



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

Haypost Closed Joint Stock Company

31 December 2008

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Independent auditors' report

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To the shareholder of Haypost CJSC

We have audited the accompanying financial statements of Haypost CJSC (the “Company”), which comprise the balance sheet as of December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

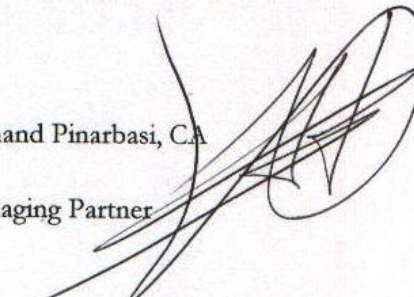
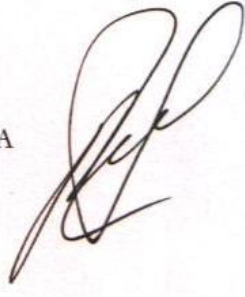
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 30, 2009

<p>Armand Pinarbasi, CA Managing Partner</p> 	<p>Taguhi Asoyan, ACCA Head of Audit</p> 
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Disclaimer

The attached financial statements were originally prepared in English language and then translated into Armenian for the convenience of readers. In the event of any differences between the English and Armenian versions, the English will prevail.

Balance sheet

In thousand drams	Note	As of December 31, 2008	As of December 31, 2007 (restated)
Assets			
<i>Non-current assets</i>			
Property and equipment	4	12,016,232	11,303,629
Intangible assets		<u>34,388</u>	<u>22,213</u>
		<u>12,050,620</u>	<u>11,325,842</u>
<i>Current assets</i>			
Inventories	5	66,973	92,485
Trade and other receivables	6	905,081	624,862
Current income tax assets		27,005	49,127
Cash and cash equivalents	7	<u>-</u>	<u>70,046</u>
		<u>999,059</u>	<u>836,520</u>
Non-current assets classified as held for sale	8	-	1,066,400
		<u>999,059</u>	<u>1,902,920</u>
Total assets		<u><u>13,049,679</u></u>	<u><u>13,228,762</u></u>

Balance sheet (continued)

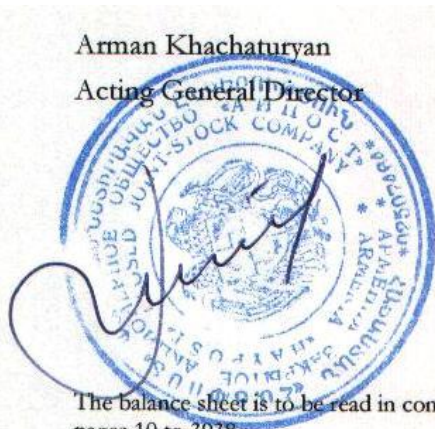
In thousand drams	Note	As of December 31, 2008	As of December 31, 2007 (restated)
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	9	520,993	520,993
General reserve		78,149	78,149
Revaluation reserve		6,460,323	6,608,140
Accumulated profit		299,228	148,990
Other reserves		<u>171,842</u>	<u>171,842</u>
		<u>7,530,535</u>	<u>7,528,114</u>
<i>Non-current liabilities</i>			
Loans	10	44,444	300,000
Grants related to assets	11	2,389,943	2,572,890
Deferred income tax liabilities	12	<u>1,529,387</u>	<u>1,557,317</u>
		<u>3,963,774</u>	<u>4,430,207</u>
<i>Current liabilities</i>			
Trade and other payables	13	1,119,086	1,116,866
Loans	10	<u>436,284</u>	<u>153,575</u>
		<u>1,555,370</u>	<u>1,270,441</u>
Total equity and liabilities		<u>13,049,679</u>	<u>13,228,762</u>

The financial statements were approved on March 3, 2009 by

Arman Khachatryan
 Acting General Director



Karapet Sargsyan
 Chief Accountant



The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 3938.

Income statement

In thousand drams	Note	Year ended December 31, 2008	Year ended December 31, 2007
Revenue	14	4,906,642	4,072,909
Cost of sales	15	(3,480,451)	(3,320,405)
Gross profit		<u>1,426,191</u>	<u>752,504</u>
Other income		459,129	464,576
Distribution and marketing expenses		(15,708)	(25,295)
Administration expenses	16	(1,605,922)	(1,837,990)
Finance costs		(73,056)	(3,575)
Other expenses		(146,547)	(168,388)
Loss from exchange rate differences		(28,739)	(5,947)
Profit/(loss) before tax		<u>15,348</u>	<u>(824,115)</u>
Income tax (expense)/recovery	17	(12,927)	175,570
Profit/(loss) for the year		<u><u>2,421</u></u>	<u><u>(648,545)</u></u>

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 39.

