

Armenian Copper Programme cjsc

Consolidated Financial Statements
for the year ended 31 December 2011

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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 2011, 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Andrew Coxshall
Director

KPMG Armenia cjsc
29 June 2012




Tigran Gasparyan
Head of Audit Department


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000 AMD	Note	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	12	27,997,862	13,520,355
Intangible assets		113,767	81,950
Investment property		-	167,757
Mining property	13	4,095,319	3,053,288
Borrowings given to related parties		-	51,028
Prepayments for non-current assets	14	11,742,586	5,587,926
VAT recoverable	17	3,298,663	1,301,744
Deferred tax assets	15	387,862	130,496
Other non-current assets		14,632	9,378
Total non-current assets		47,650,691	23,903,922
Current assets			
Inventories	16	3,371,748	4,382,851
Trade and other receivables	17	5,651,012	4,509,318
Prepaid finance cost	18	3,203,151	151,030
Borrowings given to related parties		59,599	-
Cash and cash equivalents	19	758,944	708,659
Total current assets		13,044,454	9,751,858
Total assets		60,695,145	33,655,780
EQUITY AND LIABILITIES			
Equity			
Share capital	20	3,069,716	3,069,716
Retained earnings		12,662,592	9,941,678
Total equity attributable to equity holders of the Company		15,732,308	13,011,394
Non-controlling interests		4,004,309	-
Total equity		19,736,617	13,011,394
Non-current liabilities			
Loans and borrowings	21	9,644,250	2,498,650
Government grant		71,684	73,213
VAT payable		1,595,789	-
Total non-current liabilities		11,311,723	2,571,863
Current liabilities			
Loans and borrowings	21	27,604,242	14,327,200
Trade and other payables	22	1,415,435	3,412,838
Current tax liabilities		537,705	298,747
Provisions	23	89,423	33,738
Total current liabilities		29,646,805	18,072,523
Total liabilities		40,958,528	20,644,386
Total equity and liabilities		60,695,145	33,655,780

Armenian Copper Programme cjsc
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

'000 AMD	Note	2011	2010
Revenue	5	42,667,816	37,102,786
Cost of sales	6	(35,983,096)	(31,791,641)
Gross profit		6,684,720	5,311,145
Other income	7	692,807	176,464
Distribution expenses		(289,496)	(250,791)
Administrative expenses	8	(1,385,688)	(1,257,543)
Net impairment reversals	9	-	450,267
Other expenses		(345,248)	(197,288)
Results from operating activities		5,357,095	4,232,254
Finance income	10	2,840	559,933
Finance costs	10	(841,520)	(136,517)
Net finance (costs)/income		(838,680)	423,416
Profit before income tax		4,518,415	4,655,670
Income tax expense	11	(842,213)	(802,075)
Profit and total comprehensive income for the year		3,676,202	3,853,595
Profit and total comprehensive income attributable to:			
Owners of the Company		3,676,202	3,853,595
Non-controlling interests		-	-
Profit and total comprehensive income for the year		3,676,202	3,853,595

These consolidated financial statements were approved by the Board of Directors on 29 June 2012 and were signed on its behalf by:


 Gagik Arzumanyan
 Executive Director




 Tigran Khachatryan
 Financial Director

'000 AMD	Note	Attributable to equity holders of the Company			Non- controlling interests	Total equity
		Share capital	Retained earnings	Total		
Balance at 1 January 2010		3,069,716	6,088,083	9,157,799	-	9,157,799
Profit and total comprehensive income for the year		-	3,853,595	3,853,595	-	3,853,595
Balance at 31 December 2010		3,069,716	9,941,678	13,011,394	-	13,011,394
Balance at 1 January 2011		3,069,716	9,941,678	13,011,394	-	13,011,394
Total comprehensive income for the year						
Profit and total comprehensive income for the year		-	3,676,202	3,676,202	-	3,676,202
Changes in ownership interests in subsidiaries that do not result in a loss of control						
Shares transferred	18	-	(955,288)	(955,288)	4,004,309	3,049,021
Total transactions with owners		-	(955,288)	(955,288)	4,004,309	3,049,021
Balance at 31 December 2011		3,069,716	12,662,592	15,732,308	4,004,309	19,736,617

Armenian Copper Programme cjsc
Consolidated Statement of Cash Flows for the year ended 31 December 2011

