Armenian Copper Programme cjsc

Consolidated Financial Statements for the year ended 31 December 2008

Contents

Independent Auditors' Report
Consolidated Income Statement 5
Consolidated Balance Sheet 6
Consolidated Statement of Cash Flows 7
Consolidated Statement of Changes in Equity 8
Notes to the Consolidated Financial Statements 9

KPMG Armenia cjsc
8th floor, Erebuni Plaza Business Center,
26/1 Vazgen Sargsyan Street
Yerevan 0010, Armenia

Telephone + 374 (10) 566 762
Fax + 374 (10) 566 762
Internet www.kpmg.am

Independent Auditors' Report

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

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 2008, 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Armenia, an Armenian closed joint stock company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2(d), which describes that the Group does not expect significant positive cash flows from its current operations and needs financing for the development and future operation of the Teghout mine. This condition, along with other matters described in note 2(d), indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Andrew Coxshall
Director

Irina Gevorgyan
Manager, Audit

KPMG Armenia cjsc
1 March 2010

	Note	2008 '000 AMD	2007 '000 AMD
Revenue	5	17,557,710	24,253,761
Cost of sales	6	(16,379,035)	(18,313,356)
Gross profit		**1,178,675**	**5,940,405**
Other income	7	347,885	32,377
Distribution expenses	8	(211,374)	(185,825)
Administrative expenses	9	(1,634,067)	(1,031,375)
Impairment (losses)/recoveries	10	(2,665,972)	10,197
Other expenses	11	(288,523)	(230,709)
Results from operating activities		**(3,273,376)**	**4,535,070**
Financial income	12	58,986	213,968
Financial expense	12	(659,141)	(173,479)
(Loss)/Profit before income tax		**(3,873,531)**	**4,575,559**
Income tax benefit/(expense)	13	379,303	(436,504)
(Loss)/Profit for the year		**(3,494,228)**	**4,139,055**

These consolidated financial statements were approved by the Members of the Board of Directors on 1 March 2010 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 47.

	Note	2008 '000 AMD	2007 '000 AMD
ASSETS			
Non-current assets			
Property, plant and equipment	14	5,237,583	9,908,200
Intangible assets	15	62,059	49,242
Investment property	16	428,650	145,609
Mining property	17	2,717,785	944,312
Exploration and evaluation assets	18	-	2,323,221
Other investments	19	9,378	40,647
Borrowings given to related parties		23,449	-
Prepayments for non-current assets	20	2,883,785	-
VAT recoverable	22	472,012	-
Total non-current assets		**11,834,701**	**13,411,231**
Current assets			
Inventories	21	3,036,601	2,780,523
Prepayments for income tax		172,654	-
Trade and other receivables	22	4,607,337	5,625,968
Borrowings given to related parties		26,320	-
Prepaid finance cost	23	151,030	-
Cash and cash equivalents	24	19,320	140,756
Total current assets		**8,013,262**	**8,547,247**
Total assets		**19,847,963**	**21,958,478**
EQUITY AND LIABILITIES			
Equity	25		
Share capital		3,069,716	3,069,716
Revaluation reserve		883,643	5,439,850
Retained earnings		4,623,979	7,677,095
Total equity		**8,577,338**	**16,186,661**
Non-current liabilities			
Loans and borrowings	27	6,709,719	2,130,501
Other taxes payable		64,100	-
Government grants	28	76,263	77,393
Deferred tax liabilities	26	-	1,506,923
Total non-current liabilities		**6,850,082**	**3,714,817**
Current liabilities			
Loans and borrowings	27	3,578,456	591,558
Trade and other payables	29	789,240	1,421,106
Provisions	30	52,408	-
Income tax payable		439	44,336
Total current liabilities		**4,420,543**	**2,057,000**
Total liabilities		**11,270,625**	**5,771,817**
Total equity and liabilities		**19,847,963**	**21,958,478**

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 47.

	2008	**2007**
	’000 AMD	**’000 AMD**
OPERATING ACTIVITIES		
Cash received from customers, inclusive of VAT	18,922,882	24,422,641
Cash received from state budget (VAT)	4,245,000	2,892,323
Cash paid to suppliers	(21,619,682)	(24,847,815)
Cash paid to employees	(1,354,988)	(918,848)
Income tax paid	(228,917)	(175,500)
Payment of taxes other than on income	(686,353)	(601,958)
Interest paid	(715,533)	(98,532)
Cash flows (utilised by)/from operating activities	**(1,437,591)**	**672,311**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(5,483,597)	(681,231)
Investment in mining property	(333,260)	(125,182)
Investment in exploration and evaluation assets	(394,564)	(712,476)
Purchase of intangible assets	(14,000)	-
Proceeds from sale of property, plant and equipment	21,350	355
Borrowings given	(1,330,485)	-
Repayment of borrowing given	1,306,630	-
Proceeds from other investments	28,000	226
Interest received	34,047	-
Cash flows utilised by investing activities	**(6,165,879)**	**(1,518,308)**
FINANCING ACTIVITIES		
Proceeds from borrowings	9,578,634	9,960,830
Repayment of borrowings	(2,090,935)	(9,505,602)
Proceeds from issue of bonds	-	500,000
Cash flows from financing activities	**7,487,699**	**955,228**
Net (decrease)/increase in cash and cash equivalents	**(115,771)**	**109,231**
Cash and cash equivalents at beginning of year	140,756	135,013
Effect of exchange rate fluctuations on cash and cash equivalents	(5,665)	(103,488)
Cash and cash equivalents at end of year (note 24)	**19,320**	**140,756**

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 47.

'000 AMD	**Share capital**	**Revaluation reserve**	**Accumulated profit**	**Total**
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	-
Total recognised income				4,139,055
Balance at 31 December 2007	**3,069,716**	**5,439,850**	**7,677,095**	**16,186,661**
Net loss for the year	-	-	(3,494,228)	(3,494,228)
Realisation of property, plant and equipment revaluation reserve	-	(441,112)	441,112	-
Impairment loss of property, plant and equipment, net of deferred tax of AMD 1,028,819 thousand	-	(4,115,095)	-	(4,115,095)
Total recognised expense				(7,274,983)
Balance at 31 December 2008	**3,069,716**	**883,643**	**4,623,979**	**8,577,338**

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 47.

