ACP

Armenian Copper Programme

Armenian Copper Programme cjsc

Financial Statements
for the year ended 31 December 2005

Contents

Armenian Copper Programme cjsc

19 Khanjyan Street,

Yerevan 0010

Republic of Armenia

Members of the Board of Directors

Valery Medzhlumyan	Chairman
Gagik Arzumanyan	Executive Director
Nikolay Feofanov	Regional Director for Alaverdy, Head of the Production Department

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Independent Auditors' Report

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

We have audited the accompanying balance sheet of Armenian Copper Programme cjsc (the "Company") as at 31 December 2005 and the related statements of income, changes in 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.

There is an indication that the carrying amount of granted land stated at AMD nil is less than its fair value. In accordance with International Financial Reporting Standard IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* the Company has elected, as an accounting policy, to record non-monetary granted asset and the grant at the fair value. No assessment has been made of the fair value of land granted to the Company in 2005 as a result of changes to the Land Code of the Republic of Armenia. The effects of this departure from the Company's accounting policy, if any, on the carrying amount of land, grant, net profit, taxation and retained earnings as at and for the year ended 31 December 2005 have not been determined.

In our opinion, except for any effects of the matter described in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005, 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
26 June 2006

	Note	2005 '000 AMD	2004 '000 AMD
Revenues	4	22,492,614	19,119,579
Cost of sales		(21,092,023)	(15,375,327)
Gross profit		1,400,591	3,744,252
Other operating income	5	27,634	308,828
Distribution expenses	6	(293,857)	(327,063)
Administrative expenses	7	(774,024)	(741,566)
Other operating expenses		(117,476)	(63,836)
Impairment losses	8	(345,372)	(371,687)
(Loss)/profit from operations		(102,504)	2,548,928
Net finance costs	9	(36,566)	50,627
(Loss)/profit before taxation		(139,070)	2,599,555
Income tax credit/(expense)	10	4,849	(244,124)
Net (loss)/profit for the year		(134,221)	2,355,431

The financial statements as set out on pages 4 to 27 were approved by the members of the Board on 26 June 2006 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 27.

	Note	2005 '000 AMD	2004 '000 AMD
Assets			
Non-current assets			
Property, plant and equipment	11	4,764,338	4,835,996
Investment property	12	141,627	-
Intangible assets	13	34,061	2,519
Deferred mining expenditures	14	553,280	44,331
Long-term investments	15	25,647	25,647
		5,518,953	**4,908,493**
Current assets			
Inventories	16	2,795,852	2,114,053
Trade and other receivables	17	4,207,857	1,575,665
Cash and cash equivalents	18	123,388	673,209
		7,127,097	**4,362,927**
Total assets		**12,646,050**	**9,271,420**
Shareholders' equity and liabilities			
Capital and reserves			
Share capital	19	3,069,716	3,069,716
Revaluation reserve		2,556,206	2,635,304
Accumulated profit		666,047	721,170
		6,291,969	**6,426,190**
Non-current liabilities			
Deferred tax liability	20	**324,648**	**501,036**
Current liabilities			
Short-term borrowings	21	1,593,826	1,128,720
Income tax payable		-	206,040
Trade and other payables	22	4,435,607	1,009,434
		6,029,433	**2,344,194**
Total shareholders' equity and liabilities		**12,646,050**	**9,271,420**

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 27.

	2005 '000 AMD	2004 '000 AMD
OPERATING ACTIVITIES		
Net (loss)/profit before tax	**(139,070)**	**2,599,555**
Adjustment for:		
Depreciation of property, plant and equipment	163,381	155,445
Amortisation of intangible assets	1,258	839
Loss on disposal of property, plant and equipment	5,395	9,157
Impairment provision	345,372	371,687
Net foreign exchange gain	(77,656)	(311,835)
Interest expenses	114,222	261,784
Operating profit before changes in working capital	**412,902**	**3,086,632**
(Increase)/decrease in trade and other receivables and other assets	(2,745,602)	105,992
Increase in inventories	(1,027,171)	(597,119)
Increase/(decrease) in trade and other payables	3,492,956	(949,098)
Cash flows from operations	**133,085**	**1,646,407**
Interest paid	(107,352)	(211,808)
Taxes paid	(377,579)	(78,100)
Cash flow from operating activities	**(351,846)**	**1,356,499**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(251,100)	(627,409)
Investment in mining property	(508,949)	(100,828)
Purchase of intangible assets	(32,800)	-
Proceeds from sale of property, plant and equipment	12,355	9,634
Proceeds from originated loan	-	23,000
Cash flows from investing activities	**(780,494)**	**(695,603)**
FINANCING ACTIVITIES		
Proceeds/(repayment) from short-term borrowings	522,449	(79,756)
Cash flows from financing activities	**522,449**	**(79,756)**
Net (decrease)/increase in cash and cash equivalents during the year	(609,891)	581,140
Effect of changes in exchange rates on cash and cash equivalents	60,070	11,037
Cash and cash equivalents at the beginning of the year	673,209	81,032
Cash and cash equivalents at the end of the year (note 18)	**123,388**	**673,209**

