Armenian Copper Programme cjsc

Consolidated Financial Statements
for the year ended 31 December 2007

Contents

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Independent Auditors' Report

To the Members of the Board of Directors
Armenian Copper Programme cjsc

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Armenian Copper Programme cjsc (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Andrew Coxshall
Director

Tigran Gasparyan
Senior Manager, Audit

KPMG Armenia cjsc
29 April 2008

KPMG Armenia cjsc

	Note	2007 '000 AMD	2006 '000 AMD Restated
Revenue	6	24,253,761	31,087,667
Cost of sales	7	(18,313,356)	(26,405,776)
Gross profit		**5,940,405**	**4,681,891**
Other income/(expense)	8	32,377	44,941
Distribution expenses	9	(185,825)	(324,277)
Administrative expenses	10	(1,031,375)	(1,379,628)
Impairment	11	10,197	(26,597)
Other expenses	12	(230,709)	(371,007)
Results from operating activities		**4,535,070**	**2,625,323**
Financial income and expenses	13	40,489	413,099
Profit before income tax		**4,575,559**	**3,038,422**
Income tax expense	14	(436,504)	(285,669)
Profit for the year		**4,139,055**	**2,752,753**

These consolidated financial statements were approved by management on 29th April 2008 and were signed on its behalf by:

Gagik Arzumanyan
Executive Director

Tigran Khachatryan
Finance Director

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

	Note	2007 '000 AMD	2006 '000 AMD Restated
ASSETS			
Non-current assets			
Property, plant and equipment	15	9,908,200	9,428,955
Intangible assets	16	49,242	46,742
Investment property	17	145,609	148,478
Mining property	18	944,312	664,357
Exploration and evaluation assets	19	2,323,221	1,492,207
Other investments	20	40,647	35,647
Total non-current assets		**13,411,231**	**11,816,386**
Current assets			
Inventories	21	2,780,523	2,669,420
Income tax receivable		-	176,808
Trade and other receivables	22	5,625,968	1,837,718
Cash and cash equivalents	23	140,756	135,013
Total current assets		**8,547,247**	**4,818,959**
Total assets		**21,958,478**	**16,635,345**
EQUITY AND LIABILITIES			
Equity	24		
Share capital		3,069,716	3,069,716
Revaluation reserve		5,439,850	5,679,621
Retained earnings		7,677,095	3,298,269
Total equity		**16,186,661**	**12,047,606**
Non-current liabilities			
Loans and borrowings	26	2,130,501	146,971
Deferred tax liabilities	25	1,506,923	1,456,978
Government grants	27	77,393	78,973
Total non-current liabilities		**3,714,817**	**1,682,922**
Current liabilities			
Loans and borrowings	26	591,558	1,652,735
Trade and other payables	28	1,421,106	1,252,082
Income tax payable		44,336	-
Total current liabilities		**2,057,000**	**2,904,817**
Total liabilities		**5,771,817**	**4,587,739**
Total equity and liabilities		**21,958,478**	**16,635,345**

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

	2007	**2006**
	’000 AMD	**’000 AMD**
OPERATING ACTIVITIES		
Cash received from customers	24,422,641	33,212,666
Cash received from state budget (VAT)	2,892,323	5,869,085
Cash paid to suppliers	(24,847,815)	(35,857,802)
Cash paid to employees	(918,848)	(671,800)
Income tax paid	(175,500)	(252,450)
Payment of taxes other than on income	(601,958)	(449,113)
Interest paid	(98,532)	(357,620)
Cash flows from operating activities	**672,311**	**1,492,966**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(681,231)	(978,554)
Investment in mining property	(125,182)	(259,736)
Investment in exploration and evaluation assets	(712,476)	(938,927)
Purchase of intangible assets	-	(13,939)
Proceeds from sale of property, plant and equipment	355	32,645
Proceeds from other investments	226	-
Acquisition of other investments	-	(10,000)
Cash flows utilised by investing activities	**(1,518,308)**	**(2,168,511)**
FINANCING ACTIVITIES		
Proceeds from borrowings	9,960,830	593,070
Repayment of borrowings	(9,505,602)	-
Proceeds from issue of bonds	500,000	-
Cash flows from financing activities	**955,228**	**593,070**
Net increase/(decrease) in cash and cash equivalents	**109,231**	**(82,475)**
Cash and cash equivalents at beginning of year	135,013	123,388
Effect of exchange rate fluctuations on cash and cash equivalents	(103,488)	94,100
Cash and cash equivalents at end of year (note 23)	**140,756**	**135,013**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

'000 AMD	Share capital	Revaluation reserve	Accumulated profit	Total
Balance at 1 January 2006	3,069,716	2,556,206	666,047	6,291,969
Restatement due to prior period error (note 3(u))	-	-	(210,605)	(210,605)
Restated balance at 1 January 2006	**3,069,716**	**2,556,206**	**455,442**	**6,081,364**
Net profit for the year	-	-	2,728,603	2,728,603
Revaluation of property, plant and equipment, net of deferred tax of AMD 396,621 thousand	-	3,569,591	-	3,569,591
Realisation of property, plant and equipment revaluation reserve	-	(90,074)	90,074	-
Balance at 31 December 2006	**3,069,716**	**6,035,723**	**3,274,119**	**12,379,558**
Restatement due to prior period error (note 3(u))	-	(356,102)	24,150	(331,952)
Restated balance at 1 January 2007	**3,069,716**	**5,679,621**	**3,298,269**	**12,047,606**
Net profit for the year	-	-	4,139,055	4,139,055
Realisation of property, plant and equipment revaluation reserve	-	(239,771)	239,771	-
Balance at 31 December 2007	**3,069,716**	**5,439,850**	**7,677,095**	**16,186,661**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 44.