Statement of changes in equity

In thousand drams	Share capital	General reserve	Revaluation reserve	Other reserves	Accumulated profit	Total
as of January 1, 2007	520,993	78,149	7,101,119	171,842	229,636	8,101,739
Revaluation of property	-	-	93,649	-	-	93,649
Related deferred income tax	-	-	(18,729)	-	-	(18,729)
Realization to accumulated profit	-	-	(567,899)	-	567,899	-
Net income/(expense) recognized directly in equity	-	-	(492,979)	-	567,899	74,920
Loss for the year	-	-	-	-	(648,545)	(648,545)
Total recognized expense	-	-	(492,979)	-	(80,646)	(573,625)
as of December 31, 2007	520,993	78,149	6,608,140	171,842	148,990	7,528,114
Realization to accumulated profit	-	-	(147,817)	-	147,817	-
Net expense recognized directly in equity	-	-	(147,817)	-	147,817	-
Profit for the year	-	-	-	-	2,421	2,421
Total recognized income/(expense)	-	-	(147,817)	-	150,238	2,421
as of December 31, 2008	520,993	78,149	6,460,323	171,842	299,228	7,530,535

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 10 to 39.

Cash flow statement

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Cash flows from operating activities		
Profit/(loss) for the year	2,421	(648,545)
<i>Adjustments for:</i>		
Depreciation and amortization	472,122	922,483
Loss/(gain) on disposal and write-off of non-current assets	3,454	(5,704)
Income from grants related to assets	(182,947)	(185,078)
Income from recovery of non-current assets	-	(51,544)
Interest expense	73,056	3,575
Income tax expense/(recovery)	12,927	(175,570)
Foreign exchange loss	28,739	5,947
<i>Operating profit/(loss) before working capital changes</i>	<u>409,772</u>	<u>(134,436)</u>
Change in trade and other receivables	(310,552)	(125,489)
Change in inventories	25,512	(18,988)
Change in trade and other payables	261,938	414,533
<i>Cash generated from operations</i>	<u>386,670</u>	<u>135,620</u>
Interest paid	(73,699)	(185)
Income tax paid	(18,735)	(27,742)
<i>Net cash from operating activities</i>	<u>294,236</u>	<u>107,693</u>

Cash flow statement (continued)

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
	<u> </u>	<u> </u>
Cash flows from investing activities		
Proceeds from disposal of non-current assets	-	5,971
Acquisition of non-current assets	<u>(133,953)</u>	<u>(176,852)</u>
<i>Net cash used in investing activities</i>	<u>(133,953)</u>	<u>(170,881)</u>
Cash flows from financing activities		
Loans and borrowings, net	<u>27,796</u>	<u>438,694</u>
<i>Net cash from financing activities</i>	<u>27,796</u>	<u>438,694</u>
Net increase in cash and cash equivalents	188,079	375,506
Foreign exchange effect on cash	(9,834)	(21,381)
Cash and cash equivalents at the beginning of the year	<u>870,863</u>	<u>516,738</u>
Cash and cash equivalents at the end of the year (refer to note 7)	<u><u>1,049,108</u></u>	<u><u>870,863</u></u>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 39.

Notes to the financial statements

1 Nature of operations and general information

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

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

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

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

The Company and its 41 branches operate in Armenia and had 3,730 employees as of December 31, 2008 (as of December 31, 2007: 3,586 employees).

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

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

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

2 Basis of preparation

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

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

2.4 Use of estimates and judgment

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

2.5 Adoption of new and revised standards

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2008.

2.6 Standards and Interpretations not yet applied by the Company

At the date of authorization of these financial statements, certain new Standards, amendments and Interpretations to the existing Standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Management anticipates that all of the pronouncements will be adopted in the Company’s accounting policy for the first period beginning after the effect date of the pronouncement.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective but are expected to be relevant to the Company's financial statements

IAS 1 Presentation of Financial Statements (revised 2007)

New amendments in this standard affect the presentation of owner changes in equity and introduce a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Company, but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Company's financial statements.