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

The Company's current principal activity is the production and sale of blister copper at the Alaverdy melting plant, Republic of Armenia. All production of the Company is currently sold outside of Armenia. Also, the Group is involved in the development of mining property in Teghout mine and the construction of a processing plant in the deposit area. The Group's intended future principal activity is the extraction, processing and sale of molybdenum and copper concentrates from the Teghout mine.

The Group's authorised share capital is AMD 5 billion. As of 31 December 2008 the respective shareholdings were as follows:

- VALLEX 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 34.

(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. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated 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 is 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 Group'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) Going concern

The Group incurred a loss for the year ended 31 December 2008 of AMD 3,494,228 thousand. The loss primarily relates to the Group's current activities relating to the production and sale of blister copper at Alaverdy melting plant including the exploitation of the Alaverdy mine, which became unprofitable due to the significant decline in copper prices in the third quarter of 2008. As a result, the Group suspended the activities relating to the exploitation of the Alaverdy mine and recognised an impairment loss on mining property of the Alaverdy deposit and the property, plant and equipment relating to the Alaverdy deposit and Alaverdy melting plant, as explained in notes 14 and 17. Although copper prices partly recovered in 2009, management forecasts that continued production and sale of blister copper from the Alaverdy melting plant is expected only to result in marginal profit in the foreseeable future due to increased cost of production.

As described in note 1, the Group is currently in the process of developing the Teghout mine. In order to keep the workforce in the district available for the future operation of the Teghout mine, the Group intends to continue production of blister copper at the Alaverdy melting plant at least until the Teghout production facilities are operational.

The Teghout development project is entirely dependent on external financing. To bring the mine to an operational stage and commence copper and molybdenum concentrate production and to fulfill commitments to the Government of Armenia the Group will need substantial financing. Management assesses that the initial mine development, plant and other required facilities construction will take three years from the balance sheet date and concentrate production will commence in the fourth year. Thus, the future operations of the Group would be significantly affected by the timing of receiving financing for the initial investment stage of the mine exploitation.

In June 2008 Teghout cjsc signed a loan agreement with VTB Bank ojsc for a total credit line of USD 249,500 thousand. The loan was primarily intended for development of the Teghout mine and production facilities. Subsequent significant liquidity stress and the decline of metal prices in the world in the second half of 2008 resulted in the suspension of the loan agreement before the required financing was received. At the date of signing of these financial statements the Group was in the process of negotiations for new principal terms of a new agreement which is expected to replace the first agreement with VTB Bank ojsc.

In addition, the Group has significant loans and borrowings, as disclosed in note 27. The lack of profitability from the Group's current activities and the uncertainty regarding future project financing could affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions similar to those applied in earlier transactions. The ultimate controlling shareholder has expressed the intention to provide necessary financial support and liquidity to the Group for it to maintain operations, as and when required.

The material uncertainties described above may cast significant doubt on the Group's ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern as the management of the Group expects in the foreseeable future to secure sufficient financing to continue development of the Teghout mine from VTB Bank ojsc or other lenders.

(e) 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(d) – going concern;
- Note 2(f) – ore reserves;
- Note 5 – revenue – determination of the fair values of embedded derivatives;
- Note 14 – impairment of property, plant and equipment;
- Note 17 – impairment of mining property;
- Note 20 – recoverability of prepayments for non-current assets;
- Note 30 – provisions.

(f) Ore reserves

The total ore reserve estimates of the Teghout deposits were first established by the USSR State Committee for Reserves in 1991 at approximately 454 million tonnes with an average content of copper of 0.35% and molybdenum of 0.022%.

Approximately 35% of the total deposit's ore reserve estimates have been re-estimated and the first stage of the mine exploitation plan was drawn up in mid 2008 by Strathcona Mineral Services Limited based on international standards of mineral resources assessment and reporting which showed the following million tones of ore 135.8 – measured, 14.2 – indicated and 16.6 – inferred. The first stage of the evaluation and exploitation plan assumes extraction of 113.6 million tones of ore with an average content of copper of 0.33% and molybdenum of 0.011% to be extracted by 2022. For the rest of the reserves further evaluation and exploitation plans will be drawn up when the first stage of exploitation nears its end.

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 affect the Group's ore reserve estimates.

The Group operates under a Licence for the control and use of the Teghout copper-molybdenum deposit which expires in 2026. In preparing these consolidated financial statements management has assumed that the Licence will be prolonged beyond 2026. This assumption is based on the provisions of the Concession Law which state that the License is expected to be prolonged if no significant violations of the Licensee's obligations took place during the term of the License.

The Group uses its ore reserve estimates in evaluating property, plant and equipment and 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(t). 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. 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, trade and other receivables, borrowings given, cash and cash equivalents, loans and borrowings received, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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(q).

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.

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

Share capital is 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, construction or production of qualifying assets are recognised as part of the cost of such assets.

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.

(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 — 20-50 years
- Leasehold improvements — lower of lease term and 20 years
- Plant and equipment — 2-10 years
- Motor vehicles — 5-10 years
- Fixtures and fittings — 5-10 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
- Licenses — licence term
- Other intangible assets — 5-10 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 and impairment losses.

(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.

The Group’s copper concentrate purchase contracts, in general, provide for a provisional payment as specified in individual contracts, those are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period for copper concentrate is up to three months after the month of shipment.

The Group’s provisionally priced purchase contracts contain an embedded derivative that, because it is unrelated to the commodity purchase, 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 payable or advances paid on the balance sheet and marked to market (fair value) through cost of sales each period with reference to the appropriate commodity forward curve until the date of final settlement.

(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").

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.

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 from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. 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, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Transfer 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 quotation period. Typically, the future quotation 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) 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.

(q) 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.

(r) 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 temporary differences arising in connection with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. 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.

(s) Segment information

The Group comprises mainly of one business segment – the production 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.

(t) 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 2008, 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 represent segment information in respect of the production of blister copper only.

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the 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 market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using 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.

