Armenian Copper Programme cjsc

Consolidated Financial Statements for the year ended 31 December 2010

Contents

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Independent Auditors' Report

To 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 statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 policies 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to note 2(d) to the consolidated financial statements, which describes that the Group's current liabilities exceeded its current assets by AMD 8,320,665 thousand as at 31 December 2010 and it needs financing for the development and future operation of the Teghout mine. These conditions, along with the 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.

During the year the Group changed its accounting policy for property, plant and equipment. The reason for and the effects of this change are described in note 2(g) to the consolidated financial statements. We have audited the adjustments described in note 2(g) that were applied to restate the 2009 consolidated financial statements and the statement of financial position as at 1 January 2009. In our opinion, such adjustments are appropriate and have been properly applied.

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Andrew Coxshall
Director KPMG Armenia

KPMG Armenia cjsc
24 July 2011

Tigran Gasparyan
Head of audit department

’000 AMD	Note	2010	2009	1 January 2009
			Restated	Restated
ASSETS				
Non-current assets				
Property, plant and equipment	11	13,520,355	7,032,091	4,553,681
Intangible assets		81,950	66,359	62,059
Investments property		167,757	161,410	428,650
Mining property	12	3,053,288	2,722,449	2,717,785
Borrowings given to related parties		51,028	48,522	23,449
Prepayments for non-current assets	13	5,587,926	3,151,556	2,883,785
VAT recoverable	16	1,301,744	657,888	472,012
Deferred tax assets	14	130,496	-	-
Other non-current assets		9,378	9,378	9,378
Total non-current assets		**23,903,922**	**13,849,653**	**11,150,799**
Current assets				
Inventories	15	4,382,851	4,745,756	3,036,601
Trade and other receivables	16	4,509,318	5,119,526	4,607,337
Current tax assets		-	-	172,654
Prepaid finance cost	17	151,030	151,030	151,030
Borrowings given to related parties		-	11,430	26,320
Cash and cash equivalents	18	708,659	1,121,870	19,320
Total current assets		**9,751,858**	**11,149,612**	**8,013,262**
Total assets		**33,655,780**	**24,999,265**	**19,164,061**
EQUITY AND LIABILITIES				
Equity	19			
Share capital		3,069,716	3,069,716	3,069,716
Retained earnings		9,941,678	6,088,083	4,823,720
Total equity		**13,011,394**	**9,157,799**	**7,893,436**
Non-current liabilities				
Loans and borrowings	20	2,498,650	5,432,169	6,709,719
Government grant		73,213	74,738	76,263
Other taxes payable		-	-	64,100
Total non-current liabilities		**2,571,863**	**5,506,907**	**6,850,082**
Current liabilities				
Loans and borrowings	20	14,327,200	7,235,665	3,578,456
Trade and other payables	21	3,412,838	2,424,058	789,240
Current tax liabilities		298,747	626,550	439
Provisions	22	33,738	48,286	52,408
Total current liabilities		**18,072,523**	**10,334,559**	**4,420,543**
Total liabilities		**20,644,386**	**15,841,466**	**11,270,625**
Total equity and liabilities		**33,655,780**	**24,999,265**	**19,164,061**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

’000 AMD	Note	2010	2009
Revenue	5	37,102,786	25,482,898
Cost of sales	6	(31,791,641)	(20,477,868)
Gross profit		**5,311,145**	**5,005,030**
Other income		176,464	234,752
Distribution expenses		(250,791)	(210,207)
Administrative expenses	7	(1,257,543)	(788,710)
Net impairment reversals/(losses)	8	450,267	(161,083)
Other expenses		(197,288)	(191,868)
Results from operating activities		**4,232,254**	**3,887,914**
Finance income	9	559,933	7,109
Finance costs	9	(136,517)	(1,782,233)
Net finance income/(costs)		**423,416**	**(1,775,124)**
Profit before income tax		**4,655,670**	**2,112,790**
Income tax expense	10	(802,075)	(848,427)
Profit and total comprehensive income for the year		**3,853,595**	**1,264,363**

These consolidated financial statements were approved by the Board of Directors on 24 July 2011 and were signed on its behalf by:

Gagik Arzumanyan
Executive Director

Tigran Khachatryan
Financial Director

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 46.

'000 AMD	**Share capital**	**Property, plant and equipment revaluation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2009, as previously reported	**3,069,716**	**883,643**	**4,623,979**	**8,577,338**
Impact of change in accounting policy (see note 2(g))	-	(883,643)	199,741	(683,902)
Balance at 1 January 2009 (restated)	**3,069,716**	**-**	**4,823,720**	**7,893,436**
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	1,264,363	1,264,363
Balance at 31 December 2009 (restated)	**3,069,716**	**-**	**6,088,083**	**9,157,799**
Total comprehensive income for the year				
Profit and total comprehensive income for the year	-	-	3,853,595	3,853,595
Balance at 31 December 2010	**3,069,716**	**-**	**9,941,678**	**13,011,394**

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 46.