The new Standards, amendments and Interpretations to the existing Standards that are not yet effective and are not expected to be relevant to the Company's financial statements

IAS 23 Borrowing Costs (revised 2007)

Amendments in this standard require the capitalization of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of qualifying assets that need a period of time to get ready for their intended use or sale. The option of immediately expensing those borrowing costs, currently used by the Company, will be removed. In accordance with the transitional provisions of the amended Standard, no changes will be made for borrowing costs incurred to this date that have been expensed. This amendment will decrease the Company's reported interest expense and increase the capitalized cost of qualifying assets under construction in future periods.

IFRS 13 Customer Loyalty Programmes

This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Company currently is not running a similar programme. Accordingly, management believes that this interpretation is not relevant to the Company's financial statements.

Amendment to IFRS 2 Share-based Payment

This amendment relates to vesting conditions and cancellations. The Company currently is not running any share-based payment scheme. Accordingly, management believes that this amendment is not relevant to the Company's financial statements.

Annual improvements 2008

The IASB has issued *Improvements for International Financial Reporting Standards 2008*. Most of these amendments become effective in annual periods beginning on or after January 1, 2009. Management believes that these improvements will not have significant impact on the Company financial statements.

IAS 23 (Amendment) *Borrowing Costs* (effective from January 1, 2009).

The definition of borrowings costs has been amended so that interest expense is calculated using the effective interest rate method defined in IAS 39 *Financial Instruments: Recognition and Measurement* (effective from January 1, 2009).

IAS 36 (Amendment) *Impairment of Assets* (effective from January 1, 2009)

Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosures where applicable for impairment tests from January 1, 2009.

IAS 38 (Amendment) *Intangible Assets* (effective from January 1, 2009)

A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

Additionally, the amendment deletes the wording that states that there is “rarely if ever” support for use of a method that results in a lower rate of amortization than the straight-line method. The amendment will not have an impact on the Company’s operations, since all intangible assets are amortized using the straight-line method.

IAS 20 (Amendment) *Accounting for Government Grants and Disclosure of Government Assistance* (effective from January 1, 2009)

The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit to be accounted for in accordance with IAS 20. The Company will apply the IAS 20 (Amendment) from January 1, 2009.

3 Significant accounting policies

3.1 Foreign currencies

Foreign currency transactions

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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the balance sheet date, which is 306.73 drams for 1 US dollar as of December 31, 2008 (December 31, 2007: 304.22 drams for 1 US dollar). Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historic cost in a foreign currency are not retranslated.

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

3.2 Property and equipment

Buildings stated at a revaluated amount

Buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

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

Depreciation on revalued buildings is charged to profit or loss. The revaluation surplus is transferred to accumulated profit periodically at the amount of depreciation on revalued buildings. On the subsequent sale or retirement of revalued buildings, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to accumulated profit.

Property and equipment stated at cost

Except for the buildings, other property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 the income statement as incurred.

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

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

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

3.3 Intangible assets

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

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

3.4 Leased assets

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

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

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

3.5 Inventories

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

3.6 Financial instruments

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

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

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

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

Financial assets financial liabilities are measured subsequently as described below.

Financial assets

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

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

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

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

i Trade and other receivable

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

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

ii Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, cash in transit and lottery won tickets.

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.

Financial liabilities

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

i Loans and borrowings

Loans and borrowings are recognized initially at fair value, net of issuance costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are stated at amortized cost with any difference between cost and redemption value recognized in the income statement 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, 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

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.8 Non-current assets classified as held for sale

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

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

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

If the Company has classified an asset as held for sale, but does no longer intend to sell non-current assets or groups of assets, the Company ceases to classify the asset as held for sale and measures a non-current asset that ceases to be classified as held for sale at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, that would have been recognized had the asset not been classified as held for sale, and its recoverable amount at the date of the subsequent decision not to sell

The Company includes any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss.

3.9 Equity

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

3.10 Government grants

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

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

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

3.11 Provisions

A provision is recognized in the balance sheet 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 specified to the liability.

