ARMENIAN COPPER PROGRAMME CJSC
(FORMER MANES YEV VALLEX CJSC)

Financial statements

for the year ended 31 December 2001

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Armenian Copper Programme cjsc
19 Khanjyan Street
Yerevan, 375010
Republic of Armenia

Disclaimer

The attached Armenian language financial statements and auditors' report were originally prepared in the English language and have been translated into Armenian for the convenience of the reader. In the event of any differences in interpretation between the English language and Armenian language versions, the English language will prevail.

Members of the board

Valery Medzhlumyan	Chairman and General Director
Nikolay Feofanov	Deputy General Director, Head of the Production Department
Ruben Papoyan	Acting Head of the Metallurgy Department
Gagik Arzumanyan	Deputy General Director, Head of the Finance and Economic Department
Arthur Mkrtumyan	Deputy General Director, Head of the Mining and Concentration Department
Aleksander Gabrielyan	Deputy General Director, Head of the Sales and Marketing Department
Sahak Karapetyan	Head of the General and Administrative Department

Statement of directors' responsibilities

The Directors of Armenian Copper Programme cjsc (hereinafter "the Company") are responsible for the preparation of these financial statements prepared in accordance with International Financial Reporting Standards.

In so doing, they are required to:

- select appropriate accounting policies and to apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- adopt the going concern basis of accounting, unless circumstances make this inappropriate.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of the board of Armenian Copper Programme cjsc

We have audited the accompanying balance sheet of Armenian Copper Programme csjc ("the Company") as of 31 December 2001 and the related statements of income, changes in shareholder's equity and cash flows for the year then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2001, and the results of its operations, changes in shareholder's equity and cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 21 to the financial statements. The financial statements have been prepared on the going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

KPMG

KPMG Armenia cjsc - Licensed Auditors

Yerevan

19 August 2002

„KPMG Armenia"
02529639

Income statement
for the year ended 31 December 2001

	Note	31 December 2001 Drams'000	31 December 2000 Drams'000
Revenue		5,249,524	6,127,913
Cost of sales		(4,969,914)	(5,182,335)
Gross profit		279,610	945,578
Other operating income	4	47,911	31,700
Administrative expenses	5	(743,153)	(466,545)
Net foreign exchange loss	6	(78,295)	(37,394)
Provisions charge on other assets		(50,852)	(164,771)
Other operating expenses	7	(226,125)	(156,645)
(Loss)/profit from operations		(770,904)	151,923
Borrowing cost		(214,664)	(231,494)
Loss before taxation		(985,568)	(79,571)
Tax credit	8	163,855	-
Net loss for the year		(821,713)	(79,571)

The income statement should be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 23.

Balance sheet

as at 31 December 2001

	Note	31 December 2001 Drams'000	31 December 2000 Drams'000
Assets			
Non-current assets			
Property, plant and equipment	9	4,019,686	311,434
Intangible assets	10	27,308	12,147
Deferred mining expenses	11	111,850	-
Long-term investments	12	-	6,273
		4,158,844	329,854
Current assets			
Inventories	13	501,789	458,723
Trade and other receivables	14	570,763	1,212,584
Cash and cash equivalents	19	6,509	2,119
		1,079,061	1,673,426
Total assets		**5,237,905**	**2,003,280**
Equity and liabilities			
Capital and reserves			
Issued capital	15	1,506,179	540,000
Revaluation reserve		3,230,881	-
Retained earnings		(1,921,366)	(1,099,653)
		2,815,694	(559,653)
Long term liabilities			
Long term borrowings	16	-	1,517,336
Deferred tax liability	17	195,132	-
		195,132	1,517,336
Current liabilities			
Short-term borrowings	16	734,417	84,855
Trade and other payables	18	1,492,662	960,742
		2,227,079	1,045,597
Total equity and liabilities		**5,237,905**	**2,003,280**

The financial statements were approved by the members of the Board on 19 August 2002 and were signed on its behalf by:

Valery Medzhlumyan
General Director

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 23.

