customers	3,229,837	3,432,381
Cash paid to suppliers and employees	(1,717,436)	(1,244,260)
Cash generated from operating activities	**1,512,401**	**2,188,121**
Interest paid	(30,974)	(6,320)
Income tax paid	(546,138)	(76,336)
Net cash flows from operating activities	**935,289**	**2,105,465**
Cash flows from investing activities		
Interest received	6,291	133
Proceeds from sale of property, plant and equipment	1,000	-
Proceeds from sale of investments	-	-
Acquisition of property, plant and equipment	(1,742,305)	(1,454,267)
Borrowings provided	(4,750)	-
Net cash used in investing activities	**(1,739,764)**	**(1,454,134)**
Cash flows from financing activities		
Proceeds from borrowings	805,622	656,630
Repayment of borrowings	(388,896)	(578,241)
Dividends paid	(197,241)	-
Net cash flows from financing activities	**219,485**	**78,389**
Total net cash flows	**(584,990)**	**729,720**
Exchange rate differences	(23,623)	13,794
Cash balance as of 1 January	**744,210**	**696**
Cash balance as of 31 December	**135,597**	**744,210**

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 30.

1 Background

(a) Business environment

Armenian business environment

The Company's operations are primarily located in Armenia. Consequently, the Company is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

(b) Organisation and operations

The Company was established in the Republic of Armenia as a limited liability company on 30 July 2007. On 23 April 2008 the Company was reestablished as a closed joint stock company.

The Company's registered office is 1 Khaghaghutyan Street, Abovyan city, Republic of Armenia.

The main activities of the Company are provision of communication services (broadband internet access, data transmission, transit services via its fiber optic cable networks, rental of communication channels and sale and maintenance of optical fiber lines.

The Company is a licensed network services operator in Armenia.

As of 31 December 2010 the average number of employees was 52 (2009: 28)

The Company is wholly owned and ultimately controlled by Filor Ventures LTD (the Shareholder), registered in the Republic of Seychelles. Related party transactions are disclosed in note 23.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 5 - Revenue.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Company initially recognises the financial instruments on the date that they are originated.

The Company classifies non-derivative financial assets into the following categories: loans and receivables and other financial liabilities.

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 13 and cash and cash equivalents as presented in note 14. Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(ii) Share capital

Ordinary shares are classified as equity.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment except for land are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- plant and equipment 5 years
- transmitting devices 20 years
- vehicles 5 years
- other 5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Intangible assets

The intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(i) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(ii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets for the current and comparative periods are 5 years.

(e) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Company's statement of financial position.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Services and operating costs

Revenue and operating costs for all services rendered and received are recognised in profit or loss at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be reliably measured.

(h) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(i) Finance income and costs

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.
Finance costs comprise interest expense on borrowings and foreign currency losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. If there is no other information, the Company applies 20% rate on a deferred tax liability and on deductible temporary differences used.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company’s operations. The Company plans to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures (2010)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Company has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Company's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Company does not intend to adopt this standard early.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Revenue

’000 AMD	**2010**	**2009**
DF sales	1,169,126	5,495
Broadband internet	1,161,301	-
DF maintenance	129,742	-
Revenue from construction of networks	-	1,125,109
Other data services	176,838	71,027
Total revenues	**2,637,007**	**1,201,631**

6 Connection charges and expenses for lease of telecommunication resources

’000 AMD	**2010**	**2009**
IP transit expenses	(804,671)	(87,064)
Rent expense of cable networks	(34,541)	(46,852)
	(839,212)	**(133,916)**

7 Other operating expenses

’000 AMD	**2010**	**2009**
Consulting and audit fees	(88,251)	(7,760)
Travel expenses	(20,293)	(13,984)
Communication expenses	(6,965)	-
Rent	(6,185)	(21,593)
Utilities	(1,656)	(9,673)
Bank fee	(4,958)	(2,461)
Representation expenses	(7,988)	(19,320)
Insurance	(2,954)	(3,699)
Advertising and marketing	(2,875)	-
Penalties	(3,565)	-
Other	(9,254)	(4,015)
	(154,944)	**(82,505)**

8 Finance income and finance costs

'000 AMD	**2010**	**2009**
Interest income on bank deposits	6,243	779
Finance income	**6,243**	**779**
Interest expense on bank loans	(31,175)	(6,320)
Interest expense on borrowings	(29,262)	(16,516)
Net foreign exchange loss	(3,147)	(8,525)
Finance costs	**(63,584)**	**(31,361)**

9 Income tax expense

The Company's applicable tax rate is the income tax rate of 20% for Armenian companies.