3.12 Income tax

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

Deferred income tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred income tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.13 Revenue recognition

Revenue from a contract to provide services is recognized when

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

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

Provision of postal services

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

Revenue from agency services

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

Rental income

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

4 Property and equipment

In thousand drams	Land	Buildings, constructions	Machinery equipment and vehicles	Fixture and other	Total
<i>Cost or valuation</i>					
As of January 1, 2007	2,123,744	10,387,941	1,308,158	283,748	14,103,591
Acquisitions and additions	46,983	65,622	100,322	63,558	276,485
Disposals and write-offs	-	-	-	(2,687)	(2,687)
Revaluation increase	-	93,649	-	-	93,649
Classified as held for sale	(735,386)	(345,850)	-	-	(1,081,236)
Internal movement	-	835	(77,454)	76,619	-
as of December 31, 2007	<u>1,435,341</u>	<u>10,202,197</u>	<u>1,331,026</u>	<u>421,238</u>	<u>13,389,802</u>
Acquisitions and additions	-	14,598	108,409	(13,935)	109,072
Write-offs	-	-	(32,219)	(56,327)	(88,546)
Reclassified from held for sale	735,386	345,850	-	-	1,081,236
As of December 31, 2008	<u>2,170,727</u>	<u>10,562,645</u>	<u>1,407,216</u>	<u>350,976</u>	<u>14,491,564</u>
<i>Accumulated depreciation and impairment</i>					
as of January 1, 2007	-	166,889	914,626	109,079	1,190,594
Charge for the year	-	718,186	169,678	24,971	912,835
Eliminated on disposal and write-offs	-	-	-	(2,420)	(2,420)
Classified as held for sale	-	(14,836)	-	-	(14,836)
Internal movement	-	105	(73,839)	73,734	-
as of December 31, 2007	<u>-</u>	<u>870,344</u>	<u>1,010,465</u>	<u>205,364</u>	<u>2,086,173</u>
Charge for the year	-	285,772	140,829	31,751	458,352
Eliminated on write-offs	-	-	(31,909)	(52,120)	(84,029)
Reclassified from held for sale	-	14,836	-	-	14,836
as of December 31, 2008	<u>-</u>	<u>1,170,952</u>	<u>1,119,385</u>	<u>184,995</u>	<u>2,475,332</u>
<i>Carrying amount</i>					
as of December 31, 2007	<u>1,435,341</u>	<u>9,331,853</u>	<u>320,561</u>	<u>215,874</u>	<u>11,303,629</u>
as of December 31, 2008	<u>2,170,727</u>	<u>9,391,693</u>	<u>287,831</u>	<u>165,981</u>	<u>12,016,232</u>

During the period the Company management has reviewed the useful lives for building, which resulted in decrease of depreciation expense for the current period (see note 20.2).

Property and equipment with a cost of drams 795,628 thousand are accounted for at zero carrying amount as of December 31, 2008 (as of December 31, 2007 drams 691,237 thousand).

None of the property and equipment of the Company has been pledged as a security for loans and borrowings as of December 31, 2008 and December 31, 2007

As of December 31, 2008 and December 31, 2007 the Company's buildings are presented at their revalued amount. The revaluation was performed by 5 independent valuating companies, based on the use of the cost analysis, comparative and profitability methods.

Had the Company's buildings been presented at cost less accumulated depreciation, as of December 31, 2008 their carrying amount would amount to drams 1,379,953 thousand (as of December 31, 2007: drams 1,466,064 thousand).

During the reporting period the depreciation expense amounting to drams 458,352 thousand (2007: drams 912,835 thousand) has been allocated to the administrative expenses by drams 154,594 thousand (2007: drams 357,631 thousand) and to the cost of sales by drams 303,758 thousand (2007: drams 555,204 thousand).

5 Inventories

In thousand drams	As of December 31, 2008	As of December 31, 2007
Materials	42,958	42,326
Small value items	9,404	7,671
Envelopes, post cards, stamps and other	13,168	39,181
Goods	1,443	3,307
	<u>66,973</u>	<u>92,485</u>

The cost of inventories recognized as an expense during the year is drams 377,962 thousand (2007: drams 337,695 thousand)

6 Trade and other receivables

In thousand drams	As of December 31, 2008	As of December 31, 2007 (restated)
International settlements	417,087	356,812
Other trade receivables	433,100	190,591
	<u>850,187</u>	<u>547,403</u>
Allowances for doubtful trade receivables	(60,083)	(43,717)
Net trade receivables	<u>790,104</u>	<u>503,686</u>
Advances and prepayments	53,789	99,284
Other receivables	61,188	21,892
	<u>905,081</u>	<u>624,862</u>

The average credit period on rendering of services is 63 days (2006: 49 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.

