Armenian Copper Programme cjsc

Financial Statements
for the year ended 31 December 2004

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

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

Independent Auditors' Report

To the Members of the Board
Armenia Copper Programme cjsc

We have audited the accompanying balance sheet of Armenian Copper Programme cjsc (the "Company") as of 31 December 2004 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Armenia cjsc

KPMG Armenia cjsc
Licensed Auditors
5 May 2005

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«KPMG» ARMENIA
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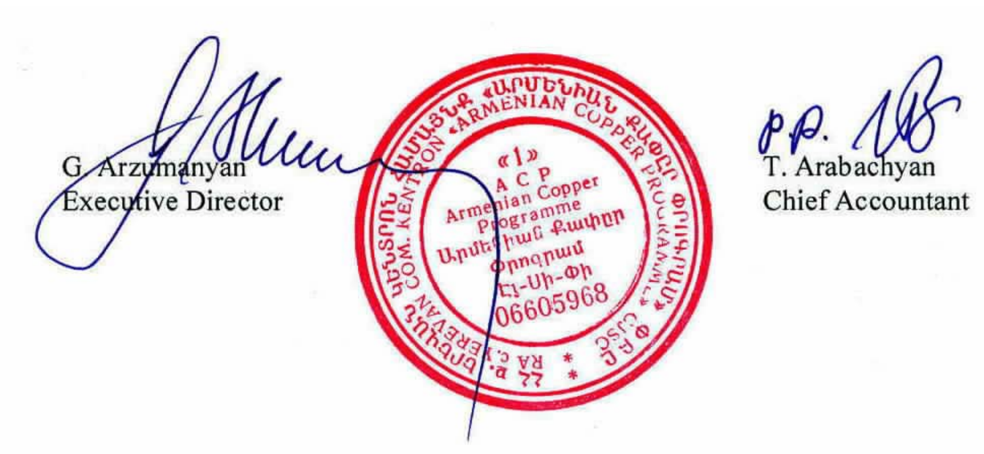
	Note	2004 '000 AMD	2003 '000 AMD
Revenues	4	19,119,579	7,620,896
Cost of sales		(15,375,327)	(6,327,498)
Gross profit		3,744,252	1,293,398
Other operating income	5	308,828	645,062
Distribution expenses	6	(327,063)	(357,780)
Administrative expenses	7	(741,566)	(732,873)
Other operating expenses		(63,836)	(87,424)
Impairment losses	8	(371,687)	(222,024)
Profit from operations		2,548,928	538,359
Net finance costs	9	50,627	(181,291)
Profit before taxation		2,599,555	357,068
Income tax charge	10	(244,124)	(52,072)
Net profit for the year		2,355,431	304,996

The financial statements as set out on pages 4 to 24 were approved by the members of the Board on 5 May 2005 and were signed on their behalf by:



G. Arzumanyan
Executive Director

p.p.
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 24.

	Note	2004 '000 AMD	2003 '000 AMD
Assets			
Non-current assets			
Property, plant and equipment	11	4,835,996	4,585,889
Intangible assets	12	2,519	3,358
Deferred mining expenditures	13	44,331	320,693
Long-term investments	14	25,647	25,634
		4,908,493	**4,935,574**
Current assets			
Inventories	15	2,114,053	1,516,947
Trade and other receivables	16	1,575,665	1,777,378
Originated loans and receivables	17	-	23,000
Cash and cash equivalents	18	673,209	81,032
		4,362,927	**3,398,357**
Total assets		**9,271,420**	**8,333,931**
Shareholders' equity and liabilities			
Capital and reserves			
Share capital	19	3,069,716	3,069,716
Revaluation reserve		2,635,304	2,763,244
Accumulated profit/(loss)		721,170	(1,762,201)
		6,426,190	**4,070,759**
Non-current liabilities			
Deferred tax liability	10	501,036	550,543
		501,036	**550,543**
Current liabilities			
Short-term borrowings	20	1,128,720	1,424,140
Trade and other payables	21	1,215,474	2,288,489
		2,344,194	**3,712,629**
Total shareholders' equity and liabilities		**9,271,420**	**8,333,931**

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 24.