'000 AMD	Note	2011	2010
Cash flows from operating activities			
Cash received from customers, inclusive of VAT		43,584,291	39,078,690
Cash received from state budget (VAT)		7,215,061	6,319,537
Cash paid to suppliers, inclusive of VAT		(46,551,888)	(38,195,811)
Cash paid to employees		(958,493)	(870,015)
Income tax paid		(757,500)	(1,260,374)
Interest paid		(781,265)	(942,930)
Payment of taxes other than on income		(741,369)	(381,775)
Net cash from operating activities		1,008,837	3,747,322
Cash flows from investing activities			
Purchase of property, plant and equipment		(18,148,439)	(8,272,815)
Investment in mining property		(1,042,031)	(330,839)
Purchase of intangible assets		(5,254)	(17,074)
Proceeds from sale of property, plant and equipment		36,480	24,849
Borrowings given		(5,800)	(4,500)
Repayment of borrowings given		-	10,681
Interest received		69	13,928
Net cash used in investing activities		(19,164,975)	(8,575,770)
Cash flows from financing activities			
Proceeds from borrowings		62,877,351	25,498,950
Repayment of borrowings		(44,631,059)	(21,058,162)
Net cash from financing activities		18,246,292	4,440,788
Net increase/(decrease) in cash and cash equivalents		90,154	(387,660)
Cash and cash equivalents at 1 January		708,659	1,121,870
Effect of exchange rate fluctuations on cash and cash equivalents		(39,869)	(25,551)
Cash and cash equivalents at 31 December	19	758,944	708,659

1 Background

(a) Business environment

Armenian business environment

The Group's operations are primarily 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 the 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 subsidiaries (together referred to as the "Group") comprise Armenian closed joint stock companies as defined in the Civil Code of the Republic of Armenia and a company registered in Cyprus. The Company was established in accordance with the legislation of the Republic of Armenia in August 1997.

The only significant subsidiary of the Company is Teghout cjsc (the "Subsidiary"), established in accordance with the legislation of the Republic of Armenia in May 2006. Since establishment the Subsidiary was wholly owned by the Company. In November 2011, as part of financing agreement with VTB Group (see note 21), 100% of the shares of Teghout cjsc were transferred to Teghout Investments Limited, a company registered in the Republic of Cyprus. The Company owns 50.05% shares of Teghout Investments Limited, and the rest of the shares belong to VTB Group, headed by VTB Bank ojsc. The 49.95% shares of Teghout Investments Limited are not participative, but provide protective rights to VTB Group. According to the terms of the agreement with VTB Group 24.9% from these 49.95% shares will be bought back by the Company within 180 days after the full repayment of the loans, for an amount which will be calculated using a pre-determined formula, which is based on loan balance, months till commencement of production by Teghout cjsc and months till achieving full design capacity. As these 24.9% shares provide only protective voting rights and right for receiving a pre-determined amount of payment, no non-controlling interest is recognised for these shares. However, for the remaining 25.05% shares of Teghout Investments Limited, belonging to VTB Group, non-controlling interest is recognized, as VTB Group, by virtue of the financing agreement with the Company, is entitled to pro-rata share of benefits from net assets of Teghout Investments Limited.

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 production and sale of copper and molybdenum concentrates through processing of copper-molybdenum ore from the Teghout mine.

The Group's authorised share capital is AMD 5 billion. As of 31 December 2011 the 100% shareholder of the Company is Mr Valery Mejlumyan. The 80.7% of these shares were bought from VALLEX F.M Establishment (ultimately controlled by Mr Valery Mejlumyan) in 2011.

The Group is ultimately controlled by a single individual, Mr Valery Mejlumyan, 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.

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) 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(e) – ore reserves and prolongation of license
- Note 18 – fair value of shares in subsidiary, transferred as prepaid finance cost
- Note 23 – provisions.

(e) 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 2011 by Strathcona Mineral Services Limited based on international standards of mineral resources assessment and reporting which showed the following million tonnes of ore 103.5 – measured, 31.9 – indicated and 27.5 – inferred. The first stage of the evaluation and exploitation plan assumes extraction of 95.4 million tonnes of ore with an average content of copper of 0.34% and molybdenum of 0.010% to be extracted by 2027. 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 Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralization uneconomic to mine. Further, availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's 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 the impairment and useful lives of its property, plant and equipment, mining property and intangible assets.