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 27.

'000 AMD	**Share capital**	**Revaluation reserve**	**Accumulated profit**	**Total**
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
Balance at 1 January 2005	3,069,716	2,635,304	721,170	6,426,190
Net loss for the year	-	-	(134,221)	(134,221)
Realisation of property, plant and equipment revaluation reserve	-	(79,098)	79,098	-
Balance at 31 December 2005	3,069,716	2,556,206	666,047	6,291,969

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 27.

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's authorised share capital is AMD 40 million. As of 31 December 2005 the respective shareholdings are as follows:

- VALEX F.M. Establishment 80.7%, incorporated in Lichtenstein
- Valery Medzhlumyan 19.3%

The main activity of the Company is the production and sale of blister copper. In addition, the Company is also involved in the exploration and development of mining properties in Armenia. The Company has the following exploitation licenses:

- Alaverdy deposit – # ՀԱ-Լ-14/89, with the effective period 6 August 2001 – 6 August 2026;
- Teghout deposit – # ՀԱ-Լ-14/90, with the effective period 8 February 2001 – 8 February 2026.

(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 (refer to note 3b).

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"). The functional and presentation currency used in the preparation of these financial statements is the AMD. Management have determined the AMD to be the functional 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) 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. The land granted by the government of the Republic of Armenia is stated at fair value. 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) Investment property

(i) Investment property

Investment property is stated at cost less accumulated depreciation and impairment losses.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual items of investment property. The estimated useful life is 50 years.

(d) 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	3-10 years

(e) 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 equity
.
The fair value of available-for-sale investments 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.

(f) 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 economic 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 been 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 divided by the total expected volume of ore.

(g) 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.

(h) Trade and other receivables

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

(i) Cash and cash equivalents

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

(j) 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 fair value less cost to sell 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.

(k) 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 the effective interest basis.

(l) Pensions

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

(m) 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.

(n) Trade and other payables

Trade and other payables are stated at their cost.

(o) 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.

(p) Revenue

The selling price of goods sold is determined up to 2 months after the risks and rewards of ownership have been transferred to the buyer. The sales contracts are accounted for as a host contract with an embedded derivative.

Revenue from the sale of goods is recognised in the income statement at the fair value of the host contract when the significant risks and rewards of ownership have been transferred to the buyer. The embedded derivative financial instrument is initially recognised at fair value with subsequent adjustments in the income statement. The derivative financial instrument is presented together with the host contract in the income statement and on the balance sheet.

(q) 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.

(r) 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 disposal of investments available for sale.

(s) 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 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which is effective for annual periods beginning on or after 1 January 2006. The Standard includes a requirement to distinguish between tangible and intangible assets that are used in the exploration for and evaluation of mineral resources, and specifies the level at which impairment testing should be carried out. The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments. The new Standard will not have any impact on the Company's financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital. The new Standard will not have any impact on the Company's financial position or performance.