1 Background

(a) Organisation and operations

Armenian Copper Programme cjsc (the "Company") and its subsidiary Teghout cjsc (together referred to as the "Group") comprise Armenian closed joint stock companies as defined in the Civil Code of the Republic of Armenia. The Company was established in accordance with the legislation of the Republic of Armenia in August 1997.

The Group's registered office is 19 Khanjyan Street, Yerevan, Republic of Armenia.

The Group's principal activity is the production and sale of blister copper. In addition, the Group is also involved in the exploration and development of mining properties in Armenia. All production of the Group is sold outside of Armenia.

The Group's authorised share capital is AMD 5 billion. As of 31 December 2007 and 2006 the respective shareholdings are as follows:

- VALEX F.M. Establishment 80.7%, incorporated in Liechtenstein
- Valery Medzhlumyan 19.3%

The Group is ultimately controlled by a single individual, Mr. Valery Medzhlumyan, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. He also has a number of other business interests outside of the Group. Related party transactions are detailed in note 32.

(b) Armenian business environment

Armenia has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in Armenia involve risks that typically do not exist in other markets. The financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for property, plant and equipment that are stated at revalued amounts and investments classified as available for sale that are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2(e) – ore reserves
- Note 6 – revenue – determination of the fair values values of embedded derivatives
- Note 15 – property, plant and equipment;
- Note 18 – mining property;
- Note 19 – exploration and evaluation assets;
- Note 21 – inventories;
- Note 22 – trade and other receivables – VAT recoverable.

(e) Ore reserves

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates. The Company uses its ore reserve estimates in evaluating mining property impairments.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(w). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.
Accounting for finance income and expenses is discussed in note 3(r)

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

(ii) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the income statement.

(d) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant, and equipment are stated at revalued amounts less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any appropriate production costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are recognised as part of the cost of such assets.

The land granted by the government of the Republic of Armenia is stated at fair value.

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

(ii) Subsequent costs

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

(iii) Revaluation

Property, plant and equipment are measured at fair value based on periodic valuation by external independent valuers. A revaluation increase on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity. When a revalued asset is sold, the amount included in other reserves is transferred to retained earnings. The difference between depreciation based on the revalued carrying amount of the property, plant and equipment and depreciation based on the original cost is transferred from revaluation surplus to retained earnings.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

• Buildings	50 years
• Leasehold improvements	20 years
• Plant and equipment	2-10 years
• Motor vehicles	10 years
• Fixtures and fittings	2-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(v) Construction in progress

Construction in progress represents plant and properties under construction and is stated at cost. This includes the cost of materials, direct labour and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

(f) Investment property

(i) Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual items of investment property. The estimated useful life is 50 years.

(g) Intangible assets

(i) Intangible assets

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

(ii) Subsequent expenditure

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

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Accounting software 2 years
- Other intangible assets 3-10 years

(h) Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

(i) Exploration and evaluation assets

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and includes costs such as costs of acquisition of mineral rights, geological and geophysical costs, exploratory drilling, sample testing, the costs of pre-feasibility studies, assembling and production equipment and overheads associated with exploration activities. Exploration and evaluation expenditure for each area of interest are capitalised and are carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recovered through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing or planned for the future.

Exploration and evaluation assets are classified as tangible or intangible based on their nature. The exploration and evaluation assets are no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and are reclassified as a mining property.

Activities prior to the acquisition of the mineral rights are pre-exploration. Pre-exploration costs are expensed and include such costs as initial technical and economical assessment of a project, geological model definition of minerals and its evaluation, and overheads associated with the pre-exploration activities.

(j) Mining property

Mining property is stated at cost less accumulated depreciation.

(i) Depreciation

Mining property is depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written off if the property is abandoned.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(l) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.
For exploration and evaluation assets the following facts and circumstances indicate that exploration and evaluation assets should be tested for impairment:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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.

(m) Pensions

The Group makes contributions for the benefit of employees to Armenia's State pension fund. The contributions are expensed as incurred.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(o) Revenue

(i) Goods sold

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfers of risks and rewards occur upon loading the goods onto the relevant carrier at the Group's warehouse.

The Group's copper sales contracts, in general, provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotational period. Typically, the future quotational period for copper is up to two months after the risks and rewards of ownership have been transferred to the buyer.

The Group's provisionally priced sales contracts contain an embedded derivative that, because it is unrelated to the commodity sale, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or prepayment received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

(ii) Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset.

(p) Cost of sales

The cost of sales comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(q) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(r) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in 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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(t) Segment information

The Group comprises mainly of one business segment – the refining of blister copper. The blister copper is sold mainly to one customer located in Germany. Notes to these consolidated financial statements provide appropriate information to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates.

(u) Comparative information

During the year management discovered that the amount of deferred tax liability had been calculated incorrectly. The errors have been corrected and the comparatives have been restated. The impact of the restatement is as follows:

- the deferred tax liability as at 31 December 2005 was increased by AMD 210,605 thousand, which is included in the adjustment to opening balance of deferred tax liability as at 1 January 2006, and corresponding adjustment to accumulated profit as at 1 January 2006 was AMD 210,605 thousand.
- the revaluation reserve as at 1 January 2007 was decreased by AMD 356,102 thousand, which is included in the adjustment to opening balance of revaluation reserve as at 1 January 2007, and corresponding adjustment to deferred tax liability was AMD 356,102 thousand.
- the net profit for the year ended 31 December 2006 was increased by AMD 24,150 thousand, which is included in the adjustment to opening balance of accumulated profit as at 1 January 2007 and corresponding adjustment to deferred tax liability was AMD 24,150 thousand.