(f) Changes in accounting policies

With effect from 1 January 2011, the Group changed its accounting policy of accounting for inventory. The Subsidiary measures the cost of inventories based on first-in first-out (FIFO) principle. As the Group used weighted average cost formula, the cost of inventories of the Subsidiary was previously remeasured for consolidation purposes. Considering the growing importance of the Subsidiary in the operation of the Group and in order to make uniform the accounting treatment of inventories within the Group, from 1 January 2011 the Group applies FIFO method for measuring the cost of inventories.

Comparative information has not been restated, as the change in accounting policy did not result in material impact on comparative information for each period presented in the consolidated financial statements.

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(f), 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 17, borrowings given to related parties and cash and cash equivalents as presented in note 19.

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) 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.

(e) 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.

(f) 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.

(g) 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 first-in first-out 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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 2011, 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 plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. 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 remaining parts of the standard are expected to be issued during 2012. 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.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group does not intend to adopt this standard early. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS

10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group does not intend to adopt this standard early. The standard will not have any impact on financial position or performance of the Group.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group does not intend to adopt this standard early. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group does not intend to adopt this standard early. The amendment will not have any impact on financial position or performance of the Group.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment will not have any impact on financial position or performance of the Group.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The Group has not yet analysed the likely impact of the new Interpretation on its financial position or performance.
- 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 for annual periods beginning after 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.

(d) Prepaid finance cost

The fair value of shares transferred to VTB Group as prepaid finance cost for loans was determined using free cash flow valuation technique based on cash flows derived from the mining plan established by the Subsidiary which includes both market and unobservable inputs.

5 Revenue

'000 AMD	2011	2010
Revenue from blister copper	42,533,758	36,962,764
Revenue from services provided	63,274	59,847
Revenue from sale of other products	70,784	80,175
	42,667,816	37,102,786

In 2011 and 2010 approximately 30% to 40% 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 2011 the Group had outstanding provisionally priced sales of 1,996 dry metric tonnes of blister copper (2010: 1,619 dry metric tonnes of blister copper), which had an embedded derivative with a fair value of AMD (232,818) thousand (2010: AMD 571,212 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	2011	2010
Purchase of copper concentrate	32,817,013	29,161,560
Cost of gas	1,213,446	1,050,833
Materials and spare parts	1,109,745	899,033
Labour and wages	710,596	597,354
Depreciation	132,296	82,861
	35,983,096	31,791,641

At 31 December 2011 the Group had outstanding provisionally priced purchases of 7,520 dry metric tonnes of copper concentrate (2010: 6,348 dry metric tonnes of copper concentrate), which had an embedded derivative with a fair value of AMD (161,472) thousand (2010: AMD 461,599 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 Other income

'000 AMD	2011	2010
Net gain from sales of land and buildings	407,354	19,736
Other income	285,453	156,728
	692,807	176,464

8 Administrative expenses

'000 AMD	2011	2010
Wages and salaries	375,110	322,024
Environmental fees	349,142	319,779
Maintenance	115,814	59,238
Taxes other than income tax	93,534	117,862
Representation expenses and business trips	73,136	33,269
Depreciation	40,408	42,774
Audit and consulting fees	58,138	59,036
Bank charges	57,225	57,260
Utilities and communication expenses	46,686	42,360
Other administrative expenses	176,495	203,941
	1,385,688	1,257,543

9 Net impairment reversals

'000 AMD	2011	2010
Reversal of impairment on VAT recoverable (see note 17)	-	187,990
Property, plant and equipment impairment reversal (see note 12)	-	262,277
	-	450,267

10 Finance income and finance costs

'000 AMD	2011	2010
Recognised in profit or loss		
Interest income	2,840	13,955
Net foreign exchange gain	-	545,978
Finance income	2,840	559,933
Net foreign exchange loss	(641,234)	-
Interest expense on loans and borrowings	(200,286)	(136,517)
Finance costs	(841,520)	(136,517)
Net finance (costs)/income recognised in profit or loss	(838,680)	423,416

11 Income tax expense

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

'000 AMD	2011	2010
Current tax expense		
Current year	1,099,579	932,571
	1,099,579	932,571
Deferred tax expense		
Origination and reversal of temporary differences	(65,594)	38,622
Change in unrecognised deductible temporary differences	(191,772)	(169,118)
	(257,366)	(130,496)
	842,213	802,075

Reconciliation of effective tax rate:

	2011		2010	
	'000 AMD	%	'000 AMD	%
Profit excluding income tax	4,518,415	100	4,655,670	100
Income tax at applicable tax rate	903,683	20	931,134	20
Net non-deductible expenses	130,302	3	40,059	1
Change in unrecognised temporary differences	(191,772)	(4)	(169,118)	(4)
	842,213	19	802,075	17

12 Property, plant and equipment

'000 AMD	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Motor vehicles</u>	<u>Fixtures and fittings</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost or deemed cost</i>						
Balance at 1 January 2010	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	<u>8,169,496</u>	<u>9,144,905</u>	<u>527,201</u>	<u>733,901</u>	<u>8,581,356</u>	<u>27,156,859</u>
Additions	1,529,286	645,509	20,137	200,028	12,979,782	15,374,742
Disposals	(459,463)	(50,369)	(3,183)	(3,933)	(9,821)	(526,769)
Transfers	7,915	354,700	-	5,786	(368,401)	-
Balance at 31 December 2011	<u>9,247,234</u>	<u>10,094,745</u>	<u>544,155</u>	<u>935,782</u>	<u>21,182,916</u>	<u>42,004,832</u>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2010	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	<u>6,305,603</u>	<u>6,415,912</u>	<u>297,894</u>	<u>475,412</u>	<u>141,683</u>	<u>13,636,504</u>
Depreciation for the year	94,674	577,954	35,716	94,110	-	802,454
Disposals	(399,044)	(27,707)	(2,065)	(3,172)	-	(431,988)
Transfers	-	(5,534)	-	5,534	-	-
Balance at 31 December 2011	<u>6,001,233</u>	<u>6,960,625</u>	<u>331,545</u>	<u>571,884</u>	<u>141,683</u>	<u>14,006,970</u>
<i>Carrying amounts</i>						
At 1 January 2010	<u>876,110</u>	<u>1,981,997</u>	<u>197,074</u>	<u>62,523</u>	<u>3,914,387</u>	<u>7,032,091</u>
At 31 December 2010	<u>1,863,893</u>	<u>2,728,993</u>	<u>229,307</u>	<u>258,489</u>	<u>8,439,673</u>	<u>13,520,355</u>
At 31 December 2011	<u>3,246,001</u>	<u>3,134,120</u>	<u>212,610</u>	<u>363,898</u>	<u>21,041,233</u>	<u>27,997,862</u>

(a) Depreciation

Depreciation expense of AMD 132,296 thousand (2010: AMD 82,861 thousand) has been charged to cost of goods sold, AMD 629,750 thousand (2010: AMD 280,743 thousand) to capital expenditure on property, plant and equipment and mining property and AMD 40,408 thousand (2010: AMD 42,774 thousand) to administrative expenses.

(b) Borrowing costs

Borrowing costs incurred by the Group of AMD 2,214,552 thousand are included in additions to property, plant and equipment in 2011 (2010: AMD 772,706 thousand). The average capitalization rate applied during 2011 to determine the amount of borrowing costs to be capitalized was 8.4% (2010: 6.1%).

(c) Pledged assets

The Group has pledged land and buildings with a carrying amount of AMD 4,392,067 thousand, plant and equipment with a carrying amount of AMD 13,044,953 thousand, vehicles and other property of AMD 53,860 thousand as collateral under credit line facilities (see note 21).

(d) 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 Group has not reassessed its estimates for the impairment of Alaverdi melting plant as at 31 December 2011, considering that there are no relevant changes in internal and external indicators which could imply that the value in use has changed significantly.

13 Mining property

'000 AMD	<u>Alaverdi deposit</u>	<u>Teghout deposit</u>	<u>Total</u>
<i>Cost</i>			
At 1 January 2010	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
Additions	-	1,042,031	1,042,031
At 31 December 2011	1,469,861	4,095,319	5,565,180
<i>Accumulated amortisation and impairment losses</i>			
At 1 January 2010	1,469,861	-	1,469,861
Amortisation charge for the period	-	-	-
At 31 December 2010	1,469,861	-	1,469,861
Amortisation charge for the period	-	-	-
At 31 December 2011	1,469,861	-	1,469,861
<i>Carrying amounts</i>			
At 1 January 2010	-	2,722,449	2,722,449
At 31 December 2010	-	3,053,288	3,053,288
At 31 December 2011	-	4,095,319	4,095,319

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.

14 Prepayments for non-current assets

'000 AMD	<u>2011</u>	<u>2010</u>
Prepayments for property, plant and equipment	11,742,586	5,587,926

Prepayment for the purchase of a grinding mill (see note 25(a)) of AMD 10,567,560 thousand (2010: AMD 5,505,707 thousand) is included in prepayments for non-current assets as at 31 December 2011.