Cash flow statement
for the year ended 31 December 2001

	31 December 2001	31 December 2000
	Drams'000	Drams'000
Cash flow from operating activities		
Reconciliation of operating loss to net cash flow from operating activities		
Loss before profit tax	(985,568)	(79,571)
Depreciation of property, plant and equipment	73,567	64,331
Amortisation of intangible assets	9,579	6,805
Loss of property, plant and equipment disposal	17,852	654
Provision charges	57,346	164,771
Interest expenses	214,664	231,494
Operating (loss)/ profit before changes in working capital	*(612,560)*	*388,484*
Net cash outflow from operations		
Decrease/(increase) in trade and other receivables	338,244	(1,343,367)
Increase in inventories	(49,560)	(375,349)
Decrease/(increase) in trade and other payables	630,381	(136,420)
Net cash inflow/(outflow) from operations	*306,505*	*(1,466,652)*
Interest paid	(43,534)	(11,781)
Net cash inflow/(outflow) from investing activities		
Purchase of property, plant and equipment	(216,562)	(126,806)
Investment in the mining property	(111,850)	-
Purchase of intangible assets	(24,740)	(8,045)
Purchase of other company's shares	(10,592)	(6,273)
Proceeds from fixed assets disposals	6,759	880
Net cash used in investing activities	*(356,985)*	*(140,244)*
Cash flows from financing activities		
Proceeds from long term borrowings	(1,203,712)	1,517,336
Proceeds from share issue	966,179	-
Proceeds from short term borrowings	91,646	82,827
Net cash used in financing activities	*(145,887)*	*1,600,163*
Net decrease in cash and cash equivalents during the year	(239,901)	(18,514)
Cash and cash equivalents at beginning of the year	91	18,605
Cash and cash equivalents at end of the year (see note 19)	(239,810)	91

Statement of changes in shareholder's equity
for the year ended 31 December 2001

	Share capital Drams'000	Revaluation reserves Drams'000	Retained earnings Drams'000	Total Drams'000
Balance as at 1 January 2000	540,000	-	(1,020,082)	(480,082)
Loss for the year	-	-	(79,571)	(79,571)
Balance as at 31 December 2000	540,000	-	(1,099,653)	(559,653)
Surplus revaluation of property, plant and equipment	-	3,589,868	-	3,589,868
Deferred tax effect of revaluation	-	(358,987)	-	(358,987)
Loss for the period	-	-	(821,713)	(821,713)
Shares issued	966,179	-	-	966,179
Balance as at 31 December 2001	1,506,179	3,230,881	(1,921,366)	2,815,694

Notes to the financial statements

1 Background

Armenian Copper Programme cjsc ("the Company") was established in August 1997. The principal activity of the Company is production and distribution of blister copper. The entire production is exported.

The Company distributes computer products in Armenia. The computer products distribution is not considered a main activity of the Company.

2 Business environment

In recent years Armenia has undergone fundamental political and economic changes. As a result, operations carried out in Armenia involve significant risks which are not typically associated with more mature market economies.

The immediate and ongoing effects of severe economic instability in Armenia include or may include slower economic growth or decline, a reduction in the availability of credit and the ability to service debt, volatile interest rates, changes in taxes, further devaluation of the Dram, bankruptcies including bank failures, and other severe economic and political consequences. These conditions and future policy changes could have a materially adverse effect on the operations of the Company and the realisation and settlement of its assets and liabilities.

The accompanying financial statements reflect management's assessment of the possible impact of the economic situation on the financial position of the Company. Actual results could differ from management's current assessment and such differences could be material.

3 Significant accounting policies

The principal accounting policies adopted for the preparation of the financial statements of the Company are set out below.

a) Preparation and presentation of financial statements

These financial statements have been prepared in accordance with International Accounting Standards (IAS). The accounting policies have been consistently applied with those of the preceding year.

During the year the Company adopted IAS 39 *Financial Instruments: Recognition and Measurement*.

