Armenian Copper Programme

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Armenian Copper Programme cjsc

Financial Statements
for the year ended 31 December 2003

Contents

Armenian Copper Programme cjsc

19 Khanjyan Street,

Yerevan 375010

Republic of Armenia

Members of the Board

Valery Medzhlumyan	Chairman
Gagik Arzumanyan	Executive Director
Nikolay Feofanov	First Deputy Executive Director, Head of the Production Department

KPMG Armenia cjsc
8 Hanrapetutian Street,
Yerevan 375010
Republic of Armenia

Tel/Fax: +374(1) 566 762
e-mail: general@kpmg.co.am

Independent Auditor's Report

We have audited the accompanying balance sheet of Armenian Copper Programme csjc ("the Company") as of 31 December 2003 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. The financial statements, as set out on pages 4 to 26, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of and for the year ended 31 December 2002, prior to the restatements discussed in note 27 to these financial statements, were audited by another auditor whose report dated 7 May 2003 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2003, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG

KPMG Armenia cjsc
Licensed Auditors
Yerevan
30 June 2004

	Notes	2003 Drams'000	2002 Drams'000 Restated
Revenues	4	7,620,896	6,039,518
Cost of sales		(6,327,498)	(5,103,830)
Gross profit		1,293,398	935,688
Other operating income	5	645,062	584,721
Distribution expenses	6	(357,780)	(313,904)
Administrative expenses	7	(732,873)	(772,741)
Other operating expenses	8	(87,424)	(464,213)
Provision for trade and other receivables		(222,024)	-
Profit/(loss) from operations		538,359	(30,449)
Net finance costs	9	(181,291)	(244,195)
Profit/(loss) before taxation		357,068	(274,644)
Income tax charge	10	(52,072)	(49,152)
Net profit/(loss) for the year		304,996	(323,796)

The financial statements as set out on pages 4 to 26 were approved by the members of the Board on 30 June 2004 and were signed on their behalf by:

G. Arzumanyan
Executive Director

T. Arabachyan
Chief Accountant

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 26.

	Notes	2003 Drams'000	2002 Drams'000 Restated
Assets			
Non-current assets			
Property, plant and equipment	11	4,585,889	4,684,382
Intangible assets	12	3,358	-
Deferred mining expenditures	13	320,693	277,954
Deferred expenses		-	40,751
Long-term investments	14	25,634	51,647
		4,935,574	**5,054,734**
Current assets			
Inventories	15	1,516,947	652,511
Trade and other receivables	16	1,777,378	580,423
Originated loans and receivables	17	23,000	-
Cash and cash equivalents	18	81,032	6,757
		3,398,357	**1,239,691**
Total assets		**8,333,931**	**6,294,425**
Shareholders' equity and liabilities			
Capital and reserves			
Share capital	19	3,069,716	2,960,651
Revaluation reserve		2,763,244	2,822,716
Accumulated loss		(1,762,201)	(2,126,669)
		4,070,759	**3,656,698**
Non-current liabilities			
Deferred tax liability	10	550,543	544,422
		550,543	**544,422**
Current liabilities			
Short-term borrowings	20	1,424,140	609,486
Trade and other payables	21	2,288,489	1,483,819
		3,712,629	**2,093,305**
Total shareholders' equity and liabilities		**8,333,931**	**6,294,425**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 26.