15 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	2011	2010
Deductible temporary differences	-	177,248
Tax losses	-	14,524
	-	191,772

Deferred tax assets had not been recognised in respect of these items related to Subsidiary because of uncertainties related to the availability of future taxable profits against which the Subsidiary could utilise the benefits there from. Deferred tax assets in respect of these items have been recognized as at 31 December 2011 due to sufficient taxable temporary differences which are expected to reverse in the same period as the expected reversal of the deductible temporary differences.

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 AMD	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment and investment property	173,670	60,210	-	-	173,670	60,210
Intangible assets	14,000	-	-	-	14,000	-
Mining property	4,256	4,256	-	-	4,256	4,256
Prepayments for non-current assets	208,483	-	-	-	208,483	-
Other non-current assets	6,786	7,836	-	-	6,786	7,836
Inventories	-	62,104	-	-	-	62,104
Trade and other receivables	79,569	-	-	(132,483)	79,569	(132,483)
Trade and other payables	-	128,573	(127,903)	-	(127,903)	128,573
Tax loss carry-forwards	29,001	-	-	-	29,001	-
Tax assets/(liabilities)	515,765	262,979	(127,903)	(132,483)	387,862	130,496
Set off of tax	-	(132,483)	-	132,483	-	-
Net tax assets	515,765	130,496	(127,903)	-	387,862	130,496

The tax losses expire in 2014-2016. The deductible temporary differences do not expire under current tax legislation.

(c) Movement in temporary differences during the year

'000 AMD	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment and investment property	60,210	113,460	173,670
Intangible assets	-	14,000	14,000
Mining property	4,256	-	4,256
Prepayments for non-current assets	-	208,483	208,483
Other non-current asset	7,836	(1,050)	6,786
Inventories	62,104	(62,104)	-
Trade and other receivables	(132,483)	212,052	79,569
Trade and other payables	128,573	(256,476)	(127,903)
Tax loss carry-forwards	-	29,001	29,001
	130,496	257,366	387,862

'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

16 Inventories

'000 AMD	2011	2010
Raw materials and spare parts	2,377,593	2,957,261
Finished goods	658,102	1,039,364
Work-in-progress	130,629	154,035
Other inventory	205,424	232,191
	3,371,748	4,382,851

17 Trade and other receivables

'000 AMD	2011	2010
Non current		
VAT recoverable	3,298,663	1,301,744
	3,298,663	1,301,744
Current		
Advances for provisionally priced purchases	2,159,371	944,619
Trade receivables	1,098,039	1,865,856
VAT recoverable	1,400,790	1,583,385
Prepayments	218,490	100,986
Other receivables	774,322	14,472
	5,651,012	4,509,318
Impairment allowance against VAT recoverable	-	-
	5,651,012	4,509,318

Analysis of movements in the impairment allowance for VAT recoverable

'000 AMD	2011	2010
At the beginning of the year	-	187,990
Decrease in allowance	-	(187,990)
	-	-

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 24.

18 Prepaid finance cost

As part of credit line agreement of USD 283,300 thousand between the Subsidiary and VTB Bank Armenia cjsc (see note 21), the Company transferred 100% shares in the Subsidiary to Teghout Investments Limited (see note 1 (b)). As VTB Group holds 25.05% shares giving rights for pro-rata share of benefits from net assets of Teghout Investments Limited, AMD 4,004,309 thousand, representing 25.05% of carrying value of the Subsidiary's net assets were recognized as non-controlling interest.

Included in prepaid finance cost is AMD 3,049,021 thousand which represents the fair value of the above 25.05% shares transferred to VTB Group as part of the financing agreement.