	2004 '000 AMD	2003 '000 AMD
OPERATING ACTIVITIES		
Net profit before tax	**2,599,555**	**357,068**
Adjustment for:		
Depreciation of property, plant and equipment	155,445	138,990
Amortisation of intangible assets	839	2,923
Amortisation of mining expenses	-	33,634
Loss on disposal of property, plant and equipment	9,157	10,372
Gain on disposal of investments	-	(6,167)
Impairment provision	371,687	222,024
Net foreign exchange gain	(311,835)	(49,324)
Interest expenses	261,784	237,359
Operating profit before changes in working capital	**3,086,632**	**946,879**
Decrease/(increase) in trade and other receivables and other assets	105,992	(1,478,124)
Increase in inventories	(597,119)	(864,436)
(Decrease)/increase in trade and other payables	(949,098)	893,619
Cash flows from operations	**1,646,407**	**(502,062)**
Interest paid	(211,808)	(240,234)
Taxes paid	(78,100)	-
Cash flow from operating activities	**1,356,499**	**(742,296)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(627,409)	(69,316)
Investment in mining property	(100,828)	(76,373)
Purchase of intangible assets	-	(6,281)
Proceeds from disposal of long-term investments	-	32,180
Proceeds from sale of property, plant and equipment	9,634	15,023
Proceeds/(issuance) from originated loan	23,000	(23,000)
Cash flows from investing activities	**(695,603)**	**(127,767)**
FINANCING ACTIVITIES		
Proceeds from share issue	-	109,065
(Repayment)/proceeds from short-term borrowings	(79,756)	849,770
Cash flows from financing activities	**(79,756)**	**958,835**
Net increase in cash and cash equivalents during the year	581,140	88,771
Effect of changes in exchange rates on cash and cash equivalents	11,037	(14,496)
Cash and cash equivalents at the beginning of the year	81,032	6,757
Cash and cash equivalents at the end of the year (note 18)	**673,209**	**81,032**

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 24.

'000 AMD	**Share capital**	**Revaluation reserve**	**Accumulated profit/(losses)**	**Total**
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
Balance at 1 January 2004	3,069,716	2,763,244	(1,762,201)	4,070,759
Net profit for the year	-	-	2,355,431	2,355,431
Realisation of property, plant and equipment revaluation reserve	-	(127,940)	127,940	-
Balance at 31 December 2004	3,069,716	2,635,304	721,170	6,426,190

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 24.

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 AMD 40 million. As of 31 December 2004 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 ("AMD"). The measurement and presentation currency used in the preparation of these financial statements is the AMD. Management have determined the AMD to be the measurement currency as they consider that the AMD reflects the economic substance of the underlying events and circumstances of the Company. The AMD is not a convertible currency outside the territory of Armenia.

All financial information presented in AMD 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 AMD 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 AMD 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 AMD 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 improvements	20 years
▪ Plant and equipment	2-10 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 stated at fair value, with any resultant gain or loss being recognised in the income statement.

The fair value of investments available-for-sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(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 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 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 economic 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 comparatives in the property, plant and equipment have been reclassified to conform to the current year’s presentation.

4 Revenues

	2004 '000 AMD	2003 '000 AMD
Revenues from sale of products	18,979,601	7,459,248
Revenues from rendering of services	139,978	161,648
	19,119,579	7,620,896

5 Other operating income

	2004 '000 AMD	2003 '000 AMD
Recovery of previously written off debts	251,135	-
Income from identified inventories and other assets	45,595	105,294
Operating lease	22,394	1,141
Net income from sale of inventories	(3,159)	417,360
Loss on disposal of property, plant and equipment	(9,157)	(10,372)
Claims received	-	130,528
Other	2,020	1,111
	308,828	645,062

6 Distribution expenses

	2004 '000 AMD	2003 '000 AMD
Transportation expenses	301,459	332,887
Customs duties on products	7,344	7,033
Marketing and advertisement expenses	1,433	-
Other distribution expenses	16,827	17,860
	327,063	357,780

7 Administrative expenses

	2004 '000 AMD	2003 '000 AMD
Payroll expense	322,571	322,823
Representation expenses and business trips	64,403	62,721
Taxes	56,356	61,173
Depreciation	52,473	52,161
Utilities and communication	35,248	31,436
Bank charges	29,872	12,829
Maintenance	20,472	14,426
Fines and penalties	17,119	24,435
Audit and consulting fees	7,288	13,205
Amortisation of intangible assets	839	2,923
Others	134,925	134,741
	741,566	732,873

Included in payroll expense are mandatory social security payments of AMD 37,894 thousand (2003: AMD 38,745 thousand).

The average number of employees during the year ended 31 December 2004 was 645 (2003: 766). Total staff costs during the year ended 31 December 2004 were AMD 697,002 thousand (2003: AMD 667,877 thousand).

8 Impairment losses

	2004 '000 AMD	2003 '000 AMD
Deferred mining expenditures (note 13)	377,190	-
Property plant and equipment (note 11)	203,066	-
Trade and other receivables (note 16)	(208,569)	222,024
	371,687	222,024

9 Net finance costs

	2004 '000 AMD	2003 '000 AMD
Interest expense	261,784	237,359
Net foreign exchange gain	(311,835)	(49,324)
Gain on sale of financial assets	-	(6,167)
Interest income	(576)	(577)
	(50,627)	181,291

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 2004 was 20% (2003: 20%).