(v) Changes in presentation of Cash flow statement

The Company issued bonds during the year and should submit its financial statements prepared under the Accounting Regulations of the Republic of Armenia to the Central Bank of the Republic of Armenia. The Accounting Standards of the Republic of Armenia (ASRA) require those financial statements to be prepared using the direct method in the Cash flow statement. Based on the above, management changed the presentation of the Cash flow statement to the direct method of presentation to ensure consistency between the IFRS and the ASRA financial statements.

(w) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following will potentially have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8 *Operating Segments,* which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. For current presentation of the Group's segment information in respect of its business and geographical segments see note 3(t). Under the management approach, the Group will represents segment information in respect of the refining of blister copper only.

4 Determination of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment is determined by regular revaluations. The fair value of movable property, plant and equipment and land are determined based on market values. For identification of the fair value of immovable property, plant and equipment the depreciated replacement cost method is applied. In addition to the determination of the depreciated replacement cost, cash flow testing is conducted to assess the reasonableness of those values.

(b) Investment property

The fair value of investment property is determined based on the market values.

(c) Other investments

The fair value of available-for-sale investments, representing investments in equity securities, is the cost less impairment losses as these securities are not quoted and their fair value cannot be estimated on a reasonable basis by other means.

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

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The carrying value of trade and other receivables are assumed to approximate their fair values due to their short-term nature.

The fair value of the embedded derivatives included within trade receivables is determined using forward prices as at the balance sheet date quoted in the metal markets.

(e) Non-derivative financial liabilities

Fair value of non-derivative financial instruments is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk.

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

The Group has developed Risk management policy, the objective of which is to ensure viability and maximum effectiveness of the Group's activities during a long period of time. This policy has been discussed with the executive and other management bodies of the Company.

To achieve policy objectives the issues related to determination of systems assisting in risk management, prioritization of risks, more precise definition of risk management responsibility, regulation of communication of information on risks, as well as measures ensuring effectiveness of the system are intended to be solved. In future it is planned to make this policy approved by the Board of Shareholders of the Company.

(b) Credit risk

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

(i) Trade and other receivables

Individual approaches are used to manage possible risks arising from receivables generated from relations between the Group and customers. The Group transacts with the main customer of its production, which is one of the largest metallurgical companies in the European market. During the recent three years more than 90% of the annual production is sold to this customer. In relations with this trade partner the Group receives within 4-5 days after dispatch an earlier payment equal to 95% of the value of the dispatched production. The remaining 5% of the value of the dispatched production is paid to the Group immediately after delivery. In case the Group decides to sell its production to other customers, as a rule the delivery is made against a prepayment equal to the total value of the delivered production. Consequently, there does not arise significant risks with respect to receivables from sale of main production.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

For this purpose the Group makes short-term forecasts for cash flows based on financial needs conditioned by the nature of operating and investing activities. As a rule these needs are envisaged for an annual and monthly basis. In order to manage its financial needs the Group signs agreements on the provision of intra-group borrowings allowing to finance short-term financial needs of the Group without facing timing difficulties.

In addition to the practice of intra-group borrowings, the Group also uses short-term bank financing to satisfy its liquidity needs.

(d) Market risk

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

(i) Currency risk

When performing operating activities the Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company (AMD). If possible, payments for operating purchases are made in the currency in which income from the Group's finished goods is received (these rights are specified in the contracts). This particularly refers to payments made for main raw material, the purchase costs of which exceed 85% of the Group's expenses. The other approach applied for mitigation of currency risk envisages receipt of loans in the currency in which the realisation of the Group's production is made (currently USD). As at the end of 2007 the majority of the Group's financial liabilities were denominated in the same currency.

(ii) Interest rate risk

In order to mitigate possible risks arising from changes in interest rates the Company takes loans with both fixed and floating interest rates. Though the Company does not have a developed policy regulating this area, combination of these two approaches helps to manage to some extent risks arising from interest rates fluctuations. During 2007 the Company took loans with both fixed and floating interest rates.

(iii) Price risk

Prices for the Group's production are determined based on prices ruling in the international market at any fixed date. The time interval between the purchase of the main raw material and sales of finished goods may be 3-4 months. In order to manage these risks the Group determines the quotation period for its production sales and raw material purchase in such a manner as to overlap the point of sale recognition with the quotation period for bought concentrate. By applying this method the Group partly neutralizes price risks.

6 Revenue

	2007 '000 AMD	2006 '000 AMD
Revenues from sale of products	24,133,328	30,876,990
Revenues from rendering of services	51,160	84,133
Other revenue	69,273	126,544
	24,253,761	31,087,667

At 31 December 2007 the Company had outstanding provisionally priced sales of AMD 7,288,642 thousand (2006: AMD 4,470,867 thousand) consisting of 2,468 dry metric tonnes (2006: 1,421) of blister copper, which had a fair value of AMD 7,142,816 thousand (2006: AMD 4,314,214 thousand) including the embedded derivative.

The fair value of the embedded derivative relating to blister copper has been calculated using forward prices as at the balance sheet date quoted in the metal markets.