	2003 Drams'000	2002 Drams'000 Restated
OPERATING ACTIVITIES		
Net profit/(loss) before tax	**357,068**	**(274,644)**
Adjustment for:		
Depreciation of property, plant and equipment	138,990	133,045
Amortisation of intangible assets	2,923	29,023
Amortisation of mining expenses	33,634	71,471
Loss/(gain) on disposal of property, plant and equipment	10,372	(35)
Gain on disposal of investments	(6,167)	-
Provision for trade and other receivables	222,024	1,630
Interest expenses	237,359	147,196
Operating profit before changes in working capital	**996,203**	**107,686**
Increase in trade and other receivables and other assets	(1,482,090)	328,966
Increase in inventories	(864,436)	(150,722)
Increase in trade and other payables	863,939	3,903
Cash flows from operations	**(486,384)**	**289,833**
Interest Paid	(240,234)	(538,390)
Cash flow from operating activities	**(726,618)**	**(248,557)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(69,316)	(810,969)
Investment in mining property	(76,373)	(149,240)
Purchase of intangible assets	(6,281)	(62,925)
Proceeds/(purchase) from disposal of long-term investments	32,180	(52,697)
Proceeds from sale of property, plant and equipment	15,023	35
Originated loan	(23,000)	-
Cash flows from investing activities	**(127,767)**	**(1,075,796)**
FINANCING ACTIVITIES		
Proceeds from long term borrowings	-	6,649,014
Proceeds from share issue	109,065	1,454,472
Proceeds/(repayment) from short term borrowings	819,595	(6,532,566)
Cash flows from financing activities	**928,660**	**1,570,920**
Net increase in cash and cash equivalents during the year	74,275	246,567
Cash and cash equivalents at the beginning of the year	6,757	(239,810)
Cash and cash equivalents at the end of the year (note 18)	**81,032**	**6,757**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 26.

	Share capital	**Revaluation reserve**	**Accumulated losses**	**Total**
	Drams'000	**Drams'000**	**Drams'000**	**Drams'000**
Balance at 1 January 2002				
As previously reported	1,506,179	3,230,881	(1,921,366)	2,815,694
Prior year adjustment (note 27)	-	(265,650)	(34,488)	(300,138)
Restated balance at 1 January 2002	1,506,179	2,965,231	(1,955,854)	2,515,556
Net loss for the year	-	-	(323,796)	(323,796)
Revaluation reserve		(142,515)	152,981	10,466
Share issue	1,454,472	-	-	1,454,472
Balance at 31 December 2002	2,960,651	2,822,716	(2,126,669)	3,656,698
Balance at 1 January 2003				
As previously reported	2,960,651	2,822,716	(2,031,980)	3,751,387
Prior year adjustment (note 27)	-	-	(94,689)	(94,689)
Restated balance at 1 January 2003	2,960,651	2,822,716	(2,126,669)	3,656,698
Net profit for the year	-	-	304,996	304,996
Share issue	109,065	-	-	109,065
Realisation of property, plant and equipment revaluation reserve	-	(59,472)	59,472	-
Balance at 31 December 2003	3,069,716	2,763,244	(1,762,201)	4,070,759

The statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 26.

1 Background

a) Organisation and operations

Armenian Copper Programme cjsc ("the Company") was established in accordance with the legislation of the Republic of Armenia in August 1997. The company has authorised share capital of Drams 40 million. As of 31 December 2003 the respective shareholdings are as follows:

- VALEX F.M. Establishment 80.7%
- Valery Medzhlumyan 19.3%

The main activity of the Company is the production and selling of blister copper. In addition, the company is also involved in the exploration and development of mining properties in Armenia.

b) Armenian business environment

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

2 Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

b) Basis of preparation

The financial statements are prepared on the historical cost basis except for property, plant and equipment that are stated at revalued amounts or cost (refer to note 3b).

c) Measurement and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("Dram"). The measurement and presentation currency used in the preparation of these financial statements is the Dram. Management have determined the Dram to be the measurement currency as they consider that the Dram reflects the economic substance of the underlying events and circumstances of the Company. The Dram is not a convertible currency outside the territory of Armenia.