4 Revenues

	2005 '000 AMD	2004 '000 AMD
Revenues from sale of products	22,380,380	18,979,601
Revenues from rendering of services	112,234	139,978
	22,492,614	19,119,579

5 Other operating income

	2005 '000 AMD	2004 '000 AMD
Recovery of previously written off debts	-	251,135
Income from identified inventories and other assets	6,335	45,595
Operating lease income	18,605	22,394
Net income from sale of inventories	6,658	(3,159)
Loss on disposal of property, plant and equipment	(5,395)	(9,157)
Other income	1,431	2,020
	27,634	308,828

6 Distribution expenses

	2005 '000 AMD	2004 '000 AMD
Transportation expenses	260,182	301,459
Customs duties on products	6,167	7,344
Marketing and advertisement expenses	-	1,433
Other distribution expenses	27,508	16,827
	293,857	327,063

7 Administrative expenses

	2005 '000 AMD	2004 '000 AMD
Payroll expense	298,237	322,571
Taxes other than income tax	122,487	56,356
Maintenance	51,531	20,472
Depreciation	50,090	52,473
Utilities and communication expenses	35,235	35,248
Representation expenses and business trips	29,779	64,403
Bank charges	20,862	29,872
Audit and consulting fees	7,874	7,288
Fines and penalties	2,355	17,119
Amortisation of intangible assets	1,258	839
Others	154,316	134,925
	774,024	741,566

Included in payroll expense are mandatory social security payments of AMD 33,215thousand (2004: AMD 37,894 thousand).

The average number of employees during the year ended 31 December 2005 was 729 (2004: 645). Total staff costs (direct production and administrative) during the year ended 31 December 2005 were AMD 847,406 thousand (2004: AMD 697,002 thousand).

8 Impairment losses

	2005 '000 AMD	2004 '000 AMD
Deferred mining expenditures (note 14)	-	377,190
Property plant and equipment (note 11)	-	203,066
VAT receivable	-	(208,569)
Inventories (note 16)	345,372	-
	345,372	371,687

9 Net finance costs

	2005 '000 AMD	2004 '000 AMD
Interest expense	114,222	261,784
Net foreign exchange gain	(77,656)	(311,835)
Interest income	-	(576)
	36,566	(50,627)

10 Income tax credit (expense)

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 2005 was 20% (2004: 20%).

	2005 '000 AMD	2004 '000 AMD
Current tax expense		
Current year	167,529	293,631
Prior period adjustment	4,010	-
	171,539	293,631
Deferred tax expense		
Origination and reversal of temporary differences	(176,388)	(49,507)
	(4,849)	244,124

Reconciliation of effective tax rate

	2005 '000 AMD	%	2004 '000 AMD	%
(Loss)/profit before tax	(139,070)		2,599,555	
Expected tax charge at applicable tax rates	(13,907)	10.0	259,956	10.0
Non-deductible/non-taxable items	5,048	(3.6)	(15,832)	(0.6)
Prior period adjustment	4,010	(2.9)	-	-
	(4,849)	3.5	244,124	9.4

11 Property, plant and equipment

’000 AMD	**Land and 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
Additions	-	-	30,091	9,596	4,693	206,720	251,100
Disposals	-	-	(15,409)	-	(38)	(6,167)	(21,614)
Transfers	(102,347)	-	119,775	33,856	25,841	(220,622)	(143,497)
At 31 December 2005	2,400,247	70,216	1,780,048	84,335	163,820	1,043,372	5,542,038
Depreciation and impairment losses							
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
Charge for the year	40,233	3,511	92,131	5,357	22,149	-	163,381
Disposals	-	-	(3,753)	-	(28)	(83)	(3,864)
Transfers	(1,892)	-	(2,316)	(580)	9,349	(6,431)	(1,870)
At 31 December 2005	188,368	19,675	248,480	13,800	92,401	214,976	777,700
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
At 31 December 2005	2,211,879	50,541	1,531,568	70,535	71,419	828,396	4,764,338

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 their fair values, 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 2005 would have been AMD 1,720,120 thousand (2004: AMD 1,773,587 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 21).

In the opinion of management the fair value of property, plant and equipment as at 31 December 2005 does not differ materially from its carrying amount and hence no revaluation is required as at 31 December 2005.

Valuation of land

In 2005 The Parliament of the Republic of Armenia made changes to the Land Code of the Republic of Armenia according to which the ownership of the land related to the production of blister copper has been passed to the Company. The land is carried at nil value in these financial statements as the management of the Company did not perform a valuation of the land to assess its fair value and intends to engage an independent valuer to perform the valuation of the land in 2006.

Transfer to Investment property

During the year buildings with net book value AMD 141,627 thousand (2004: AMD nil) were transferred to Investment property (note 12).