’000 AMD	**Note**	**2010**	**2009**
Cash flows from operating activities			
Cash received from customers, inclusive of VAT		39,078,690	23,332,242
Cash received from state budget (VAT)		6,319,537	3,634,000
Cash paid to suppliers, inclusive of VAT		(38,195,811)	(22,126,322)
Cash paid to employees		(870,015)	(689,446)
Income tax paid		(1,260,374)	(49,662)
Interest paid		(942,930)	(644,889)
Payment of taxes other than on income		(381,775)	(348,253)
Net cash from operating activities		**3,747,322**	**3,107,670**
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,272,815)	(2,490,084)
Investment in mining property		(330,839)	(4,664)
Purchase of intangible assets		(17,074)	(4,300)
Proceeds from sale of property, plant and equipment		24,849	7,035
Borrowings given		(4,500)	(25,981)
Repayment of borrowings given		10,681	15,798
Interest received		13,928	7,109
Net cash used in investing activities		**(8,575,770)**	**(2,495,087)**
Cash flows from financing activities			
Proceeds from borrowings		25,498,950	5,538,445
Repayment of borrowings		(21,058,162)	(5,173,244)
Net cash from financing activities		**4,440,788**	**365,201**
Net (decrease)/increase in cash and cash equivalents		**(387,660)**	**977,784**
Cash and cash equivalents at 1 January		1,121,870	19,320
Effect of exchange rate fluctuations on cash and cash equivalents		(25,551)	124,766
Cash and cash equivalents at 31 December	18	**708,659**	**1,121,870**

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 46.

1 Background

(a) Business environment

Armenian business environment

The Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia. 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.

(b) 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 Alaverdi 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 2010 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 27.

In 2011 Mr Valery Medzhlumyan bought 80.7% shares of the Company from VALLEX F.M Establishment and became 100% shareholder of the Company.

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.

(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

As described in note 1(b), the Group is in the process of developing the Teghout mine. To bring the mine to an operational stage and commence copper and molybdenum concentrate production and to fulfill commitments to the Government of the Republic of Armenia the Group will need substantial financing. Management assesses that the initial mine development, plant and other required facilities construction will take two years from the reporting date and concentrate production will commence in the third year. Thus, the future operations of the Group and the recoverability of the Group's assets would be significantly affected by the timing of receiving financing for the initial investment stage of the mine exploitation.

In June 2008 the Group signed a loan agreement with VTB Bank ojsc (Russian Federation) for a total credit line of USD 249,500 thousand (1 USD = AMD 363.44 as at 31 December 2010) for the Teghout investment project. Subsequent significant liquidity stress and the decline of metal prices in the world markets in the second half of 2008 resulted in the suspension of the financing. Beginning from March 2009 world metal prices began to recover. In 2009 the Group started negotiations of new principal terms of a new loan agreement with VTB Bank ojsc for a total credit line of USD 283,300 thousand which is going to replace the first agreement. The negotiations continued during 2010 and VTB Bank ojsc Credit Committee agreed to the latest terms of financing in April 2011 and at the date of signing of these consolidated financial statements the parties are working on loan sublimit agreements and other legal documentation.

In addition, the Group's current liabilities exceed current assets by AMD 8,320,665 thousand and the Group has significant loans and borrowings, as disclosed in note 20.

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 consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern as management expects that the loan agreement discussed in the preceding paragraph will be signed by the end of 2011 and secure sufficient financing to continue development of the Teghout mine from VTB Bank ojsc. Moreover, the ultimate controlling shareholder has expressed his intention to provide necessary financial support and liquidity to the Group for it to maintain operations, as and when required.

(e) Use of estimates and judgments

Preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 2(d) – going concern;
- Note 2(f) – ore reserves;
- Note 11 – impairment of property, plant and equipment and mining property;
- Note 13 – recoverability of prepayments for non-current assets;
- Note 22 – provisions.

(f) Ore reserves

The total ore reserve estimates of the Teghout deposit was 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 tonnes 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 tonnes of ore with an average content of copper of 0.33% and molybdenum of 0.011% to be extracted by 2029. For the rest of the reserves further evaluation and exploitation plans must 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 mineralization 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 license 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 license will be prolonged beyond 2026. This assumption is based on the provisions of the Armenian legislation 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 the above estimates in evaluating property, plant and equipment, mining property and intangible assets impairments and useful lives.

(g) Changes in accounting policies

With effect from 1 January 2010, the Group changed its accounting policy of accounting for property, plant and equipment.

From 1 January 2010 the Group applies cost model for the accounting of the property, plant and equipment under IAS 16 *Property, Plant and Equipment* considering the fact that due to the specialised nature of the Group's property, plant and equipment valuation techniques involve significant estimations and may generate a wide range of fair value estimates. Previously the Group accounted for the property, plant and equipment at revaluation model.

The deemed cost of property, plant and equipment existing at 1 January 2002 was determined by reference to its fair value at that date as part of the Company's preparation of its first IFRS financial statements. All subsequent additions are stated at cost.