	2004 '000 AMD	2003 '000 AMD
Current tax expense		
Current year	293,631	45,951
Tax losses extinguished	-	22,005
Deferred tax expense		
Origination and reversal of temporary differences	(49,507)	(103,180)
Tax loss carry-forwards utilised	-	87,296
	244,124	52,072

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

’000 AMD	**Assets**		**Liabilities**		**Net**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Property, plant and equipment	-	-	609,692	637,738	609,692	637,738
Deferred mining expenses	(37,719)	-	-	-	(37,719)	-
Long-term investments	-	(3,918)	-	-	-	(3,918)
Trade and other receivables	-	-	9,202	32,036	9,202	32,036
Trade and other payables	(80,139)	(115,313)	-	-	(80,139)	(115,313)
	(117,858)	(119,231)	618,894	669,774	501,036	550,543

Reconciliation of effective tax rate

	2004 ’000 AMD	**%**	**2003 ’000 AMD**	**%**
Profit before tax	2,599,555		357,068	
Expected tax charge at applicable tax rates	259,956	10.0	35,707	10.0
Non-deductible/non-taxable items	(15,832)	(0.6)	(5,640)	(1.6)
Tax losses extinguished	-	-	22,005	6.2
	244,124	9.4	52,072	14.6

11 Property, plant and equipment

'000 AMD	Buildings	Leasehold improvements	Plant and equipment	Motor vehicles	Fixtures and fittings	Property, plant and equipment not in use	Total
Cost/Revalued amount							
At 1 January 2004	2,326,589	70,216	1,408,613	32,890	128,604	882,570	4,849,482
Additions	176,005	-	256,633	8,544	5,356	180,871	627,409
Disposals	-	-	(19,655)	(551)	(636)	-	(20,842)
At 31 December 2004	2,502,594	70,216	1,645,591	40,883	133,324	1,063,441	5,456,049
Depreciation							
At 1 January 2004	99,977	12,653	85,135	5,525	41,879	18,424	263,593
Charge for the year	50,050	3,511	79,080	3,516	19,288	-	155,445
Disposals	-	-	(1,797)	(18)	(236)	-	(2,051)
Impairment losses	-	-	-	-	-	203,066	203,066
At 31 December 2004	150,027	16,164	162,418	9,023	60,931	221,490	620,053
Net book value							
At 1 January 2004	2,226,612	57,563	1,323,478	27,365	86,725	864,146	4,585,889
At 31 December 2004	2,352,567	54,052	1,483,173	31,860	72,393	841,951	4,835,996

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 2004 would have been AMD 1,773,587 thousand (2003: AMD 1,622,791 thousand). All immovable property is pledged as a collateral to secure bank loans. All movable property with a value in excess of AMD equivalent of Euro 10,000 is pledged as a collateral to secure bank loans (note 20).

12 Intangible assets

	2004 '000 AMD
Cost	
At 1 January	15,393
Additions	-
Disposals	(11,616)
At 31 December	3,777
Amortisation	
At 1 January	12,035
Charge for the year	839
Disposals	(11,616)
At 31 December	1,258
Net book value	
At 31 December	2,519
At 1 January	3,358

Intangible assets represent computer software, and production technologies.

13 Deferred mining expenditures

	2004 '000 AMD
Cost	
At 1 January	425,798
Additions	100,828
At 31 December	526,626
Accumulated amortisation and impairment losses	
At 1 January	105,105
Amortisation charge	-
Impairment losses	377,190
At 31 December	482,295
Net book value	
At 1 January	320,693
At 31 December	44,331

Deferred mining expenditures as of 31 December 2004 represent expenditures incurred on Teghout deposit.

14 Long-term investments

	2004 '000 AMD	2003 '000 AMD
Available-for-sale		
Equity instruments - unlisted		
Manes ojsc	38,555	38,489
Mining and Metallurgy Institute cjsc	26,269	26,322
Vallex IT cjsc	5	5
Provision for impairment	(39,182)	(39,182)
	25,647	25,634

Unlisted equity investments

Name	Country of incorporation	Main activity	% controlled 2004	% controlled 2003	2004 Carrying value '000 AMD	2003 Carrying value '000 AMD
Manes ojsc	Republic of Armenia	Smelting	16	16	-	-
Mining and Metallurgy Institute cjsc	Republic of Armenia	Development of mining technologies	15	15	25,269	25,629
Vallex IT cjsc	Republic of Armenia	Selling of computers	1	1	5	5

During 2003 the Company sold available-for-sale investments stated at cost that had a carrying amount AMD 76,741 thousand, which resulted in a gain of AMD 6,167 thousand (2004: Nil).