Movement of the allowance for doubtful receivables is presented below:

In thousand drams	2008	2007
Balance at beginning of year	43,717	33,990
Increase in the allowance during the period (recognized in other expenses)	22,267	9,727
Write-offs of trade receivables	(5,901)	-
Balance at end of year	<u>60,083</u>	<u>43,717</u>

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

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

7 Cash and cash equivalents

In thousand drams	As of December 31, 2008	As of December 31, 2007
Bank accounts	800,231	340,381
Cash on hand	119,869	446,461
Cash in transit	129,008	82,876
Lottery won tickets	-	1,145
Cash and cash equivalents for the purposes of the cash flow statement	<u>1,049,108</u>	<u>870,863</u>
Less: Amounts held in trust	(1,049,108)	(800,817)
	<u>-</u>	<u>70,046</u>

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

8 Non-current assets classified as held for sale

During 2007 the Company management decided to dispose of its certain property, plant and equipment. They had a defined plan for the disposal and directors believe that the disposal would take place within 12 months after the balance sheet date. However, in 2008 the Company management decided to temporarily stop the plans to sell those assets.

Accordingly, the Company ceases to classify these assets as held for sale and their carrying amount has been reversed back to property and equipment (refer to note 4).

9 Equity

9.1 Share capital

Number of shares unless otherwise stated	Ordinary shares 2008	Ordinary shares 2007
Authorized shares		
Number of ordinary shares of drams 54,600 each	9,542	9,542

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

9.2 Dividends

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

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 Other reserves

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

9.5 Revaluation reserve

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

10 Loans

In thousand drams	Current		Non-current	
	As of December 31, 2008	As of December 31, 2007	As of December 31, 2008	As of December 31, 2007
Related party bank loans	436,284	153,575	44,444	300,000

Related party bank loans mature in 2010 and bear a weighted average interest rate of 13% annually (2007: 13% annually).

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

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

The Company does not have any undrawn borrowing facilities.

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

11 Grants related to assets

In thousand drams	2008	2007
Balance at beginning of year	2,572,890	2,703,871
Additions	-	54,097
Grants recognized as income (recognized in other income)	(182,947)	(185,078)
Balance at end of year	<u>2,389,943</u>	<u>2,572,890</u>

Additions to the grants in 2008 and 2007 include the value of the land (difference between the market and cadastre value) granted to the Company by the Government of the Republic of Armenia.

12 Deferred income taxes

The movement of deferred income taxes is disclosed below:

In thousand drams	2008	2007
Balance at beginning of year	1,557,317	1,720,721
Credited to income statement (refer to note 17)	(27,930)	(182,133)
Charged directly to equity	-	18,729
Balance at end of year	<u>1,529,387</u>	<u>1,557,317</u>

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

In thousand drams	January 1, 2008	Recognized directly in equity	Recognized in income statement	December 31, 2008
<i>Deferred income tax assets</i>				
Trade receivables	8,743	-	3,273	12,016
Inventories	3,567	-	-	3,567
Trade payables	<u>82,408</u>	-	<u>(12,297)</u>	<u>70,111</u>
	<u>94,718</u>	-	<u>(9,024)</u>	<u>85,694</u>
<i>Deferred income tax liabilities</i>				
Property and equipment	<u>(1,652,035)</u>	-	<u>36,954</u>	<u>(1,615,081)</u>
	<u>(1,652,035)</u>	-	<u>36,954</u>	<u>(1,615,081)</u>
Net position - deferred income tax liabilities	<u>(1,557,317)</u>	-	<u>27,930</u>	<u>(1,529,387)</u>

Deferred income taxes for the year ended December 31, 2007 can be summarized as follows:

In thousand drams	January 1, 2007	Recognized directly in equity	Recognized in income statement	December 31, 2007
<i>Deferred income tax assets</i>				
Trade receivables	6,798	-	1,945	8,743
Inventories	2,140	-	1,427	3,567
Trade payables	45,621	-	36,787	82,408
	<u>54,559</u>	<u>-</u>	<u>40,159</u>	<u>94,718</u>
<i>Deferred income tax liabilities</i>				
Property and equipment	(1,775,280)	(18,729)	141,974	(1,652,035)
	<u>(1,775,280)</u>	<u>(18,729)</u>	<u>141,974</u>	<u>(1,652,035)</u>
Net position - deferred income tax liabilities	<u>(1,720,721)</u>	<u>(18,729)</u>	<u>182,133</u>	<u>(1,557,317)</u>
Analyzed as:			<u>2008</u>	<u>2007</u>
To be recovered after more than 12 months			85,694	94,718
To be redeemed within 12 months			(1,615,081)	(1,652,035)

The amounts recognized directly in equity relate to revaluation of buildings.