'000 AMD	**2010**	**2009**
Current tax expense		
Current year	235,319	244,535
	235,319	**244,535**
Deferred tax expense		
Origination and reversal of temporary differences	(27,941)	(191,755)
Total income tax and expense	**207,378**	**52,780**

Reconciliation of effective tax rate:

	2010		**2009**	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit before income tax	1,023,008		253,939	
Income tax at applicable tax rate	204,602	20%	50,788	20%
Non-deductible expenses	2,776	-	1,992	0.8%
	207,378	**20%**	**52,780**	**20.8%**

10 Property, plant and equipment

’000 AMD	Land	Plant and equipment	Transmitting devices	Vehicles	Construction in progress	Other	Total
Cost							
Balance at 1 January 2009	-	53,544	-	40,846	-	-	94,390
Additions	-	165,643	266,353	20,975	889,213	-	1,342,184
Balance at 31 December 2009	-	219,187	266,353	61,821	889,213	-	1,436,574
Balance at 1 January 2010	-	219,187	266,353	61,821	889,213	-	1,436,574
Additions	2,000	1,096,488	1,903,613	46,400	-	45,856	3,094,357
Disposals	(1,000)	-	(58,209)	-	(784,681)	-	(843,890)
Balance at 31 December 2010	1,000	1,315,675	2,111,757	108,221	104,532	45,856	3,687,041
Depreciation							
Balance at 1 January 2009	-	(4,083)	-	(2,544)	-	-	(6,627)
Depreciation for the year	-	(19,016)	(3,851)	(9,012)	-	-	(31,879)
Balance at 31 December 2009	-	(23,099)	(3,851)	(11,556)	-	-	(38,506)
Balance at 1 January 2010	-	(23,099)	(3,851)	(11,556)	-	-	(38,506)
Depreciation for the year	-	(98,431)	(67,211)	(9,317)	-	(5,960)	(180,919)
Disposals	-	-	694	-	-	-	694
Balance at 31 December 2010	-	(121,530)	(70,368)	(20,873)	-	(5,960)	(218,731)
Carrying amounts							
At 1 January 2009	-	53,544	-	40,846	-	-	94,390
At 31 December 2009	**-**	**196,088**	**262,502**	**50,265**	**889,213**	**-**	**1,398,068**
At 31 December 2010	**1,000**	**1,194,145**	**2,041,389**	**87,348**	**104,532**	**39,896**	**3,468,310**

Construction in progress account comprises of expenses the Company incurred for the construction of optical fiber cable network to be able to provide high quality communication services. Costs incurred up to the reporting date totaled AMD 104.532 thousand (2009: AMD 889,213 thousand).

Depreciation expense of AMD 159,455 thousand (2009: AMD 18,941 thousand) has been charged to statement of comprehensive income and AMD14,416 thousand (2009: AMD 12,145 thousand) has been capitalised to property, plant and equipment.

Security

Plant and equipment with a net book value of AMD 597,144 thousand are pledged under the loan from Armenian bank (see note 18).

11 Deferred tax assets and liabilities

(a) Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 AMD	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment	-	-	(32,432)	(3,015)	(32,432)	(3,015)
Deferred income and prepayments received	248,739	194,770	-	-	248,739	194,770
Trade and other payables	3,389	-	-	-	3,389	-
Net tax assets	**252,128**	**194,770**	**(32,432)**	**(3,015)**	**219,696**	**191,755**

(b) Movement in temporary differences during the year

'000 AMD	**1 January 2010**	**Recognised in profit or loss**	**31 December 2010**
Property, plant and equipment	(3,015)	(29,417)	(32,432)
Deferred income and prepayments received	194,770	53,969	248,739
Trade and other payables	-	3,389	3,389
	191,755	**27,941**	**219,696**

'000 AMD	**1 January 2009**	**Recognised in profit or loss**	**31 December 2009**
Property, plant and equipment	-	(3,015)	(3,015)
Deferred income and prepayments received	-	194,770	194,770
	-	**191,755**	**191,755**

12 Inventories

’000 AMD	**2010**	**2009**
Raw materials and consumables	47,516	3,957
Finished goods and goods for resale	49,988	175,203
	97,504	**179,160**

13 Trade and other receivables

’000 AMD	**2010**	**2009**
Trade receivables	165,198	45,634
Taxes receivable other than on income	74,575	-
Prepayments made	24,447	24,078
Loan to related party	1,000	-
Other receivables	681	1,384
	265,901	**71,096**

The Company’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 19.

14 Cash and cash equivalents

’000 AMD	**2010**	**2009**
Bank balances	85,597	411,949
Call deposits	50,000	332,261
Cash and cash equivalents in the statement of financial position and in the statements of cash flows	**135,597**	**744,210**

The Company’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

15 Capital and reserves

(a) Share capital

As of 31 December 2010 authorized, issued and outstanding share capital comprises 100 ordinary shares (2009: 100). All shares have a nominal value of AMD 4,842.8 thousand (2009: AMD 1 thousand).