12 Investment property

	2005 '000 AMD
Cost	
At 1 January	-
Transfers	143,497
At 31 December	143,497
Amortisation	
At 1 January	-
Transfers	1,870
At 31 December	1,870
Net book value	
At 1 January	-
At 31 December	141,627

Investment property represents buildings transferred from property, plant and equipment. All buildings leased out under investment property were acquired in 2004. Since the date of acquisition no significant changes occurred in the fair value of buildings, therefore the fair value of investment property is not significantly different from its cost.

13 Intangible assets

	'000 AMD
Cost	
At 1 January 2004	15,393
Disposals	(11,616)
At 31 December 2004	3,777
Additions	32,800
At 31 December 2005	36,577
Amortisation	
At 1 January 2004	12,035
Charge for the year	839
Disposals	(11,616)
At 31 December 2004	1,258
Charge for the year	1,258
At 31 December	2,516
Net book value	
At 1 January 2004	3,358
At 31 December 2004	2,519
At 31 December 2005	34,061

14 Deferred mining expenditures

	2005
	'000 AMD
Cost	
At 1 January 2004	425,798
Additions	100,828
At 31 December2004	526,626
Additions	508,949
At 31 December 2005	1,035,575
Accumulated amortisation and impairment losses	
At 1 January 2004	105,105
Impairment losses	377,190
At 31 December 2004	482,295
At 31 December 2005	482,295
Net book value	
At 1 January 2004	320,693
At 31 December 2004	44,331
At 31 December 2005	553,280

Deferred mining expenditures as of 31 December 2005 represent expenditures incurred on the Teghout deposit in Northern Armenia. Teghout deposit is the second largest copper-molybdenum deposit in Armenia. As at the end of 2005 the Teghout deposit was at the pre-feasibility stage. No amortisation on deferred mining expenditures has been calculated in 2005 as no ore has been extracted from the deposit and processed.

15 Long-term investments

	2005	2004
	'000 AMD	'000 AMD
Available-for-sale		
Equity instruments - unlisted		
Manes ojsc	38,555	38,555
Mining and Metallurgy Institute cjsc	26,269	26,269
Vallex IT cjsc	5	5
	64,829	64,829
Provision for impairment	(39,182)	(39,182)
	25,647	25,647

Unlisted equity investments

Available-for-sale investments stated at cost comprise unquoted equity securities. There is no ready market for these investments and there have not been any recent transactions that provide evidence of fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty of future cash flows.

Name	Country of incorporation	Main activity	% controlled		2005 Carrying value	2004 Carrying value
			2005	2004	'000 AMD	'000 AMD
Manes ojsc	Republic of Armenia	Smelting	16	16	-	-
Mining and Metallurgy Institute cjsc	Republic of Armenia	Development of mining technologies	15	15	26,269	26,269
Vallex IT cjsc	Republic of Armenia	Selling of computers	1	1	5	5

16 Inventories

	2005	2004
	'000 AMD	'000 AMD
Raw materials	2,574,346	1,639,978
Finished goods	470,259	354,169
Work-in-progress	69,288	101,805
Other inventory	27,331	18,101
	3,141,224	2,114,053
Provision against obsolete/slow moving inventories	(345,372)	-
	2,795,852	2,114,053

Raw materials, work-in-progress and finished goods are stated at the 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 21).

17 Trade and other receivables

	2005	2004
	'000 AMD	**'000 AMD**
VAT recoverable	1,979,750	932,641
Trade receivables	1,183,029	44,804
Prepayments	950,794	592,536
Other receivables	94,284	5,684
	4,207,857	1,575,665

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

	2005	2004
	'000 AMD	**'000 AMD**
At the beginning of the year	-	208,569
Net (decrease)/increase in provisions	-	(208,569)
At the end of the year	-	-

80% of Trade receivables (2004: 66%) are due from one customer.

18 Cash and cash equivalents

	2005	2004
	'000 AMD	**'000 AMD**
Cash in hand	12,256	3,893
Current account	111,132	669,316
	123,388	673,209

As of 31 December 2005 monetary assets available in the account designated as the revenue account amounting to AMD 25 thousand (2004: AMD 662,831 thousand) and in the disbursement account amounting to AMD 6 thousand (2004: AMD 6 thousand) and all monetary assets deposited into these accounts in the future are pledged as collateral to secure bank loans (note 21).

19 Share capital

The authorised share capital as at 31 December 2005 amounted to 40,000,000 (2004: 40,000,000) ordinary shares of AMD 1,000 each. The issued and fully paid share capital as at 31 December 2005 amounted to 3,069,716 (2004: 3,069,716) ordinary shares of AMD 1,000 each.