Comparative information has been restated so that it is in conformity with the changed accounting policy. This has resulted in the following changes in the comparative information reported previously:

	AMD'000
Consolidated statement of financial position as at 1 January 2009	
Property, plant and equipment as previously reported	5,237,583
Restatement	(683,902)
Restated property, plant and equipment as at 1 January 2009	4,553,681
Retained earnings as previously reported	4,623,979
Restatement	199,741
Restated retained earnings as at 1 January 2009	4,823,720
Property, plant and equipment revaluation reserve as previously reported	883,643
Restatement	(883,643)
Restated property, plant and equipment revaluation reserve as at 1 January 2009	-
Consolidated statement of financial position as at 31 December 2009	
Property, plant and equipment as previously reported	7,715,993
Restatement	(683,902)
Restated property, plant and equipment as at 31 December 2009	7,032,091
Retained earnings as previously reported	5,934,905
Restatement	153,178
Restated retained earnings as at 31 December 2009	6,088,083
Property, plant and equipment revaluation reserve as previously reported	837,080
Restatement	(837,080)
Restated property, plant and equipment revaluation reserve as at 31 December 2009	-

The changed accounting policy did not result in material impact on the comparative year profit or loss or total comprehensive income.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(g), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(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.

(iii) Foreign currency transactions

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 retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 16, borrowings given to related parties and cash and cash equivalents as presented in note 18.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

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. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iv) Share capital

Ordinary shares

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

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost 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 other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 20-50 years
- plant and equipment 2-20 years
- motor vehicles 5-10 years
- fixtures and fittings 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(d) Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual items of investment property. The estimated useful life is 50 years.

(e) 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.

(i) 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 profit or loss as incurred.

(ii) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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 since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- accounting software 10 years
- licences licence term
- other intangible assets 5-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) 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 statement of financial position.

(g) Mining property

Mining property is stated at cost less accumulated depreciation and impairment losses. The cost includes reclassified exploration and evaluation assets, site restoration and directly attributable expenditure for mine stripping and preparation for extraction.

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.

(h) Inventories and cost of sales

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 from two to four 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 statement of financial position 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.

(i) Impairment

(i) Non-derivative 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 impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually 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 CGU.

Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU (group of CGUs) 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.

(j) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

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

(k) 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. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration and planting trees is recognised in respect of developing an open pit mine, waste ore accumulation, infrastructure, tailing pool and plant construction in the mine area. A corresponding asset is recognized in property, plant and equipment or mining property.

The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, timing of the restoration or in the discount rate applied are added to or deducted from the cost of the respective asset.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, 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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfer of risks and rewards related to the sales of blister copper occurs on completion of loading, weighing and sealing containers at seller's works in Alaverdi.

The Group's blister 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 statement of financial position 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 profit or loss 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 at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(m) Other expenses

(i) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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.

In accordance with the tax legislation of the Republic of Armenia, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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 realized.

(p) 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 2010, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group`s operations. The Group plan to adopt these pronouncements when they become effective.

- Revised IAS 24 *Related Party Disclosures* (2010) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the amendment.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- 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 purposes, will come into effect not earlier than 1 January 2011. 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 for 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) Trade and other receivables and borrowing given

The fair value of trade and other receivables and borrowings given is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Derivatives

The fair value of embedded derivatives related to copper concentrate purchase and blister copper sales separated from the host contract are estimated at the amount based on forward prices as at the reporting date quoted in the metal markets.

(c) Non-derivative financial liabilities

Fair value, 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.

5 Revenue

’000 AMD	2010	2009
Revenue from blister copper	36,962,764	25,384,728
Revenue from sale of other products	80,175	93,151
Revenue from services provided	59,847	5,019
	37,102,786	**25,482,898**

In 2010 and 2009 approximately 25% to 50% of the revenue from each lot of shipped blister copper by the Group is attributable to gold contained in the blister copper.

At 31 December 2010 the Group had outstanding provisionally priced sales of 1,619 dry metric tones of blister copper (2009: 1,366 dry metric tones of blister copper), which had an embedded derivative with a fair value of AMD 571,212 thousand (2009: AMD 390,437 thousand). The resulting embedded derivative is recognised in the revenue.

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

6 Cost of sales

’000 AMD	2010	2009
Purchase of copper concentrate	29,161,560	18,555,089
Cost of gas	1,050,833	954,550
Materials and spare parts	899,033	563,550
Labour and wages	597,354	343,984
Depreciation and amortisation	82,861	60,695
	31,791,641	**20,477,868**

At 31 December 2010 the Group had outstanding provisionally priced purchases of 6,348 dry metric tones of copper concentrate (2009: 8,736 dry metric tones of copper concentrate), which had an embedded derivative with a fair value of AMD 461,599 thousand (2009: AMD 341,498 thousand). The resulting embedded derivative is recognised in the cost of sales.

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

7 Administrative expenses

’000 AMD	**2010**	**2009**
Wages and salaries	322,024	237,928
Environmental fees	319,779	161,191
Taxes other than income tax	117,862	56,995
Maintenance	59,238	31,628
Audit and consulting fees	59,036	11,156
Bank charges	57,260	18,217
Depreciation	42,774	43,236
Utilities and communication expenses	42,360	39,763
Representation expenses and business trips	33,269	25,684
Other administrative expenses	203,941	162,912
	1,257,543	**788,710**

8 Net impairment reversals/(losses)

’000 AMD	**2010**	**2009**
Reversal of impairment on VAT recoverable (see note 16)	187,990	174,904
Property, plant and equipment impairment reversal (see note 11)	262,277	-
Impairment of property, plant and equipment (see note 11)	-	(335,987)
	450,267	**(161,083)**

9 Finance income and finance costs

’000 AMD	**2010**	**2009**
Recognised in profit or loss		
Interest income	13,955	7,109
Net foreign exchange gain	545,978	-
Finance income	559,933	7,109
Net foreign exchange loss	-	(1,691,964)
Interest expense on loans and borrowings	(136,517)	(90,269)
Finance costs	(136,517)	(1,782,233)
Net finance income/(costs) recognised in profit or loss	**423,416**	**(1,775,124)**

10 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Armenian companies.