(b) Investment property

The fair value of investment property, which is determined for disclosure purposes, is estimated based on the market values.

(c) Financial assets

The fair value of investments is 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.

Management believes that the fair value of its financial assets approximates their carrying amounts, except for the investments disclosed in note 19.

(d) Trade and other receivables

The fair value of trade and other receivables, which is determined for disclosure purposes, 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

The fair value of non-derivative financial instruments, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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

	2008	**2007**
Loans and borrowings	7.06%-10.11%	8.16%-10%

5 Revenue

	2008 '000 AMD	2007 '000 AMD
Revenues from sale of products	17,496,120	24,133,328
Revenues from rendering of services	61,590	51,160
Other revenue	-	69,273
	17,557,710	**24,253,761**

At 31 December 2008 the Group had outstanding provisionally priced sales of AMD 1,796,592 thousand (2007: AMD 7,288,642 thousand) consisting of 821 dry metric tonnes (2007: 2,468 dry metric tones) of blister copper, which had a fair value of AMD 1,674,460 thousand (2007: AMD 7,142,816 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.

6 Cost of sales

	2008 '000 AMD	2007 '000 AMD
Purchased copper concentrate	13,651,677	15,813,128
Depreciation	437,396	277,913
Labour and wages	366,541	591,827
Other	1,923,421	1,630,488
	16,379,035	**18,313,356**

7 Other income

	2008 '000 AMD	2007 '000 AMD
Gain from written-off payable	278,142	-
Operating lease income	15,607	9,495
Gain/(loss) on disposal of property, plant and equipment	2,737	(421)
Government grants	1,556	1,579
Other income	49,843	21,724
	347,885	**32,377**

The Company had a payable to one of its counterparties for a property, plant and equipment item. As some parts of the property, plant and equipment item which were essential for the operation of that item were not delivered, the Company reached an agreement with its counterparty to terminate the agreement and wrote off the payable for the property, plant and equipment item. An impairment loss amounting to AMD 281,433 was recognised in respect of the abovementioned property, plant and equipment item (note 14(a)).

8 Distribution expenses

	2008 '000 AMD	2007 '000 AMD
Transportation expenses	148,609	159,728
Marketing and advertisement expenses	27,000	-
Customs duties on products	5,200	14,352
Other distribution expenses	30,565	11,745
	211,374	**185,825**

9 Administrative expenses

	2008 '000 AMD	2007 '000 AMD
Payroll expenses	468,846	377,575
Taxes other than income tax	275,948	7,424
Environmental fees	157,797	59,199
Depreciation	136,444	92,928
Maintenance	82,753	81,513
Bank charges	54,035	69,519
Utilities and communication expenses	52,284	51,920
Representation expenses and business trips	40,078	15,685
Audit and consulting fees	31,586	12,248
Fines and penalties	19,815	4,377
Others	314,481	258,987
	1,634,067	**1,031,375**

The average number of employees during the year ended 31 December 2008 was 1,067 (2007: 1,008). Total payroll expenses (direct production and administrative) during the year ended 31 December 2008 was AMD 1,355,283 thousand (2007: AMD 1,480,451 thousand). Included in total payroll expense are mandatory social security payments of AMD 257,420 thousand (2007: AMD 245,191 thousand).

10 Impairment (losses)/recoveries

	2008 '000 AMD	2007 '000 AMD
Impairment of property, plant and equipment (note 14)	1,859,619	
Mining property impairment (note 17)	1,162,789	-
Inventories	-	(10,197)
Reversal of impairment on VAT recoverable (note 22)	(356,436)	-
	2,665,972	**(10,197)**

11 Other expenses

	2008 '000 AMD	2007 '000 AMD
Research expenses	160,518	208,641
Other expenses	128,005	22,068
	288,523	**230,709**

12 Financial income and expenses

	2008 '000 AMD	2007 '000 AMD
Financial income		
Net foreign exchange gain	-	213,743
Interest income	58,986	225
Total financial income	**58,986**	**213,968**
Finance expense		
Interest expense on financial liabilities measured at amortised cost	(576,495)	(173,479)
Net foreign exchange loss	(82,646)	-
Total financial expense	**(659,141)**	**(173,479)**
Net finance (expense)/income recognised in profit or loss	**(600,155)**	**40,489**
Borrowing costs capitalized during the period on qualifying property, plant and equipment	**(7,435)**	**-**

13 Income tax expense

	2008 '000 AMD	2007 '000 AMD
Current tax expense		
Current year	88,625	386,559
Under provided in prior years	10,176	-
	98,801	386,559
Deferred tax expense		
Origination and reversal of temporary differences	(677,266)	49,945
Change in unrecognised temporary differences	199,162	-
	(478,104)	49,945
	(379,303)	**436,504**

The Group 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 2008 was 20% (2007: 20%).

Reconciliation of effective tax rate:

	2008 '000 AMD	%	2007 '000 AMD	%
(Loss)/profit before tax	(3,873,531)	100.0	4,575,559	100.0
Income tax at applicable tax rate	(387,353)	10.0	457,556	10.0
Effect of deferred taxes reversed at lower rate	(169,740)	4.4	(13,546)	(0.3)
Non-deductible/(non-taxable) items	(31,548)	0.8	(7,506)	(0.2)
Change in unrecognised deferred tax assets	199,162	(5.1)	-	
Under provided in prior years	10,176	(0.3)		
	(379,303)	**9.8**	**436,504**	**9.5**