Because of limited market activity in the shares, the valuation is not benchmarked against observed transaction prices. Instead, the Group applies a discounted cash flow model where some of the inputs are non-observable.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

'000 AMD	Effect on prepaid finance cost	
	Increase	Decrease
2% change in discount rate	(1,857,007)	2,257,816
10% change in the estimated copper prices	3,151,111	(2,855,928)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values. Key inputs and assumptions used in the model include:

- Total mining of 162.8 million tonnes of ore and production of 402,874 thousand dry metric tonnes of copper and 9,807 dry metric tonnes of molybdenum for the years 2014 to 2037 based on the latest assessment of ore reserves.
- Copper prices are projected to increase from 2012 forecast (source: Economist Intelligence Unit, *World Commodity Forecasts: Industrial Raw Materials, December 2011*) of USD 8,929 to USD 9,039 per ton by 2014. Average inflation of 2% has been applied to estimated copper prices beyond year 2014.
- Production costs are expected to increase till 2016 then gradually decrease in line with decrease in stripping. Average inflation of 2% has been applied to estimated production costs.
- A discount rate of 18.5% was applied based on management's assessment of the risks related to Teghout cjsc.
- Minority and illiquidity discounts of 27.8% and 13.8% respectively were applied.
- Capital expenditure of USD 229 million has been projected during 2012-2013 with further replacement expenditure equal to 25% of annual depreciation, adjusted for average inflation.

19 Cash and cash equivalents

'000 AMD	2011	2010
Cash in hand	974	1,528
Current accounts and call deposits	757,970	707,131
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	758,944	708,659

Current accounts and call deposits with a carrying amount of AMD 25,842 thousand serve as collateral for a bank loan (2010: AMD 588,748 thousand). 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 24.

20 Equity

(a) Share capital

<i>Number of shares unless otherwise stated</i>	Ordinary shares	
	2011	2010
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

All ordinary shares of the Company are pledged for the credit line agreement (see note 21) signed in 2011 between the Tegout cjsc and VTB bank Armenia cjsc.

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 13,644,914 thousand (2010: AMD 10,527,570 thousand), except for restrictions on retained earnings as described in note 20(c).

No dividends were declared and paid during 2011 and 2010. No dividends were proposed after 31 December 2011.

(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 2011 the Company had allocated AMD 460,457 thousand (2010: AMD 460,457 thousand) from its retained earnings as reserved retained earnings to comply with this requirement.

21 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 24.

'000 AMD	2011	2010
<i>Non-current liabilities</i>		
Secured bank loans	9,644,250	2,498,650
	9,644,250	2,498,650
<i>Current liabilities</i>		
Current portion of secured bank loans	3,800,581	4,458,245
Unsecured loans from related parties	23,803,661	9,868,955
	27,604,242	14,327,200

During 2011, the Subsidiary entered into credit line agreements of USD 283,300 thousand in total with maturity till 26 June 2023 with the VTB bank Armenia cjsc. The credit lines are provided for development of mining property in Teghout mine and the construction of a processing plant and infrastructure in the deposit area. The loans under the credit line agreements will bear nominal annual interest rates of 11% and 13%. As part of the agreement, the Company has also transferred 49.95% shares in Teghout Investments Limited to VTB Group, 25.05% of which give rights to pro-rata share of benefits from net assets of Teghout Investments Limited (see notes 1(b) and 18). The financing is structured in such way, that the Company will also make a payment within 180 days after the full repayment of the loans, the amount of which will be calculated using a pre-determined formula, which is based on loan balance, months till commencement of production and months till achieving full design capacity. By performing this payment the Company will buy back the remaining 24.9% (49.95% shares belonging to VTB Group less 25.05% shares giving rights to pro-rata share of benefits from net assets of Teghout Investments Limited) non-participative shares in Teghout Investments Limited transferred to VTB Group (see note 1(b)). No liability is recognised for above described payment as management believes that it represents additional transaction cost and will be included in calculation of amortised cost of the loan.

The credit lines are secured with property, plant and equipment of the Group (see note 12) and 100% of the ordinary shares of the Company (see note 20(a)) and Teghout cjsc and shares of the Company in Teghout Investments Limited. Besides, the credit lines are secured with 99.999% shares of Vallex F.M. Est. LLC, certain items of property, plant and equipment of Vallex F.M. Est. LLC and guarantee from this company.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 AMD	Currency	Nominal interest rate	Year of maturity	31 December 2011		31 December 2010	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan 1	USD	LIBOR+7%	2012	-	-	5,226,557	5,226,557
Secured bank loan 2	USD	LIBOR+6.5%	2016	9,651,530	9,651,530	-	-
Secured bank loan 3	USD	8%	2011	-	-	1,730,338	1,730,338
Secured bank loan 4	USD	10%	2012	3,793,301	3,793,301	-	-
Unsecured loan from related parties	AMD	5%	On demand	-	-	9,868,955	9,868,955
Unsecured loan from related parties	AMD	9%	On demand	23,803,661	23,803,661	-	-
				37,248,492	37,248,492	16,825,850	16,825,850

The following securities are granted to VTB Bank (France) SA for the secured bank loan 2:

- guarantee provided by Base Metals 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.