All financial information presented in Drams has been rounded to the nearest thousand.

d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Company's assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Company be unable to continue as a going concern.

e) Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

a) Foreign currencies

Transactions in foreign currencies are translated to Dram at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Dram at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost or revalued amounts, are translated to Dram at the foreign exchange rate ruling at the date of the transaction or revaluation date.

b) Property, plant and equipment

(i) Owned assets

Items of property, plant, and equipment are stated at revalued amounts less accumulated depreciation. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Assessment of the values of property, plant and equipment are performed by management on a regular basis.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iii) Revaluation

A revaluation surplus on an item of property, plant and equipment is recognised directly in equity except to the extent that it reverses a previous revaluation deficit recognised in the income statement, in which case it is recognised in the income statement. A revaluation deficit on an item of property, plant and equipment is recognised in the income statement except to the extent that it reverses a previous revaluation surplus recognised directly in equity, in which case it is recognised directly in equity.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

▪ Buildings	50 years
▪ Leasehold improvement	20 years
▪ Plant and equipment	10 years
▪ Motor vehicles	10 years
▪ Fixtures and fittings	2-10 years

(v) Construction in progress

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

c) Intangible assets

(i) Intangible assets

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortisation and impairment losses.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date the asset is available for use.

The estimated useful lives are as follows:

▪ Accounting software	2 years
▪ Other intangible assets	10 years

d) Investments

Investments are recognised (derecognised) when the Company obtains (loses) control over the contractual rights inherent in that asset.

Investments are classified as available-for-sale and are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortised cost if it has a fixed maturity, and at cost if it does not have a fixed maturity.

When measured at the fair value the resulting gain or loss is recognised in the income statement.

e) Deferred mining expenditures

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

- pre-production (prospecting, mineral rights acquisition, exploration, evaluation or appraisal, development and construction) exploration expenditures costs are incurred per area of interest and are recorded as deferred expenses on mines;
- upon the proof of the economical feasibility of the industrial extraction of minerals in the particular area of interest the deferred expenses on mines relating to this area are reclassified as a mining property;
- if the industrial extraction of minerals in a particular area of interest is proven not to be economically feasible the deferred expenses on mines relating to this area of interest is charged to the income statement in the period it is proved not to be economically feasible;
- the deferred expenses on mines relating to a particular area of interest are charged to the income statement and recognised as expenses even if the industrial extraction of minerals in the area of interest has been proved to be economically feasible but the industrial extraction is not planned to be performed because of any other reason;
- the deferred expenses on mines relating to a particular area of interest are charged to the income statement and recognised as expenses if during a three year period the industrial extraction of minerals in the area has not be proved to be economically feasible and a plan for industrial extraction of minerals has not been developed;
- any deferred expenses on proved but undeveloped areas of interest are periodically re-evaluated to determine the economically feasibility. If the area is found not to be economically feasible the deferred expenses are written off immediately to the income statement.
- Accumulated mining expenses are amortised based on the unit of production method, being the volume of actually extracted ore during the current period within the expected extraction quantity of ore.

f) Inventories

Inventories, including work-in-progress, are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

g) Trade and other receivables

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

h) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and bank accounts.

i) Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Company's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

j) Loans and borrowings

Loans and borrowings are initially recognised at cost, being the fair value of the consideration given, less attributable transaction costs. Subsequent to the initial recognition loans and borrowings are stated at amortised cost using an effective interest basis.

k) Pensions

Pensions are provided by the State through mandatory contributions by companies and employees. The Company does not have a separate pension scheme for its employees.

l) Provisions

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

m) Trade and other payables

Trade and other payables are stated at their cost.

n) Taxation

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date that will apply in the period that temporary differences are expected to reverse.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

o) Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

p) Cost of sales

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

q) Net financing costs

Net financing costs comprise interest payable on borrowing, interest receivable on funds invested, foreign exchange gains and losses and gain and losses on revaluation and disposal of investments available for sale.

r) Comparative information

Certain amounts in the comparatives have been reclassified to conform to the current year's presentation (see note 27).

