



Financial Statements and Independent Auditor's
Report

Haypost Closed Joint Stock Company

31 December 2007

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Independent auditors' report

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To the shareholder of Haypost Closed Joint Stock Company

We have audited the accompanying financial statements of Haypost Closed Joint Stock Company (the “Company”), which comprise the balance sheet as of December 31, 2007, 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. Except as described in the “Basis for qualification” paragraph, 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.

Basis for Qualification

1. Estimations are made by management of the Company concerning the completeness of the receivables and payables on international postal services included in the financial statements and amounting to drams 356,812 thousand and drams 166,251 thousand, respectively (presented in notes 6 and 13, respectively) as of December 31, 2007. Inter-settlements on movements during the period between international postal operators are finalized by the end of the following year. Due to the fact that the accuracy of the final balances among international postal operators strongly depends on many variables, which cannot be correctly projected as of the date of our report, we cannot make a reliable estimation on these balances ourselves. Accordingly, we are not in a position to, and do not, express an opinion on the valuation and completeness of the receivables and payables on international postal services.
2. In December 2006 and January 2007 the buildings of the Company have been revalued by independent valuers. However, as a result of the revaluation the useful lives of those buildings have not been restated. Consequently, there are certain buildings accounted for in the balance sheet, which have not been depreciated for the reporting period due to the fact that the remaining useful lives of these items were considered as nil at the date of valuation. As a result, the carrying amount of these buildings as of December 31, 2007 is overstated by the amount of depreciation. Due to the number of these buildings, we cannot make a reliable estimation of the amount of depreciation that would have been expensed had the Company revised their useful lives. Accordingly, we are not in a position to, and do not, express an opinion on the amount of depreciation expense for the buildings for the year ended December 31, 2007.
3. The Company has not completely disclosed its related parties in its financial statements, which contradicts the requirements of IAS 24 *Related Parties*. Due to absence of appropriate regulations in the Company we are not able to obtain sufficient evidence concerning the completeness of the related parties as well as determine the impact of the transactions with them on the financial statements by performing alternative audit procedures.
4. We did not observe the counting of the physical inventories stated at drams 92,485 thousand as of December 31, 2007, since the Company's physical inventory counting was in process as of the date of this report. Owing the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities by other audit procedures.

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to limitations described in the preceding paragraphs the financial statements give a true and fair view of the financial position of the Company as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

March 24, 2008

Armand Pinarbasi, CA
Managing Partner



Armen Galstyan
Auditor



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

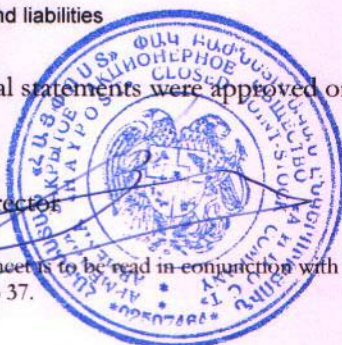
In thousand drams	Note	As of December 31, 2007	As of December 31, 2006
Assets			
<i>Non-current assets</i>			
Property and equipment	4	11,303,629	12,912,997
Intangible assets		22,213	25,853
		<u>11,325,842</u>	<u>12,938,850</u>
<i>Current assets</i>			
Inventories	5	92,485	73,497
Trade and other receivables	6	509,951	482,106
Current income tax assets		49,127	27,948
Cash and cash equivalents	7	70,046	27,473
		<u>721,609</u>	<u>611,024</u>
Non-current assets classified as held for sale	8	1,066,400	-
Total assets		<u><u>13,113,851</u></u>	<u><u>13,549,874</u></u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	9	520,993	520,993
General reserve	9	78,149	78,149
Revaluation reserve		6,608,140	7,101,119
Accumulated profit		148,990	229,636
Other reserves	9	171,842	171,842
		<u>7,528,114</u>	<u>8,101,739</u>
<i>Non-current liabilities</i>			
Loans and borrowings	10	300,000	-
Grants related to assets	11	2,572,890	2,703,871
Deferred income tax liabilities	12	1,557,317	1,720,721
		<u>4,430,207</u>	<u>4,424,592</u>
<i>Current liabilities</i>			
Loans and borrowings	10	153,575	11,491
Trade and other payables	13	1,001,955	1,012,052
		<u>1,155,530</u>	<u>1,023,543</u>
Total equity and liabilities		<u><u>13,113,851</u></u>	<u><u>13,549,874</u></u>