14 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 2007	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**
Additions	80,014	-	1,736,260	8,453	103,978	1,405,212	3,333,917
Disposals	(9,545)	-	(269,724)	(1,380)	(3,422)	(3,390)	(287,461)
Transfer to investment property	(236,384)	-	(49,551)	-	-	-	(285,935)
Transfers	158,305	-	10,389	-	3,905	(172,599)	-
At 31 December 2008	**3,792,514**	**71,214**	**6,293,971**	**508,846**	**300,432**	**2,178,936**	**13,145,913**
Depreciation and impairment losses							
At 1 January 2007	-	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**
Charge for the year	72,057	3,561	540,272	46,553	40,867	-	703,310
Disposals	(300)	-	(8,953)	-	-	-	(9,253)
Reclassification to investment property	(8,258)	-	(1,681)	-	-	-	(9,939)
Impairment	2,948,483	40,882	3,290,016	116,016	183,115	168,508	6,747,020
At 31 December 2008	**3,082,256**	**71,214**	**4,123,145**	**208,577**	**254,630**	**168,508**	**7,908,330**
Net book value							
At 1 January 2007	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
At 31 December 2008	**710,258**	**-**	**2,170,826**	**300,269**	**45,802**	**2,010,428**	**5,237,583**
Net book value had no revaluation taken place							
At 1 January 2007	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
At 31 December 2008	**402,718**	**-**	**1,477,365**	**69,628**	**45,802**	**2,010,428**	**4,005,941**

Depreciation expense of AMD 437,396 thousand (2007: AMD 298,111 thousand) has been charged to cost of goods sold, AMD 129,470 thousand (2007: AMD 63,138 thousand) to capital expenditure on property, plant, equipment and mining property and AMD 136,444 thousand (2007: AMD 92,928 thousand) to administrative expense.

(a) Impairment

At 31 December 2008 following the decline in the copper and molybdenum prices the Group determined that there was an indication of impairment of its property, plant and equipment. The Group consists of two cash generating units: Alaverdy melting plant and the Teghout mine.

For Teghout mine the Group estimated the recoverable amount of the property, plant and equipment and mining property relating to Teghout deposit based on its value in use. In assessing the value in use, the Group estimated the future cash flows and discounted them to their present value using a pre-tax discount rate that reflected the current market assessment of the time value of money and the risks specific to the asset. The estimated recoverable amount did not result in an impairment loss being recognised in these financial statements.

The following key assumptions were used in estimating the recoverable amount:

- Cash flows were projected based on the investment and operating plan for the next twenty years approved by the management of the Group and exclude the effect of inflation. Forecasted prices for copper in those cash flows were based on management estimates which were in line with the available forecasts from analysts. Given the lack of available published information the Group has estimated the forecasted molybdenum prices based on past experience and internal models based on the correlation of molybdenum prices with copper prices.
- Initial investments for mine preparation and plant and infrastructure construction are planned at approximately USD 250,000 thousand (AMD 76,682,500 thousand as at 31 December 2008). Concentrate production is planned to begin in 2012.
- Total production and processing at the plants was projected at 7 million tonnes of ore in all years of the business plan.
- Terminal value of expected cash flows after twenty years (based on the forecasted cash flow) was estimated by discounting for perpetuity. It was assumed no growth rate of net cash flows when calculating the terminal value.
- A real discount rate as of 31 December 2008 of 18.67% was applied. The discount rate was estimated based on the weighted average cost of capital, which was based on a debt financing of approximately 8.9% of the total invested capital, cost of equity of approximately 18.97% and a borrowing rate of approximately 18%.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

The above estimates are particularly sensitive in the following areas:

- An increase of two percentage points in the discount rate used would have resulted in an impairment of AMD 1,144,638 thousand.
- A 5% decrease in the forecasted prices of copper and molybdenum would have resulted in an impairment of AMD 1,373,338 thousand.

For the purposes of impairment testing for the Alaverdy melting plant, the recoverable amount of the Group's mining property relating to Alaverdy deposit and the property, plant and equipment relating to the Alaverdy deposit and Alaverdy melting plant was determined as at 31 December 2008 based on its value in use. In order to determine the value in use of the Group's property plant and equipment the Group carried out cash flow testing.

The following key assumptions were used in estimating the value in use:

- Cash flows were projected based on the actual operating results for the year ended 31 December 2008, the approved one year budget for the year ended 31 December 2009 and forecast for the next three years. Forecasted prices for copper in those cash flows were based on management estimates which were in line with the available forecasts from analysts.
- Cash flows for a further twenty one years were extrapolated assuming no further growth in production, revenue and expenses.
- A nominal discount rate as of 31 December 2008 of 22.41% was applied. The discount rate was estimated based on the weighted average cost of capital, which was based on a debt financing of approximately 20% of the total invested capital, cost of equity of approximately 23.53% and a borrowing rate of approximately 18%.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

The value in use of property, plant and equipment was significantly lower than its carrying amount because the management of the Group expects only marginal profit from production and sale of blister copper in the foreseeable future. Even subsequent increase in copper prices would not result in a more than marginal profit due to significant adverse changes in the treatment charges and cost of gas. Accordingly, the Group recognised impairment loss on its property, plant and equipment which was allocated to assets within the cash generating unit. However, the assets within the cash generating unit were not written down below their fair value less costs to sell determined on an individual basis.

Fair value less costs to sell of property, plant and equipment was determined as of 31 December 2008 by Artin Enterprise cjsc, an independent licensed valuer. Movable property, plant and equipment were revalued based on market values. As the Group's buildings are of a specialised nature and in a special location and consequently have no market except as a business or as construction materials, the buildings were revalued to the net amount that could be acquired by selling the dismantled components of the buildings.

The results of the impairment testing suggest that the value in use would be lower than the expected proceeds from sale of the Alaverdy property, plant and equipment. However, the management of the Group has no intention to stop the operations and sell the property, plant and equipment as described in note 2(d).

As a result of the impairment testing as at 31 December 2008 the carrying amount of property, plant and equipment decreased by AMD 6,747,020 thousand. The revaluation decrease of AMD 4,115,095 thousand (net of the deferred tax effect of AMD 1,028,819 thousand) was recognised in equity reversing a previous revaluation increase, a revaluation decrease of AMD 1,321,673 thousand was recognised in the income statement.

An impairment loss amounting to AMD 537,946 thousand was separately recognised in the income statement for property, plant and equipment written off during 2008 including AMD 281,433 thousand in relation to a property, plant and equipment item not put in use (note 7).