4 Revenues

	2003 Drams'000	**2002 Drams'000**
Revenues from sale of products	7,459,248	6,026,200
Revenues from rendering of services	161,648	13,318
	7,620,896	6,039,518

5 Other operating income

	2003 Drams'000	2002 Drams'000
Net income from sale of inventories	417,360	275,524
(Loss)/gain on disposal of property, plant and equipment	(10,372)	35
Claims received	130,528	-
Income from identified inventories and other assets	105,294	213,359
VAT adjustment	-	48,193
Fines and penalties received	-	18,692
Other	2,252	28,918
	645,062	584,721

6 Distribution expenses

	2003 Drams'000	2002 Drams'000
Transportation expenses	332,887	302,980
Customs duties on products	7,033	5,906
Other distribution expenses	17,860	5,018
	357,780	313,904

7 Administrative expenses

	2003 Drams'000	2002 Drams'000
Payroll expense	322,823	328,265
Representation expenses and business trips	62,721	16,889
Depreciation	52,161	56,222
Utilities and communication	31,436	8,272
Fines and penalties	24,435	188,533
Maintenance	14,426	10,253
Audit and consulting fees	13,205	12,866
Amortisation of intangible assets	2,923	8,180
Others	208,743	143,261
	732,873	772,741

Included in payroll expense are mandatory social security payments of Drams 38,745 thousand (2002: Drams 37,073 thousand).

The average number of employees during the year ended 31 December 2003 was 766 (2002: 815). Total staff costs during the year ended 31 December 2003 were Drams 667,877 thousand (2002: Drams 643,710 thousand).

8 Other operating expenses

	2003 Drams'000	2002 Drams'000
Mining expenses	53,542	76,476
Inventories written off	7,882	32,993
Fines and penalties	-	213,001
Property, plant and equipment liquidation expenses	-	90,254
Other	26,000	51,489
	87,424	464,213

9 Net finance costs

	2003 Drams'000	2002 Drams'000
Interest expense	237,359	147,196
Net foreign exchange (gain)/loss	(49,324)	96,999
Gain on sale of financial assets	(6,167)	-
Interest income	(577)	-
	181,291	244,195

10 Taxation charge

The Company is liable for income tax at 50% of the ordinary tax rate until the end of the financial year ending 31 December 2008. The ordinary tax rate as at 31 December 2003 was 20% (2002: 20%).

	2003 Drams'000	2002 Drams'000 Restated
Current tax expense		
Current year	(45,951)	-
Tax losses extinguished	(22,005)	-
Deferred tax credit/(charge)		
Origination and reversal of temporary differences	103,180	(49,152)
Tax loss carry-forwards utilised	(87,296)	-
	(52,072)	(49,152)

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

	Assets Drams'000		Liabilities Drams'000		Net Drams'000	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
		Restated		**Restated**		**Restated**
Property, plant and equipment	-	-	637,738	647,391	637,738	647,391
Investments	(3,918)	(3,918)	-	-	(3,918)	(3,918)
Trade and other receivables	-	-	32,036	10,250	32,036	10,250
Trade and other payables	(115,313)	-	-	-	(115,313)	-
Tax losses carried forward	-	(109,301)	-	-	-	(109,301)
	(119,231)	(113,219)	669,774	657,641	550,543	544,422

Reconciliation of effective tax rate

	2003	**%**	**2002**	**%**
	Drams'000		**Drams'000**	
			Restated	
Profit/(loss) before tax	357,067		(274,644)	
Expected tax charge at applicable tax rates	35,707	10.0	(27,464)	(10.0)
Non-deductible/non-taxable items	(5,640)	(1.6)	16,906	6.2
Tax losses extinguish	22,005	6.2	59,710	21.7
	52,072	14.6	49,152	17.9

11 Property, plant and equipment

	Buildings	Leasehold improvement	Plant and equipment	Motor vehicles	Fixtures and fittings	Property, plant and equipment not yet in use	Total
	Drams'000	Drams'000	Drams'000	Drams'000	Drams'000	Drams'000	Drams'000
Cost/Revalued amount							
At 1 January 2003	2,499,117	70,216	1,278,495	29,739	120,002	815,161	4,812,730
Additions	3,401	-	4,488	1,740	2,492	57,195	69,316
Disposals	(203)	-	(18,244)	(4,347)	(1,159)	(8,611)	(32,564)
Transfers	-	-	(31,852)	5,758	7,269	18,825	-
At 31 December 2003	2,502,315	70,216	1,232,887	32,890	128,604	882,570	4,849,482
Depreciation							
At 1 January 2003	49,984	9,142	49,707	2,459	16,132	924	128,348
Charge for the year	50,235	3,511	54,262	3,219	27,763	-	138,990
Disposals	-	-	(2,357)	(375)	(1,013)	-	(3,745)
Transfers	(242)	-	(16,477)	222	(1003)	17,500	-
At 31 December 2003	99,977	12,653	85,135	5,525	41,879	18,424	263,593
Net book value							
At 1 January 2003	2,449,133	61,074	1,228,788	27,280	103,870	814,237	4,684,382
At 31 December 2003	2,402,338	57,563	1,147,752	27,365	86,725	864,146	4,585,889