The financial statements were approved on February 27, 2008 by:

Hans Boon
General Director

Khachik Beglaryan
Chief Accountant

The balance sheets to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 37.



Income statement

In thousand drams	Note	Year ended December 31, 2007	Year ended December 31, 2006
Revenue	14	4,072,909	3,480,132
Cost of sales	15	(3,320,405)	(2,664,061)
Gross profit		<u>752,504</u>	<u>816,071</u>
Other income		464,576	526,624
Distribution and marketing expenses		(25,295)	(5,542)
Administration expenses	16	(1,837,990)	(766,714)
Finance costs, net		(3,575)	(9,727)
Other expenses		(168,388)	(517,039)
Loss from exchange rate differences		(5,947)	(13,591)
Profit/(loss) before tax		<u>(824,115)</u>	<u>30,082</u>
Income tax (expense)/recovery	17	175,570	(29,034)
Profit/(loss) for the year		<u>(648,545)</u>	<u>1,048</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 37.

Statement of changes in equity

In thousand drams	Share capital	General reserve	Revaluation reserve	Other reserves	Accumulated profit	Total
as of January 1, 2006	520,993	78,149	-	603,752	10,396	1,213,290
Prior year profit distribution	-	-	-	-	(141,213)	(141,213)
Increase from revaluation of buildings	-	-	8,876,399	-	-	8,876,399
Related deferred income tax	-	-	(1,775,280)	-	-	(1,775,280)
Realization to accumulated profit	-	-	-	(431,910)	431,910	-
Dividends for 2005	-	-	-	-	(56,485)	(56,485)
Adjustment of dividends	-	-	-	-	(16,020)	(16,020)
Net income recognized directly in equity	<u>520,993</u>	<u>78,149</u>	<u>7,101,119</u>	<u>171,842</u>	<u>228,588</u>	<u>8,100,691</u>
Profit for the year	-	-	-	-	1,048	1,048
as of December 31, 2006	<u>520,993</u>	<u>78,149</u>	<u>7,101,119</u>	<u>171,842</u>	<u>229,636</u>	<u>8,101,739</u>
Increase from revaluation of buildings	-	-	93,649	-	-	93,649
Related deferred income tax	-	-	(18,729)	-	-	(18,729)
Realization to accumulated profit	-	-	(567,899)	-	567,899	-
Net income recognized directly in equity	<u>520,993</u>	<u>78,149</u>	<u>6,608,140</u>	<u>171,842</u>	<u>797,535</u>	<u>8,176,659</u>
Loss for the year	-	-	-	-	(648,545)	(648,545)
as of December 31, 2007	<u><u>520,993</u></u>	<u><u>78,149</u></u>	<u><u>6,608,140</u></u>	<u><u>171,842</u></u>	<u><u>148,990</u></u>	<u><u>7,528,114</u></u>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 37.