15 Intangible assets

	Other intangible assets '000 AMD
Cost	
At 1 January 2007	50,516
Additions	2,500
At 31 December 2007	53,016
Additions	12,817
At 31 December 2008	65,833
Amortisation	
At 1 January 2007	3,774
Charge for the year	-
At 31 December 2007	3,774
Charge for the year	-
At 31 December 2008	3,774
Net book value	
At 1 January 2007	46,742
At 31 December 2007	49,242
At 31 December 2008	**62,059**

16 Investment property

	'000 AMD
Cost	
At 1 January 2007	152,387
At 31 December 2007	152,387
Additions	9,971
Transfer from property, plant and equipment	285,935
At 31 December 2008	448,293
Depreciation	
At 1 January 2007	3,909
Charge for the year	2,869
At 31 December 2007	6,778
Charge for the year	2,926
Transfer from property, plant and equipment	9,939
At 31 December 2008	19,643
Net book value	
At 1 January 2007	148,478
At 31 December 2007	145,609
At 31 December 2008	**428,650**

Investment property represents land and buildings transferred from property, plant and equipment. Most of the buildings leased out under investment property were acquired in 2004. Since the date of acquisition no significant changes occurred in the fair value of the buildings, therefore the fair value of investment property is not significantly different from its cost. The buildings transferred to investment property from property plant and equipment in 2008, were revalued to their fair value as at 31 December 2006 by an independent valuer Artin Enterprises. The management of the Group believes that the fair value of the above property has not changed significantly since that date.

17 Mining property

	Alaverdy deposit ’000 AMD	Teghout deposit ’000 AMD	Total ’000 AMD
Cost			
At 1 January 2007	769,462	-	769,462
Additions	367,805	-	367,805
At 31 December 2007	1,137,267	-	1,137,267
Additions	333,260	2,717,785	3,051,045
Disposals	(666)	-	(666)
At 31 December 2008	1,469,861	2,717,785	4,187,646
Accumulated amortisation and			
At 1 January 2007	105,105	-	105,105
Amortisation charge for the period	87,850	-	87,850
At 31 December 2007	192,955	-	192,955
Amortisation charge for the period	114,117	-	114,117
Impairment loss	1,162,789	-	1,162,789
At 31 December 2008	1,469,861	-	1,469,861
Net book value			
At 1 January 2007	664,357	-	664,357
At 31 December 2007	944,312	-	944,312
At 31 December 2008	**-**	**2,717,785**	**2,717,785**

The Group restarted extraction of the ore from the Alaverdy deposit at the beginning of 2007. However the significant decline in the copper prices in the third quarter of 2008 made the continued exploitation of the Alaverdy mine unprofitable. The Group suspended the activities relating to the extraction and refining of the ore and recognised 100% impairment on mining property of the Alaverdy deposit based on the impairment testing described in note 14.

At 31 December 2008 the Group reclassified its exploration and evaluation assets relating to the Teghout deposit to mining property as disclosed in note 18.

18 Exploration and evaluation assets

	'000 AMD
Cost	
At 1 January 2007	1,492,207
Additions	831,014
At 31 December 2007	2,323,221
Additions	394,564
Reclassification to mining property	(2,717,785)
At 31 December 2008	**-**

Exploration and evaluation assets as of 31 December 2008 represent expenditures incurred on the Teghout deposit in northern Armenia. The Teghout deposit is one of the largest copper-molybdenum deposits in Armenia.

The Teghout deposit's ore reserves were re-estimated and the first stage of the mine exploitation plan was drawn up in mid 2008 by Strathcona Mineral Service Limited based on international standards of mineral resources assessment and reporting which demonstrated the technical feasibility and commercial viability of extracting the mineral resource from Teghout deposit. Accordingly, the Group stopped capitalising exploration and evaluation costs and reclassified the exploration and evaluation asset to mining property at 31 December 2008.

19 Other investments

	2008 '000 AMD	2007 '000 AMD
Available-for-sale		
Equity instruments - unquoted		
Manes ojsc	38,555	38,555
Mining and Metallurgy Institute cjsc	-	26,269
Gugarqi GEO ojsc	10,000	10,000
Vallex IT cjsc	5	5
Debt instruments – quoted:		
Corporate bonds (Armrusgazprom)	-	5,000
	48,560	79,829
Provision for impairment	(39,182)	(39,182)
	9,378	**40,647**

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	2008 Carrying value ’000 AMD	2007 Carrying value ’000 AMD
Manes ojsc	Republic of Armenia	Smelting	-	-
Mining and Metallurgy Institute cjsc	Republic of Armenia	Development of mining technologies	-	26,269
Gugarqi GEO ojsc	Republic of Armenia	Provision of property for renting	9,373	9,373
Vallex IT cjsc	Republic of Armenia	Selling of computers	5	5

20 Prepayments for non-current assets

	2008 ’000 AMD	2007 ’000 AMD
Prepayment for the purchase of a grinding mill	2,724,021	-
Other prepayments	159,764	-
	2,883,785	**-**

The prepayment by Teghout for the purchase of a grinding mill (see note 32(a)) of AMD 2,724,021 thousand is included in prepayments for non-current assets. As a result of the delay of financing from VTB Bank ojsc the Group began negotiations for agreeing the suspension of the terms of the performance of the purchase contract for the grinding mill until the Group obtains sufficient financing for continuing payments of the contract price. The purchase contract terms are such that the Group may not recover a significant part of the prepayment made in case it fails to continue payments as per the original contract terms, which depends on obtaining financing. As at 31 December 2008 no impairment is recognised for the prepayment as management expects to obtain financing from VTB Bank ojsc and continue performance of the purchase contract.

21 Inventories

	2008 ’000 AMD	2007 ’000 AMD
Raw materials and spare parts	2,241,756	2,248,640
Finished goods	716,313	367,398
Work-in-progress	30,338	122,037
Other inventory	48,194	42,448
	3,036,601	**2,780,523**

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value. A write down of AMD 52,733 thousand is included in cost of sales.

22 Trade and other receivables

	2008 '000 AMD	2007 '000 AMD
Non current		
VAT recoverable	472,012	-
	472,012	**-**
Current		
VAT recoverable	1,356,577	2,470,468
Advances for provisionally priced purchases	2,814,097	2,030,786
Trade receivables	545,233	1,642,333
Other receivables	79,420	26,807
	4,795,327	6,170,394
Impairment provision against VAT recoverable	(187,990)	(544,426)
	4,607,337	**5,625,968**

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

	2008 '000 AMD	2007 '000 AMD
At the beginning of the year	544,426	544,426
Net decrease in provisions	(356,436)	-
	187,990	**544,426**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 31.