'000 AMD	**2010**	**2009**
Current tax expense		
Current year	932,571	848,427
	932,571	848,427
Deferred tax expense		
Origination and reversal of temporary differences	38,622	(99,311)
Change in unrecognised deductible temporary differences	(169,118)	99,311
	(130,496)	-
	802,075	**848,427**

Reconciliation of effective tax rate:

	2010		**2009**	
	'000 AMD	**%**	**'000 AMD**	**%**
Profit excluding income tax	4,655,670	100	2,112,790	100
Income tax at applicable tax rate	931,134	20	422,558	20
Net non-deductible expenses	40,059	1	326,558	15
Change in unrecognised temporary differences	(169,118)	(4)	99,311	5
	802,075	**17**	**848,427**	**40**

11 Property, plant and equipment (restated)

’000 AMD	**Land and buildings**	**Plant and equipment**	**Motor vehicles**	**Fixtures and fittings**	**Construction in progress**	**Total**
Cost or deemed cost						
Balance at 1 January 2009	6,835,305	7,554,109	456,863	429,857	2,184,884	17,461,018
Additions	137,434	672,809	14,023	62,465	1,908,107	2,794,838
Transfer from investment property	291,812	-	-	-	-	291,812
Disposals	-	(16,042)	-	(3,285)	-	(19,327)
Transfers	4,148	-	-	-	(4,148)	-
Balance at 31 December 2009	7,268,699	8,210,876	470,886	489,037	4,088,843	20,528,341
Additions	922,565	987,669	59,715	244,005	4,501,441	6,715,395
Disposals	(21,768)	(53,640)	(3,400)	(2,836)	(5,233)	(86,877)
Transfers	-	-	-	3,695	(3,695)	-
Balance at 31 December 2010	8,169,496	9,144,905	527,201	733,901	8,581,356	27,156,859
Depreciation and impairment losses						
Balance at 1 January 2009	6,361,108	5,723,301	245,595	402,877	174,456	12,907,337
Depreciation for the year	15,666	170,697	28,217	24,843	-	239,423
Disposals	-	(1,106)	-	(1,206)	-	(2,312)
Transfer from investment property	15,815	-	-	-	-	15,815
Impairment loss	-	335,987	-	-	-	335,987
Balance at 31 December 2009	6,392,589	6,228,879	273,812	426,514	174,456	13,496,250
Depreciation for the year	17,976	299,627	32,643	56,132	-	406,378
Disposals	(11)	(2,451)	(453)	(932)	-	(3,847)
Reversal of impairment loss	(104,951)	(110,143)	(8,108)	(6,302)	(32,773)	(262,277)
Balance at 31 December 2010	6,305,603	6,415,912	297,894	475,412	141,683	13,636,504
Carrying amounts						
At 1 January 2009	474,197	1,830,808	211,268	26,980	2,010,428	4,553,681
At 31 December 2009	876,110	1,981,997	197,074	62,523	3,914,387	7,032,091
At 31 December 2010	**1,863,893**	**2,728,993**	**229,307**	**258,489**	**8,439,673**	**13,520,355**

(a) Depreciation

Depreciation expense of AMD 82,861 thousand (2009: AMD 60,695 thousand) has been charged to cost of goods sold, AMD 280,743 thousand (2009: AMD 135,492 thousand) to capital expenditure on property, plant and equipment and mining property and AMD 42,774 thousand (2009: AMD 43,236 thousand) to administrative expenses.

(b) Borrowing costs

Borrowing costs incurred by the Group of AMD 772,706 thousand are included in additions to property, plant and equipment in 2010 (2009: AMD 589,684 thousand). The average capitalization rate applied during 2010 to determine the amount of borrowing costs to be capitalized was 6.1% (2009: 6.2%).

(c) Impairment loss and subsequent reversal

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 and mining property. The Group consists of two cash generating units: Alaverdi melting plant and the Teghout mine.

Alaverdi melting plant

For the purposes of impairment testing as at 31 December 2008 for Alaverdi melting plant, the recoverable amount of the property, plant and equipment relating to Alaverdi melting plant was determined as at 31 December 2008 based on its value in use. The resulting value in use was significantly lower than its carrying amount and 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.

In 2009 the Group purchased specialised equipment for Alaverdi melting plant from an entity under common control at a cost of AMD 469,387 thousand. As at 31 December 2009 the fair value less costs to sell of the equipment determined based on the underlying metals scrap value was AMD 133,400 thousand and management recognised impairment on this equipment of AMD 335,987 thousand.