7 Cost of sales

	2007 '000 AMD	2006 '000 AMD
Purchased copper concentrate	15,813,128	23,690,121
Labour and wages	591,827	250,154
Depreciation and amortisation	277,913	93,168
Other	1,630,488	2,372,333
	18,313,356	26,405,776

8 Other income/(expense)

	2007 '000 AMD	2006 '000 AMD
Operating lease income	9,495	18,266
Government grants	1,579	-
(Loss)/gain on disposal of property, plant and equipment	(421)	2,281
Other income	21,724	24,394
	32,377	44,941

9 Distribution expenses

	2007 '000 AMD	2006 '000 AMD
Transportation expenses	159,728	282,042
Customs duties on products	14,352	14,891
Marketing and advertisement expenses	-	10,574
Other distribution expenses	11,745	16,770
	185,825	324,277

10 Administrative expenses

	2007 '000 AMD	2006 '000 AMD
Payroll expense	377,575	347,696
Depreciation	92,928	62,677
Maintenance	81,513	98,016
Bank charges	69,519	97,605
Taxes other than income tax	66,623	361,204
Utilities and communication expenses	51,920	55,470
Representation expenses and business trips	15,685	31,227
Audit and consulting fees	12,248	28,527
Fines and penalties	4,377	36,876
Amortisation of intangible assets	-	1,258
Others	258,987	259,072
	1,031,375	1,379,628

The average number of employees during the year ended 31 December 2007 was 1,008 (2006: 874). Total payroll expenses (direct production and administrative) during the year ended 31 December 2007 was AMD 1,480,451 thousand (2006: AMD 1,074,797 thousand). Included in total payroll expense are mandatory social security payments of AMD 34,905 thousand (2006: AMD 43,762 thousand).

11 Impairment

	2007 '000 AMD	2006 '000 AMD
Inventories (note 21)	10,197	(89,858)
Mining property impairment (note 18)	-	404,621
Reversal of property plant and equipment impairment (note 15)	-	203,066
VAT receivable (note 22)	-	(544,426)
	10,197	(26,597)

12 Other expenses

	2007 '000 AMD	2006 '000 AMD
Research expenses	208,641	64,685
Revaluation decrease on property, plant and equipment	-	268,984
Other expenses	22,068	37,338
	230,709	371,007

13 Financial income and expenses

	2007 '000 AMD	2006 '000 AMD
Financial income:		
Net foreign exchange gain	213,743	768,985
Interest income on available-for-sale financial assets	225	-
Financial expenses:		
Interest expense on financial liabilities measured at amortised cost	(173,479)	(355,886)
Net finance expense recognised in profit or loss	40,489	413,099

14 Income tax expense

	2007 '000 AMD	2006 '000 AMD Restated
Current tax expense		
Current year	386,559	119,570
Over provided in prior years	-	(2,903)
	386,559	116,667
Deferred tax expense		
Origination and reversal of temporary differences	49,945	169,002
	436,504	285,669

The Company is liable for income tax at 50% of the ordinary tax rate until the end of the financial year ending 31 December 2008. The ordinary tax rate as at 31 December 2007 was 20% (2006: 20%).

Reconciliation of effective tax rate:

	2007 '000 AMD	%	2006 '000 AMD Restated	%
Profit before tax	4,575,559	100.0	3,038,422	100.0
Income tax at applicable tax rate	457,556	10.0	303,842	10.0
Effect of income taxed at (lower)/higher rate	(13,546)	(0.3)	(24,150)	(0.8)
Non-deductible/(non-taxable) items	(7,506)	(0.2)	8,880	0.3
Over provided in prior years	-	-	(2,903)	(0.1)
	436,504	9.5	285,669	9.4

15 Property, plant and equipment

’000 AMD	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Fixtures and fittings	Construction in progress	Total
Cost/Revalued amount							
At 1 January 2006	2,470,330	70,216	2,267,672	84,335	163,820	555,748	5,612,121
Additions	146,138	998	533,626	92,056	11,254	169,707	953,779
Disposals	(2,223)	-	(32,256)	(2,110)	(2,979)	-	(39,568)
Revaluation	924,269	-	1,748,262	278,931	10,929	-	2,962,391
Transfers	(15,578)	-	13,081	2,204	(36,264)	-	(36,557)
At 31 December 2006	3,522,936	71,214	4,530,385	455,416	146,760	725,455	9,452,166
Additions	66,517	-	690,759	44,162	7,553	138,542	947,533
Disposals	(2,529)	-	(3,826)	-	(1,167)	(6,785)	(14,307)
Transfers	213,200	-	(350,721)	2,195	42,825	92,501	-
At 31 December 2007	**3,800,124**	**71,214**	**4,866,597**	**501,773**	**195,971**	**949,713**	**10,385,392**
Depreciation and impairment losses							
At 1 January 2006	188,368	19,675	463,456	13,800	92,401	-	777,700
Charge for the year	37,323	3,536	115,303	12,402	24,376	-	192,940
Impairment losses - reversal	-	-	(203,066)	-	-	-	(203,066)
Disposals	(219)	-	(5,731)	(822)	(2,432)	-	(9,204)
Revaluation	(207,945)	-	(404,324)	(25,318)	(97,248)	-	(734,835)
Transfers	(17,527)	-	34,362	(62)	(17,097)	-	(324)
At 31 December 2006	-	23,211	-	-	-	-	23,211
Charge for the year	70,282	3,560	303,616	46,008	30,711	-	454,177
Disposals	(8)	-	(125)	-	(63)	-	(196)
Transfers	-	-	-	-	-	-	-
At 31 December 2007	**70,274**	**26,771**	**303,491**	**46,008**	**30,648**	**-**	**477,192**
Net book value							
At 1 January 2006	2,281,962	50,541	1,804,216	70,535	71,419	555,748	4,834,421
At 31 December 2006	3,522,936	48,003	4,530,385	455,416	146,760	725,455	9,428,955
At 31 December 2007	**3,729,850**	**44,443**	**4,563,106**	**455,765**	**165,323**	**949,713**	**9,908,200**