The adoption of IAS 39 has resulted in the Company recognising available-for-sale investments at fair value. This change has not been accounted for and comparatives have not been adjusted as the effect of the IAS 39 adoption on the comparatives is not considered to be material to the financial statements.

Significant accounting policies *(continued)*

b) Revenue recognition

For the sale of finished products, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer and when no significant uncertainties remain regarding the consideration, associated costs or the possible return of goods.

c) Deferred mining expenses

Pre-production mining costs are classified per area of interest based on the following principals:

1. pre-production (prospecting, mineral rights acquisition, exploration, evaluation or appraisal, development and construction) costs are incurred per area of interest and are recorded as deferred expenses on mines;

2. upon the proof of the economical feasibility of the industrial extraction of minerals in the particular area of interest the deferred expenses on mines relating to this area are capitalised;

3. if the industrial extraction of minerals in a particular area of interest is proved not to be economically feasible the deferred expenses on mines relating to this area of interest is charged to the income statement in the period it is proved not to be economically feasible;

4. the deferred expenses on mines relating to a particular area of interest are charged to the income statement and recognized as expenses even if the industrial extraction of minerals in the area of interest has been proved to be economically feasible but the industrial extraction is not planned to be performed because of any other reason;

5. the deferred expenses on mines relating to a particular area of interest are charged to the income statement and recognized as expenses if during a three year period the industrial extraction of minerals in the area has not be proved to be economically feasible and a plan for industrial extraction of minerals has not been developed;

6. any deferred expenses on proved but undeveloped areas of interest are periodically re-evaluated to determine the economically feasibility. If the area is found not to be economically feasible the deferred expenses are written off immediately to the income statement.

d) Property, plant and equipment

Property, plant and equipment are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Depreciation is provided on a straight line basis of annual equal instalments to write off the cost or value of property, plant and equipment over their estimated useful lives as follows:

▪ Buildings	20 years
▪ Plant and equipment	10 years
▪ Leasehold improvement	10 years
▪ Fixtures and fittings	1-5 years
▪ Motor vehicles	5 years
▪ Intangible assets	2 - 10 years

Significant accounting policies *(continued)*

Expenditure on property, plant and equipment in the course of construction is capitalised and depreciated once the assets concerned are brought into use. Expenditure on repairs or maintenance of property, plant and equipment incurred to restore or maintain future economic benefits is recognised as an expense when incurred.

e) Investments

Equity investments in which the Company holds more than 20% of the issued capital are accounted for using the equity method. Investments of less than 20% are accounted for as financial assets available for sale and valued at the fair value subject to review for impairment.

f) Inventories

Inventories are stated at the lower of cost and net realisable value, cost is calculated using the weighted average purchase price.

g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

h) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and cash balances held with the bank.

j) Loans and borrowings

Loans and borrowings are stated at cost less attributable transaction costs.

k) Trade and other payables

Accounts payable are stated at the amount of principal outstanding.

Significant accounting policies *(continued)*

l) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

m) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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 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 tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n) Measurement and presentation currency

Management determined the Company's measurement currency to be the Dram as it reflects the economic substance of the underlying events and circumstances of the Company. The Dram is also the Company's presentation currency for the purposes of these financial statements.

o) Foreign currency transactions

Monetary assets and monetary liabilities denominated in foreign currencies are translated into Drams at year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. The official exchange rate at the balance sheet date was 561.81 Drams : USD 1 (31 December 2000: 552.18 Drams : USD 1). Foreign currency revenues and expenses are recorded in the accounts at rates ruling on the date of transaction. All gains and losses arising as a result of foreign exchange activities are recognised in the income statement for the year.