Cash flow statement

In thousand drams	Year ended December 31, 2007	Year ended December 31, 2006
Cash flows from operating activities		
Profit/(loss) for the year	(648,545)	1,048
<i>Adjustments for:</i>		
Depreciation and amortization	922,483	303,628
(Gain)/loss on disposal of non-current assets	(5,704)	133,096
Income from grants	(185,078)	(98,674)
Impairment of non-current assets	-	112,821
Income from recovery of non-current assets	(51,544)	-
Interest expense	3,575	9,727
Income tax expense/(recovery)	(175,570)	29,034
Income from remittance of liabilities	-	(219,931)
Foreign exchange loss	5,947	13,591
<i>Operating profit/(loss) before working capital changes</i>	<u>(134,436)</u>	<u>284,340</u>
Change in trade and other receivables	(125,489)	(71,530)
Change in inventories	(18,988)	(4,015)
Change in trade and other payables	414,533	264,262
<i>Cash generated from operations</i>	<u>135,620</u>	<u>473,057</u>
Interest paid	(185)	(9,912)
Income tax paid	(27,742)	(196,275)
<i>Net cash from operating activities</i>	<u>107,693</u>	<u>266,870</u>
Cash flows from investing activities		
Prepayments received	-	33,215
Proceeds from disposal of non-current assets	5,971	-
Acquisition of non-current assets	(176,852)	(290,073)
<i>Net cash used in investing activities</i>	<u>(170,881)</u>	<u>(256,858)</u>
Cash flows from financing activities		
Loans and borrowings, net	438,694	(108,087)
Dividends paid	-	(171,212)
<i>Net cash from/(used in) financing activities</i>	<u>438,694</u>	<u>(279,299)</u>
Net increase/(decrease) in cash and cash equivalents	375,506	(269,287)
Foreign exchange effect on cash	(21,381)	(20,288)
Cash and cash equivalents at the beginning of the year	<u>516,738</u>	<u>806,313</u>
Cash and cash equivalents at the end of the year (refer to note 7)	<u>870,863</u>	<u>516,738</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 37.

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.
- Other services.

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

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

The Company and its 41 branches operate in Armenia and had 3,586 employees as of December 31, 2007 (as of December 31, 2006: 3,834 employees).

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

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”) for the period of five years, defining 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 (refer to note 18). 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.

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”).

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments stated at fair value and land and buildings 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 19 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, 2007.

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 existing standards have been published but are not yet effective. The Company has not early adopted any of these pronouncements.

Standard or Interpretation	Effective for reporting periods starting on or after
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008
IFRIC 13 Customer Loyalty Programmes	July 1, 2008
IFRIC 12 Service Concession Arrangements	January 1, 2008
IAS 23 Borrowing Costs (revised 2007)	January 1, 2009
IAS 1 Presentation of Financial Statements (revised 2007)	January 1, 2009
IFRS 8 Operating segments	January 1, 2009
IFRS 2 Share based payment (revised 2008)	January 1, 2009

The new Standards, amendments and Interpretations that are expected to be relevant to the Company's financial statements are as follows:

Amendment to IAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces 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.

Amendment to IAS 23 Borrowing Costs

This amendment requires 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.

Based on Company's current business model and accounting policies, management does not expect material impact on Company's financial statements when other new Standard and Interpretations become effective.

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 304.22 drams for 1 US dollar as of December 31, 2007 (December 31, 2006: 363.50 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

Property and equipment stated at a revaluated amount

Land, buildings and constructions used by the Company, are stated in the balance sheet at their revalued amounts, 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 property and equipment 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 property and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

Property and equipment stated at cost

Except for the land, buildings and constructions, 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. 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 20 years
- Buildings and constructions in earthquake zone 1 year
- Machinery, equipment, transportation equipment 5 years
- Fixtures and fittings 5 years
- Computers 1 year.

3.3 Intangible assets

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

Amortization is charged to the income statement on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at 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, i.e. 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 Accounting for 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 20.3 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 (more than 365 days overdue) 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.

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

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

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

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

3.8 Non-current assets classified as held for sale

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

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 Financial liabilities

The Company's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortized cost using the effective interest rate method. A summary of Company's financial liabilities by category is given in note 20.3.

(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 cost and subsequently stated at amortized cost.

3.11 Employee benefits

The Company makes contributions for the benefit of employees to the Armenian State pension fund. The contributions are expenses as incurred.

3.12 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.

3.13 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.

3.14 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.

3.15 Revenue recognition

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 are made with an adjustment for stamps sold and unused.