23 Prepaid finance cost

In 2008 the Group paid an up-front fee to VTB Bank ojsc in accordance with the loan agreement signed in 2008 (see note 2(d)). The total amount paid has been recognised as prepaid finance cost.

24 Cash and cash equivalents

	2008 '000 AMD	2007 '000 AMD
Cash in hand	1,177	1,626
Current accounts	18,143	139,130
Cash and cash equivalents in the statement of cash flows	**19,320**	**140,756**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

25 Equity

(a) Share capital

The authorised share capital as at 31 December 2008 amounted to 40 million (31 December 2007: 40 million) ordinary shares of AMD 1 thousand each. The issued and fully paid share capital as at 31 December 2008 amounted to AMD 3,069,716 (31 December 2007: 3,069,716) ordinary shares of AMD 1,000 each.

(b) Dividends

In accordance with Armenian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the accounting regulations of the Republic of Armenia, except for restrictions on retained earnings as described in note 25(c). No dividends were declared and paid during 2007 and 2008. No dividends were proposed after 31 December 2008.

(c) Restrictions on retained earnings

According to legal requirements and the Company's charter, the Company is required to create a reserve from its retained earnings for an amount equal to 15% of its share capital for the purpose of covering future losses. As at 31 December 2008 the Company had allocated AMD 460,457 thousand (2007: AMD 460,457 thousand) from its retained earnings as reserved retained earnings to comply with this requirement.

26 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**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Property, plant and equipment	(27,404)	(86,300)	-	1,499,586	(27,404)	1,413,286
Intangible assets	-	(4,629)	-	-	-	(4,629)
Exploration and evaluation assets	-	(37,991)	-	-	-	(37,991)
Investment property	-	-	27,404	-	27,404	-
Other investments	-	(7,836)	-	-	-	(7,836)
Inventories	-	(70,192)	35,062	1,686	35,062	(68,506)
Trade and other receivables	(35,062)	(33,055)	-	69,302	(35,062)	36,247
Trade and other payables	-	(274,933)	-	451,285	-	176,352
Net tax (assets)/liabilities	**(62,466)**	**(514,936)**	**62,466**	**2,021,859**	**-**	**1,506,923**

(b) Movement in temporary differences during the year

'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**

'000 AMD	1 January 2008	Recognised in income	Recognised in equity	31 December 2008
Property, plant and equipment	1,413,286	(411,871)	(1,028,819)	(27,404)
Intangible assets	(4,629)	4,629	-	-
Evaluation and exploration assets	(37,991)	37,991	-	-
Investment property	-	27,404	-	27,404
Other investments	(7,836)	7,836	-	-
Inventories	(68,506)	103,568	-	35,062
Trade and other receivables	36,247	(71,309)	-	(35,062)
Trade and other payables	176,352	(176,352)	-	-
	1,506,923	**(478,104)**	**(1,028,819)**	**-**

The tax rate applicable for the year ended 31 December 2008 was 20% (2007: 20% or 10% depending on the expected timing of the reversal of the asset or liability).

Deferred tax assets have not been recognised in respect of the following items:

	2008 '000 USD	2007 '000 USD
Property, plant and equipment	33,750	-
Mining property	103,907	-
Intangible assets	7,000	-
Other investments	3,918	-
Inventories	1,901	-
Trade and other receivables	48,686	-
	199,162	**-**

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

27 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 31.

	2008 '000 AMD	2007 '000 AMD
Non-current liabilities		
Secured bank loans	6,709,719	1,680,638
Unsecured bond issues	-	449,863
	6,709,719	**2,130,501**
Current liabilities		
Loan from other related parties	777,981	396,739
Secured bank loans	2,300,475	144,682
Unsecured bond issues	500,000	50,137
	3,578,456	**591,558**

Unsecured bonds represent 10 thousand coupon bonds with a nominal value of AMD 50 thousand and 10% interest rate. The bonds were fully repaid in March 2009.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			2008		2007	
'000 AMD	**Currency**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan 1	USD	2010	4,600,950	4,409,244	1,825,320	1,825,320
Secured bank loan 2	USD	2012	4,600,950	4,600,950	-	-
Unsecured bond issues	AMD	2009	500,000	500,000	500,000	500,000
Loan from other related parties	AMD	on demand	1,000,000	777,981	172,000	193,161
Loan from other related parties	AMD	2008	-	-	202,791	203,578
			10,701,900	**10,288,175**	**2,700,111**	**2,722,059**

In June 2008 Teghout cjsc signed a loan agreement with VTB Bank ojsc (Russian Federation) for a total credit line of USD 249,500 thousand (1 USD = 306.73 AMD as at 31 December 2008). Subsequent significant liquidity stress and the decline of metal prices in the world in the second half of 2008 resulted in the suspension of the loan agreement before the required financing was received.

The secured bank loan 2 was provided as a bridge loan to start the financing of the infrastructure works and the acquisition of equipment for Teghout mine, before Teghout will receive a loan facility from VTB Bank ojsc (Russian Federation). If the loan facility from VTB Bank ojsc (Russian Federation) is not provided before December 2010, the secured bank loan 2 will become payable in 24 equal monthly instalments starting from December 2010. If during the loan repayment period a first utilisation of the loan facility from VTB Bank ojsc (Russian Federation) occurs, then the residual principal amount of the secured bank loan 2 shall be repaid in full at the date of the first utilisation.

The Group has granted to VTB Bank ojsc the following guarantees:

- guarantee provided by "Vallex FM Establishment" the parent company of Armenian Copper programme cjsc.
- surety provided by Teghout cjsc, 100% subsidiary of Armenian Copper programme cjsc.
- 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 renew the sales contract at least three months before the expiry of the existing sales contract;
- 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.