During 2010 AMD 484,181 thousand was transferred from retained earnings to share capital. As a result, the nominal value of each ordinary share was increased from AMD 1 thousand to AMD 4,842.8 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

16 Deferred revenue and prepayments received

'000 AMD	**2010**	**2009**
Non- current portion		
Deferred revenue from Dark Fiber sale contracts	1,191,891	951,869
Prepayment from provision of cable network services	619,800	1,035,728
	1,811,691	**1,987,597**
Current portion		
Deferred revenue from Dark Fiber sale contracts	51,802	21,981
Prepayment from provision of cable network services	281,300	-
	333,102	**21,981**
	2,144,794	**2,009,578**

(a) Significant exposures

As at 31 December 2010 and 2009 the Company had prepayments received from 2 counterparties (2009: 2 counterparties), with balances exceeding 10% of equity. The gross value of these balances as at 31 December 2010 and 2009 were AMD 619,800 thousand and AMD 1,024,884 thousand, respectively.
As at 31 December 2010 and 2009 the Company had deferred revenue from 2 counterparties (2009: 2 counterparties), with balances exceeding 10% of equity. The gross value of these balances as at 31 December 2010 and 2009 were AMD 1,158,891 thousand and AMD 951,869 thousand, respectively.

17 Trade and other payables

’000 AMD	2010	2009
Dividends payable	264,843	-
Payables for the purchase of PPE	222,423	-
Trade payables	212,122	10,733
Taxes payable other than on income	88,229	-
Payables to employees	16,947	926
Other payables	2,282	16
	806,846	**11,675**

The Company’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

18 Loans and borrowings

This note provides information about the contractual terms of the Company’s interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company’s exposure to interest rate, foreign currency and liquidity risk, see note 19.

’000 AMD	2010	2009
Current liabilities		
Loan from the Shareholder	294,144	275,893
Secured bank loans	258,168	-
Borrowing from the customer	150,000	-
	702,312	**275,893**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2010		31 December 2009	
’000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	12%	2011	90,925	90,925	-	-
Secured bank loan	AMD	15%	2011	166,803	166,803	-	-
Secured bank loan	AMD	17%	2011	440	440	-	-
Borrowing	AMD	0%	2011	150,000	150,000		
Borrowing from related party	USD	12%	2010	257,840	257,840	238,146	238,146
Borrowing from related party	USD	0%	2010	36,304	36,304		
Borrowing from related party	USD	0%	2009	-	-	37,747	37,747
				702,312	**702,312**	**275,893**	**275,893**

19 Financial instruments and risk management

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers and investment securities.

(i) Trade and other receivables

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company’s customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Most of the Company’s main customers have been transacting with the Company for over two years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Trade and other receivables relate mainly to the Company’s wholesale customers.
The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
’000 AMD	**Note**	**2010**	**2009**
Trade receivables	13	165,198	45,634
Loan to related party	13	1,000	-
Cash and cash equivalents	14	135,597	744,210
		301,795	**789,844**

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
’000 AMD	**2010**	**2009**
Domestic	145,588	45,634
Other CIS countries	8,688	-
Euro-zone countries	10,922	-
	165,198	**45,634**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
’000 AMD	**2010**	**2009**
Wholesale customers	163,343	43,812
End-user customer	1,855	1,822
	165,198	**45,634**

The 4 most significant customers of the Company account for AMD 121,551 thousand of the trade receivables carrying amount at 31 December 2010 (2009: AMD 43,812).

Impairment losses

The aging of trade receivables at the reporting date was:

’000 AMD	**Gross 2010**	**Impairment 2010**	**Gross 2009**	**Impairment 2009**
Not past due	164,458	-	45,634	-
Past due 0- 30 days	684	-	-	-
Past due 31-120 days	56	-	-	-
	165,198	**-**	**45,634**	**-**

(iii) Bank balances

Bank balances are maintained with Armenian banks with good credit ratings. The Company does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of three months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

2010 **’000 AMD**	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**
Non-derivative financial liabilities				
Secured bank loans	258,168	258,168	258,168	-
Borrowings from related party	247,099	294,144	294,144	-
Borrowing from customer	150,000	150,000	150,000	-
Trade and other payables	806,846	716,335	667,961	48,374
	1,462,113	**1,418,647**	**1,370,273**	**48,374**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than AMD. The currencies in which these transactions primarily are denominated are USD and euro.