22 Trade and other payables

'000 AMD	2011	2010
Trade payables	744,535	2,664,272
Advances received	296,569	341,092
Other taxes payable	140,428	256,222
Other payables	233,903	151,252
	1,415,435	3,412,838

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

23 Provisions

'000 AMD	2011	2010
Balance at 1 January	33,738	48,286
Provisions made during the year	88,792	28,614
Provisions used during the year	(33,107)	(43,162)
Balance at 31 December	89,423	33,738
Non-current	-	-
Current	89,423	33,738
	89,423	33,738

In 2008 the Company reached an agreement with the Government of the Republic of Armenia and agreed an afforestation plan which should recover the damage caused to the environment as a result of lumbering for mine development and plant construction purposes. In estimating the Company's liability at the reporting date the Company has considered the total area cut, the ratio of the cut area to the area to be planted according to the appropriate plan, the timing of the activities agreed and the approximate cost to the Company. In estimating the cost of a unit of area to plant the Company has considered actual agreement prices concluded with contractors for planting trees.

24 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. 98% of trade receivables as at 31 December 2011 are due from this customer (2010: 94%). 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:

'000 AMD	Note	Carrying amount	
		2011	2010
Borrowings given		59,599	51,028
Trade receivables	17	1,098,039	1,865,856
Advances for provisionally priced purchases	17	2,159,371	944,619
Other receivables	17	774,322	14,472
Current accounts and call deposits	19	757,970	707,131
		4,849,301	3,583,106

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

'000 AMD	Carrying amount	
	2011	2010
Euro-zone countries	1,047,175	1,763,413
Domestic	50,864	102,443
	1,098,039	1,865,856

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.

2011

'000 AMD	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 2 mths</u>	<u>2-12 mths</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
Loans and borrowings:						
Secured bank loan 2	9,651,530	11,583,011	109,226	546,130	2,498,769	8,428,886
Secured bank loan 4	3,793,301	3,856,523	3,856,523	-	-	-
Related parties	23,803,661	23,803,661	23,803,661	-	-	-
Trade and other payables	978,438	978,438	978,438	-	-	-
	<u>38,226,930</u>	<u>40,221,633</u>	<u>28,747,848</u>	<u>546,130</u>	<u>2,498,769</u>	<u>8,428,886</u>

2010

'000 AMD	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 2 mths</u>	<u>2-12 mths</u>	<u>1-2 yrs</u>	<u>2-5 yrs</u>
Loans and borrowings:						
Secured bank loan 1	5,226,557	5,572,168	513,399	2,484,528	2,574,241	-
Secured bank loan 3	1,730,338	1,834,159	23,072	1,811,087	-	-
Related parties	9,868,955	9,868,955	9,868,955	-	-	-
Trade and other payables	2,815,524	2,815,524	2,815,524	-	-	-
	<u>19,641,374</u>	<u>20,090,806</u>	<u>13,220,950</u>	<u>4,295,615</u>	<u>2,574,241</u>	<u>-</u>

On 22 November 2011 the Subsidiary has signed three credit line agreements with VTB bank Armenia cjsc with total limit of USD 283,300 thousand (see note 21). As at 31 December 2011 the Subsidiary has not withdrawn any tranches under these credit line agreements. The final date of the full settlement of the borrowings under the credit line agreements is no later than 26 June 2023.

(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	USD-denominated
	2011	2010
Trade and other receivables	2,741,039	2,708,032
Cash and cash equivalents	19,487	4,322
Trade and other payables	(288,847)	(2,524,323)
Loans and borrowings	(13,444,831)	(6,956,895)
Net exposure	(10,973,152)	(6,768,864)

The following significant exchange rates applied during the year:

in AMD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD 1	372.81	373.68	385.77	363.44

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 2010.

'000 AMD	Profit or loss
31 December 2011	
USD (10% movement)	1,097,315
31 December 2010	
USD (10% movement)	676,886

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:

'000 AMD	Carrying amount	
	2011	2010
Fixed rate instruments		
Financial assets	59,599	51,028
Financial liabilities	(27,596,962)	(11,599,293)
	(27,537,363)	(11,548,265)
Variable rate instruments		
Financial liabilities	(9,651,530)	(5,226,557)
	(9,651,530)	(5,226,557)

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 2010.