In 2010 the Group started construction of a new gas flue which is intended to replace the old one and decrease the density of pollution in the area and significantly decrease the environmental fees paid by the Group. Also, following the continued increase in copper and gold prices the Group reassessed its estimates for the impairment and the estimated value in use of Alaverdi melting plant as at 31 December 2010 amounted to AMD 1,980,029 thousand. As a result AMD 262,277 thousand of the previously recognized impairment has been reversed.

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

- Cash flows were projected based on past experience, actual operating results and the Group's five-year business plan.
- Total production and sales of blister copper was projected at about 8,992 dry metric tones in the first year of the business plan. Management plans to achieve production volume of 9,951 dry metric tones by the fifth year of the business plan.

- Treatment and refining charges for copper concentrate purchases and blister copper sales are based on the existing contracts for 2011.
- Copper prices are projected to remain relatively stable in real terms by the fifth year of the business plan. Gold prices are projected to decrease around 10% in real terms each year by the fifth year of the business plan.
- Gas prices are expected to increase 30% by the fifth year of the business plan. Environmental fees are expected to decrease to the minimum level established by the Government of the Republic of Armenia after exploitation of the new gas flue in the second half of 2011. Other costs are projected to remain relatively stable in real terms.
- Cash flows for a further twenty years were extrapolated assuming no further growth in production and revenue.
- A discount rate of 16.67% was applied in determining the recoverable amount. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 15% at a market interest rate of 13.64%.

Management has identified two key assumptions for which there could be a reasonably possible change that could cause the value in use to change significantly. The above estimates are particularly sensitive in the following areas:

- An increase of one percentage point in the discount rate used would have caused the value in use to decrease by AMD 412,617 thousand.
- A 10% decrease in the treatment charge relating to concentrate purchases would have caused the value in use to decrease by AMD 1,696,555 thousand.

Teghout mine

Substantial part of the Group’s non-current assets relates to Teghout mine. For Teghout mine impairment testing as at 31 December 2008 the Group estimated the recoverable amount of the property, plant and equipment and mining property (see note 12) relating to Teghout mine based on its value in use and the performed impairment test did not result in an impairment loss. The management has assessed that there are no impairment indications as at 31 December 2010 as a result of increase in copper and molybdenum prices subsequent to 2008.

12 Mining property

’000 AMD	**Alaverdi deposit**	**Teghout deposit**	**Total**
Cost			
At 1 January 2009	1,469,861	2,717,785	4,187,646
Additions	-	4,664	4,664
At 31 December 2009	1,469,861	2,722,449	4,192,310
Additions	-	330,839	330,839
At 31 December 2010	1,469,861	3,053,288	4,523,149
Accumulated amortisation and impairment losses			
At 1 January 2009	1,469,861	-	1,469,861
Amortisation charge for the period	-	-	-
At 31 December 2009	1,469,861	-	1,469,861
Amortisation charge for the period	-	-	-
At 31 December 2010	1,469,861	-	1,469,861
Carrying amounts			
At 1 January 2009	-	2,717,785	2,717,785
At 31 December 2009	-	2,722,449	2,722,449
At 31 December 2010	**-**	**3,053,288**	**3,053,288**

At 31 December 2008 following the decline in the copper prices the Group recognized 100% impairment on mining property relating to Alaverdi deposit. Despite the subsequent increase in copper prices the management does not plan to commence the Alaverdi mine exploitation in the foreseeable future due to uncertainties of ore reserves and the unfavorable commercial feasibility of the mine.

13 Prepayments for non-current assets

’000 AMD	**2010**	**2009**
Prepayment for the purchase of a grinding mill	5,505,707	2,965,219
Other prepayments	82,219	186,337
	5,587,926	**3,151,556**

Prepayment for the purchase of a grinding mill (see note 24(a)) is for Teghout mine the final delivery of which is in 2011 per contract. 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 prepayments as per the contract terms, which depends on obtaining financing. As at 31 December 2010 no impairment is recognized for the prepayment as management expects to obtain financing from VTB Bank ojsc and continue performance of the purchase contract.

14 Deferred tax assets and liabilities

(a) Unrecognised deferred tax assets

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

'000 AMD	**2010**	**2009**
Deductible temporary differences	177,248	355,833
Tax losses	14,524	5,057
	191,772	360,890

The tax losses expire in 2014-2015. The deductible temporary differences do not expire under current tax legislation.

Deferred tax assets have not been recognised in respect of these items related to Teghout cjsc because of uncertainties related to the availability of future taxable profits against which the Group can utilise the benefits there from.

In 2010 management recognised the net deferred tax assets related to the Company which were not being recognised previously as management considered it probable that future taxable profits would be available against which they can be utilised. Management revised its estimates following the commencement of a new gas flue construction and the continued increase in copper and gold prices (see note 11).