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily AMD, but also USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 AMD	**USD-denominated**	**Euro-denominated**	**USD-denominated**	**Euro-denominated**
	2010	**2010**	**2009**	**2009**
Trade receivables	8,688	10,922	-	-
Loans and borrowings	(385,069)	-	-	-
Trade payables	(95,561)	-	-	-
	(471,942)	**10,922**	-	-

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD 1	373.45	363.49	363.44	377.89
EUR 1	494.72	508.49	481.16	542.23

Sensitivity analysis

A strengthening of the AMD, as indicated below, against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

'000 AMD	**Strengthening**		**Weakening**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
31 December 2010				
USD (10% movement)	47,194	47,194	(47,194)	(47,194)
EUR (10% movement)	(1,092)	(1,092)	1,092	1,092
31 December 2009				
USD (X% movement)	-	-	-	-
EUR (Y% movement)	-	-	-	-

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
'000 AMD	**2010**	**2009**
Fixed rate instruments		
Financial assets	50,000	332,261
Financial liabilities	(552,312)	(275,893)
	(502,312)	**56,368**

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(e) Accounting classifications and fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 AMD	Note	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2010					
Cash and cash equivalents	14	135,597	-	135,597	135,597
Trade and other receivables					
Trade receivables	13	165,198	-	165,198	165,198
Loan to related party	13	1,000	-	1,000	1,000
		301,795	**-**	**301,795**	**301,795**
Trade and other payables					
Dividends payable	17	-	264,843	264,843	264,843
Payables for the purchase of PPE	17	-	222,423	222,423	222,423
Trade payables	17	-	212,122	212,122	212,122
Payables to employees	17	-	16,947	16,947	16,947
Loans and borrowings					
Loan from the Shareholder	18	-	294,144	294,144	294,144
Secured bank loans	18	-	258,168	258,168	258,168
Borrowing from the customer	18	-	150,000	150,000	150,000
		-	**1,418,647**	**1,418,647**	**1,418,647**

'000 AMD	Note	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2009					
Cash and cash equivalents	14	744,210	-	744,210	744,210
Trade receivables	13	45,634	-	45,634	45,634
		789,844	**-**	**789,844**	**789,844**
Trade and other payables					
Trade payables	17	-	10,733	10,733	10,733
Payables to employees	17	-	926	926	926
Loans and borrowings					
Loan from the Shareholder	18	-	275,893	275,893	275,893
		-	**287,552**	**287,552**	**287,552**

(f) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company’s operational and strategic needs, and to maintain confidence of the Shareholder. This is achieved with efficient cash management, constant monitoring of Company’s revenues and profit, and long-term investment plans mainly financed by the Company’s operating cash flows. With these measures the Company aims for steady profits growth.

The Company’s debt to capital ratio at the end of the reporting period was as follows:

	2010	**2009**
Total liabilities	**3,705,352**	**2,503,297**
Less: cash and cash equivalents	(135,597)	(744,210)
Net debt	3,569,755	1,759,087
Total equity	**537,345**	**205,715**
Debt to capital ratio at 31 December	**0.87**	**0.90**

20 Operating leases

The Company leases an administrative building and number of factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2010 an amount of AMD 6,185 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: AMD 21,593 thousand).

21 Capital commitments

During the year ended 31 December 2010 the Company entered into a contract to purchase plant and equipment for AMD 222,423 thousand (2009: nil).

22 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. 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 Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

(b) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

23 Related party transactions

(a) Control relationships

The Company’s immediate parent company is Filor Ventures LTD.

No publicly available financial statements are produced by the Company’s immediate parent company.

(b) Transactions with management and close family members

(i) Management remuneration

Key management received the following remuneration during the year, which is included in wages and other employee benefits:

’000 AMD	**2010**	**2009**
Salaries and bonuses	**127,313**	**15,264**

The amount loaned to key management personnel during the year ended 31 December 2011 and outstanding as at 31 December 2010 comprised AMD1,000 thousands (31 December 2009: nil).

(c) Transactions with other related parties

The Company’s other related party transactions are disclosed below.

(i) Expenses

’000 AMD	Transaction value 2010	Transaction value 2009	Outstanding balance 2010	Outstanding balance 2009
Services received:				
Parent company - consulting services	75,526	19,587	-	-
Parent Company – rent expenses	17,660	11,160	200	-
Parent company – Interest expense	29,262	16,516	-	-
	122,448	**47,263**	**200**	**-**

All outstanding balances with related parties are to be settled in cash within one month of the reporting date. None of the balances are secured.

(ii) Loans

’000 AMD	Amount loaned 2010	Amount loaned 2009	Outstanding balance 2010	Outstanding balance 2009
Parent company - loans received	-	**-**	**294,144**	**275,893**

The terms, repayment schedules and interest rates of the loans from the Company’s parent company is disclosed in note 20.

24 Events subsequent to the reporting date

On 23 June 2011 and 29 July 2011 the Shareholders declared dividends of AMD 374,499 thousand and AMD187,249 thousand respectively. The declared dividends were paid during 2011.

On 23 June 2011 AMD 515,719 thousand was transferred from retained earnings to share capital. As a result the nominal value of each ordinary share increased from AMD 4,842.8 thousand to AMD 10,000 thousand.