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. 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</i>					
As of January 1, 2006	-	1,532,599	1,084,866	402,123	3,019,588
Acquisitions and additions	2,122,384	556,120	176,030	111,099	2,965,633
Disposals and write-offs	-	(25,625)	(5,646)	(306,358)	(337,629)
Revaluation increase	1,360	8,875,039	-	-	8,876,399
Elimination of accumulated depreciation on revaluation	-	(416,099)	-	(4,301)	(420,400)
Internal movement	-	(134,093)	52,908	81,185	-
as of December 31, 2006	<u>2,123,744</u>	<u>10,387,941</u>	<u>1,308,158</u>	<u>283,748</u>	<u>14,103,591</u>
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>
<i>Accumulated depreciation and impairment</i>					
as of January 1, 2006	-	479,348	869,062	150,613	1,499,023
Charge for the year	-	69,008	189,739	12,518	276,265
Eliminated on disposal	-	(700)	(5,646)	(235,169)	(241,515)
Impairment loss	-	85,244	-	-	85,244
Reversal of impairment loss	-	(1,801)	(108)	(1,114)	(3,023)
Eliminated on revaluation	-	(416,099)	-	(4,301)	(420,400)
Internal movement	-	(48,111)	(138,421)	186,532	-
as of December 31, 2006	-	<u>166,889</u>	<u>914,626</u>	<u>109,079</u>	<u>1,190,594</u>
Charge for the year	-	718,186	169,678	24,971	912,835
Eliminated on disposal	-	-	-	(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>870,344</u>	<u>1,010,465</u>	<u>205,364</u>	<u>2,086,173</u>
<i>Carrying amount</i>					
as of December 31, 2006	<u>2,123,744</u>	<u>10,221,052</u>	<u>393,532</u>	<u>174,669</u>	<u>12,912,997</u>
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>

Property and equipment with a cost of drams 691,237 thousand are accounted for at zero carrying amount as of December 31, 2007 (as of December 31, 2006: drams 645,984 thousand).

None of the property and equipment of the Company has been pledged as a security for loans and borrowings as of December 31, 2007 and December 31, 2006.

As of December 31, 2007 and December 31, 2006 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 property and equipment been presented at cost less accumulated depreciation, as of December 31, 2007 their carrying amount would amount to drams 1,466,064 thousand (as of December 31, 2006: drams 2,013,345 thousand).

During the reporting period the depreciation expense amounting to drams 912,835 thousand (2006: drams 271,265 thousand) has been allocated to the administrative expenses by drams 357,631 thousand (2006: drams 80,165 thousand) and to the cost of sales by drams 555,204 thousand (2006: drams 191,100 thousand).

As of December 31, 2007 buildings and constructions with cost of drams 54,110 thousand (as of December 31, 2006: drams 105,451 thousand) are not accounted for in the balance sheet of the Company (instead these are maintained in off-balance accounts). The entry of these buildings and constructions to the balance sheet will be made after the formal registration of the ownership rights.

5. Inventories

In thousand drams	As of December 31, 2007	As of December 31, 2006
Materials	42,326	37,605
Small value items	7,671	9,949
Envelopes, post cards, stamps and other	39,181	25,549
Goods	3,307	394
	<u>92,485</u>	<u>73,497</u>

The cost of inventories recognized as an expense during the year is drams 337,695 thousand (2006: drams 416,977 thousand), which includes drams 7,133 thousand (2006: nil) in respect of write-downs of inventory to net realizable value.

6. Trade and other receivables

In thousand drams	As of December 31, 2007	As of December 31, 2006
International settlements	356,812	363,772
Advances and prepayments	99,284	58,913
Other trade receivables	75,680	68,464
	<u>531,776</u>	<u>491,149</u>
Allowances for doubtful receivables	(43,717)	(33,990)
Net trade receivables	<u>488,059</u>	<u>457,159</u>
Other receivables	21,892	24,947
	<u>509,951</u>	<u>482,106</u>

The average credit period on rendering of services is 46 days (2006: 56 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

	2007	2006
Balance at beginning of year	33,990	33,376
Increase in the allowance during the period (recognized in other expenses)	9,727	614
Balance at end of year	<u>43,717</u>	<u>33,990</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.