'000 AMD	Land and buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Fixtures and fittings	Construction in progress	Total
Net book value had no revaluation taken place							
At 1 January 2006	272,045	50,541	998,525	62,912	91,404	584,997	2,060,424
At 31 December 2006	396,535	48,003	1,289,056	145,653	65,367	754,705	2,699,319
At 31 December 2007	**445,151**	**44,443**	**1,750,537**	**175,105**	**73,762**	**957,183**	**3,446,181**

Depreciation expense of AMD 298,111 thousand has been charged to cost of goods sold, AMD 63,138 thousand to capital expenditure on property, plant, equipment and mining property and AMD 92,928 thousand to administrative expense.

(a) Revaluation

The revaluation of property, plant and equipment was performed as of 31 December 2006 by Artin Enterprise cjsc, a licensed valuer. Movable property, plant and equipment and land were revalued based on market values, immovable property, plant and equipment were revalued applying depreciated replacement cost.

This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of the Armenian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Armenia and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values.

As a result of the revaluation as at 31 December 2006 the carrying amount of property, plant and equipment increased by AMD 3,697,226 thousand. The net revaluation increase of AMD 3,213,489 thousand (net of the deferred tax effect of AMD 752,723 thousand (see note 3(u))) was recognised in equity and a revaluation decrease of AMD 268,984 thousand recognised in the income statement.

16 Intangible assets

	’000 AMD
Cost	
At 1 January 2006	36,577
Additions	13,939
At 31 December 2006	50,516
Additions	2,500
At 31 December 2007	53,016
Amortisation	
At 1 January 2006	2,516
Charge for the year	1,258
At 31 December 2006	3,774
Charge for the year	-
At 31 December 2007	3,774
Net book value	
At 1 January 2006	34,061
At 31 December 2006	46,742
At 31 December 2007	49,242

17 Investment property

	'000 AMD
Cost	
At 1 January 2006	152,387
At 31 December 2006	152,387
At 31 December 2007	152,387
Depreciation	
At 1 January 2006	1,870
Charge for the year	2,039
At 31 December 2006	3,909
Charge for the year	2,869
At 31 December 2007	6,778
Net book value	
At 31 December 2006	148,478
At 31 December 2007	145,609

Investment property represents land and buildings transferred from property, plant and equipment. All buildings leased out under investment property were acquired in 2004. Since the date of acquisition no significant changes occurred in the fair value of buildings, therefore the fair value of investment property is not significantly different from its cost.

18 Mining property

	'000 AMD
Cost	
At 1 January 2006	509,726
Additions	259,736
At 31 December 2006	769,462
Additions	367,805
At 31 December 2007	1,137,267
Accumulated amortisation and impairment losses	
At 1 January 2006	509,726
Impairment losses reversal	(404,621)
At 31 December 2006	105,105
Amortisation charge for the period	87,850
At 31 December 2007	192,955
Net book value	
At 1 January 2006	-
At 31 December 2006	664,357
At 31 December 2007	944,312

Mining property as of 31 December 2007 relates to the Alaverdy deposit. The Company restarted extraction of the ore from the Alaverdy deposit at the beginning of 2007. However, at the end of 2007 the extraction was reduced with the purpose of development of new technology, which will allow the extraction of the ore with a higher content of copper. The Company plans to implement the new technology of the ore extraction in third quarter of 2008. The analysis of estimated future cash flows, expected from the ore extraction, processing and subsequent sale, discounted at the Company's weighted average cost of capital shows a positive net present value as at the end of 2007. The license for ore extraction from Alaverdy mine will expire on 6 August 2026.

19 Exploration and evaluation assets

	'000 AMD
Cost	
At 1 January 2006	553,280
Additions	938,927
At 31 December 2006	1,492,207
Additions	831,014
At 31 December 2007	2,323,221

Exploration and evaluation assets as of 31 December 2007 represent expenditures incurred on the Teghout deposit in Northern Armenia. The Teghout deposit is the second largest copper-molybdenum deposit in Armenia.

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Group. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially and adversely affect the Company's ore reserve estimates. The Company uses its ore reserve estimates in evaluating asset impairments.

20 Other investments

	2007 '000 AMD	**2006 '000 AMD**
Available-for-sale		
Equity instruments - unquoted:		
Manes ojsc	38,555	38,555
Mining and Metallurgy Institute cjsc	26,269	26,269
Gugarqi GEO ojsc	10,000	10,000
Vallex IT cjsc	5	5
Debt instruments – quoted:		
Corporate bonds (Armrusgazprom)	5,000	-
	79,829	74,829
Provision for impairment	(39,182)	(39,182)
	40,647	35,647

Unlisted equity investments

Available-for-sale investments stated at cost comprise unquoted equity securities. There is no ready market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows.