15 Inventories

	2004 **'000 AMD**	**2003** **'000 AMD**
Raw materials	1,639,978	1,281,834
Finished goods	101,805	193,124
Work-in-progress	354,169	27,887
Other inventory	18,101	14,102
	2,114,053	1,516,947

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

	2004 **'000 AMD**	**2003** **'000 AMD**
VAT recoverable	932,641	878,973
Prepayments	592,536	432,792
Trade receivables	44,804	665,542
Other receivables	5,684	8,640
	1,575,665	1,985,947
Impairment against VAT recoverable and trade receivables	-	(208,569)
	1,575,665	1,777,378

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

	2004 **'000 AMD**	**2003** **'000 AMD**
At the beginning of the year	208,569	1,630
Net (decrease)/increase in provisions	(208,569)	222,024
Written off during the year	-	(15,085)
At the end of the year	-	208,569

As of 31 December 2003 the Company has recognised an impairment provision of AMD 208,569 thousand on VAT recoverable, an amount pending for the verification for refund eligibility by the tax authorities. During 2004 the pending amount was refunded by the tax authorities.

17 Originated loans and receivables

	2004 **'000 AMD**	**2003** **'000 AMD**
Originated loan	-	23,000

18 Cash and cash equivalents

	2004 '000 AMD	2003 '000 AMD
Cash in hand	3,893	3,045
Current account	669,316	77,987
	673,209	81,032

As of 31 December 2004 monetary assets available in the revenue account amounting to AMD 662,831 thousand (2003: AMD 30 thousand) and in the disbursement account amounting to AMD 6 thousand (2003: AMD 21 thousand) and all monetary assets deposited into 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 2004 amounted 40,000,000 to (2003: 40,000,000) ordinary shares of AMD 1,000 each. The issued and fully paid share capital as at 31 December 2004 amounted to 3,069,716 (2003: 3,069,716) ordinary shares of AMD 1,000 each.

3,069,716 ordinary shares issued as at 16 August 2004 are pledged as collateral by the shareholders to secure bank loans (see note 20).

20 Short-term borrowings

	2004 '000 AMD	2003 '000 AMD
Bank loans	1,117,432	1,462,827
Unamortised interest	11,288	(38,687)
	1,128,720	1,424,140

The bank loans carry an effective interest rate of 10% per annum (2003: 14% interest rate per annum). The bank loans carry a floating interest rate linked to LIBOR.

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 AMD 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 - 3,069,716 shares issued and allocated as at 16 August 2004;
- 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

	2004 '000 AMD	2003 '000 AMD
Trade payables	805,443	1,274,909
Taxes payable	236,506	66,827
Advances received	36,484	844,524
Other payables	137,041	102,229
	1,215,474	2,288,489

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 AMD. 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 AMD 485.84 : USD 1 (31 December 2003: AMD 566.00 : 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, representing investments in equity securities, is the cost less impairment losses as these securities are not quoted and their fair value cannot be estimated on a reasonable basis by other means.

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

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

Transactions with directors and senior management

Total remuneration of directors and senior management included in payroll expenses:

	2004 '000 AMD	2003 '000 AMD
Directors	10,672	10,258
Senior management	20,714	20,079
	31,386	30,337

Transactions with other related parties

- At 31 December 2004 the Company has outstanding balance of accounts receivables from the related parties of AMD 399,058 thousand (2003: AMD 575,099 thousand).

- At 31 December 2004 the Company has outstanding balance of accounts payables to the related parties of AMD 106,674 thousand (2003: AMD 614,796 thousand).

During 2004 and 2003 the Company has entered into the following transactions with its related parties.

- As at 31 December 2003 the Company had outstanding loan of AMD 23,000 thousand issued to a related party. The loan bore 15% interest rate per annum and has maturity for less then twelve months (2004: Nil).

- During 2003 the Company sold to related parties financial assets available-for-sale of AMD 82,908 thousand (2004: Nil).

- During 2004 the Company sold to related parties goods and rendered services of AMD 475,521 thousand (2003: AMD 646,698 thousand).

- During 2004 the Company purchased from the related parties goods and services of AMD 5,813,484 thousand (2003: AMD 1,236,891 thousand).

The Company sells and purchases goods, provides and receives services to the related parties at the market prices. In 2003 the financial assets available-for-sale was sold to the related parties not at the market price.

25 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.