7. Cash and cash equivalents

<i>In thousand drams</i>	As of December 31, 2007	As of December 31, 2006
Bank accounts	340,381	182,709
Cash on hand	446,461	178,132
Cash in transit	82,876	154,875
Lottery won tickets	1,145	1,022
	<u>870,863</u>	<u>516,738</u>
Less: Amounts held in trust	(800,817)	(489,265)
	<u>70,046</u>	<u>27,473</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 the year the Company management decided to dispose of its certain property. There is a defined plan for the disposal and management believes that the disposal will take place within 12 months after the balance sheet date.

9. Equity

9.1 Share capital

<i>Number of shares</i>	Ordinary shares	Ordinary shares
	2007	2006
Authorized shares		
9,542 ordinary shares of drams 54,600 each	<u>520,993</u>	<u>520,993</u>

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 Other reserves

Other reserves include the fair value of postal system granted to the Company in 2004, which should have been directed at 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.

9.4 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.

10. Loans and borrowings

In thousand drams	As of December 31, 2007	As of December 31, 2006
Bank loan	453,575	-
Related party borrowing	-	11,491
	<u>453,575</u>	<u>11,491</u>
<i>Including:</i>		
Long-term portion	<u>300,000</u>	-
Short-term portion	<u>153,575</u>	11,491

Bank loan matures in 2009 and bears a weighted average annual interest rate of 13%.

The Company has received a non-interest bearing borrowing in Armenian drams from “Radio” CJSC (related party). The repayment period was set October 26, 2007. The borrowing was repaid on May 15, 2007.

Loan is guaranteed by the turnover of one of the bank accounts of the Company with the right of use.

The maturity dates for the loans and borrowings are as follows:

In thousand drams	As of December 31, 2007	As of December 31, 2006
6 months or less	3,575	11,491
6-12 months	150,000	-
1-5 years	300,000	-
	<u>453,575</u>	<u>11,491</u>

The fair values of loans and borrowings are as follows:

In thousand drams	As of December 31, 2007	As of December 31, 2006
Bank loan	453,575	-
Borrowings from related parties	-	11,491
	<u>453,575</u>	<u>11,491</u>

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

The carrying amounts of the Company's loan and borrowing are denominated in Armenian drams.

The Company has no undrawn borrowing facilities.

Refer to notes 20.6 and 20.7 for more information about the Company's exposure to foreign currency and interest rate risks respectively.

11. Grants related to assets

In thousand drams	2007	2006
Opening balance	2,703,871	91,610
Additions	54,097	2,695,822
Reclassification from grants related to income	-	15,113
Grants recognized as income	<u>(185,078)</u>	<u>(98,674)</u>
Closing balance	<u>2,572,890</u>	<u>2,703,871</u>

Additions to the grants in 2007 and 2006 include the value of the land (difference between market and cadastre value) granted to the Company by the Government of the Republic of Armenia (refer to note 4).

12. Deferred income tax liabilities

The movement of deferred income taxes is disclosed below:

In thousand drams	2007	2006
Balance at beginning of year	(1,720,721)	9,341
Credited to income statement (refer to note 17)	182,133	45,218
Charged to equity	(18,729)	(1,775,280)
Balance at end of year	<u>(1,557,317)</u>	<u>(1,720,721)</u>

Deferred income taxes arise from the following items:

In thousand drams	As of December 31, 2007	As of December 31, 2006
<i>Deferred income tax assets</i>		
Trade receivables	8,743	6,798
Inventories	3,567	2,140
Trade payables	82,408	45,621
	<u>94,718</u>	<u>54,559</u>
<i>Deferred income tax liabilities</i>		
Property and equipment	(1,652,035)	(1,775,280)
	<u>(1,652,035)</u>	<u>(1,775,280)</u>
Net position - deferred income tax liabilities	<u>(1,557,317)</u>	<u>(1,720,721)</u>