The revaluation of property, plant and equipment was performed as of 31 December 2001 by Artin Enterprise cjsc, a licensed valuer. Movable property, plant and equipment were revalued to fair value, immovable property, plant and equipment were revalued applying depreciated replacement cost. Had the property, plant and equipment not been revalued, the net book value as of 31 December 2003 would have been Drams 1,622,791 thousand (2002: Drams 1,507,574 thousand). All immovable property is pledged as a collateral to secure bank loans. All movable property with a value in excess of Dram equivalent of EURO 10,000 is pledged as a collateral to secure bank loans (note 20).

12 Intangible assets

	2003 Drams’000
Cost	
At 1 January	46,619
Additions	6,281
Disposals	(37,507)
At 31 December	15,393
Amortisation	
At 1 January	46,619
Charge for the year	2,923
Disposals	(37,507)
At 31 December	12,035
Net book value	
At 31 December	3,358
At 1 January	-

Intangible assets represent computer software, and production technologies.

13 Deferred mining expenditures

	2003 Drams’000
Cost	
At 1 January	349,425
Additions	76,373
At 31 December	425,798
Accumulated amortisation	
At 1 January	71,471
Amortisation charge	33,634
At 31 December	105,105
Net book value	
At 1 January	277,954
At 31 December	320,693

Deferred mining expenditures represents expenditures incurred on Alaverdy mine.

14 Long-term investments

	2003 Drams'000	2002 Drams'000
Available-for-sale		
Equity instruments - unlisted		
Manes ojsc	38,489	38,351
Mining and Metallurgy Institute cjsc	26,322	51,423
Vallex IT cjsc	5	5
Vallex Mining cjsc	-	1,050
Provision for impairment	(39,182)	(39,182)
	25,634	51,647

Unlisted equity investments

Name	Country of incorporation	Main activity	% controlled		Carrying value, Drams'000	
			2003	**2002**	**2003**	**2002**
Manes ojsc	Armenia	Smelting	16.3	16.1	-	-
Mining and Metallurgy Institute cjsc	Armenia	Development of mining technologies	15	30	25,629	51,423
Vallex IT cjsc	Armenia	Selling of computers	1	1	5	5

During the year the Company sold available-for-sale investments stated at cost that had a carrying amount Drams 76,741 thousand (2002: Drams nil), which resulted in a gain of Drams 6,167 thousand (2002: Drams nil).

Investment in Mining and Metallurgy Institute cjsc, former associate of the Company, was not accounted for using equity method in 2002 as the effect on the Company's financial statements would be immaterial.

15 Inventories

	2003 Drams'000	2002 Drams'000
Raw materials	1,281,834	597,988
Finished goods	193,124	7,434
Work-in-progress	27,887	27,870
Other inventory	14,102	19,219
	1,516,947	652,511

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

All raw materials (copper concentrate and copper scrap) and finished goods (blister copper) are pledged as a collateral to secure bank loans (note 20).

16 Trade and other receivables

	2003 Drams'000	2002 Drams'000
VAT recoverable	878,973	385,849
Trade receivables	665,542	93,785
Prepayments	432,792	81,501
Other receivables	8,640	20,918
	1,985,947	582,053
Impairment against VAT recoverable and trade receivables	(208,569)	(1,630)
	1,777,378	580,423

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

	2003 Drams'000	2002 Drams'000
At the beginning of the year	1,630	-
Net increase in provisions	222,024	1,630
Written off during the year	(15,085)	-
At the end of the year	208,569	1,630

The Company has recognised an impairment provision for VAT recoverable of Drams 208,569 thousand (2002: Drams nil), an amount pending for the verification for refund eligibility by the tax authorities.