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 AMD	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment and investment property	60,210	-	-	-	60,210	-
Mining property	4,256	-	-	-	4,256	-
Other non-current assets	7,836	-	-	-	7,836	-
Inventories	62,104	-	-	-	62,104	-
Trade and other receivables	-	-	(132,483)	-	(132,483)	-
Trade and other payables	128,573	-	-	-	128,573	-
Tax assets/(liabilities)	262,979	-	(132,483)	-	130,496	-
Set off of tax	(132,483)	-	132,483	-	-	-
Net tax assets	130,496	-	-	-	130,496	-

(c) Movement in temporary differences during the year

’000 AMD	**1 January 2010**	**Recognised in profit or loss**	**31 December 2010**
Property, plant and equipment and investment property	-	60,210	60,210
Mining property	-	4,256	4,256
Other non-current asset	-	7,836	7,836
Inventories	-	62,104	62,104
Trade and other receivables	-	(132,483)	(132,483)
Trade and other payables	-	128,573	128,573
	-	130,496	130,496

15 Inventories

’000 AMD	**2010**	**2009**
Raw materials and spare parts	2,957,261	3,382,424
Finished goods	1,039,364	1,165,138
Work-in-progress	154,035	1,717
Other inventory	232,191	196,477
	4,382,851	**4,745,756**

16 Trade and other receivables

’000 AMD	**2010**	**2009**
Non current		
VAT recoverable	1,301,744	657,888
	1,301,744	**657,888**
Current		
Trade receivables	1,865,856	3,253,915
VAT Recoverable	1,583,385	1,917,963
Advances for provisionally priced purchases	944,619	-
Prepayments	100,986	102,574
Other receivables	14,472	33,064
	4,509,318	5,307,516
Impairment allowance against VAT recoverable	-	(187,990)
	4,509,318	**5,119,526**

Analysis of movements in the impairment allowance for VAT recoverable

’000 AMD	**2010**	**2009**
At the beginning of the year	187,990	187,990
Recovery of written off allowance	-	174,904
Decrease in allowance	(187,990)	(174,904)
	-	**187,990**

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

17 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 recognized as prepaid finance cost.

18 Cash and cash equivalents

’000 AMD	**2010**	**2009**
Cash in hand	1,528	2,408
Current accounts and call deposits	707,131	1,119,462
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**708,659**	**1,121,870**

Current accounts and call deposits with a carrying amount of AMD 588,748 thousand serve as collateral for a bank loan (2009: nil). However, withdrawal of the funds is not restricted from these current accounts and call deposits.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

19 Equity

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2010**	**2009**
Authorised shares	5,000,000	5,000,000
Par value	AMD 1,000	AMD 1,000
On issue at 1 January	3,069,716	3,069,716
On issue at 31 December, fully paid	**3,069,716**	**3,069,716**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(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 of AMD 10,527,570 thousand (2009: AMD 6,381,417 thousand), except for restrictions on retained earnings as described in note 19(c).

No dividends were declared and paid during 2010 and 2009. No dividends were proposed after 31 December 2010.

(c) Restriction 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 2010 the Company had allocated AMD 460,457 thousand (2009: AMD 460,457 thousand) from its retained earnings as reserved retained earnings to comply with this requirement.

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 23.

'000 AMD	**2010**	**2009**
Non-current liabilities		
Secured bank loans	2,498,650	5,432,169
	2,498,650	**5,432,169**
Current liabilities		
Current portion of secured bank loans	4,458,245	2,834,175
Unsecured loans from related parties	9,868,955	4,401,490
	14,327,200	**7,235,665**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2010		31 December 2009	
’000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan 1	USD	LIBOR+4%	2010	-	-	2,597,994	2,597,994
Secured bank loan 2	USD	LIBOR+7%	2012	5,226,557	5,226,557	5,668,350	5,668,350
Secured bank loan 3	USD	8%	2011	1,730,338	1,730,338	-	-
Unsecured loan from related parties	AMD	5%	On demand	9,868,955	9,868,955	4,401,490	4,401,490
				16,825,850	**16,825,850**	**12,667,834**	**12,667,834**

The secured bank loan 2 (from VTB Bank (France) SA) was provided as a bridge loan to start the financing of the infrastructure works and the acquisition of equipment for Teghout mine, before Teghout cjsc will receive a loan facility from VTB Bank ojsc (see note 2(d)). If during the loan repayment period a first utilisation of the loan facility from VTB Bank ojsc 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 following securities are granted to VTB Bank (France) SA for the secured bank loan 1 and 2:

- guarantee provided by Vallex FM Establishment;
- surety provided by Teghout cjsc;
- pledge of the amount on the Company’s bank account, where the sales proceeds generated from sales of blister copper are transferred; and
- all rights and benefits held by the Company in accordance with the sales contract signed with the main customer, Aurubis AG.

21 Trade and other payables

’000 AMD	**2010**	**2009**
Trade payables	2,664,272	2,194,981
Advances received	341,092	26,442
Other taxes payable	256,222	114,960
Other payables	151,252	87,675
	3,412,838	**2,424,058**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

22 Provisions

’000 AMD	**Forest restoration**
Balance at 1 January	48,286
Provisions made during the year	28,614
Provisions used during the year	(43,162)
Balance at 31 December	**33,738**
Non-current	-
Current	33,378
	33,378

In 2008 the Group reached an agreement with the Government of the Republic of Armenia and a plan agreed with a time schedule for planting trees in other areas to replace those to be cut during Teghout mine development and plant construction. In estimating the Group’s liability at the reporting date the Group has considered the actual area cut, the ratio of the cut area to the area to be planted agreed with the Government of the Republic of Armenia, the timing of the activities agreed and the approximate cost to the Group. In estimating the cost of a unit of area to plant the Group has considered actual agreement prices concluded with contractors for planting trees.