Name	Country of incorporation	Main activity	2007 Carrying value '000 AMD	2006 Carrying value '000 AMD
Manes ojsc	Republic of Armenia	Smelting	-	-
Mining and Metallurgy Institute cjsc	Republic of Armenia	Development of mining technologies	26,269	26,269
Gugarqi GEO ojsc	Republic of Armenia	Provision of property for renting	10,000	10,000
Vallex IT cjsc	Republic of Armenia	Selling of computers	5	5

21 Inventories

	2007 '000 AMD	2006 '000 AMD
Raw materials	2,673,673	2,605,807
Finished goods	367,398	344,309
Work-in-progress	122,037	118,394
Other inventory	42,448	36,140
	3,205,556	3,104,650
Provision against obsolete/slow moving inventories	(425,033)	(435,230)
	2,780,523	2,669,420

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value.

22 Trade and other receivables

	2007 '000 AMD	2006 '000 AMD
VAT recoverable	2,470,468	1,507,636
Trade receivables	1,642,333	607,042
Prepayments	2,030,786	249,137
Other receivables	26,807	18,329
	6,170,394	2,382,144
Impairment provision against VAT recoverable	(544,426)	(544,426)
	5,625,968	1,837,718

93% of trade receivables (2006: 82%) are due from one customer.

Analysis of movements in the provision for impairment of trade and other receivables

	2007 '000 AMD	2006 '000 AMD
At the beginning of the year	544,426	-
Net increase in provisions	-	544,426
	544,426	544,426

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29.

23 Cash and cash equivalents

	2007 '000 AMD	2006 '000 AMD
Cash in hand	1,626	2,406
Current accounts	139,130	132,607
Cash and cash equivalents in the statement of cash flows	140,756	135,013

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

24 Equity

Share capital

The authorised share capital as at 31 December 2007 amounted to AMD 5 million (2006: 40 million) ordinary shares of AMD 1 thousand each. The issued and fully paid share capital as at 31 December 2007 amounted to AMD 3,069,716 (2006: 3,069,716) ordinary shares of AMD 1,000 each.

Dividends

No dividends were declared and paid during 2007 and 2006. No dividends were proposed after 31 December 2007.

25 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 AMD	Assets		Liabilities		Net	
		Restated		Restated		Restated
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	(86,300)	(57,043)	1,499,586	1,499,586	1,413,286	1,442,543
Intangible assets	(4,629)	-	-	-	(4,629)	-
Exploration and evaluation assets	(37,991)	(10,899)	-	-	(37,991)	(10,899)
Other investments	(7,836)	(7,836)	-	-	(7,836)	(7,836)
Inventories	(70,192)	(70,192)	1,686	667	(68,506)	(69,525)
Trade and other receivables	(33,055)	(33,055)	69,302	-	36,247	(33,055)
Trade and other payables	(274,933)	(156,922)	451,285	292,672	176,352	135,750
Net tax (assets)/liabilities	(514,936)	(335,947)	2,021,859	1,792,925	1,506,923	1,456,978

(b) Movement in temporary differences during the year

'000 AMD	1 January 2006 Restated	Recognised in income Restated	Recognised in equity Restated	31 December 2006 Restated
Property, plant and equipment	726,556	(36,736)	752,723	1,442,543
Evaluation and exploration assets	(45,222)	34,323	-	(10,899)
Other investments	(7,836)	-		(7,836)
Inventories	(60,547)	(8,978)	-	(69,525)
Trade and other receivables	78,224	(111,279)	-	(33,055)
Trade and other payables	(155,922)	291,672	-	135,750
	535,253	169,002	752,723	1,456,978

'000 AMD	1 January 2007	Recognised in income	31 December 2007
Property, plant and equipment	1,442,543	(29,257)	1,413,286
Intangible assets	-	(4,629)	(4,629)
Evaluation and exploration assets	(10,899)	(27,092)	(37,991)
Other investments	(7,836)	-	(7,836)
Inventories	(69,525)	1,019	(68,506)
Trade and other receivables	(33,055)	69,302	36,247
Trade and other payables	135,750	40,602	176,352
	1,456,978	49,945	1,506,923

The tax rate applicable was 20% or 10% depending on the expected timing of the reversal of the asset or liability (2006: 20% or 10%).

26 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

	2007 '000 AMD	2006 '000 AMD
Non-current liabilities		
Secured bank loans	1,680,638	-
Unsecured bond issues	449,863	-
Loan from other related parties	-	146,971
	2,130,501	146,971
Current liabilities		
Loan from other related parties	396,739	2,395
Secured bank loans	144,682	1,650,340
Unsecured bond issues	50,137	-
	591,558	1,652,735

Unsecured bonds represent 10 thousand coupon bonds with nominal value of AMD 50 thousand and 10% interest rate. Coupons are payable semi-annually and the bonds will mature in March 2009.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2007		2006	
'000 AMD	**Currency**	**Nominal Interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	USD	8.16%	2010	1,825,320	1,825,320	-	-
Secured bank loan	USD	12.35%	2007	-	-	1,636,311	1,650,340
Unsecured bond issues	AMD	10.00%	2009	500,000	500,000	-	-
Loan from other related parties	AMD	5.00%	on demand	172,000	193,161	-	-
Loan from other related parties	AMD	10.00%	2008	202,791	203,578	-	-
Loan from other related parties	AMD	10.00%	2008	-	-	146,971	149,366
				2,700,111	2,722,059	1,783,282	1,799,706

The secured bank loans carry an effective interest rate of 9.7% (2006: 11.9%) per annum. The bank loans carry a floating interest rate linked to LIBOR. The Company shall repay the secured bank loans starting from 5 January 2009 in 24 equal monthly repayments.