Analyzed as:

To be recovered/redeemed within 12 months	94,718	54,559
To be recovered/redeemed after more than 12 months	(1,652,035)	(1,775,280)

13. Trade and other payables

In thousand drams	As of December 31, 2007	As of December 31, 2006
International settlements	166,251	144,900
Other trade payables	143,846	234,301
Advances from customers	29,338	22,734
Taxes and duties payable	42,473	22,697
Salary and social insurance	315,072	356,800
Accrued expenses	113,237	12,500
Liabilities from agency activities (see below)	153,033	196,496
Other	38,705	21,624
	<u>1,001,955</u>	<u>1,012,052</u>

The average credit period on the receipt of certain service is 34 days (2006: 52). 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, 2007 drams 153,033 thousand from the collected amount were spent for the Company's own needs (as of December 31, 2006: drams 196,496 thousand), which is resulted in a liability to those companies, as described below:

In thousand drams	As of December 31, 2007	As of December 31, 2006
Payables for collections	1,068,761	757,662
Receivables for commission fees from collections	(114,911)	(71,901)
Net payables for collections	953,850	685,761
Current cash available (refer to note 7)	(800,817)	(489,265)
Liabilities from agency activities	153,033	196,496

14. Revenue

In thousand drams	Year ended December 31, 2007	Year ended December 31, 2006
Postal services	1,347,201	1,117,828
Agency fee for distribution of pensions and benefits	1,134,985	966,552
Agency fee for making utility payments (electricity, gas, telephone, etc.)	1,404,651	1,217,588
Other	186,072	178,164
	4,072,909	3,480,132

15. Cost of sales

In thousand drams	Year ended December 31, 2007	Year ended December 31, 2006
Salary and social insurance	1,693,047	1,452,834
Services received	169,430	355,242
Parcels delivery and cost of international services received	496,817	194,626
Depreciation and amortization	564,440	222,419
Materials and spare parts used	337,695	416,977
Other	58,976	21,963
	3,320,405	2,664,061

16. Administration expenses

In thousand drams	Year ended December 31, 2007	Year ended December 31, 2006
Salary and social insurance	473,030	481,255
Trip expenses	20,767	17,986
Depreciation and amortization	357,803	81,207
Audit and consulting	671,949	142,952
Other	314,441	43,314
	<u>1,837,990</u>	<u>766,714</u>

17. Income tax expense/(recovery)

In thousand drams	Year ended December 31, 2007	Year ended December 31, 2006
Current tax	6,563	74,252
Deferred tax (refer to note 12)	(182,133)	(45,218)
	<u>(175,570)</u>	<u>29,034</u>

Reconciliation of effective tax rate is as follows:

In thousand drams	Year ended December 31, 2007	Effective tax rate (%)	Year ended December 31, 2006	Effective tax rate (%)
Profit/(loss) before taxation (under IFRS)	<u>(824,115)</u>		<u>30,082</u>	
Tax calculated at a tax rate of 20% (2006: 20%)	(164,823)	20.00	6,016	20.00
(Non-taxable)/non-deductible items, net	<u>(10,747)</u>	<u>1.30</u>	<u>23,018</u>	<u>76.51</u>
Income tax expense/(recovery)	<u>(175,570)</u>	<u>21.30</u>	<u>29,034</u>	<u>96.51</u>

18. 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 circular 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. According to the agreement, the parties accepted that the plan includes budget for the professional services and expenditures related to them amounting to Euros 3 million for the first five years (plus all taxes stated by the tax legislation of the Republic of Armenia). During the first 12 months the Company must pay Euros 100 thousand as monthly prepayment for the professional services and other expenditures. Afterwards, the monthly prepayment will amount to Euros 70 thousand for the following 8 months, then Euros 60 thousand for the following 4 months, Euros 40 thousand for the following 12 months, Euros 30 thousand for the following 12 months and Euros 16 thousand more for the remaining 12 months.