23 Financial instruments and 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.

Risk management framework

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. The Group’s risk management policy is established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(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 – blister copper, which is one of the largest metallurgical companies in the European market. 94% of trade receivables as at 31 December 2010 are due from this customer (2009: 95%). During the recent five years all of the annual production of blister copper is sold to this customer and no losses have occurred during this period. In relations with this trade partner the Group receives the payment for the production within 4-5 days after the dispatch. 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 the main production.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Borrowings given

The Group's policy is to provide borrowings only to related parties.

(iii) 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:

		Carrying amount	
'000 AMD	**Note**	**2010**	**2009**
Borrowings given		51,028	59,952
Trade receivables	16	1,865,856	3,253,915
Advances for provisionally priced purchases	16	944,619	-
Other receivables	16	14,472	33,064
Current accounts and call deposits	18	707,131	1,119,462
		3,583,106	**4,466,393**

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

	Carrying amount	
’000 AMD	**2010**	**2009**
Euro-zone countries	1,763,413	3,105,518
Domestic	102,443	148,397
	1,865,856	**3,253,915**

All the financial assets of the Group are not impaired or past due. Cash and cash equivalents are held with the top 5 Armenian banks.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of the Group’s financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, 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 related party 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. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

2010

’000 AMD	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**
Loans and borrowings:						
Secured bank loan 2	5,226,557	5,572,168	1,523,702	1,474,225	2,574,241	-
Secured bank loan 3	1,730,338	1,834,159	69,214	1,764,945	-	-
Related parties	9,868,955	9,868,955	9,868,955	-	-	-
Trade and other payables	2,815,524	2,815,524	2,815,524	-	-	-
	19,641,374	**20,090,806**	**14,277,395**	**3,239,170**	**2,574,241**	**-**

2009

’000 AMD	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**
Loans and borrowings:						
Secured bank loan 1	2,597,994	2,652,953	1,459,556	1,193,397	-	-
Secured bank loan 2	5,668,350	6,471,021	204,937	441,119	3,133,042	2,691,923
Related parties	4,401,490	4,401,490	4,401,490	-	-	-
Trade and other payables	2,282,656	2,282,656	2,282,656	-	-	-
	14,950,490	**15,808,120**	**8,348,639**	**1,634,516**	**3,133,042**	**2,691,923**

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity 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.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Group entities, the AMD. The currency in which these transactions primarily are denominated is the U.S. Dollars (USD).

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 the main raw material, copper concentrate, the purchase costs of which exceed 90% 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).

Exposure to currency risk

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

’000 AMD	**USD-denominated 2010**	**USD-denominated 2009**
Trade and other receivables	2,708,032	3,157,871
Cash and cash equivalent	4,322	707,197
Trade and other payables	(2,524,323)	(1,951,272)
Loans and borrowings	(6,956,895)	(8,266,344)
Net exposure	**(6,768,864)**	**(6,352,548)**

The following significant exchange rates applied during the year:

in AMD	**Average rate**		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD 1	373.68	363.49	363.44	377.89

Sensitivity analysis

A strengthening of the AMD, as indicated below, against the following currencies at 31 December would have increased (decreased) profit or loss net of taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

’000 AMD	**Profit or loss**
31 December 2010	
USD (10% movement)	676,886
31 December 2009	
USD (10% movement)	635,255

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

Changes in exchange rates at the reporting date would not affect equity directly.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

	Carrying amount	
'000 AMD	**2010**	**2009**
Fixed rate instruments		
Financial assets	51,028	59,952
Financial liabilities	(11,599,293)	(4,401,490)
	(11,548,265)	**(4,341,538)**
Variable rate instruments		
Financial liabilities	(5,226,557)	(8,266,344)
	(5,226,557)	**(8,266,344)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

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) profit or loss net of taxes 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 2009.

	Profit or loss	
'000 AMD	**100 bp increase**	**100 bp decrease**
2010		
Variable rate instruments	(41,812)	41,812
2009		
Variable rate instruments	(66,131)	66,131

(iii) Commodity price risk

The Group's major commodity price exposure is to the prices of copper and gold. Forward prices of these commodities at the reporting date affect the fair value of the embedded derivatives relating to blister copper sales and copper concentrate purchases. The Group does not hedge its commodity price risk.

Prices for the Group's production are determined based on prices ruling in the international market at any fixed date or period. The time interval between the purchase of the main raw material and sales of finished goods may be 2-4 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 copper concentrate. By applying this method the Group partly neutralizes the price risks.

Sensitivity analysis

A change of 20% in forward prices of copper and gold at the reporting date would have changed the fair value of the embedded derivatives relating to blister copper sales and copper concentrate purchases and increased (decreased) profit or loss net of taxes 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 2009.