Significant accounting policies *(continued)*

p) Going concern

The accompanying financial statements of the Company have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

4 Other operating income

	31 December 2001 Drams'000	31 December 2000 Drams'000
Sale of other materials	620	13,297
(Loss)/gain on disposal of property, plant and equipment	(17,852)	654
Fines and penalties received	13,297	-
Sale of computer equipment	24,892	17,749
Other operating income	26,954	-
	47,911	31,700

5 Administrative expenses

	31 December 2001 Drams'000	31 December 2000 Drams'000
Payroll expense	414,108	260,955
Utilities and communication	78,612	79,483
Depreciation	45,567	15,571
Audit and consulting fees	33,645	12,155
Maintenance	57,011	41,087
Representation expenses and business trips	26,560	18,886
Sponsorship	-	8,046
Others	87,650	30,362
	743,153	466,545

Included in payroll expense are mandatory social security payments of Drams 45,799 thousand (2000: Drams 34,945 thousand).

The average number of employees during the year ended 31 December 2001 was 680 (2000: 460).

6 Net foreign exchange loss

Foreign exchange losses relate to net difference in valuation of foreign currency denominated assets and liabilities.

7 Other operating expenses

	31 December 2001 Drams'000	31 December 2000 Drams'000
Court and other duties	64,213	-
Exploration expenses	29,723	-
Transportation expense	21,804	16,241
Environmental fee	7,044	40,507
Staff related expenses	2,900	11,934
Fines and penalties	33,825	-
Other operating expenses	66,616	87,963
	226,125	156,645

8 Taxation charge

The profits tax rate in Armenia is 20% (2000: 15% on the first Drams 7 million profits and 25% thereafter).

The Company is entitled to a 50 % tax deduction for eight years starting from 1 January 2000, under the Profit Tax Law.

Reconciliation of effective tax rate:

	2001 Drams'000	%
Accounting loss	(985,568)	
Expected tax charge at standard rate	(98,557)	(10)
Non deductible expenses (net)	15,918	2
Deferred tax asset not accounted for in prior years	(81,216)	(8)
Tax credit	(163,855)	(16)

9 Property, plant and equipment

	Land and buildings Drams'000	Leasehold improvement Drams'000	Plant and equipment Drams'000	Motor vehicles Drams'000	Fixtures and fittings Drams'000	Total Drams'000
Cost or valuation						
As at 1 January 2001	78,120	-	301,408	8,603	82,565	470,696
Additions	10,406	68,262	101,106	6,253	30,535	216,562
Disposal	(272)	-	(9,553)	-	(23,296)	(33,121)
Revaluation	2,681,667	-	659,983	5,329	24,258	3,371,237
As at 31 December 2001	2,769,921	68,262	1,052,944	20,185	114,062	4,025,374
Depreciation						
As at 1 January 2001	18,714	-	116,136	3,250	21,162	159,262
Charge for the year	6,200	5,688	21,222	2,164	38,293	73,567
Disposal	(24)	-	(1,702)	-	(6,784)	(8,510)
Revaluation	(24,890)	-	(135,656)	(5,414)	(52,671)	(218,631)
As at 31 December 2001	-	5,688	-	-	-	5,688
Net book value						
As at 31 December 2001	2,769,921	62,574	1,052,944	20,185	114,062	4,019,686
As at 1 January 2001	59,406	-	185,272	5,353	61,403	311,434

The revaluation has been performed by Artin Enterprise ltd, a licensed valuer, as at 31 December 2001. In absence of a market value the property, plant and equipment were valued at the depreciated replacement cost.

As at 31 December 2001 property, plant and equipment amounting to Drams 7 million were pledged as collateral against bank loans.

10 Intangible assets

	Drams'000
Cost or valuation	
As at 1 January 2001	20,164
Additions	24,740
As at 31 December 2001	44,904
Amortisation	
As at 1 January 2001	8,017
Charge for the year	9,579
As at 31 December 2001	17,596
Net book value	
As at 31 December 2001	27,308
As at 1 January 2001	12,147

Intangible assets represent the development cost of the copper alloying technology and computer software.

11 Deferred mining expenses

The deferred mining expenses representexpenditures done on Alaverdy copper mine. The Company has obtained a mining license and started the works during the second half of 2001.