- 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.

19. 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.

19.1 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.

19.2 Critical judgments in applying the Company's 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, 2007 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 19,056 thousand, and the decrease by 10% will cause increase in the loss for the period by drams 19,056 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).

Estimated impairment of property, plant and equipment

The Company management has decided not to conduct a special impairment testing for property and equipment as of December 31, 2007, since the estimated amount of impairment of property and equipment, if any, is directly connected with the results of stocktaking of those assets, which, as of the date of these financial statements, was still in the process. Had management conducted any impairment testing for those assets, there could be a need to significantly amend these financial statements.

20. Financial instruments

20.1 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.

20.2 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 20.3.

20.3 Categories of financial instruments

Financial assets

In thousand drams	As of December 31, 2007	As of December 31, 2006
Trade and other receivables	509,951	482,106
Cash and cash equivalents	70,046	27,473
	<u>579,997</u>	<u>509,579</u>

Financial liabilities

In thousand drams	As of December 31, 2007	As of December 31, 2006
Loans and borrowings at amortized cost	453,575	11,491
Trade and other payables at amortized cost	959,482	989,355
	<u>1,413,057</u>	<u>1,000,846</u>

20.4 Financial risk management objectives

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

20.5 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 20.6 below) and interest rates (see 20.7 below).

20.6 Foreign currency risk management

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:

2007

Item	Armenian dram	US dollar	Euro	Other currencies
<i>Financial assets</i>				
Cash and cash equivalents	69,785	129	131	1
Trade and other receivables	<u>86,402</u>	<u>310</u>	<u>68,654</u>	<u>354,585</u>
	<u>156,187</u>	<u>439</u>	<u>68,785</u>	<u>354,586</u>
<i>Financial liabilities</i>				
Loans and borrowings	453,575	-	-	-
Trade and other payables	<u>643,873</u>	<u>38,840</u>	<u>100,380</u>	<u>176,389</u>
	<u>1,097,448</u>	<u>38,840</u>	<u>100,380</u>	<u>176,389</u>
Net position	<u>(941,261)</u>	<u>(38,401)</u>	<u>(31,595)</u>	<u>178,197</u>

2006

Item	Armenian dram	US dollar	Euro	Other currencies
<i>Financial assets</i>				
Cash and cash equivalents	25,321	36	29	2,087
Trade and other receivables	111,479	10,584	4,545	355,498
	136,800	10,620	4,574	357,585
<i>Financial liabilities</i>				
Borrowings	11,491	-	-	-
Trade and other payables	730,980	82,474	6,857	169,044
	742,471	82,474	6,857	169,044
Net position	(605,671)	(71,854)	(2,283)	188,541

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

	US dollar impact		Other currency impact	
	2007	2006	2007	2006
Profit or loss	3,837	7,185	24,871	19,082

20.7 Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at fixed.

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

2007	Average interest rate	
	Contract	Effective
<i>Liabilities</i>		
<i>Secured loans from financial institutions</i>		
Dram	13%	13%

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, 2007 would increase/decrease by drams 4,167 thousand.

20.8 Credit risk management

Credit risk refers to the risk that a 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 and obtaining sufficient collateral where appropriate as a means of mitigating risk of financial loss from default.

Trade receivables consist of a large number of customers spread across diverse industries. 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 43,717 thousand as of December 31, 2007 (December 31, 2006: drams 33,990 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.

20.9 Liquidity risk management

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.

2007	<u>Non-interest bearing</u>	<u>Fixed interest rate instruments</u>
Weighted average effective interest rate (%)		13
Less than 1 year	959,482	153,575
1-5 years	-	300,000
	<u>959,482</u>	<u>453,575</u>
2006	<u>Non-interest bearing</u>	
Weighted average effective interest rate (%)	-	
Less than 1 year	1,000,846	

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.