17 Originated loans and receivables

	2003 Drams'000	2002 Drams'000
Originated loan (note 24)	23,000	-

18 Cash and cash equivalents

	2003 Drams'000	2002 Drams'000
Cash in hand	3,045	354
Current account	77,987	6,403
	81,032	6,757

All monetary assets available in the revenue account and disbursement account and all monetary assets deposited in to these accounts in the future are pledged as a collateral to secure bank loans (note 20).

19 Issued capital

The authorised share capital as at 31 December 2003 amounted 40,000,000 to (2002: 40,000,000) ordinary shares of Drams 1,000 each. The issued and fully paid share capital as at 31 December 2003 amounted to 3,069,716 (2002: 2,960,651) ordinary shares of Drams 1,000 each.

2,960,651 ordinary shares issued as at 31 December 2002 are pledged as collateral by the shareholders to secure bank loans (see note 20).

20 Short-term borrowings

	2003 Drams'000	2002 Drams'000
Bank loans	1,462,827	604,546
Unamortised interest	(38,687)	4,940
	1,424,140	609,486

The bank loans carry an effective interest rate of 14% per annum (2002: 22% interest rate per annum).

The Company has pledged as collateral to secure bank loans:

- all its immovable property, plant and equipment;
- all movable property, plant and equipment with a value in excess of Dram equivalent of EURO 10,000;
- commodities in circulation - including all copper concentrate, copper scrap and finished products (blister copper);
- revenue account - all monetary assets available in the Revenue Account (escrow account), as well as deposited into such account in the future;
- disbursement account - all monetary assets available in the Disbursement Account (escrow account), as well as deposited into such account in the future;
- shares - 2,960,651 shares issued and allocated as at 6 December 2002 (100%), of which first ranking mortgage - 2,220,488 shares or 75%, and second ranking mortgage - 740,163 shares or 25%;
- all of its rights, interests and benefits (including the right of insurance compensation) under its insurance agreements; and
- all of its rights, interests and benefits under the off-take agreements.

21 Trade and other payables

	2003 Drams'000	2002 Drams'000
Trade payables	1,274,909	1,148,881
Advances received	844,524	22,654
Taxes payable	66,827	241,910
Other payables	102,229	70,374
	2,288,489	1,483,819

22 Financial instruments

Credit risk

The Company does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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 Company's exposure should be to fixed or variable rates. However, at the time of taking/issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

Foreign currency risk

The Company incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Dram. The currency giving rise to this risk is primarily USD. Management does not hedge the Company's exposure to foreign currency risk. The official exchange rate at the balance sheet date was Drams 566.00 : USD 1 (31 December 2002: 584.89 Drams : USD 1).

Fair value

Due to the lack of liquidity and published “indicator interest rates” in the Armenian market, and the fact that part of the Company’s transactions are with related parties and are of a specialised nature, it has not been practicable to determine the fair values of receivables from and payables to related parties.

The fair value of available-for-sale investments stated at cost is discussed in note 14.

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

23 Commitments and contingencies

Environmental matters

Management is of the opinion that the Company has met the Government’s requirements concerning environmental matters, and therefore believes that the Company does not have any current material environmental liabilities. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

Taxation contingencies

The taxation system in the Republic of Armenia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often differing interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Republic of Armenia substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

24 Related party transactions

- At 31 December 2003 the Company has outstanding balance of accounts receivables from the related parties of Drams 575,099 thousand (2002: Drams 25,136 thousand).

- At 31 December 2003 the Company has outstanding balance of accounts payables to the related parties of Drams 614,796 thousand as at 31 December 2003 (2002: Drams 18,661).

During 2003 the Company has entered into the following transactions with its related parties.