12 Long-term investments

	31 December 2001 Drams'000	31 December 2000 Drams'000
Equity investments		
Cost:		
At beginning of the year	6,273	-
Additions	10,592	6,273
At end of the year	16,865	6,273
Provision on investments	(16,865)	-
	-	6,273

Long-term investments *(continued)*

	31 December 2001 Drams'000	31 December 2000 Drams'000
Provision on investments		
At the beginning of the year	-	-
Net charge for the year	16,865	-
At the end of the year	16,865	-

The principal investments held are as follows:

Name	Country of incorporation	Main activity	% Ownership
Manes Non-ferrous Metals Plant ojsc	Armenia	Consumer Services	16.1

The company currently is dormant and the market value of the investment is considered to be nil.

13 Inventories

	31 December 2001 Drams'000	31 December 2000 Drams'000
Raw materials	371,367	331,941
Work-in-process	37,216	60,164
Finished goods	126,700	85,780
Computers for resale	18,933	26,771
	554,216	504,656
Provision for obsolete and damaged stock	(52,427)	(45,933)
	501,789	458,723

	31 December 2001 Drams'000	31 December 2000 Drams'000
Provision for obsolete and slow moving inventory		
At the beginning of the year	45,933	45,933
Net charge for the year	6,494	-
At the end of the year	52,427	45,933

As at 31 December 2001 inventory amounting to Drams 318 million were pledged as collateral against bank loans.

14 Trade and other receivables

	31 December 2001 Drams'000	31 December 2000 Drams'000
Trade receivables	137,064	466,826
VAT recoverable	229,001	485,563
Prepayments	198,545	448,317
Other receivables	55,866	-
	620,476	1,400,706
Provision for prepayments	(49,713)	(188,122)
	570,763	1,212,584

The provision for prepayments is based on the assessment of the recoverability of the advances made or likelihood of services to be received.

	31 December 2001 Drams'000	31 December 2000 Drams'000
Provision for prepayments		
At the beginning of the year	188,122	23,351
Net charge for the year	33,987	164,771
Written off during the year	(172,396)	-
At the end of the year	49,713	188,122

15 Share capital

The authorised share capital as at 31 December 2001 amounted to 1,771,210 (2000: 540,000) ordinary shares of Drams 1,000 each. The issued and fully paid share capital as at 31 December 2001 amounted to 1,506,179 (2000: 540,000) ordinary shares of Drams 1,000 each.

16 Borrowings

	31 December 2001 Drams'000	31 December 2000 Drams'000
Bank overdraft	246,319	2,028
Bank loans	174,473	82,827
Shareholder loan	313,625	1,517,336
	734,417	1,602,191
Long term	-	(1,517,336)
Short term	734,417	84,855

The overdrafts are repayable on demand. The bank loans are repayable on 25 March 2002 (Drams 33,709 thousand), on 20 April 2002 (Drams 134,834 thousand) and on demand (Drams 5,930 thousand).

The interest paid on overdrafts is 24 - 28% per annum (2000: 28% per annum). The interest paid on short term loans is at 22 - 28% per annum (2000: 28% per annum) and the interest on the loan from the shareholder is at 12% per annum (2000: 18% per annum).

The overdraft is unsecured. The bank loans are secured on property, plant and equipment amounting to Drams 7 million and inventories amounting to Drams 318 million. The shareholder's loan is unsecured.

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Asset Drams'000	Liability Drams'000	2001 Drams'000	2000 Drams'000
Property, plant and equipment	-	(357,940)	(357,940)	458
Intangible assets	4,682	-	4,682	1,122
Deferred mining expenses	336	-	336	-
Investments	3,813	-	3,813	2,127
Inventory	4,314	-	4,314	4,788
Trade and other receivables	-	(2,239)	(2,239)	31,985
Trade and other payables	-	(1,735)	(1,735)	14,717
Short term borrowings	44,336	-	44,336	-
Tax loss carried forward	109,301	-	109,301	26,019
	166,782	(361,914)	(195,132)	81,216

18 Trade and other payables

	31 December 2001 Drams'000	31 December 2000 Drams'000
Trade payables	405,938	501,232
Advances received	347,764	-
Interest payable on borrowings	396,134	225,004
Other payables and accrued expenses	342,826	234,506
	1,492,662	960,742

19 Cash and cash equivalent

	31 December 2001 Drams'000	31 December 2000 Drams'000
Cash in till	3,946	1,668
Current account	2,563	451
	6,509	2,119
Overdraft	(246,319)	(2,028)
	(239,810)	91

20 Commitments and contingencies

Legal

There is no significant claim outstanding against the Company as at 31 December 2001.