13 Trade and other payables

In thousand drams	As of December 31, 2008	As of December 31, 2007 (restated)
International settlements	196,253	166,251
Other trade payables	280,647	143,846
Advances from customers	34,005	29,338
Taxes and duties payable	42,626	42,473
Employee benefits payable	371,417	315,072
Accrued expenses	20,105	113,237
Liabilities from agency activities (see below)	168,809	267,944
Other	5,224	38,705
	<u>1,119,086</u>	<u>1,116,866</u>

The average credit period on the receipt of certain service is 53 days (2006: 34). 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.

13.1 Liabilities from agency activities

The Company performs money transfers, utility and other payments collections on behalf of entities providing utility services, as well as distributes pensions and benefits for certain compensation. As of December 31, 2008 drams 168,809 thousand (2007: drams 267,944 (restated)) from the collected amount were spent for the Company's own needs, which is resulted in a liability to those companies, as described below:

In thousand drams	As of December 31, 2008	As of December 31, 2007 (restated)
Payables for collections	1,217,917	1,068,761
Current cash available (refer to note 7)	(1,049,108)	(800,817)
Liabilities from agency activities	<u>168,809</u>	<u>267,944</u>

14 Revenue

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Postal services	1,626,475	1,347,201
Agency fee for distribution of pensions and benefits	1,639,234	1,134,985
Agency fee for making utility payments (electricity, gas, telephone, etc.)	1,440,409	1,404,651
Other	200,524	186,072
	<u>4,906,642</u>	<u>4,072,909</u>

15 Cost of sales

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Employee benefits	2,060,361	1,693,047
Services received	185,503	169,430
Parcels delivery and cost of international services received	462,917	496,817
Depreciation and amortization	316,924	564,440
Materials and spare parts used	377,962	337,695
Other	76,784	58,976
	<u>3,480,451</u>	<u>3,320,405</u>

16 Administration expenses

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Employee benefits	324,069	473,030
Business travel	42,568	20,767
Depreciation and amortization	154,603	357,803
Management fees	704,731	592,999
Other	379,951	393,391
	<u>1,605,922</u>	<u>1,837,990</u>

17 Income tax expense/(recovery)

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Current tax	40,857	6,563
Deferred tax (refer to note 12)	(27,930)	(182,133)
	<u>12,927</u>	<u>(175,570)</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2008	Effective tax rate (%)	Year ended December 31, 2007	Effective tax rate (%)
Profit/(loss) before taxation (under IFRS)	<u>15,348</u>		<u>(824,115)</u>	
Tax calculated at a tax rate of 20% (2007: 20%)	3,070	20.00	(164,823)	20.00
(Non-taxable)/non-deductible items, net	<u>9,857</u>	<u>64.23</u>	<u>(10,747)</u>	<u>1.30</u>
Income tax expense	<u>12,927</u>	<u>84.23</u>	<u>(175,570)</u>	<u>21.30</u>

18 Subsequent events

On March 3, 2009 the Central Bank of Armenia has decided to go to floating exchange rate of dram against US dollar and other freely convertible currencies. This change has affected the exchange rate risk and financial position of the Company in 2009 due to the fact that most of the debts of the Company are denominated in those currencies. Refer to note 22.1 for the exchange rate risk of the Company.

19 Remuneration of the Trust manager

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

Liabilities to the Trust manager

According to the agreement described above:

- the remuneration of the Trust manager for Trust Management office and against operational costs of the Company will amount to Euros 3,500 per month equivalent in Armenian drams.

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

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

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

20 Critical accounting estimates and judgments

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

20.1 Critical accounting estimates

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

20.2 Critical judgments in applying accounting policies

Accounting of international settlements

The Republic of Armenia, represented by the Company, its national operator, is a member of International Postal Convention, which regulates inter-settlements between the member-countries, which are finalized by the end of the following year. As a result, there is a significant time lag between the time when international postal services are rendered and the receipt of confirmations from international postal operators. Accordingly, revenue from international postal services is recognized based on the actual provision of services and is being adjusted in future. As of December 31, 2008 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 22,083 thousand, and the decrease by 10% will cause increase in the loss for the period by drams 22,083 thousand.