All issued ordinary shares are pledged as collateral by the shareholders to secure bank loans (see note 21).

20 Deferred tax assets and liabilities

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

'000 AMD	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	-	-	417,671	609,692	417,671	609,692
Deferred mining expenses	-	(37,719)	45,222	-	45,222	(37,719)
Inventories	(60,547)	-	-	-	(60,547)	-
Trade and other receivables	-	-	78,224	9,202	78,224	9,202
Trade and other payables	(155,922)	(80,139)	-	-	(155,922)	(80,139)
	(216,469)	(117,858)	541,117	618,894	324,648	501,036

21 Short-term borrowings

	2005 '000 AMD	2004 '000 AMD
Bank loans (USD 3,500 thousand (2004: USD 2,300 thousand))	1,575,665	1,117,432
Unamortised interest	18,161	11,288
	1,593,826	1,128,720

The bank loans carry an effective interest rate of 10.3% per annum (2004: 10% interest rate per annum). The bank loans carry a floating interest rate linked to LIBOR. The Company shall repay each disbursement for each tranche of the loan on the date which is three months after the date of such disbursement.

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;
- 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.

22 Trade and other payables

	2005	2004
	’000 AMD	’000 AMD
Trade payables	3,126,968	805,443
Advances received	935,956	36,484
Other payables	350,235	137,041
Other taxes payable	22,448	30,466
	4,435,607	1,009,434

23 Financial instruments

(a) 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.

(b) 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.

(c) 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 450.19 : USD 1 (31 December 2004: AMD 485.84 : USD 1).

(d) 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.

24 Commitments and contingencies

(a) 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.

(b) 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.

25 Related party transactions

Control relationships

The Company's Parent is Vallex F.M. Establishment, incorporated in Lichtenstein.

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

Management remuneration

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

	2005	2004
	'000 AMD	'000 AMD
Directors	11,040	10,672
Senior management	18,907	20,714
	29,947	31,386

Transactions with other related parties

The other related party transactions are disclosed below.

(i) Revenue

000'AMD	Transaction value 2005	Outstanding balance 2005	Transaction value 2004	Outstanding balance 2004
Sale of products:				
Other:				
Base Metals Ltd	132,002	713,681	98,135	294,689
Mining and Metallurgy Institute	12,992	9,204	-	9,381
Vallex Mining Ltd	6,992	8,725	2,747	59
Base Metals Yerevan office	-	175,286	6,073	22,053
Services provided:				
Other:				
Base Metals Ltd	53,185	-	80,209	-
Mining and Metallurgy Institute	17,170	23,672	878	391
Vallex Mining Ltd	51,286	8,962	36,339	9,218
Vallex IT Ltd	1,369	137	1,305	-
Manes ojsc	-	-	211,531	-
Base Metals Yerevan office	534	3,773	38,304	3,267
	275,530	943,440	475,521	339,058

(ii) Expenses

000'AMD	Transaction value 2005	Outstanding balance 2005	Transaction value 2004	Outstanding balance 2004
Sale of goods:				
Parent	-	-	22,977	23,383
Other:				
Base Metals Ltd	6,840,295	1,270,555	4,856,983	45,081
Mining and Metallurgy Institute	4,181	4,963	-	-
Lorva Geo cjsc	5,434	-	-	-
Vallex Mining Ltd	75,248	-	66,621	5,255
Vallex F.M. Est Ltd	-	52,673	-	32,557
Vallex IT Ltd	7,489	198	10,478	398
Manes ojsc	242	-	217,706	-
Base Metals Yerevan office	-	-	646,232	-
Services provided:				
Parent	-	-	-	-
Other:				
Mining and Metallurgy Institute	225,798	201,860	15,063	-
Lorva Geo cjsc	10,789	1,639	-	-
Manes ojsc	-	-	402	-
Metal Trans	56,687	8,558	-	-
	7,226,163	1,540,446	5,836,462	106,674

Pricing policies

The Company sells and purchases goods, provides and receives services to the related parties at market prices.

26 Concentration of significant risks

The Company sells 92% its product to one customer (2004: 99%).

27 Events subsequent to the balance sheet date

There are no significant events subsequent to the balance sheet date requiring disclosure.