The Company has granted to the bank the following guarantees:

- pledge of the amount on the Company's bank account, where the sales proceeds generated from sales of the blister copper are transferred;
- all rights and benefits held by the Company in accordance with the sales contract signed with the main customer, Norddeutsche Affinerie AG on 8 December 2006.

- the Company should procure during the whole period of the borrowing at all times:
  - the amount of goods to be delivered to the customer under the sales contract shall not be less than 125% of the outstanding loan
  - the monthly turnover under the sales contract shall not be less than 125% in aggregate of the monthly principal and interest payments.

27 Government grants

	2007 '000 AMD	2006 '000 AMD
Government grants	78,972	78,973
Income recognised	(1,579)	-
	77,393	78,973

28 Trade and other payables

	2007 '000 AMD	2006 '000 AMD
Trade payables	1,137,198	884,922
Other payables	148,281	174,399
Other taxes payable	61,925	102,887
Advances received	73,702	89,874
	1,421,106	1,252,082

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

29 Financial instruments

(a) Credit risk

Exposure to credit risk

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

'000 AMD	Carrying amount	
	2007	2006
Available-for-sale financial assets	40,647	35,647
Trade receivables	1,642,333	607,042
	1,682,980	642,689

In addition to this exposure the Group is exposed to the credit risk on prepayments for goods, which are included in Trade and other receivables and as at 31 December 2007 and 31 December 2006 amounted to AMD 2,030,786 thousand and AMD 249,137 thousand respectively.

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

'000 AMD	**Carrying amount**	
	2007	**2006**
Euro-zone countries	1,532,217	538,227
Domestic	110,116	68,815
	1,642,333	607,042

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

'000 AMD	**Carrying amount**	
	2007	**2006**
Wholesale customers	1,642,333	607,042

Impairment losses

The aging of trade receivables at the reporting date was:

'000 AMD	**Gross**	**Impairment**	**Gross**	**Impairment**
	2007	**2007**	**2006**	**2006**
Not past due	1,642,333	-	607,042	-

(b) Liquidity risk

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

2007	**Average interest rate**								
'000 AMD	**Contractual**	**Effective**	**On demand**	**0-6 months**	**6-12 months**	**1-2 years**	**3-4 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities									
Loans and borrowings:									
Secured bank loans	LIBOR+4%	9.70%	-	75,751	75,751	1,029,176	953,425	-	2,134,103
Other related parties	5.00%	5.00%	193,161	-	-	-	-	-	193,161
Other related parties	10.00%	10.00%	-	206,958	-	-	-	-	206,958
Unsecured bond issues	10.00%	10.00%	-	25,000	25,000	525,000	-	-	575,000
Trade and other payables	0.00%	0.00%	-	1,116,886	-	-	-	304,220	1,421,106
			193,161	1,424,595	100,751	1,554,176	953,425	304,220	4,530,328

2006	**Average interest rate**								
'000 AMD	**Contractual**	**Effective**	**On demand**	**0-6 months**	**6-12 months**	**1-2 years**	**3-4 years**	**Over 5 years**	**Total**
Non-derivative financial liabilities									
Loans and borrowings:									
Secured bank loans	LIBOR+2%	11.90%	-	1,675,040	-	-	-	-	1,675,040
Other related parties	10.00%	10.00%	-	7,349	156,715	2,450	-	-	166,514
Trade and other payables	0.00%	0.00%	-	888,582	-	-	-	363,500	1,252,082
			-	2,570,971	156,715	2,450	-	363,500	3,093,636

(c) Currency risk

Exposure to currency risk

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

'000 AMD	USD-denominated 2007	RUR-denominated 2007	USD-denominated 2006	RUR-denominated 2006
Current assets				
Trade and other receivables	1,502,543	6,684	3,087,206	19,168
Non-current assets				
Trade and other receivables	-	-	-	-
Current liabilities				
Trade and other payables	(748,077)	-	(1,565,595)	-
Non-current liabilities				
Trade and other payables	(304,220)	-	(363,500)	-
Loans and borrowings	(1,825,320)	-	(1,650,340)	-
	(1,375,074)	6,684	(492,229)	19,168

The following significant exchange rates applied during the year:

	1 USD equals as of year end 2007	1 RUR equals as of year end 2007	1 USD equals as of year end 2006	1 RUR equals as of year end 2006
AMD	304.22	12.40	363.50	13.80

Sensitivity analysis

A 10% strengthening of the AMD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity '000 AMD	Profit or loss '000 AMD
2007		
USD	137,507	137,507
RUR	(668)	(668)
2006		
USD	49,223	49,223
RUR	(1,917)	(1,917)

A 10% weakening of the AMD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

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

'000 AMD	Carrying amount	
	2007	2006
Fixed rate instruments		
Financial assets	5,000	-
Financial liabilities	(896,739)	(149,366)
	(891,739)	(149,366)
Variable rate instruments		
Financial liabilities	(1,825,320)	(1,650,340)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

'000 AMD	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2007				
Variable rate instruments	(16,428)	16,428	(16,428)	16,428
2006				
Variable rate instruments	(14,853)	14,853	(14,853)	14,853

(e) Fair values

The fair value of unquoted equity investments is discussed in note 20. In other cases management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, were as follows:

	2007	2006
Loans and borrowings	8.16%-10%	10%-12.35%

30 Contingencies and commitments

(a) 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 the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

(b) Insurance

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

(c) Litigation

The Group does not have significant litigations that may have a material effect on the Group's financial position, except for the dispute with Tax Authorities regarding to the recoverable VAT (note 22). The Economic Court of the Republic of Armenia originally made the decision in the favour of the Company, however Tax Authorities appealed to the Cassation Court of the Republic of Armenia.