2007	<u>Non- interest bearing</u>
Weighted average effective interest rate (%)	
Less than 1 year	509,951
2006	<u>Non- interest bearing</u>
Weighted average effective interest rate (%)	
Less than 1 year	482,106

20.10 Fair values

Management believes that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial statements approximate 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.

21. Commitments

21.1 Capital commitments

The Company performs cash transfers, which is a licensed activity. According to the lists and schedule approved by the decree #568-A of the Central Bank of Armenia dated December 20, 2005, the Company has taken over commitments during 2006-2008 to bring the areas of the Company branches (post-offices) and their technical equipping in correspondence with the defined requirements, as well as present the certificates on right for use of the areas of branches. According to the Company's preliminary calculations, the overall expenditures for this mentioned period will amount to drams 511,324 thousand.

21.2 Operating lease commitments

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, 2007
Not later than 1 year	82,815
Later than 1 year and no later than 5 years	24,120
	<u>106,935</u>

Comparative information on non-cancellable operating lease receivables is not disclosed due to its impracticality.

21.3 Legal commitments

As of December 31, 2007 there are legal cases against the Company raised by the former employees of the Company. If the mentioned cases would be settled in favour of the employees the Company will incur additional liabilities of drams 5,025 thousand.

As of December 31, 2007 a legal case against the Company raised by a former employee concerning the right to use the software designed by the mentioned employee has been satisfied by the court of first instance. The amount to be refund 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 the pay the mentioned amount, if the court of appeal does not satisfy the claim of the Company.

22. Contingencies

22.1 Operating environment

Armenia continues to undergo political and economic changes. As an emerging market, Armenia does not possess a regulatory infrastructure that generally exists in a more mature free market economy. Consequently, operations carried out in Armenia involve certain risks that are not typically associated with those in developed countries.

The Company could be affected, for the foreseeable future, by these risks and their consequences. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Company's financial statements in the period when they become known and estimable.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations in generally illiquid markets may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving many willing buyers and willing sellers.

22.2 Insurance

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

22.3 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.

22.4 Environmental matters

Management is of the opinion that the Company has met the Government's requirements concerning environmental matters and, therefore, believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

23. Related party transactions

23.1 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.

23.2 Transactions with management and close family members

During the current period key management received only salaries and bonuses, including contributions to State social insurance fund at drams 37,351 thousand, which are included in salary and social insurance expenses (2006: drams 19,609 thousand).

23.3 Transactions with other related parties

Because of the absence of appropriate regulations disclosures necessary in the annual financial statements concerning related parties are presented partially.

The Company's certain related party transactions are disclosed below:

(i) Revenue

	Transaction value 2007	Outstanding balance at December 31, 2007	Transaction value 2006	Outstanding balance at December 31, 2006
Haypost Trust Management CJSC	1,917	190	-	-
	<u>1,917</u>	<u>190</u>	<u>-</u>	<u>-</u>

All outstanding balances with related parties are to be settled in cash within 6 months of the balance sheet date. None of the balances are secured.

(ii) Expenses

	Transaction value 2007	Outstanding balance at December 31, 2007	Transaction value 2006	Outstanding balance at December 31, 2006
Haypost Trust Management CJSC	704,968	51,005	-	-
	<u>704,968</u>	<u>51,005</u>	<u>-</u>	<u>-</u>

(iii) Borrowings

	Amount borrowed as of December 31, 2007	Outstanding balance at December 31, 2007	Amount borrowed as of December 31, 2006	Outstanding balance at December 31, 2006
Radio CJSC (having the same ultimate shareholder)	-	-	-	11,491
	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,491</u>

24. Restatement of comparative financial statements

As described in note 19.2 the Company has decided to disclose the receivables and payables arising from its agency relationships netted off against each other. 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>
Cash and cash equivalents	516,738	27,473	(489,265)
Trade and other receivables	554,007	482,106	(71,901)
Trade and other payables	1,573,219	1,012,053	(561,166)