- As at 31 December 2003 the Company has outstanding loan of Drams 23,000 thousand (2002: Drams nil) issued to a related party. The loan bears 15% interest rate per annum and has maturity for less then twelve months.

- During 2003 the Company sold to related parties financial assets available-for-sale of Drams 82,908 thousand (2002: Drams nil).

- During 2003 the Company sold to related parties goods and rendered services of Drams 646,698 thousand (2002: Drams 557,257 thousand).

- During 2003 the Company purchased from the related parties goods and services of Drams 1,236,891 thousand (2002: Drams 123,301 thousand).

25 Going concern

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

2003 is the first year in which the Company earned a profit, which amounted to Drams 304,996 thousand (2002: Drams 323,796 thousand loss). The accumulated loss as of 31 December 2003 amounted to Drams 1,762,201 thousand (2002: Drams 2,126,669 thousand). Additionally, the Company's current liabilities exceeded current assets by Drams 314,272 thousand (2002: Drams 853,614 thousand).

26 Events subsequent to the balance sheet date

Subsequent to 31 December 2003, the Company launched a new melting furnace which will allow the Company to increase its production volume by 50 percent.

27 Changes in prior periods

(i) Reclassification

The following comparative figures were reclassified to conform to the current year's presentation:

- Drams 34,414 thousand representing depreciation expense, being reclassified from administrative expenses to cost of sales.
- Drams 62,925 thousand representing expenses incurred on Alaverdy mine, being reclassified from intangible assets to deferred mining expenditures.
- Drams 40,751 thousand of capitalised loan expenses, being reclassified from deferred mining expenses to deferred expenses.
- Drams 20,510 thousand being reclassified from finished goods to raw materials.
- Drams 820,911 thousand of property, plant and equipment revalued amount and Drams 19,738 thousand of accumulated depreciation being reclassified between respective classes of property, plant and equipment and accumulated depreciation.

(ii) Restatement

In 2003 management discovered that the amount of deferred tax liability attributable to 2001 and 2002 had been calculated incorrectly, resulting in:

- an understatement of the net loss for the year ended 31 December 2001 by Drams 34,488 thousand,
- an understatement of the deferred tax liability as of 31 December 2001 by Drams 300,138 thousand,
- an overstatement of the revaluation reserve as of 31 December 2001 by Drams 265,650 thousand,
- an understatement of the net loss for the year ended 31 December 2002 by Drams 60,201 thousand,
- an understatement of the deferred tax liability as of 31 December 2002 by Drams 360,339 thousand.

These errors have been corrected and the comparatives have been restated. The impact of the restatement is as follows:

- The net loss for the year ended 31 December 2001 was increased by Drams 34,488 thousand, which is shown as an adjustment to the opening balance of the accumulated loss in 2002.
- The revaluation reserve as of 31 December 2001 was decreased by Drams 265,650 thousand, which is shown as an adjustment to the opening balance of the revaluation reserve.
- The corresponding adjustment in the deferred tax liability as of 31 December 2001 by Drams 300,138 thousand.
- The net loss for the year ended 31 December 2002 was increased by Drams 60,201 thousand, which is shown as an adjustment to the opening balance of an accumulated loss in 2003.
- The corresponding adjustment in the deferred tax liability as of 31 December 2002 by Drams 360,339 thousand.

The impact of the restatement on comparatives is as follows:

Accumulated loss	**Drams'000**
Accumulated loss at the beginning of the year 2003 as previously reported	2,031,980
Restatement in respect of prior periods	94,689
Restated balance at the beginning of the year	2,126,669

Deferred tax liability	**Drams'000**
Deferred tax liability as of 31 December 2002 as previously reported	184,083
Restatement in respect of prior periods	360,339
Restated balance at the beginning of the year	544,422

28 Concentration of significant risks

The Company sells almost all its product to one customer and buys significant part of copper concentrate from one supplier, the major supplier in Armenia. In addition, significant assets, in the form of VAT receivable, is due from the Armenian tax authorities, who are often slow in paying (note 16).