28 Government grants

	2008 '000 AMD	2007 '000 AMD
Government grants	77,393	78,972
Additions	426	-
Income recognised	(1,556)	(1,579)
	76,263	**77,393**

29 Trade and other payables

	2008 '000 AMD	2007 '000 AMD
Trade payables	517,789	1,137,198
Taxes other than income tax payable	131,246	61,925
Other payables	127,575	148,281
Advances received	12,630	73,702
	789,240	**1,421,106**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

30 Provisions

'000 AMD	**Forests restoration**
Balance at 1 January 2008	-
Provisions made during the year	52,408
Balance at 31 December 2008	**52,408**

In 2008 Teghout cjsc reached an agreement with the Government of the Republic of Armenia and a plan was agreed with a time schedule for planting trees on a regular basis to replace those to be cut during mine development and plant construction in other areas. In estimating Teghout's liability as at 31 December 2008, the management of Teghout has considered the actual area cut at 31 December 2008, the ratio of the cut area to the area to be planted agreed with the Government and the approximate cost to the Group. In estimating the cost of a unit of area to plant the management has considered actual agreement prices concluded in 2009 with contractors for planting trees. The liability has not been discounted due to its short-term nature.

31 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, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group has developed a 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 Group.

(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 early 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, no significant risks arise with respect to receivables from the sale of main production.

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**	
	2008	**2007**
Available-for-sale financial assets	9,378	40,647
Borrowings given	49,769	-
Trade and other receivables	3,438,750	3,699,926
Cash and cash equivalents	18,143	139,130
	3,516,040	**3,879,703**

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

'000 AMD	**Carrying amount**	
	2008	**2007**
Euro-zone countries	456,539	1,532,217
Domestic	88,694	110,116
	545,233	**1,642,333**

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

'000 AMD	**Carrying amount**	
	2008	**2007**
Wholesale customers	456,539	1,642,333
End user customers	88,694	-
	545,233	**1,642,333**

77% of trade receivables (2007: 93%) are due from one customer.

Impairment losses

The aging of trade receivables at the reporting date was:

'000 AMD	**Gross 2008**	**Impairment 2008**	**Gross 2007**	**Impairment 2007**
Not past due	545,233	-	1,642,333	-

(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.

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

2008

'000 AMD	**On demand**	**0-6 months**	**6-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**Total**	**Carrying amount**
Non-derivative financial liabilities								
Loans and borrowings:								
Secured bank loan 1	-	1,237,409	1,211,896	2,155,544	-	-	4,604,849	4,409,244
Secured bank loan 2*	-	171,069	171,069	533,844	2,549,951	2,187,175	5,613,108	4,600,950
Other related parties	777,981	-	-	-	-	-	777,981	777,981
Unsecured bond issues	-	511,806	-	-	-	-	511,806	500,000
Trade and other payables	-	645,364	-	-	-	-	645,364	645,364
	777,981	**2,565,648**	**1,382,965**	**2,689,388**	**2,549,951**	**2,187,175**	**12,153,108**	**10,933,539**

2007

'000 AMD	**On demand**	**0-6 months**	**6-12 months**	**1-2 years**	**2-3 years**	**Total**	**Carrying amount**
Non-derivative financial liabilities							
Loans and borrowings:							
Secured bank loans	-	75,751	75,751	1,029,176	953,425	2,134,103	1,825,320
Other related parties	193,161	-	-	-	-	193,161	193,161
Other related parties	-	206,958	-	-	-	206,958	206,958
Unsecured bond issues	-	25,000	25,000	525,000	-	575,000	500,000
Trade and other payables	-	1,285,479	-	-	-	1,285,479	1,285,479
	193,161	**1,593,188**	**100,751**	**1,554,176**	**953,425**	**4,394,701**	**4,010,918**

* The maturity terms of the secured bank loan 2 are described in note 27.

(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 Group (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 2008 the majority of the Group's financial liabilities were denominated in the same currency.

Exposure to currency risk

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

'000 AMD	**USD-denominated 2008**	**USD-denominated 2007**
Current assets		
Cash and cash equivalents	12,852	14,978
Trade and other receivables	3,270,636	3,533,329
Current liabilities		
Trade and other payables	(48,841)	(1,052,297)
Loans and borrowings	(2,300,475)	-
Non-current liabilities		
Loans and borrowings	(6,709,719)	(1,825,320)
	(5,775,547)	**670,690**

The following significant exchange rates applied during the year:

	1 USD equals as of year end 2008	**1 USD equals as of year end 2007**
AMD	306.73	304.22

Sensitivity analysis

A 20% 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 2007.

	Equity '000 AMD	Profit or loss '000 AMD
2008		
USD	(1,155,109)	(1,155,109)
2007		
USD	134,138	134,138

A 20% 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.

(ii) Interest rate risk

In order to mitigate possible risks arising from changes in interest rates the Group takes loans with both fixed and floating interest rates. Though the Group does not have a developed policy regulating this area, the combination of these two approaches helps to manage, to some extent, risks arising from interest rates fluctuations. During 2008 the Group took loans with both fixed and floating interest rates.

Profile

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

'000 AMD	Carrying amount	
	2008	**2007**
Fixed rate instruments		
Financial assets	49,769	5,000
Financial liabilities	(1,277,981)	(896,739)
	(1,228,212)	**(891,739)**
Variable rate instruments		
Financial liabilities	**(9,010,194)**	**(1,825,320)**

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 2007.

'000 AMD	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2008				
Variable rate instruments	(72,082)	72,082	(72,082)	72,082
2007				
Variable rate instruments	(14,603)	14,603	(14,603)	14,603

(i) 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 purchases in such a manner as to overlap the point of sales recognition with the quotation period for purchased concentrate. By applying this method the Group partly neutralizes price risks.

32 Contingencies and commitments

(a) Purchase commitments

Teghout cjsc signed a contract and made a prepayment (see note 20) for the purchase of a grinding mill in 2008. The total price of the contract is USD 47,000 thousand. The prepayment made by Teghout cjsc is USD 9,024 thousand and the purchase commitment at 31 December 2008 is USD 37,976 thousand (31 December 2007: nil). The payment is to be made and the mill is to be supplied fully by July 2011.

(b) Environmental matters

Management is of the opinion that the Group has met the Government's requirements concerning environmental matters, and therefore believes that the Group 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.