(d) Taxation contingencies in Armenia

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. A tax year remains open for review by the tax authorities during the three subsequent calendar years.

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

(e) Licensing agreement

In October 2007 the Company signed a Licensing Agreement with the Ministry of Trade and Economic Development and the Ministry of Nature Protection (the Authorities). In accordance with the Licensing Agreement the Authorities transfer to the Company the right to control and use Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026. The company is obliged to complete preparation works for deposit exploitation till July 2011 and start the exploitation of the deposit afterwards. Starting from 2008 the Company has an obligation to pay an annual site restoration fee of AMD 2,953 thousand.

31 Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Company's control and could impact the Company's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions and adverse claims to water rights, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of or failure to receive necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) uncertainty of exploration and development, (x) delays in transportation, (xi) labour disputes, (xii) inability to obtain satisfactory insurance coverage, (xiii) unavailability of materials and equipment, (xiv) the failure of equipment or processes to operate in accordance with specifications or expectations, (xv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xvi) the results of financing efforts and financial market conditions.

(b) Copper price volatility

The Company's financial performance is heavily dependent on the price of copper, which is affected by many factors beyond the Company's control. Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the three years ended 31 December 2007, LME daily settlement prices ranging from USD 3.072 to 8.788 per ton of copper. After a protracted downturn in demand and correspondingly lower prices that began in the early part of 2000, the market dynamics for copper began improving at the end of 2003 and have continued through 2007. A sustained period of low copper prices would adversely affect the Company's profits and cash flows.

32 Related party transactions

(a) Control relationships

The Company's Parent is Vallex F.M. Establishment, incorporated in Liechtenstein.

The party with ultimate control over the Company is Mr Valery Medzhlumyan.

No publicly available financial statements are produced by the Company's parent company, ultimate controlling party or any other intermediate controlling party.

(b) Management remuneration

Key management received the following remuneration during the year:

	2007 '000 AMD	2006 '000 AMD
Directors	21,544	11,128
Senior Management	42,417	21,308
	63,961	32,436

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 AMD	Transaction value 2007	Transaction value 2006	Outstanding balance 2007	Outstanding balance 2006
Sale of goods:				
Fellow subsidiaries:				
Base Metals cjsc	100,497	150,250	99,847	4,179
Vallex Mining Ltd	12,155	13,701	6,891	6,633
Base Metals Yerevan office	-	-		63,681
Other:				
Mining and Metallurgy Institute	1,420	29,550	4,375	11,100
Lorva Geo jsc	340	-	-	-
Manes ojsc	-	-	3,500	-
Services provided:				
Fellow subsidiaries:				
Base Metals cjsc	5,069	32,164		-
Vallex Mining Ltd	33,011	39,809	45,984	11,368
Vallex IT Ltd	456	1,309	684	137
Base Metals Yerevan office	533	533	2,727	2,087
Other:				
Mining and Metallurgy Institute	3,297	7,145	213,108	8,023
Manes ojsc	-	454	152	152
Gugarqi GEO ojsc			672	
Valex Group cjsc	19,120		1500	-
	175,898	274,915	379,440	107,360

(ii) Expenses

'000 AMD	**Transaction value 2007**	**Transaction value 2006**	**Outstanding balance 2007**	**Outstanding balance 2006**
Purchase of goods:				
Fellow subsidiaries:				
Base Metals cjsc	10,395,691	11,002,445	711,467	1,208,695
Lorva Geo jsc	7,931	8,956	-	547
Vallex Mining Ltd	12,000	99,877	9,883	1,686
Vallex F.M. Est Ltd		-	35,595	42,530
Vallex IT Ltd	2,824	41,108	3,283	1,818
Base Metals Yerevan office	797,443	913,619	-	865
Vallex Group cjsc	132	39	-	6
Other:				
Mining and Metallurgy Institute	-	27,990	-	-
Manes ojsc	-	2,232	-	-
Services provided:				
Fellow subsidiaries:				
Base Metals cjsc	2,500	5,179	7,032	-
Lorva Geo jsc	10,601	14,097	320	354
Vallex Mining Ltd	1,888	960	192	960
Vallex IT Ltd	1,022	1,260		1,260
Base Metals Yerevan office	-	2,393	1,148	1,148
Metal Trans	1,659	107,167	3,024	1,990
Vallex Group cjsc	16,850	1,800	-	-
Unconsolidated subsidiary:				
Gugarqi GEO ojsc	12,080	10,927	-	2,085
Other:				
Mining and Metallurgy Institute	609,428	654,734	-	52,254
	11,872,049	12,894,783	771,944	1,316,198

(iii) Loans

'000 AMD	**Amount loaned 2007**	**Amount loaned 2006**	**Outstanding balance 2007**	**Outstanding balance 2006**
Loans received:				
Fellow subsidiary:				
Base Metals cjsc	374,791	146,971	396,739	149,366
	374,791	146,971	396,739	149,366

One of the two loans from the fellow subsidiary bears interest at 10% per annum and is repayable in 2008 and the other loan bears interest at 5% and is repayable on demand.

(iv) Other payables from shareholders

'000 AMD	Amount 2007	Amount 2006
Other payables from shareholders	8,601	8,601

(d) Pricing policies

Related party transactions are based on market prices.

33 Significant subsidiaries

	Country of incorporation	2007 Ownership/voting	2006 Ownership/voting
Teghout cjsc	Republic of Armenia	100%	100%