Transactions where the Company acts as an agent

The Company performs money transfers, utility and other payments collections (agency services) on behalf of entities providing utility services, selling lottery tickets, as well as distributes pensions and benefits for certain agency fee. As a result of these operations, at the end of the reporting period, there are payables and receivables, which are presented offset (refer to note 13.1).

Revision of useful lives for buildings

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

21 Financial instruments

21.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the note 3.6.

21.2 Categories of financial instruments

The carrying amounts presented in the balance sheet relate to the following categories of assets and liabilities:

Financial assets

In thousand drams	As of December 31, 2008	As of December 31, 2007 (restated)
Loans and receivables:		
Trade and other receivables	851,292	525,578
Cash and cash equivalents	-	70,046
	<u>851,292</u>	<u>525,578</u>

Financial liabilities

In thousand drams	As of December 31, 2008	As of December 31, 2007
Financial liabilities measured at amortized costs:		
Loans and borrowings	480,728	453,575
Trade and other payables	873,646	777,111
	<u>1,354,374</u>	<u>1,230,686</u>

See note 3.6 for a description of the accounting policies for each category of financial instruments. The fair values are presented in the related notes. A description of the Company's risk management objectives and policies for financial instruments is given in note 22.

22 Financial risk management

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

22.1 Financial risk factors

a) Market risk

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

b) Foreign currency risk

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

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

Item 2008	Armenian drams	Freely convertible currencies	Non-freely convertible currencies
<i>Financial assets</i>			
Cash and cash equivalents	-	-	-
Trade and other receivables	828,744	22,548	-
	<u>828,744</u>	<u>22,548</u>	<u>-</u>
<i>Financial liabilities</i>			
Loans and borrowings	480,709	19	-
Trade and other payables	646,850	226,790	6
	<u>1,127,559</u>	<u>226,809</u>	<u>6</u>
Net position	<u>(298,815)</u>	<u>(204,261)</u>	<u>(6)</u>
Item 2007 (restated)	Armenian drams	Freely convertible currencies	Non-freely convertible currencies
<i>Financial assets</i>			
Cash and cash equivalents	69,785	261	-
Trade and other receivables	164,960	360,618	-
	<u>234,745</u>	<u>360,879</u>	<u>-</u>
<i>Financial liabilities</i>			
Loans and borrowings	453,575	-	-
Trade and other payables	528,156	248,717	238
	<u>981,731</u>	<u>248,717</u>	<u>238</u>
Net position	<u>(746,986)</u>	<u>112,162</u>	<u>(238)</u>

The Company is mainly exposed to US dollar and Euro. The following table details the Company's sensitivity to a 20% (2007:10%) increase and decrease in dram against US dollar and Euro. 20% (2007:10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% (2007:10%) change in foreign currency rates. The sensitivity analysis includes related party and non-related party loans. A positive number indicates an increase in profit or loss and other equity where dram strengthens against the relevant currency.

	US dollar impact		Euro impact	
	2008	2007	2008	2007
Profit or loss	1,505	3,837	625	228

c) Interest rate risk

The following table reconciles the average contract and effective interest rates:

2008	Average interest rate	
	Contract	Effective
Liabilities		
<i>Secured loans from other companies</i>		
Dram	13.00%	13.18%
2007		
Liabilities		
<i>Secured loans from other companies</i>		
Dram	13.00%	13.00%

The sensitivity analysis below has been performed for a 3% change in interest rates. 3% represents management's assessment of the possible change in interest rates.

If interest rates had been 3% higher/lower and all other variables were held constant, the Company's profit for the year ended December 31, 2008 would increase/decrease by drams 2,192 thousand (2007: increase/decrease by drams 107 thousand).

d) Credit risk

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

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

At the balance sheet date there was no significant concentration of credit risk. The Company has made provisions of drams 60,083 thousand as of December 31, 2008 (December 31, 2007: drams 43,717 thousand) for overdue receivables. Besides the risk on receivables, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

e) Liquidity risk

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

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

2008	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		13.18%	
Less than 1 year	873,646	436,284	1,309,930
1-5 years	-	44,444	44,444
	<u>873,646</u>	<u>480,728</u>	<u>1,354,374</u>
2007	Non-interest bearing	Fixed interest rate instruments	Total
Weighted average effective interest rate (%)		13.00%	
Less than 1 year	777,111	153,575	930,924
1-5 years	-	300,000	300,000
	<u>777,111</u>	<u>453,575</u>	<u>1,230,686</u>