(c) 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.

(d) Litigation

The Group does not have significant litigations that may have a material effect on the Group's financial position as at and for the year ended 31 December 2008.

(e) 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. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

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

(f) Licensing agreement

In October 2007 the Group 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 Group the right to control and use Teghout copper-molybdenum deposit's reserves of 105 million tons (7 million tons per year) till 2026.

In accordance with the Licensing Agreement and environmental programs agreed with the Government of the Republic of Armenia the Group is committed to:

- complete preparation works and perform investments of AMD 35,000,000 thousand for Teghout deposit exploitation by July 2011 and start the exploitation of the deposit afterwards;
- starting from 2008 to pay an annual fee of AMD 2,953 thousand to the environmental fund;
- plant forests instead of the trees being cut in the mine and future plant area.

33 Operational risks

(a) Mines

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group'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 and molybdenum price volatility

The Group's financial performance is heavily dependent on the price of copper, which is affected by many factors beyond the Group'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 price of copper 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. Copper prices have declined significantly from their recent historically high levels. During the three years ended 31 December 2008, LME daily closing spot prices ranged from USD 1.26 to USD 4.08 per pound for copper. After averaging USD 3.61 per pound for the first nine months of 2008, London Metal Exchange (LME) spot copper prices declined to a four-year low of USD 1.26 per pound in December 2008 and the LME spot copper price closed at USD 2.98 per pound in February 2010. A sustained period of low copper prices would adversely affect the Group's profits and cash flows.

The Group's future financial performance is significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more so than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors.

Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices.

34 Related party transactions

(a) Control relationships

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

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

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

(b) Management remuneration

Key management received the following remuneration during the year:

	2008 '000 AMD	2007 '000 AMD
Directors and Senior Management	**58,423**	**63,961**

(c) Transactions with other related parties

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

(i) Revenue

'000 AMD	Transaction value 2008	Transaction value 2007	Outstanding balance 2008	Outstanding balance 2007
Sale of goods				
Fellow subsidiaries:				
Base Metals cjsc	89,402	100,497	2,100	99,847
Vallex Mining Ltd	4,590	12,155	5,447	6,891
Other related parties:				
Mining and Metallurgy Institute	12,975	1,420	233	4,375
Lorva Geo jsc	107	340	-	-
Manes ojsc	-	-	152	3,500
Services provided				
Fellow subsidiaries:				
Base Metals cjsc	8,682	5,069	113	-
Vallex Mining Ltd	13,519	33,011	22,042	45,984
Vallex IT Ltd	-	456	137	684
Base Metals Yerevan office	-	533	640	2,727
Other related parties:				
Mining and Metallurgy Institute	1,067	3,297	132	213,108
Manes ojsc	-	-	-	152
Lorva Geo jsc	254		-	-
Gugarqi GEO ojsc	-	-	-	672
Valex Group cjsc	-	19,120	-	1,500
Interest income				
Fellow subsidiaries:				
Base Metals cjsc	24,476	-	-	-
Other related parties:				
Gugarqi GEO ojsc	449	-	-	-
Other income				
Fellow subsidiaries:				
Base Metals cjsc	1,731	-	-	-
	157,252	**175,898**	**30,996**	**379,440**

(ii) Expenses

'000 AMD	Transaction value 2008	Transaction value 2007	Outstanding balance 2008	Outstanding balance 2007
Purchase of goods				
Fellow subsidiaries:				
Base Metals cjsc	8,800,693	10,395,691	(525,759)	711,467
Lorva Geo jsc	2,103	7,931	-	-
Vallex Mining Ltd	139,485	12,000	34,116	9,883
Vallex F.M. Est Ltd	-	-	-	35,595
Vallex IT Ltd	17,761	2,824	6,531	3,283
Base Metals Yerevan office	-	797,443	-	-
Vallex Group cjsc	-	132	-	-
Gugarqi GEO ojsc	9,750	-	-	-
Other related parties:				
Mining and Metallurgy Institute	488,668	-	31,004	-
Services received				
Fellow subsidiaries:				
Base Metals cjsc	64,742	2,500	22,360	7,032
Lorva Geo jsc	14,772	10,601	1,998	320
Vallex Mining Ltd	2,910	1,888	3,384	192
Vallex IT Ltd	5,165	1,022	4,074	-
Base Metals Yerevan office	2,450	-	3,145	1,148
Metal Trans	-	1,659	-	3,024
Vallex Group cjsc	36,005	16,850	8,720	-
Gugarqi GEO ojsc	11,721	12,080	921	-
Other related parties:				
Mining and Metallurgy Institute	281,390	609,428	(20,279)	-
Interest expense				
Fellow subsidiaries:				
Base Metals	14,762	21,161	-	-
	9,892,377	**11,893,210**	**(429,785)**	**771,944**

(iii) Loans

'000 AMD	Amount loaned 2008	Amount loaned 2007	Outstanding balance 2008	Outstanding balance 2007
Loans received				
Fellow subsidiary:				
Base Metals cjsc	2,248,343	374,791	777,981	396,739
	2,248,343	**374,791**	**777,981**	**396,739**
Loans given				
Fellow subsidiary:				
Base Metals cjsc	1,298,000	-	26,321	-
Gugarqi Geo	23,000	-	23,449	-
	1,321,000	**-**	**49,770**	**-**

The loan from the fellow subsidiary bears interest at 5% and is repayable on demand.

(iv) Other payables from shareholders

'000 AMD	**Amount 2008**	**Amount 2007**
Other payables from shareholders	-	8,601

(d) Pricing policies

Related party transactions are based on market prices.

35 Significant subsidiaries

	Country of incorporation	**2008 Ownership/voting**	**2007 Ownership/voting**
Teghout cjsc	Republic of Armenia	100%	100%

36 Subsequent events

(a) Devaluation of the Armenian dram

A significant devaluation of the Armenian Dram took place on 3 March 2009 from AMD 305.75 for USD 1 to AMD 372.11 for USD 1 which caused significant foreign exchange losses to the Group since the Group held a net USD liability position at that date. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in note 31 shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date.