'000 AMD	Profit or loss	
	100 bp increase	100 bp decrease
2011		
Variable rate instruments	(77,212)	77,212
2010		
Variable rate instruments	(41,812)	41,812

(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 2010.

'000 AMD	Profit or loss	
	20% increase	20% decrease
2011		
Sales	1,618,399	(1,618,399)
Cost of sales	(1,147,539)	1,147,539
2010		
Sales	1,264,374	(1,264,374)
Cost of sales	(785,111)	785,111

(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	<u>Trading</u>	<u>Loans and receivables</u>	<u>Other financial liabilities</u>	<u>Total carrying amount</u>	<u>Fair value</u>
31 December 2011					
Cash and cash equivalents	-	758,944	-	758,944	758,944
Loans and receivables	(232,818)	4,324,149	-	4,091,331	4,091,331
	(232,818)	5,083,093	-	4,850,275	4,850,275
Loans and borrowings	-	-	37,248,492	37,248,492	37,248,492
Trade and other payables	(161,472)	-	1,139,910	978,438	978,438
	(161,472)	-	38,388,402	38,226,930	38,226,930
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

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:

	<u>2011</u>	<u>2010</u>
Loans and borrowings	6.8%-10%	5%-7.3%

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 2011				
Derivatives embedded in sales contracts (liability)	-	(232,818)	-	(232,818)
Derivatives embedded in purchase contracts (asset)	-	161,472	-	161,472
31 December 2010				
Derivatives embedded in sales contracts (asset)	-	571,212	-	571,212
Derivatives embedded in purchase contracts (liability)	-	(461,599)	-	(461,599)

(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	2011	2010
Total liabilities	40,958,528	20,644,386
Less: cash and cash equivalents	(758,944)	(708,659)
Net debt	40,199,584	19,935,727
Total equity	19,736,617	13,011,394
Debt to capital ratio at 31 December	2.0	1.5

25 Commitments

(a) Purchase commitments

The Group has signed contracts for the purchase of a grinding mill and various equipment. The total price of the contracts is USD 44,849 thousand and USD 25,928 thousand respectively. The prepayments made by the Group as at 31 December 2011 (see note 14) for the contracts are USD 31,085 thousand (2010: USD 16,544 thousand) and USD 1,720 thousand (2010: nil) respectively.

(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 23).

26 Contingencies

(a) Insurance

Though 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 has undertaken steps for insurance of its property, plant and equipment. As at the reporting date the Group did not have full coverage for its plant facilities and business interruption. Until the Group obtained adequate insurance coverage, there was a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

During 2012 the Group obtained an insurance coverage of total USD 282,697,617 and AMD 7,605,876 thousand for its property, plant and equipment.

(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.

27 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.

28 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 Mejlumyan 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 Mejlumyan.

(b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

'000 AMD	2011	2010
Directors and senior management	<u>45,270</u>	<u>45,885</u>

(c) Transactions with other related parties

(i) Revenue and other income

'000 AMD	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Sale of goods:				
Entities under common control	102,005	78,999	(296,037)	(337,128)
Sale of property, plant and equipment:				
Entities under common control	641,180	-	768,937	-
Services provided:				
Entities under common control	56,020	22,188	831	24
Other income:				
Entities under common control	74,865	8,659	63,657	83
Interest income:				
Entities under common control	<u>2,771</u>	<u>2,321</u>	<u>-</u>	<u>-</u>

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 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Purchase of goods:				
Entities under common control	17,724,530	19,706,066	(2,109,302)	2,516,659
Services received:				
Entities under common control	249,778	503,991	10,667	45,146
Interest expense:				
Entities under common control	1,436,271	331,655	-	-

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

(iii) **Loans**

'000 AMD	Amount loaned 2011	Amount loaned 2010	Outstanding balance 2011	Outstanding balance 2010
Loans received:				
Entities under common control	20,391,170	5,508,550	23,803,661	9,868,955
Loans given:				
Entities under common control	5,800	8,924	59,599	51,028

The loan from the related party bears interest at 9%, is not secured and is repayable on demand.

29 Significant subsidiaries

Subsidiary	Country of incorporation	2011 Ownership/voting	2010 Ownership/voting
Teghout cjsc	Republic of Armenia	100%	100%

30 Events subsequent to the reporting date

As of the date of authorisation of these financial statements the Subsidiary has withdrawn USD 87,805 thousand under the credit lines disclosed in note 21.