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

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

2007 (restated)	Non- interest bearing	Total
	<u>579,997</u>	<u>579,997</u>
Weighted average effective interest rate (%)		
Less than 1 year	<u>579,997</u>	<u>579,997</u>
	<u>579,997</u>	<u>579,997</u>

22.2 Capital risk management

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

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

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

In thousand drams	As of December 31, 2008	As of December 31, 2007
Total borrowings	<u>480,728</u>	<u>453,575</u>
Less: cash and cash equivalents	<u>-</u>	<u>(70,046)</u>
Net debt	480,728	383,529
Total equity	<u>7,530,535</u>	<u>7,528,114</u>
Total capital	<u>7,981,013</u>	<u>7,911,643</u>
Gearing ratio	6%	5%

22.3 Fair values

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

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

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

23 Commitments

23.1 Operating lease commitments

The Company as lessee

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

Non-cancelable operating lease commitments are disclosed below:

In thousand drams	As of December 31, 2008	As of December 31, 2007
Not later than 1 year	47,011	-
Later than 1 year and no later than 5 years	58,670	-
	<u>105,681</u>	<u>-</u>

The Company as lessor

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

Non-cancellable operating lease receivables are disclosed below:

In thousand drams	As of December 31, 2008	As of December 31, 2007
Not later than 1 year	49,355	82,815
Later than 1 year and no later than 5 years	7,042	24,120
	<u>56,397</u>	<u>106,935</u>

23.2 Legal commitments

As of December 31, 2008 there are legal cases against the Company raised by the former employees of the Company. The subject of the claims was the recovery of employees to their former positions in the Company. If the mentioned cases would be settled in favour of the employees the Company will incur additional liabilities of drams 4,601 thousand as redundancy payment.

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

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

24 Contingencies

24.1 Business environment

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

The international rating agency Moody's Investors Service has assessed Armenia's sovereign rating Ba2 "Stable Outlook" in its annual report produced at the end of 2008. According to the report, the country's low government debt and minimal refinancing risks are allowing its rating to maintain a stable outlook in the current environment. A weak revenue base is the main fiscal risk, although it is ameliorated by the very comfortable debt service profile, its good relations with its official creditors, and the liquidity provided by the Diaspora.

Due to smaller extent of the involvement of foreign capital in the equities of Armenian businesses, as well as the comparably small foreign investments in the Armenian economy and the isolation of its relevant sectors from the rest of the world, the ongoing financial crisis observable in more developed and mature economies is not particularly severe and observable in Armenia as of the reporting date.

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

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

24.2 Insurance

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

24.3 Tax contingencies

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

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

25 Related party transactions

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

25.1 Control relationships

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

25.2 Transactions with Haypost Trust Management CJSC

During 2008, the Company received services valued at drams 742,819 thousand (2007: services provided - drams 1,917 thousand, services received - drams 704,968 thousand). The outstanding balance of drams 187,621 thousand is included in trade payables (2007: drams 190 thousand - in trade receivables, drams 51,005 thousand - in trade payables).

25.3 Transactions with companies having the same control

During 2008, the Company provided and received goods and services valued at drams 2,726,766 thousand (2007: drams 1,873,362 thousand) and drams 8,738 thousand (2007: drams 16,396 thousand) respectively. The outstanding balances of drams 83,688 thousand (2007: drams 47,060 thousand) and drams 156,375 thousand (2007: drams 34,148 thousand) are included in trade receivables and trade payables respectively.

During 2008, the Company received short-term loans totaling drams 200,000 thousand (2007: drams 450,000 thousand). The outstanding balance of drams 480,728 thousand (2007 drams 453,575 thousand) has been included in 'loans and borrowings'.

25.4 Transactions with management and close family members

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

In thousand drams	Year ended December 31, 2008	Year ended December 31, 2007
Salaries and bonuses, including contributions to Social State fund	115,269	37,351

26 Restatement of comparative financial statements

In 2007 the Company disclosed receivables and payables from its agency relationships netted off against each other due to impracticality to generate necessary information from accounting system. However during the current period the Company could generate such information and decided not to net off receivables and payables form agency services.

As a result, the effect of these changes has been reflected in the comparative financial statements, as follows:

	<u>Before the adjustment</u>	<u>After the adjustment</u>	<u>Difference</u>
Trade and other receivables	509,951	624,862	114,911
Trade and other payables	1,001,955	1,116,866	114,911
Including:			
Liabilities from agency activities	153,033	267,944	114,911

This restatements have no effect on the profit and loss of the Company.



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