	Profit or loss	
'000 AMD	**20% increase**	**20% decrease**
2010		
Sales	1,264,374	(1,264,374)
Cost of sales	(785,111)	785,111
2009		
Sales	1,009,183	(1,009,183)
Cost of sales	(989,150)	989,150

(e) Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 AMD	**Trading**	**Loans and receivables**	**Other financial liabilities**	**Total carrying amount**	**Fair value**
31 December 2010					
Cash and cash equivalents	-	708,659	-	708,659	708,659
Loans and receivables	571,212	2,304,763	-	2,875,975	2,875,975
	571,212	**3,013,422**	-	**3,584,634**	**3,584,634**
Loans and borrowings	-	-	16,825,850	16,825,850	16,825,850
Trade and other payables	461,599	-	2,353,925	2,815,524	2,815,524
	461,599	-	**19,179,775**	**19,641,374**	**19,641,374**

’000 AMD	Trading	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2009					
Cash and cash equivalents	-	1,121,870	-	1,121,870	1,121,870
Loans and receivables	390,437	2,956,494	-	3,346,931	3,346,931
	390,437	**4,078,364**	**-**	**4,468,801**	**4,468,801**
Loans and borrowings	-	-	12,667,834	12,667,834	12,667,834
Trade and other payables	341,498	-	1,941,158	2,282,656	2,282,656
	341,498	**-**	**14,608,992**	**14,950,490**	**14,950,490**

Interest rates used for determining fair value

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

	2010	2009
Loans and borrowings	5%-7.3%	4.2%-7.2%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

’000 AMD	Level 1	Level 2	Level 3	Total
31 December 2010				
Derivatives embedded in sales contracts (asset)	-	571,212	-	571,212
Derivatives embedded in purchase contracts (liability)	-	(461,599)	-	(461,599)
31 December 2009				
Derivatives embedded in sales contracts (asset)	-	390,437	-	390,437
Derivatives embedded in purchase contracts (liability)	-	(341,498)	-	(341,498)

(f) Capital management

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group’s operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management and constant monitoring of Group’s revenues and profit. With these measures the Group aims for steady profits growth.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's debt to capital ratio at the end of the reporting period was as follows:

'000 AMD	**2010**	**2009**
Total liabilities	**20,644,386**	**15,841,466**
Less: cash and cash equivalents	(708,659)	(1,121,870)
Net debt	19,935,727	14,719,596
Total equity	**13,011,394**	**9,157,799**
Debt to capital ratio at 31 December	1.5	1.6

24 Commitments

(a) Purchase commitments

The Group signed a contract for the purchase of a grinding mill in 2008. The total price of the contract is USD 44,849 thousand. The prepayment made by the Company as at 31 December 2010 (see note 13) for the contract is USD 16,544 thousand (2009: USD 9,674 thousand). The payment is to be made in full and the mill is to be supplied fully by the end of 2011.

(b) Commitments related to mine exploitation

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

- complete preparation works and perform investments for the amount of USD 320,000,000 for Teghout deposit exploitation by 2014 and start the exploitation of the deposit afterwards;
- plant forests instead of the trees being cut in the mine and future plant area (see note 22).

25 Contingencies

(a) Insurance

The insurance industry in 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.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) 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.

(d) 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.

26 Operational risks

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.

27 Related party transactions

(a) Control relationships

The Group’s parent was Vallex F.M. Establishment, incorporated in Liechtenstein, as of 31 December 2010. In 2011 Mr Valery Medzhlumyan bought 80.7% shares of the Company from VALLEX F.M Establishment and became 100% shareholder of the Company.

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

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

(b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 7):

'000 AMD	**2010**	**2009**
Directors and Senior Management	**45,885**	**26,802**

(c) Transactions with other related parties

(i) Revenue and other income

'000 AMD	**Transaction value 2010**	**Transaction value 2009**	**Outstanding balance 2010**	**Outstanding balance 2009**
Sale of goods:				
Entities under common control	78,999	189,017	(337,128)	(74,756)
Services provided:				
Entities under common control	30,847	3,130	107	137
Interest income:				
Entities under common control	2,321	1,573	-	-

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

(ii) Purchases and expenses

'000 AMD	**Transaction value 2010**	**Transaction value 2009**	**Outstanding balance 2010**	**Outstanding balance 2009**
Purchase of goods:				
Entities under common control	19,706,066	14,046,990	2,516,659	1,640,451
Services received:				
Entities under common control	503,991	274,054	45,146	(18,554)
Interest expense:				
Entities under common control	331,655	52,864	-	-

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

(iii) Loans

'000 AMD	Amount loaned 2010	Amount loaned 2009	Outstanding balance 2010	Outstanding balance 2009
Loans received:				
Entities under common control	5,508,550	5,538,445	9,868,955	4,401,490
Loans given:				
Entities under common control	8,924	23,500	51,028	59,952

The loan from the related party bears interest at 5%, is not secured and is repayable on demand.

The loan agreement with VTB Bank ojsc concluded in June 2008 and the intended new agreement (see note 2(d)) provide that the parent of the Company and the ultimate controlling party of the Group to guarantee the repayment of the loan.

28 Significant subsidiaries

Subsidiary	Country of incorporation	2010 Ownership/voting	2009 Ownership/voting
Teghout cjsc	Republic of Armenia	100%	100%

29 Events subsequent to the reporting date

In February 2011 the Company concluded an amendment to the loan agreement with VTB Bank (Armenia) cjsc to increase the revolving credit line limit for the Secured bank loan 3 to USD 10,000,000 and the maturity of the loan was extended to 2012.

In May 2011 the Company signed a loan agreement with VTB Bank (France) SA for USD 25,000,000 with a maturity in 2016.