Capital expenditure commitments

The Company does not have significant outstanding capital commitments as at 31 December 2001.

Tax contingencies

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

Commitments and contingencies *(continued)*

These facts may create tax risks in Armenia substantially more significant than in other 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.

Operating lease commitments

Where the Company is a lessee the future minimum lease payments under non cancellable operating leases are as follows:

	31 December 2001 Drams'000	31 December 2000 Drams'000
Within 1 year	19,495	5,798
Between 2 and 5 years	97,474	28,989
More than 5 years	69,131	20,293
	186,100	55,080

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 Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets or environmental damage could have a materially adverse affect on the Company's operations and financial position.

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 relatively new and potential changes in the legislation and the interpretation may give rise to material liabilities in the future.

21 Related party transactions

As at 31 December 2001 the loan outstanding from a shareholder was Drams 314 million and interest accrued on the loan was Drams 387 million. The loan carries interest at 12% per annum and repayable no later than 31 December 2002. The loan is unsecured (2000: as at 31 December 2001 the loan outstanding was Drams 1,517 million and interest accrued on the loan was Drams 220 million).

During the year ended 31 December 2001 the Company made sales to a shareholder of Drams 4 billion (2000: Drams 6 billion) at market prices.

22 Going concern

The financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

During 2001 the Company incurred a loss amounting to Drams 821,713 thousand and as at 31 December 2001 the Company's current liabilities exceeded its current assets by Drams 1,148,018 thousand. The main factor behind this loss was the continuing decline in copper world prices. Although world copper prices have started to increase since December 2001, the high proportion of fixed costs within the total cost structure means that the Company is very susceptible to any changes in sales prices.

Subsequent to the year end the Company has increased its share capital by Drams 758,256 thousand. Management has instituted plans to reduce costs, including a substantial reduction in payroll. Due to these measures together with an increase in copper prices subsequent to the year end management considers it appropriate to prepare financial statements using the going concern basis.

23 Subsequent events

During March-May 2002 Ministry of State Revenues has carried out a review of Company's profits tax for the period ended 31 December 2001 and of other tax liabilities for the period ended 28 February 2002. As a result of the review the Company is considered to be liable for additional charges of Drams 213 million. The provision of Drams 6 million has been made for certain charges. The total charge is in dispute and has not been settled yet. No provision has been made for the remaining balance.

There was a further increase in the Company's authorized and allocated and fully paid share capital subsequent to the year end. Thus, as at 19 August 2002 the total share capital of the Company comprised 40 million authorized shares Drams 1,000 each, and the issued and fully paid comprised 2,264,435 ordinary shares at Drams 1,000 each.

24 Fair value of financial instruments

The company has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, and IAS 39 *Financial Instruments: Recognition and Measurements* to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Company has concluded that due to the lack of liquidity and published "indicator rates" in the Armenian markets, and the fact that many of its transactions are with related parties and of very specialised nature, it is not possible to determine the fair value of the majority of its financial assets and liabilities.

Fair value of financial instruments (*continued*)

The financial assets and liabilities that the Company does believe it is able to estimate fair values for include cash, investments, non-related part placements with banks and financial institutions. The Company estimates the fair value of these assets to be not materially different from their carrying value.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in current transactions. This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in current transactions between willing parties. However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.

25 Concentration of significant risks

The Company sells almost 99% of its product to two customers one of which is a shareholder and buys 90% of copper concentrate from one supplier, the major supplier in Armenia. In addition, a significant asset, in the form of VAT receivable, is due from the Armenian tax authorities, who are often slow in paying.